

Three Moves to Help Your Law Firm Thrive in 2023

By [Susan Raridon Lambreth](#) on February 7, 2023

According to most economists, we're not in a recession, at least right now. However, the only certainty appears to be uncertainty. How will law firms achieve growth in an unstable environment? We've reviewed two leading annual research reports, the 2023 Citi Hildebrandt Client Advisory and the 2023 Thomson Reuters Report on the State of the Legal Market. These reports provide data and insights that can help inform critical decisions this year and beyond.

This is our reaction to those reports curated here along with our highlights and a few recommended areas of focus for the coming year.

These are certainly challenging times for the legal community. Dare we say exciting? In addition to ongoing market segmentation, law firms are faced with rising operational costs in a slow-growth market. Moreover, fierce talent competition persists alongside continuing issues of lawyer retention. Perhaps 'exciting' is a bit of a stretch.

But none of this has to mean your law firm won't prosper.

As lawyers return to the office post-pandemic, firms will look for growth opportunities. It will come from some combination of practice mix, geographic footprint, and probably both. Firms that have the capacity will increase profits by focusing on practices that perform well in a downturn — such as litigation, financial restructuring and bankruptcy. Others will look for viable complements to existing businesses given the firm's capabilities. Still another possibility for growth comes from expanding existing client relationships, both domestically and abroad.

Of course, in addition to a solid growth strategy, the reports show efficiency is more important than ever to the bottom line. The clarion call from clients for greater efficiencies will be loud and clear this year. According to the 2023 Citi Hildebrandt Client Advisory, law firms are listening. There has been a significant acceleration in efficiency initiatives since 2020. It's one way to address the continued growth of alternative legal service providers and Big Four legal businesses that have cropped up.

Recently, a member of the Big Four announced the separation of its audit and advisory businesses, replacing the partnership model of the advisory business, which includes legal. The purpose? To create a publicly traded corporate structure. This will allow them to offer clients an expanded and integrated range of services across legal, data analytics, process management and risk management. We can't know how this will all shake out, but the push toward greater efficiency comes as no surprise. As advisors, we have heard these comments for years, which is why we at LawVision have been training lawyers and other legal professionals to enhance lawyer efficiency for over a decade.

The new company will purportedly attract talent away from traditional law firms by offering a more rewarding work experience. Does this portend a sea change in law firms? In our experience, young lawyers increasingly tell us that the elusive golden ring of equity partnership exacts too high of a personal toll due to the hours worked. So, the push toward a more rewarding work experience may very well align with the expectations of future generations. Some of the Big 4 are known for their "best practices to work" distinction. Still, the study does predict that it will be difficult to compete for top talent with lower compensation. Absent the partnership structure, it remains a question whether such an arrangement will be able to match the higher salaries that BigLaw lawyers demand.

As we embark upon the next year, inflation is raging, the work environment is evolving, and clients want more. It's comfortable to believe that in this post-pandemic world, we can simply work a little harder. But it will undoubtedly be a year that tests our resolve. We repeat here the words of renowned management expert Peter Drucker that are so aptly quoted in the Citi Hildebrandt study:

"A time of turbulence is a dangerous time, but its greatest danger is a temptation to deny reality."

Let's take a look at some of those realities.

Evolving Work Environment

Nearly three years ago, on a weekend in March 2020, lawyers across the country packed up their offices and went home to work. As it turns out, many wanted to stay. Once the pandemic cooled, law firm management transitioned to a more flexible work arrangement, hence the birth of the hybrid model. Some days in, some days out. Easy in theory, not so simple in practice.

In the evolving scenario of 2023, law firms have opportunities. There are many challenges to overcome, however, in dealing with the changing work environment. Early on in the associate's tenure, law firms have historically relied heavily on the apprenticeship model. Along with this, the most effective firms build strong, trusting relationships, cultivate a culture of sharing and collaboration, and ensure that work is distributed fairly and consistently. For the best development to occur, partners need to identify issues with young associates early on and provide real-time feedback and opportunities to help them improve.

In this new environment, law firm management must determine how to:

- Effectively develop associates when many will spend a much smaller proportion of their work hours in the office
- Maintain a collaborative and cohesive culture
- Strike a balance between giving people flexibility and meeting the needs of clients and the business

When it is clear that many lawyers do not want to be in the office very often, accomplishing these three objectives will require new ideas and approaches – perhaps unlike anything law firms have tried before.

Operational Efficiencies

Besides the changing work environment, another reality is the greater focus on both expense and revenue-related operational efficiencies. This will enable firms to:

- Deliver more efficient legal services
- Support a more flexible work model
- Reduce costs
- Improve revenue and margin growth

According to the research, some of the more popular approaches to expense reduction include, for example, rethinking office spaces, i.e., smaller, fewer, more shared and collaborative areas and hoteling. Firms continue to rethink how they leverage their professional staff to do more with less. With hybrid work arrangements, for example, professional staff may

no longer need to be in the same physical location. This widens the talent pool and promotes a more flexible and satisfied staff. Also, law firms are currently upskilling capabilities within the professional pool by reducing the number of legal secretaries and adding more specialists in areas such as practice group operations, legal project management, pricing, business development, technology, finance and more. This trend will persist in 2023.

Note, however, that based on what surveys show, even if firms leverage their professional staff more, overall costs will rise due to the type of professional being hired – i.e., higher-level business professionals and fewer word processors. But, changing the type of professionals can be a smart business move that increases efficiency and frees up partner and associate time for fee-earning work. Indeed, according to the Citi Hildebrandt study, 63% of law firms plan to increase, for example, their project management teams through 2024.

