Leadership, Growth, and Profitability in a Post-Pandemic Era

Insights on Navigating Digital Transformation in the Modern Law Firm

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Introduction

Leadership is fluid and by definition requires an ability to navigate across expected and unexpected paths. In fact, modern leaders need to be simultaneously proactive and reactive. And in legal, they need to deftly honor tradition and strive for change without disrupting an inherently delicate balance between technological progress, generational shifts, and complex business dynamics. In describing the current environment, one executive director noted, “Not only were we keeping the spinning plates in the air before the pandemic, now someone has lit them on fire.”

To understand how those charged with helping their organizations adapt and thrive are doing so most successfully, Affinity Consulting, iManage, and SurePoint Technologies engaged Ari Kaplan Advisors to gather the perspectives of a range of leaders about the most promising areas for growth, best practices for change management, and how their firms can continue to thrive in an uncertain economic climate.

Between February 21, 2023, and March 15, 2023, legal industry analyst Ari Kaplan personally interviewed 18 chief operating officers, 10 executive directors, one chief executive officer, and one chief administrative officer at midsize law firms about leadership opportunities and challenges, financial management, technological transformation, training advantages, and the effect of innovation. The participants are from law firms ranging in size from 15 to 650 lawyers and 34 to 1200 professionals. The median size firm represented is 140 professionals and 73 lawyers.

For many leaders who participated, the legal field is at a watershed moment that offers them the chance to reimagine law firm management and to influence a new era of success. “Now is the time to completely reinvent everything we are doing; we need to constantly pretend we are a brand-new law firm and change what we are doing in ways that are different from the past,” said a Chief Operating Officer (COO).

> “It is a really fun time to be a law firm leader as there is a great opportunity throughout the community to reshape firms in a post-pandemic era,” advised a COO.”

Leaders See a Range of Compelling Opportunities in 2023 and Beyond

From carefully piloting a return to the office and embracing better business operations to deploying new technology and seizing prospects for growth, the participating law firm leaders emphasized many areas of opportunity today.

Firms are Expanding their Market Penetration Wherever Possible

Literal growth in terms of practice areas and personnel was a key theme. “We have opportunities for growth in adding firms of 5-25 lawyers in certain markets,” said the COO for one of the larger firms represented in this research. “For a small firm, there is an incentive to join with a larger firm as they consider succession planning for the long-term care of the clients, staff, and younger professionals,” the leader added. Expansion through acquisition was a commonly shared vision throughout the discussions.

“The labor market has presented opportunities for us to acquire talent and practice groups now,” added an executive director.

The War for Talent Seems to Be Subsiding

Some firms are seeing a respite from the challenges associated with staffing that have plagued many organizations, regardless of size, practice area, or market over the past few years. “It was the war for talent in 2022, but that has subsided and now it is holding the culture together for people who don't want to come into the office, combined with a fear of a recession where the sky is not falling yet,” said the COO of a larger midsize firm. “We are seeing the loosening of the talent market, which has wreaked havoc on the firm over the past two years so there is an opportunity in recruiting legal talent,” added another.

Office Space Remains an Open Question

Even as hiring stabilizes, where professionals work is still shifting. “Real estate is very interesting because there is so much uncertainty, with some firms transitioning to hoteling as they continue to grapple with working remotely and in a hybrid manner,” advised a chief administrative officer.

“Being part of change is paramount for leaders; the approach to working remotely presents an opportunity to be creative and offer much more flexibility,” added an executive director.”

Increased Use of AI is on the Horizon

As part of that effort to be more creative, with the universal enthusiasm for ChatGPT in 2023, many participants described technology and artificial intelligence in particular as areas of focus. “The most compelling opportunity is in refreshing and growing our legal tech skills,” said one executive director. “All of the opportunities are around innovation and ChatGPT, which will be cutting-edge for a while but will eventually be very impactful,” added the COO of a larger midsize firm.

Several leaders also highlighted the practical applications of AI to the business of running a law practice. “Firms need to adopt AI to reinvent how they bill their clients, moving from billing for value rather than time; if I can leverage technology to increase the value of the work, I can save time, which will grow revenue,” said a COO.

Mastering the Basics of Billing Often Outweigh Newer, Unproven Opportunities

Despite the advancement that firms are seeing and the transformation they are experiencing, many participating leaders still support a straightforward approach to management. “We need to focus back on the basics, including capturing time and distributing bills on schedule; it is nothing sexy or shocking but if you just keep hitting singles and focusing on good financial hygiene, you will maintain success,” remarked a CEO. “If you can send bills quicker, you can get paid in 60 days versus 90 days,” the individual added.

The focus on billing also connected back to the interest in measuring productivity in a hybrid office. “I can track timekeeper productivity quite easily, but it is more challenging for staff members because it is not the culture of legal or of the United States workplace to track time beyond legal,” explained an executive director. This sparked an interesting dialogue about incentives to help drive better billing practices. “We started changing behavior with penalties, such as charging $100 for pre-bill delays, but it was too Draconian, so we now pay $100 for prompt efforts,” reported a COO.

Leaders Are Considering Future Law Firm Ownership Rules

The future of the law firm structure was also a recurring topic of conversation about opportunities and given the trajectory of the profession. “Law firms need to advance in the modern world, including in the dynamics of law firm ownership and engagement between different generations,” explained a COO. “I think there will eventually be outside ownership of law firms and that will present a fundamental change to law firms, which will make leadership even more crucial,” predicted another. “The pace of change is glacial in this area now, but that will accelerate rapidly if we are competing against the Big Four, for example, as law firms, rather than just business consultants, and it will become increasingly more difficult in making the current business model of a midsize law firm successful,” the individual continued.

