

## Making the Right Moves in a Year of Uncertainty

By [Mark Medice](#) on January 31, 2023

Recent legal industry reports<sup>[1]</sup> (i.e., the Citi Advisory and Georgetown Report) have highlighted financial performance for law firms in 2022, which presented law firm leaders with many challenges and opportunities while portending risks for the current year, including the following:

- The transactional practice slowdown of 2022 – 2023
- The build-up of inventory for deals that may not get paid
- The overall downward trend of litigation practices
- The decline in lawyer utilization and risk of excess capacity
- Concerns that pricing may not hold up against client pressure
- Practice economic variance creating new challenges on talent satisfaction, lawyer development, and practice harmonization
- Elevated lawyer expenses pressuring margins with slack demand
- Higher professional staff, occupancy, and technology expenses also bearing down on margins
- Redefining meaning and purpose in the office to encourage collaboration, teamwork, and personal relationships
- Concerns that talent engagement may be a puzzle yet unsolved in 2023
- Concerns over professional mental health risks exacerbated by isolation, work stress, and firm culture
- Concerns that while the industry maintains high economic resiliency<sup>[2]</sup> this year may be challenging

These reports are required reading for those who care about law firm performance this year and beyond.

For today, I offer brief commentary on things you might do to ensure your performance by converting the above issues into actionable strategies.

To that end, the Georgetown Report offered three lessons for law firm leaders using an analogy from the events of the San José copper and gold mine collapse in 2010, where 33 miners were stuck deep underground and later rescued, due in part to the leadership skills of the shift foreman:

1. Tell the truth
2. Require teamwork, and
3. Stay focused.

It is sad to remind people to be truthful, but this is our unfortunate reality today. Regarding teamwork and staying focused, I might build on the Georgetown recommendations with specific strategies to pursue to achieve your goals against our inflation-driven on-the-cusp-of-recession economy in 2023:

- **Coalesce Against Economic Headwinds.** Promote the criticality of performance in tougher times and do

**performance bonding.** Performance bonding means taking a glass-half-full approach to highlighting issues by creating a mutual support system and acknowledging the issues as a unified team challenge. It emphasizes periodic course correction over penalties. For example, rather than punishing people for poor inventory management at year-end, be willing to have regular discussions while visibly tracking inventory management. Celebrate improvements and financial wins to develop a positive mood for change. Create momentum and embrace the fight.

- **Price Effectively and Focus on High Impact Profit Drivers.** Some things impact profitability more than others. For law firms, two dominant profit drivers are (1) effective pricing and (2) appropriate leverage. *Warning:* effective pricing often does not equate to high realization. Some firms distort realization calculations or ignore their true market value.<sup>[3]</sup> Effective pricing means achieving a price that corresponds to the market value delivered. And you can test whether you are pricing right by evaluating three common pricing errors: (1) unnecessary discounting, (2) rate stagnation, and (3) pricing fragmentation.<sup>[4]</sup> Be mindful that pricing may be your primary driver for 2023 as firms back off talent investments, reducing leverage.
- **Drive Bold Initiatives | Play Offense as Well as Defense.** Take advantage of every chance to create positive change in the face of adversity. Channel nervous energy into productive projects. Launching a transformative project may open new opportunities and inspire your people, examples of which include:
  - A **transformative pricing project** accelerating the use of success fees resulting in **higher effective rates**,
  - The use of **analytics** to x-ray how you perform your work to **price better, drive growth and improve profitability**
  - A **client project that transcends pure legal services (one+ project)**. Do something proactive that adds differentiating value, for example, a complementary compliance project designed to engage your client's employees, which may, in fact, engage your lawyers.

The courage to push forward-looking initiatives will signify to your people that the firm knows where it is going and that its commitment to strategic pursuits is unwavering, even in unsettled waters.

- **Find Your New Post-Pandemic Watercooler.** Use the current environment to reaffirm who you are as a firm, your strategic position, and find good reasons to gather people in person. While all businesses today are grappling with talent engagement and striving to bring teams together, rather than dictating back-to-office policies, use economics and conversations to bring people together in all realms – digital and physical. Create mentor programs. The pandemic demonstrated the creative spirit of law firms to do things they may have felt not feasible, like distributed partner forecasting, real-time daily timekeeping practices, smart early warning alerts for questionable inventory, and shortened cash collection cycles. In short, don't dictate togetherness. *Instead, align to common goals that connect people naturally.*

Since the new year has begun, an economic tug-of-war has been raging. Some forecasters are predicting gloom, while others are bullish on the outlook. As leaders, the importance is not exacting a forecast but instead having a vision, making a commitment to your performance standards, and connecting those ideals towards the engagement of your people.

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<sup>[1]</sup> See the 2023 Citi Private Bank and Hildebrandt Consulting Client Advisory ("City Advisory") and the 2023 Georgetown Law and TRI Report on the State of the Legal Market ("Georgetown Report"). The Citi Advisory presented results from 210 large and midsized law firms, while the Georgetown Report presented data from 170 large and midsized firms. I co-launched the Georgetown report in 2013 while leading the Peer Monitor program.

<sup>[2]</sup> Note we are talking about law firm economic resiliency in contrast to that of the lawyers – see <https://lawyerbrain.com/our-services/building-lawyer-resilience> for more on this.

<sup>[3]</sup> See my blog post on this and how to calculate realization effectively, entitled, "[Your Realization is Wrong and What to Do About It – LawVision.](#)"

<sup>[4]</sup> For more details on these issues, see my pricing series commenting on these errors: "[Fiscal 2023 Rate Strategies Series: Big Miss #3 – Wide Rate Dispersion with Bonus: Thoughts on Fiscal 2023 Rates – LawVision.](#)"