Associate Management and Development

In addition to figuring out how to get lawyers back into the office, law firm leaders must also grapple with at least three associate issues. The first is that strong associate hiring continues in many firms, even amidst economic uncertainty. That's because law firms that laid off large numbers of associates during the Great Financial Crisis of 2009 ultimately came up short in 2010 when the economy rebounded. Moreover, the slashing of associates damaged group cohesion, something that firms cannot quickly recover from. This time around, most firms are continuing to hire. A surplus of associates may give firms the ability to meet increasing demand when the economy improves but in 2023 it may put a drag on profitability.

The second issue is that associate compensation has dramatically increased since 2021 when everyone was chasing top talent. Compensation wasn't so much of a problem then, even during inflationary times since firms could simply raise their rates. But now, those fat salaries combine with other increases, producing internal expenses that are growing at the fastest rate since 2008.

The third issue is high associate turnover which has been a problem for the better part of a decade. Yes, the work-hard-to-reach-partnership contract has changed. Still, it is expensive and disruptive to lose upwards of 20% of associates every year. According to the 2023 Thomson Reuters Report on the State of the Legal Market, although the number did decline somewhat from a high of 24% in 2021, the current 20.1% (YTD Nov. 2022) is still one of the highest levels in the past decade. And, some 44% of young lawyers say that they would leave their current jobs for the ability to work remotely, according to a recent American Bar Associate study. These odds don't exactly support a rosy outlook in 2023.

Strategies for a Challenging Year

According to the Thomson Reuters Report, not many are expecting a banner year for law firms. Following the 2021 growth rate of 3.7%, the numbers in 2022 dipped slightly into the negative at -0.1%. Granted, the 2021 growth is inflated by pent-up demand from the first pandemic year. But in the current economic uncertainty, it's not possible to know how deep or how long the predicted recession will be. More than half of law firm leaders expect flat or low growth in profits per equity partner. The sky isn't falling, but the odds aren't great.

Strategies from Research

Both the Citi Hildebrandt and the Thomson Reuters reports are full of useful data that can inform your strategic decisions in 2023. What the research tells us is that law firm leaders will do better when they focus on the goal and not on the odds. Law firms can't control inflation, the war in Ukraine, the price of fuel, or the global economy. They can't control the number of ALSPs or whether the Big Four firms turn corporate. They can't even control whether the next class of

incoming lawyers prefers to work from home.

So focus on what you can control. Law firms that place greater emphasis on systematically planning and managing the work will be more capable of anticipating the seemingly unforeseeable in 2023. Smart strategies and the right processes will allow practice groups to manage hybrid teams however they may evolve and from wherever they choose to work.

Of course, there are many ways you can deal with the trends above. Two of them are through your practice group management or legal project management approaches. Below we outline how you can use legal project management strategies to prosper during the downturn. A future blog will address the practice group management opportunities.

Legal Project Management

Based on our review of the reports, we recommend the following three action steps this year. Watch for further elaboration of these steps during the coming months.

- 1. Ramp up your LPM initiative:** During these times of falling demand and rising costs, LPM can help you dramatically improve your realization rates. In the context of what the data show, LPM makes sense now more than ever. Although most firms have already invested in LPM, many are still under-resourced in this critical area. According to the Thomson Reuters report, 63% of firms plan to increase legal project management spending in 2023. That's because LPM helps manage matters to budget and communicate more effectively to fulfill client expectations and reduce unnecessary work, literally saving millions for medium and larger firms. Take a hard look: Does your firm have sufficient legal project management resources — either a team of project managers or trained lawyers and paralegals — who can help reduce avoidable write-offs and write-downs?
- 2. Use LPM to improve teamwork and collaboration.** When you use legal project management approaches to manage your matters, the members of the matter team understand their roles and responsibilities, communicate more effectively and generally feel less tension or stress in their day-to-day work lives. LPM can help your law firm collaborate more and churn less. Find champions who will commit to using LPM on more of their matters. This will help improve morale and connection within the matter teams, even those working in hybrid mode. It should also increase the profitability and efficiency of the practice group despite the rising costs of expenses.
- 3. Use LPM to enhance associate development.** Even before the pandemic, gone were the days of having associates shadow a partner for training purposes. While shadowing is still a terrific training approach, it's typically not billable. These days it's the firm that bears the costs of associate development, not the client. This is just one of the areas in which the traditional apprenticeship model of association development has suffered. We realize that LPM does not take the place of shadowing, mentoring and other professional development approaches. However, there are several ways in which LPM can help. For example, an essential part of LPM is analyzing the matter upfront to create a scoping document. Its main purpose is to ensure the firm is on the same page with its client on the matter and the related budget. Equally important is that by providing increased visibility into the work required, LPM helps matter team members understand the high-level details, calibrate their contributions to the client's needs, and align outcomes to meet client expectations. This helps junior lawyers understand how their individual work fits into the larger picture and prepares them for more advanced assignments in the future.

There are many more ways that LPM can help your firm navigate the uncertainties in these post-pandemic years. Every new year ushers in a set of new challenges. Your best investment in 2023 is to find solutions that position your firm for the long haul. Look to some of our previous and upcoming blogs for other useful tips on how to enhance your firm's use of and benefits from LPM.