The Skill Set Required of Law Firm Leaders Has Changed

As the dynamics of management continue to shift, the capabilities necessary to endure are similarly evolving.

“Many executive directors have more of an HR role, but I wear many hats at the firm; law firm leaders have always needed a wide range of skills in a midsize law firm so the skillset required has always been broad and comprehensive,” said the executive director of a firm with over 120 employees. “You need to be adept at managing a broader array of people with different capabilities than ever before,” offered the COO of a larger firm.

> “77% of the participants reported that the skill set required for law firm leaders has changed, particularly for those in midsize law firms.”

Financial expertise is also essential. "It is important for all leaders in law firms to have a very strong business sense and a COO should have a background or education in finance," explained one chief operating officer. "Now, more than ever, financial acumen and an understanding of data analysis are critical; budgeting and forecasting are much more important," added a peer. "Financial savvy is first and foremost," concluded a third.

Law Firm Leaders Need to be Multi-Talented Professionals

Despite the business acumen necessary to thrive as a law firm leader, it is only one facet of the modern role. "Most law firm leaders have had to be skilled in finance and HR, but if you don't know the difference between key technology, you will be left behind; even the Association of Legal Administrators is discussing revisions to the KSAs (knowledge, skills, and abilities) for the CLM exam," noted an executive director.

> "Many COOs have a strong financial background, but the core skills that are increasingly necessary are HR-related because success is about human capital rather than numbers," added another respondent.

There is also a more prominent emotional component to this position. "In addition to being a leader, you need to be a therapist and support Generation Z; there are also a lot of mental health concerns being brought about by divorce and health issues," said the CEO of a law firm with more than 100 employees. "Empathy is huge and you need to be more of a people person in addition to being a business person, with a focus on a professional's full self," added the COO of a smaller midsize firm.

> "You need to be more human," summarized the COO of a firm with over 300 employees.

Other necessary skills include:

01 Understanding cyber insurance and penetration testing.

02 Navigating the changing social landscape and political issues that are spilling over into law firms.

03 Mentoring, which requires a different skill set; there is a lot more independence and a desire to work remotely which presents a challenge to mentoring.

04 Diplomacy, political savvy, and an understanding of human behavior in terms of what motivates them.

05 Delegating, developing, training, and empowering.

06 Mediation and negotiation skills, as firms are looking at underperforming shareholders and enlisting administrative leaders in the executive director role to address those situations on their behalf.

One COO of a law firm with about 200 lawyers questioned whether the prevailing wisdom is now different. “The skill set has not changed, but if you are not willing to be bold, open to change, and think differently, you are at a disadvantage.” A participating CAO echoed that conclusion. “Law firm leaders need to be more technology-centric because if you don't pay attention to new developments, it gets away from you and you lose your edge.”

In addition, there was a consistent view that law firms are broadly recognizing the value of employing professional managers, rather than lawyers with management responsibilities. “Lawyer owners of firms now recognize the need to hire professional managers for their businesses; midsize law firms tend to be behind the curve in terms of law firm management,” said the executive director of a firm with almost 100 employees. “Law firms of any size have realized that it is not just a professional practice and it is a business so they want more of a business manager to help run their firms because they don't teach business skills to attorneys in law school,” added the COO of a smaller firm. “There is parity and integration between lawyers and professional leaders to equally collaborate to make decisions that lead to success at their law firms,” explained a third participant.

The Shifting Workplace Requires an Aptitude for Interaction and Communication

These skills are important because most of the responding leaders approach change management with a focus on communication and inclusive collaboration. And the need to work across distributed teams has only heightened the proactive qualities that leaders must demonstrate in a midsize firm. Most generally described various aspects of adaptability. “The skill set that you need in the corporate world of being flexible, nimble, quick to act and react, being proactive instead of reactive, and being innovative is really key now,” said the COO of a larger midsize firm.

> “Innovation is getting more attention and law firm leaders need to exercise more flexibility in their knowledge base,” added another respondent.

Dialogue is critical, and the pandemic heightened the need for transparency in a law firm’s messaging to drive effective and comprehensive change. “Communication and organization are essential because it is no longer as simple as walking down the hallway to solve a problem quickly or to engage in a brief conversation,” advised a participant. “To be successful, there must be open and frequent lines of communication,” offered a peer. “It is increasingly about transparency, keeping everyone connected, and conveying a shared vision,” echoed a third.

Clear, unified messaging also builds trust, which is another catalyst for change in a hybrid environment. “People are distrustful of being treated fairly in terms of schedule and compensation as they are further apart in distance and proximity, so as communication becomes more difficult transparency becomes more important,” advised the COO of a firm with almost 200 employees. “I am dealing with the 'it’s not fair' phenomenon, where one group has the freedom to work remotely over others, so explaining the reasons for certain decisions has become more prominent and a larger part of the discussion,” added an executive director.

The level and style of a leader's communication often correlate to the topic and team to which they are conveying the message. "You need to understand how to communicate properly and how to adapt for individuals and methods," noted the COO of a smaller midsize firm. "We are more purposeful and thoughtful in including others in discussions and conversations, which was much easier when the entire team was in the office regularly; also, for introverts or those who are more comfortable remotely, you don't want that to become a detriment to their career progression," acknowledged another.

And, of course, communication influences the ethos of the law firm. "Every organization is trying to determine the sufficient amount of 3-D interaction and the impact of a lack of it on culture; the intervals of communication have changed and have become more frequent because we no longer have natural encounters," an executive director for an 80-lawyer firm advised.

The Pandemic and Remote Work Have Had an Enduring Effect on Change Management

Leadership and transformation are complementary actions that modern law firms have aligned over the past few years. In fact, 47% of the participating leaders have altered their approach to change management as a result of the pandemic and the current model of working in a remote or hybrid manner.

"I approach change management with panic and dread, though it hasn't changed that much; it is still about how you make the pain of the status quo worse than the pain of driving change," said the COO of a large team. "[Laughter] Change management in the legal field is incredibly difficult; you need many tools in your toolbox to figure out how to implement change in an industry that is inherently not supportive of change," echoed another COO of a much smaller organization. "Lawyers are also educated, smart people, who spend large portions of their days proving that they are right; those qualities do not support a culture of change management so leaders must convince their constituents why change is necessary," offered an executive director.

Inclusive Leadership Increases the Likelihood of Success

Leaders who promote change management most effectively do so by building consensus. "I like to get as many stakeholders to be champions as early as possible and to make them feel like they are part of the solution rather than having change forced upon them; it is a combination of going slow enough to avoid bothering people, but fast enough to maintain momentum," explained a COO. "You need to be transparent about your plans to increase engagement and acceptance; people need to be part of the solution, which empowers them," added a peer. "Leaders need to ensure that there is a consensus among the leaders through transparent communication," offered a colleague.

There is also an interesting benefit associated with inclusive decision-making. It reflects a shared investment and a personal commitment by the participants to follow through.

> "We want to demonstrate encouragement and support, but we also incorporate accountability; we are trying to hold people more accountable for firm standard policies and procedures, such as timely time entry, which is more of a challenge when you are distributed," said another COO.

Practical Expectations are Essential for Driving Meaningful Change

Properly setting expectations is another common trait among those who have a history of skillful change management. "Too many people expect immediate results so successful leaders set expectations effectively and are realists about change," noted an executive director for a 100-employee firm. "It is critical for leaders to also anticipate any questions that will arise as the process is centered around a lot of talking and strategy," added the COO of a smaller firm.

Other recommendations include:

01 Emphasize the ROI of your initiatives and do not make requests that are not well thought out.

02 Secure buy-in at the start and enlist your elite team of supporters combined with those whom you expect to be significantly bothered; that combined group will be very persuasive to the broader firm.

03 Recognize that the speed with which change is occurring is outpacing the ability to optimize change management and fully develop your plan for change; one approach to change may be fine if you are in the office and need another approach if you are hybrid.

Overall, "There is more art than science in fueling change; at the end of the day, it is about communication, setting expectations, over-communicating, listening and obtaining feedback, and engaging all of the appropriate stakeholders to secure their support," remarked one COO. In addition, "You cannot always anticipate the challenges to change management so you need to be adaptable and diplomatic," added a CAO. Ultimately, "It is about collaboration and bringing people on a journey," summarized an executive director.

Harmonizing Hybrid Work is a Critical Challenge for Leading a Law Firm in 2023

Many of the skills required of new leaders have become more important or changed as a result of working in a less traditional manner. In fact, only 20% of the participants serve in law firms that require their employees to work in a central office five days per week.

Although it is Not Required, a Majority of Firms Encourage In-Office Work

While 80% do not, most have certain parameters, and 57% either expect or aspire to see their lawyers and professionals in the office at least three days per week. And several firms described encouraging in-office engagement to promote growth and opportunities. “We do not have a return to the office policy, but we are an in-office law firm and believe that camaraderie and mentoring are critical to our success,” explained the executive director of a firm with almost 150 employees. “We think we are better when we work in an office together because it is better for training and collaboration, but we don't track attendance; we want a high level of engagement, which is broader than a physical, in-the-office model,” added the executive director of a firm with 400 employees.

Many see so much value in being in the office that “If someone has a performance issue, we will suggest that they begin coming into the office more consistently until they get whatever problem(s) resolved,” advised the COO of a firm with almost 200 employees. Alternatively, another participant explained: “We like to see people in the office, but give flexibility, so our policy is look at your day and be an adult.”

It is a fluid matter that is generally unsettled. “We would like to see more of an in-office presence, but it is a delicate issue that seems to change by the week,” explained the COO of a firm with about 150 lawyers.

Communication Styles and Methods Continue to Evolve

Regardless of location, leaders are changing the way they communicate in a post-pandemic era. “I use text messaging all the time because I have no idea where anyone will be on a consistent basis, and I always schedule meetings with a Zoom option, even for meetings that are in-person,” said the CEO of a firm with over 100 employees. “We have more virtual group meetings as a means of communicating quickly that are more effective than a mass email,” added a COO.

Real Estate Adjustments Offer Law Firms New Opportunities

Many leaders are also reevaluating their real estate needs. “We have modified our square footage to create more 'huddle' rooms and hoteling options, and added high-top tables in the coffee room; the shareholders do not even care about the size of their offices, which has given us the freedom to change the way we arrange the space," explained the COO of a firm with almost 300 employees. "We are redesigning space with the expectation of people working three days per week," added the COO of a firm with over 800 employees. "The firm reevaluated all of the positions at the firm and whether they could be remote because our lease is up in 2024 and we needed to know if we required the space," echoed the COO of a law firm with 500 employees.

Cross-Generational Management is Essential

The generational shift that is simultaneously evolving and converging is creating its own unique concerns. "This is the first time that four generations are in the workforce at the same time, from Boomers to Zoomers," noted an executive director. "To communicate with Gen Z professionals and create stickiness through culture and building loyalty, law firms need to emphasize and establish their value proposition," added a participating CEO.

Related to the generational issue is transferring the knowledge of how to expand a practice. "There is no coasting anymore; you need to actively develop businesses," said one participant. "The challenge is persuading the younger generation to focus on business development the way the older generation has," noted a colleague.

The overall challenges seem to be commitment and mentoring. "Fewer lawyers are bound to a career for their entire life," said one respondent. "Good mentorship is an area we are facing and addressing, which has been diluted as a result of the pandemic," explained another.

Beyond change and adapting to hybrid work, the participants identified several other challenges to address:

01 There are a lot of emotional arguments taking place and pining for the past.

02 Helping people get through the emotional elements of the loss of firm culture.

03 Individual expectations for flexibility are so much broader than they were, including the choice of the work you do, the location, the timing, and other factors; we want to provide flexibility while also ensuring that the job gets done.

04 The pandemic heightened the sensitivity to work-life balance.

05 There is a lot of uncertainty that requires more communication and understanding that people will react to actions in different ways.

06 Organic growth is difficult, which only produces incremental and marginal changes.

07 The mindset is shifting from time to value and many law firm competitors are making this argument; persuading lawyers that they need to focus on value versus time is a challenge, but the key to thriving.

08 Finding and retaining talent with the skillsets we need, partly because there is a need to be more proficient with technology.

09 Decisions need to be made more quickly with less information and input from fewer stakeholders, which is significantly more stressful.

11 Cyber risk or a breach, being in front of the technology portfolio, and keeping information secure.

12 Retention is a huge issue because the legal workforce is so mobile; many lawyers seem to be itinerant and are much more willing to move anywhere at any time.

13 There is also a trend of job consolidation where firms are not replacing middle managers.

Midsize Law Firms Can Expect Growth in Various Areas

The economy is presenting new opportunities for law firms that can provide quality legal work that is value-centric and exceeds client expectations. “Midsize firms that are smaller than the mega firms are well-positioned from a value proposition to become the law firm of choice for companies being impacted by a sluggish economy; there are also openings for firms that effectively deploy fixed fees because clients are looking for new value propositions,” said the COO of a larger midsize firm.

Various leaders emphasized that those opportunities abound in an uncertain economy so many are pursuing key areas of interest. “We see opportunities to acquire smaller practices in specific areas throughout the region; my job is to model the acquisition structure,” explained an executive director. “We are opportunistic and interested in acquiring new practices and new lateral hires, as those partners may feel disconnected from their firms which may be affecting loyalty and cultural strength,” added a COO. “There are opportunities for growth in the depth of what we offer, such as expanding the depth of the projects that our corporate practice can handle by acquiring new lawyers or practices,” concurred another COO.

Despite the positive impressions of growth, a few expressed potential headwinds for midsize law firms. “The hourly rate in the middle market is under enormous pressure and as a result, midsize firms will need to be more creative with attractive fee arrangements, but I don't know what the release valve is,” cautioned an executive director. “Clients also now have less loyalty and cost concerns are shifting the way they are distributing the work,” added a COO.

Several were more forward-thinking and anticipated advantages in emerging areas. “If I were to create a law firm, we would already be in the metaverse, accept bitcoin, and fully utilize AI; there will be an adapt-or-die philosophy because midsize firms will be left in the dust,” noted an executive director. “The metaverse is further on the time horizon, but current growth is in penetrating new markets because you no longer have to open an office to take advantage of new business in certain locations,” noted a COO.

Law Firm Leaders Are Creating Value By Executing Key Initiatives

This type of risk-taking and these efforts to create opportunities are key for law firm leaders in a post-pandemic period. In fact, there still needs to be an appreciation for experimentation. “Failing fast and identifying options and potential solutions is where we add the most value,” said the COO of a larger midsize firm.

> “People are listening more and I have stopped asking for a seat at the table; I simply sit down until they ask me to leave,” added an executive director.

To create that value, however, professionals at the firm responsible for management need to have a consequential influence on the organization’s decision-making. “Creating the most value comes from having a vocal seat at the table, so law firm leaders need to have a seat at the table and a voice in the management of their team,” said one COO.

When asked where law firm leaders should focus for the future, several underscored succession planning and understanding how to best deploy AI. For many, the issue is simply anticipating key trends that could drive growth. “We need business leaders, for example, to be able to pivot quickly and lead beyond their comfort level,” remarked the COO of the largest midsize firm represented among the participants.

Savvy Succession Planning is Critical for Future Success

As for forecasting the generational transitions within their firms, several emphasized the need to prepare as soon as it is practicable. “We know that lawyers who are 60-64 do not want to work as long as their predecessors did; we know this issue is coming and it is affecting our thinking,” said one COO. “We also need to focus on succession planning with a four or five-year horizon to begin to transition relationships,” added another COO. “We have been working around succession planning for five years and this year, we sense that we are running out of time; since today's succession plan could change tomorrow, you need to plan and be ready for surprises,” cautioned a third COO.

Succession planning for many leaders is part of a larger effort to help a traditional business achieve its currently undefined potential. “The focus needs to be on what the future of work and the future workspace looks like,” commented the COO of a firm with almost 100 lawyers. “You need to figure out where your North Star is in where your firm is heading,” added the executive director of a firm with almost 250 lawyers.

Automation is an Area of Opportunity

One area in which many are concentrating their attention is automation and machine learning. “AI does seem to be coming to the legal professional fast and furiously, so we are starting to look at how to creatively use AI at our firm and we know it will be impactful, particularly in litigation,” explained the executive director of a firm with almost 150 employees. “We are even experimenting with how ChatGPT could be helpful,” added the COO of a firm with a similar number of lawyers and professionals. “AI will be a factor in law firm practice and will displace certain types of work, with a lawyer spending much less time on certain projects, such as those that involve contract drafting and repetitive insurance defense disputes,” predicted a chief administrative officer.

Despite the interest in novel technological applications, the COO of a larger midsize firm noted one fundamental issue that many firms still need to address. “We are focused on behavior change, such as getting time in at the end of the day; getting your time in daily is like solving world hunger in the legal profession and we should not have to run our business this way.”

It is important to distinguish between the new generative AI options, such as ChatGPT, that have become universally lauded in 2023 for their potential effect on document creation, and other types of AI that law firms have been deploying for years to address discreet business issues like document tagging and search. Both are critical considerations for law firm leaders, but the latter has immediate practical application and is often the focus when discussing artificial intelligence.

The Alignment of Data, Profitability, and Metrics is Driving Law Firm Success

As they expand their technology and processes, firms are becoming more sophisticated stewards of their data. 87% of the participants measure KPIs, such as monthly and quarterly expenses, billable hours for all timekeepers, and collections, regularly. After all, “What you don't measure, you don't manage,” said one COO, who added that “alternative fee arrangements are only successful if you can develop relevant KPIs and can guide the process.” There is also continued interest in properly tracking these metrics. “I would like to identify as part of our strategic planning effort the two or three metrics we should identify where people can see the impact of what we are doing,” added another COO.

While most reported tracking billable hours, realization, and collections, there were others who are using KPIs more strategically. “We look at attrition and reasons for people leaving the firm because we can tell a lot about our business by reviewing these metrics and how it will perform in the coming months,” advised an executive director. “We have a business plan split between revenue growth, culture and DEI, and technology, and for each, we have different measurements; we focus on our internal business development and look at KPIs related to client origination and size of those originated clients, for example, because we want to increase the number of partners engaging new clients,” added another executive director. “We look at the return on investment as some of the highest receipt practice areas also cost the most to produce the work for that area,” offered the COO of a smaller midsize firm.

Beyond simply capturing metrics, many use data to make decisions, including:

01. We are looking at KPIs on how fast we are hiring, time of retention, and how fast we can get them up to speed once we do hire them.
02. We use data to create action and determine a strategy for aging collections.
03. We use data to run models when responding to an RFP or creatively pricing a project.
04. We use data to make merger and acquisition decisions.
05. We make hiring decisions based on capacity and projections on capital expenditures or infrastructure changes.
06. We have complex formulas to make compensation and bonus decisions, as well as how we pay equity partners.
07. We use data to make decisions on pricing matters when proposing alternative fee arrangements.
08. We track the number of new matters that are opening and use that as a leading indicator to determine whether we will see an increase in billable hours; we are also starting to apply credit ratings for new clients to adjust their retainers and reduce risk.

One COO highlighted that "Small to midsize law firms are very 1995 so there is a potential to utilize data more effectively to target efficiencies and drive growth; crappy data could lead to false conclusions."

Profitability is a Powerful Metric

For many participants, profitability is a critical measure of a firm's viability and growth potential. In fact, 87% analyze profitability and a majority (53%) evaluate financial KPIs daily. It also helps optimize resources and set strategy. "We are focusing on identifying why junior lawyers and paralegals may not be as profitable to properly allocate the work," said one COO. "The profitability of the client drives a number of decisions related to support and service," offered another.

Tactically, there was agreement that financial success stems from a combination of factors, though the methods for collecting data and weighing it seem to vary. "We analyze profitability simply by looking at hours, originations, and collections; there is nothing out of the ordinary," explained the COO of a smaller midsize firm. "We analyze profitability by practice group based on revenue compared to overhead allocation and the average full-time equivalents," said an executive director. "We look at revenue minus expenses, accounting for direct and indirect administrative overhead," echoed the COO of a larger midsize firm, who clarified that "our models are standard, but it is partner hesitation and reluctance to participate in the process that has an impact."

Beyond developing a unified system, gathering information is an obstacle for some. "It is hard to gauge profitability because a firm does not always know all of the underlying costs at the level they need to know them, such as allocating overhead to a client," noted one respondent. "Our lawyers can tell whether someone is profitable or not and that unscientific process has been our historical approach," commented another.

Technology is Empowering Leaders with Greater Insight

Given the value of understanding this granular level of performance and the complexity of relying on traditional, often manual practices, leaders from some firms described how they are using technology to gain greater insight. "When you are calculating profitability manually, it is so far from the truth, it is scary, especially when you are using it for compensation so automating the process and leveraging technology more effectively is the goal," said one COO. "We want to be able to tell a story about profitability and paint a picture that they can fully understand; our goal is to make sure that every single partner understands profitability transparently and completely," added another.

> Almost half (47%) of the participants work at firms that use data to bring added client value.

For some, technology may also provide a neutral and universally accepted approach given the weaknesses in less scientific strategies. "People may have inflated ideas of the profitability of a client or the importance of a particular matter to the firm; the assumptions lawyers make about the economics of the firm are often terrible and based on flaws in their assessments of clients and matters," acknowledged a COO.

Independent Data May Help Answer Internal Questions About Profitability

This standardized method could also help avoid any conflict because several noted that there can be tension in discussions related to profitability. "The firm does not officially disclose profitability beyond the managing partner and COO because it is too divisive," reported one COO. "We look at the firm's profitability and if we are looking at the profitability of a practice group or a client, it is not made public and that analysis is closely guarded," noted a chief administrative officer. "There are different ideas on how to calculate profitability and it becomes argumentative," offered an executive director.

Leaders Have Various Ideas About Increasing Future Profitability

When considering ways to increase profitability over the next five years, the consensus among the respondents was generally to increase revenue by growing and billing more hours, at potentially higher rates. When asked about growth, 93% of the participating professionals emphasized reimagining business development and 23% emphasized the value of acquiring smaller practices to expand locally and into new markets.

There was also discussion about deploying human capital more effectively, investing in technology, and streamlining costs by reevaluating office space. “We are looking at how we staff cases, set rates, reduce our risk, and balance risk with opportunities, such as through AFAs and better pricing,” said one leader. “We will need to become more effective in deploying our legal assistants and having more become timekeepers as paralegals; the newer professionals in the younger generation are very interested in engaging in billable work at a firm to increase their salaries and acquire more skills,” added a peer. “There needs to be an optimal and economical way to operate where lower-cost resources are completing lower-cost tasks,” remarked a third.

With regard to lowering costs as a lever for increasing profitability, while only 13% specifically cited reducing their real estate footprint as an immediate consideration, with most firms continuing to offer flexibility in where their professionals perform, this is likely to be a key area of interest for leaders over the long term since it is often one of the largest expenditures and has been transformed by the increase in remote work. “We are looking at keeping overhead low and identifying new areas for cost savings, with space being the largest area of consideration,” said one participant. “We have a lease coming up in 2024 and will be looking at that spend harder than we have ever done before in the history of our firm given that this is a cost we can cut,” offered another. “Another lever is to create hoteling and continue hybrid work schedules to contain real estate costs,” echoed a third.

Service Delivery May Be Changing

Since 37% of the participants are exploring other service delivery models as a tactic to increase profitability, such as selling products, rather than selling hours, it was unsurprising that many are looking at ways to enhance their investments in technology. “We are using more technology to make us faster and better, and to get more work from our clients,” said a COO. “We are also using technology to automate more activities,” noted another.

Examples of other new service delivery models include:

01 Offering service bundles in foreclosure or immigration.

02 Hosting e-discovery data and serving as a litigation support vendor.

03 Seizing on work outside the firm’s geographic locations given the acceptance of remote work.

04 Commoditizing certain deliverables where the work is similar and repetitive, as well as selling handbooks.

05 Creating policies and developing training in labor and employment.

06 Providing consulting services beyond legal work.

Law Firms Can Deploy Data to Create a Competitive Advantage

Apart from new service delivery models, 90% of the respondents agreed that reliable, timely data can help law firms gain a competitive advantage and 73% feel that they have access to the data they need to make informed business decisions. In particular, several suggested that there is an opportunity for law firms to create more reliable data through more effective time entry. “You need real-time data, but the data I see on a daily basis is already a day old,” noted one participant. “Associates at our firm get a fraction of billable credit to enter their time daily,” added another.

Beyond offering an advantage, data is now a key component of decision-making in a modern law firm. “The more access to data a firm has and the more current it is, the better you will be able to make decisions,” agreed a participant.

Adept Leaders Are Simultaneously Driving Innovation and Overcoming Resistance to it

It is also important for driving innovation and change. “Using your own data to influence change is very important,” remarked one leader. “Data is going to drive innovation moving forward and create opportunity for law firms,” said another. “The longer you wait to react to the data and information you have, the longer it will be to change direction and address an issue so figuring out what data you need to track, and how frequently you can track it is essential,” advised a third.

When asked for the percentage of time they focus on strategy and innovation, the respondents shared a range of responses. While many spend less time in this area than they would like, they all dedicate a portion of their schedule to this effort. In fact, 10% spend between 31 and 40 percent of their job on strategy and innovation. 17% spend 21 to 30 percent, 27% spend between 11 and 20 percent, and another 27% spend up to 10 percent. “It is a big part of our job, especially because we are in the midst of a strategic planning initiative,” said one COO. “I wish it was more than it is because leaders should spend more time strategizing than putting out fires,” noted another.

The interest in allocating a larger portion of their schedules to these areas was common among the participants, as was the limited opportunity to do so. “There are too many other items to address and I wear too many hats; I feel bad about that,” admitted one leader. “I don't yet have the firmwide framework in place to prioritize strategy and innovation,” echoed a peer.

> “The hard part is not focusing on strategy and innovation, but it is implementing innovation based on the strategy you consider in connection with the costs and risks,” explained a third.

The Next Generation of Legal Professionals Want Technology Commitments

Law firm leaders are more commonly enlisting the support of and soliciting ideas from newer hires at the firm to both incorporate them into the decision-making process that will affect their futures and also to benefit from their unique perspectives. It is also a way to build a stronger culture and create organic mentoring opportunities.

In addition, “More junior professionals are demanding it and it gives everyone at the firm the flexibility of being able to work anywhere, anytime,” said a colleague, which reflects a macro concern among those who are choosing between firms as its core philosophy around technology and innovation is a fundamental consideration for those seeking to establish long-term roots with an organization. Many see technology deployment as closely connected to the opportunity to achieve some level of work-life balance, an important factor for younger generations. Law firms that lack a unified approach and message on this point could struggle in their efforts to retain talent and grow over the next few years, especially if the market remains consistently competitive.

Technology Continues to Transform and Elevate Midsize Law Firms

Efficiency is often the main reason participants provided for using technology because it sways the business of the law firm, but the discussions typically cited the advantages associated with competitiveness, speed, and risk management, among others. 77% of the respondents cited various elements of competitiveness as the drivers for using technology at their firms and 67% have made improvements to their technology portfolios over the past 12-24 months. “Technology makes us more efficient and allows us to bill based on value, rather than hours, so if you can become more efficient, you can generate higher revenues,” said one leader. “You cannot practice or operate a firm without technology,” offered another. “After security, the objective is to use technology to drive revenue which is tied to ROI,” noted a third.

From a growth perspective, midsize law firms often rely on their digital transformation initiatives to provide the highest quality work and service. “We compete with larger firms and need to be able to have sufficient technology to produce work of an equal caliber at the same scale and quality,” said one. “If you don't use technology, you are at a competitive advantage,” added another.

One COO cautioned that “Innovation has almost disappeared in a midsize firm because it requires people, money, and time that firms may not have,” which is a point that is directly related to the finances of the firm. “You need to leverage technology to ensure profitability,” explained another COO. “We use technology to find the pending holes and identify what we are doing to potentially lose money and prevent us from making as much money as we could,” offered a peer.

The Benefits and Buy-In Are Key to Overcoming Resistance to Technology

The costs and risks are part of a broader discussion about overcoming the resistance or challenges to innovation. Generally, executive support is critical to overcoming any resistance. “You need to get stakeholders to buy in so you are leading by doing and then communicating the results and success stories,” said one leader. “It is critical to tell a story about why you are considering making a change and you need to tell that story well to the stakeholders to engage them early in the solution,” echoed a peer.

Given the human element of technology implementation, “Show the benefits of new technology and connect the users to the top or bottom-line progress,” advised one COO. Also, encourage colleagues to train each other. “We try to make learning and adoption social to make it stickier and more effective,” explained a COO. “We often have the lawyers encouraging each other to use new tools to gain an advantage,” said another. “We have a program of peers helping peers at similar levels rather than a junior person helping a senior person,” offered a third.

Document Management is a Foundational Element of Digital Transformation

There was broad recognition among the participants of the need to incorporate automation and robust document management tools into their portfolios. In fact, 63% of the respondents work at firms that automate often-created documents. “We have a document management system that focuses on automating, creating, storing, and retrieving documents more efficiently,” said one participant. “Over the last 18 months we have made a huge push for document automation and are producing documents so much faster than prior to this transition,” added a peer. “We are also looking at how we can leverage artificial intelligence for automated document creation,” noted another.

The most common use among the participants of document automation was with forms associated with certain records-heavy practices. “It is in more of a pilot phase in tax and estate planning, immigration, and other areas that are high volume and consistent,” said one participant. “We have some practice areas with high-volume paper, such as immigration and no-fault, which has repetitive documentation,” added another.

Another recurring theme was the mindset shift accepting document automation rather than perceiving each record as bespoke. “Many partners have an entrepreneurial view of their practice and want to use their own letters, though it would be easier for the firm to have standard letters, so it is inconsistent,” said one. “We cannot admit that our documents are essentially the same and can be completed more efficiently,” offered a peer.

In addition, there has been a widespread realization that proper document hygiene within robust systems can help surface knowledge seamlessly, as well as empower users to repurpose it in ways that optimize efficiency. This approach now allows legal teams to tell cohesive stories and assemble or reassemble the records that offer the most meaningful insights for any given matter.

Monitoring and Maximizing Repeatable Processes Can Enhance Efficiency

In an effort to expand their work in this area, 70% are documenting their repeatable processes, with some practices, e.g., labor and employment or trusts and estates, serving as a firm's early mover. It is another opportunity to drive efficiency. "We are spending too much time recreating every wheel," said one leader. "It is in process because we don't want to start from scratch with each project," echoed another.

Although more than two-thirds are tracking their efforts, firms are likely to see more meaningful progress as their efforts mature. "We try to identify repeatable processes and gain efficiencies, but we are not at the forefront," admitted one. "We try to do it but are not that great at it," said another. "We probably don't do it as well as we should; it is about a coalition of the willing," noted a third.

While 73% reported creating workflows around their repeatable processes, they accompany the financial aspects of their roles. "We have system workflows for our finances," said one COO. "We have focused on finance and developed workflows on accounts payable, check requests, expense reports, and conflicts and new business processes," added another. "We created workflows in our software platform for expense reporting, new client/matter intake, and write-offs," echoed a peer.

> 40% are also automating their repeatable processes, with a similar focus on finances. "We automate certain accounting processes, such as new matter intake, expense reimbursement, and reporting," noted a COO.

Training is Critical to Technology Implementation and Adoption

Even though 10% of the participants reported that their law firms provide technology training for new leaders and 43% provide leadership training for new leaders, there was a common theme of driving the adoption of new tools through training.

"You need to have really good training to drive tech adoption, including helplines and ongoing support," recommended one COO. "Train super users very well, give them a range of opportunities to apply new technology, and encourage the firm's professionals to see them as a resource and an extension of the leadership and innovation team," echoed a peer. "Our education is what we focus on to drive adoption, so we work with professionals individually and have no limitations on how we will train them," added an executive director.

Like change management, technology implementation success consistently follows from well-earned trust. “The key is getting to the why because our biggest roadblock is partners and if they are not willing to deploy the technology, it is not going to work as intended; you need to show partners the why and financial benefits, as well as what is expected of them,” said a participant. “You also need to show how a specific tool will help them individually; it is important for leaders to gain the trust of those at the firm so that they can persuade them to take advantage of certain tools, especially if the leader is not a lawyer,” added another.

The pandemic degraded training at some organizations, but they seem to be addressing these deficiencies. “We need to do better in the training area and have not done a great job of training in the last three years,” admitted one participant. “We have increased our training over the past year as it fell down during the pandemic,” said another. “We haven't done a lot of training lately and we are focusing on it in 2023; we need to improve the skills of our staff to be more flexible and responsive in a hybrid environment,” offered a third.

Other strategies include:

01 Creating a more standard training program for our associates so we do not overwhelm them with too much training.

02 Having an IT company train administrative staff, which then offers training to the lawyers.

03 Offering cybersecurity awareness training, which has probably saved us more stress, time, and money than we know about.

04 Ensuring that training is timely because it is less helpful to train someone today if they cannot use what they learn.

05 Incorporating training on DEI and health and wellness into your culture.

06 Training legal assistants and paralegals, and including graduated scales of technology improvements with financial rewards.

07 Leveraging a lunch and learn model.

08 Using points from credit cards to fund travel and other training events and encouraging membership and participation in professional associations.

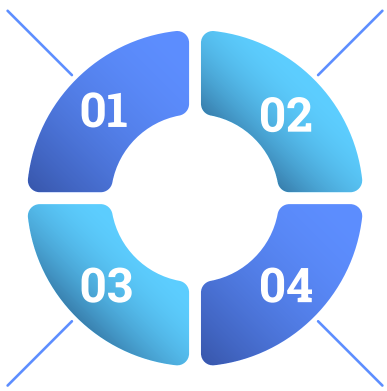
Legal Technology is at the Core of Law Firm Growth, Revenue Generation, and Client Service

Technology is a clear enabler and catalyst for growth, revenue generation, and client service at many law firms, including those at which the participating leaders serve. 70% of the responding leaders reported that legal technology helps drive the growth of their law firms and the key theme was that it often serves as a recruiting tool. “The attorneys we want to attract find new technology very appealing so it can help us grow,” said one. “Technology can be great for the bottom line, but it is also a marketing element in attracting employee talent,” offered another. “Our young associates are expecting us to be heavily invested in technology; with the war on talent, they will see our limitations and not want to work with us and that is a growth issue,” noted a third.

For 30% of the participants, “Legal technology supports and helps growth, but I don't think if we are the highest investors in legal technology, we will grow faster than our peers,” noted one COO. “It facilitates growth but it does not drive it; the talent of the lawyers is what sells the work, but technology helps produce that work,” added a peer.

Almost all (90%) of the participants indicated that legal technology helps their firms increase revenue, though many references related to efficiency. “With more technology, you can focus more time on enhancing revenue and generating more hours,” said one. “Better technology gives you more visibility into the firm's financial performance and operations; if your attorneys can be more efficient with technology and increase their utilization rates, they can also drive more revenue at the margins,” a second added. “It helps the firm create a competitive advantage, which leads to an increase in revenue,” offered a third.

Additional examples include:



Using document automation because if you can produce documents in half the time, you can double the work for more clients.

Deploying a tech-enabled profitability analysis, which is helping us increase revenue because we capture more time than we used to.

Automating work, such as in immigration, makes us more consistent, helps us deliver a higher quality product, and increases revenue.

Migrating to systems that do not require as much infrastructure and IT support because they are cloud-based and offer opportunities for law firms to generate more revenue.

100% noted that legal technology helps their teams deliver better client service. For many, the use of technology increases speed, enhances accuracy, and empowers responsiveness. “Today, clients want a quick turnaround so if technology allows us to respond more quickly and easily, they are happier,” advised one COO. “To the extent that the technology allows access to accurate information in a quicker more efficient way, it improves client services,” offered a peer. “More efficient work saves money and allows us to offer more accurate results,” added a third.

In addition:

01 We are using a client portal system, which generates a stronger relationship since it grows trust and shows a commitment to our clients.

02 It keeps data secure and allows you to get the information to clients more quickly, which creates more satisfied clients.

03 We also have clients for whom we provide more transparency through technology, and those clients think our tools are incredible.

Despite the universal appreciation for digital tools and their positive effect on client engagement, some participants still qualified their praise. “Legal technology will never replace a phone call, but allows us to support our clients more quickly and comprehensively,” noted one. “It helps, but I still believe there is merit to one-on-one communication with the client, and it also depends on the client; some may want results and don't care about the interaction,” explained a second. “It is only as good as the people running it, so to the extent that you give good data, you will have a more organized seamless process in generating a product,” offered a third.

Conclusion

Law firm leadership has become a multifaceted, intergenerational, and tech-enabled test of 21st-century organizational management. While it still requires financial acumen and business savvy, those running law firms today serve as chameleons that combine a much deeper understanding of social dynamics, an aptitude for communication, and the ability to bring a range of visions to fruition.

This research is designed to showcase the opportunities they see in the near and distant future, along with highlights of the challenges that may impair their ability to achieve success. Whether the obstacles are retaining talent, returning to the office, or deploying artificial intelligence, the most successful leaders combine an appreciation for the foundational traditions that have historically driven law firm success and the need to guide their entire team of professionals into a more uncertain, yet promising future. The post-pandemic law firm trajectory is a challenge to navigate, but remains a journey built on trust, skill, and collaboration.

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