Saffery Champness
CHARTERED ACCOUNTANTS

# Strategies for success:
# a survey of UK law firms

March 2022

A survey carried out in partnership with

The Institute of Legal Finance & Management

# Introduction

We are pleased to present the results of our latest benchmarking survey of ILFM member firms, as well as the wider law firm community. Our aim has been to get a balanced overview of the state of the legal sector and an idea of firms' strategies for success.

In 2019, we released our inaugural benchmarking survey, in partnership with ILFM which looked at the strategic and operational issues facing law firms from the perspective of individuals working at all levels.

Of course, since 2019 a lot has changed in the world – not just in the legal sector, but across all industries – and the working practices that we took for granted then look different now; in many cases significantly so.

In this latest survey, respondents told us how their firms were faring financially and we asked them for their views on key performance issues such as operational threats and opportunities. We also gathered data on people and talent retention.

Responses were garnered from all levels of the participating firms, including managing partners, heads of finance, finance directors and managers, practice managers and cashiers.

Jamie Lane, Partner and Head of Professional Practices Group

Saffery Champness LLP

For more than 40 years, the ILFM has been the leading professional institute for legal finance and management professionals, including legal cashiers, accounts managers, COFAs, practice managers and finance directors.

The institute is dedicated to driving innovation, advancing education and promoting excellence throughout the legal sector.

In 2019, we were delighted to be part of the inaugural survey of law firms in conjunction with Saffery Champness which gave an unprecedented and balanced view from not only the partners and leaders in law firms across the country, but also from our members working in the support and finance functions.

A lot has changed since that time, and we are confident that this survey will offer a fascinating insight into how the working practices and collective attitude of our members and the industry as a whole is now different, as we face challenging, but exciting, times ahead.

Tim Kidd, Chief Executive
The Institute of Legal Finance & Management

www.ilfm.org.uk

## Who responded to this survey?

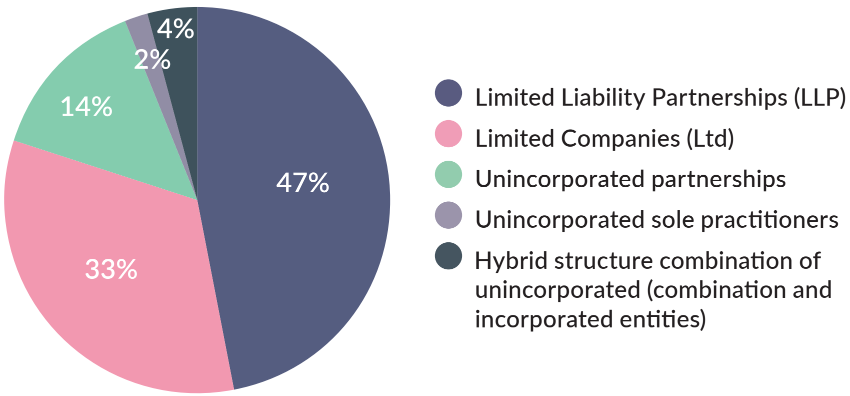
Our results include responses from all types of firm, ranging from large top 50 law firms, to small sole practitioners.

### Fig 1: Where is your head office located?


We received responses from firms across the country. 15% of responses came from London based firms, 18% from the North of England, 12% from the Midlands, 6% in Wales, 20% in the South West, 19% in the South East and 8% in the East of England.

Our respondents also came from a wide range of practice structures:

### Fig 2: What is your firm's practicing structure?




LLPs remain the structure of choice for the largest proportion of firms, offering the flexibility and familiarity of the traditional partnership structure, but with the benefit of limited liability for the partners. We are, however, seeing a steady increase in the number of firms choosing to operate as a limited company. When we ran a similar survey in 2019 the proportion of limited company firms was 28% and that has increased to one third this year.

In some cases, the limited company continues to offer a more favourable tax structure, but that is no longer the primary driver for this type of incorporation.

While transfers of ownership in a limited company is something that needs to be handled with care and thoughtful planning as new partners join and partners retire, the tangible reality of owning shares with a quantifiable value is something that appeals to many, especially new partners. Furthermore, outgoing partners may be able to realise the value that they have brought to the firm in a more straightforward way. Are we therefore seeing more firms considering this type of incorporation as a tool to aid succession further down the line?

## Headline financial insights from the legal sector

| 2021 headlines | | |
|---|---|---|
| Median fee | Median fees per partner | Median fees per fee earner |
| 6.8% | +10% | +5.7% |

Although the challenges of 2020 were just as present across the sector as we headed into 2021, the year saw an overall positive result for many firms. Following a sluggish 2020, where firms saw little or no fee growth at all, and many suffered declining billing totals, 2021 returned to similar growth levels of those before the pandemic.

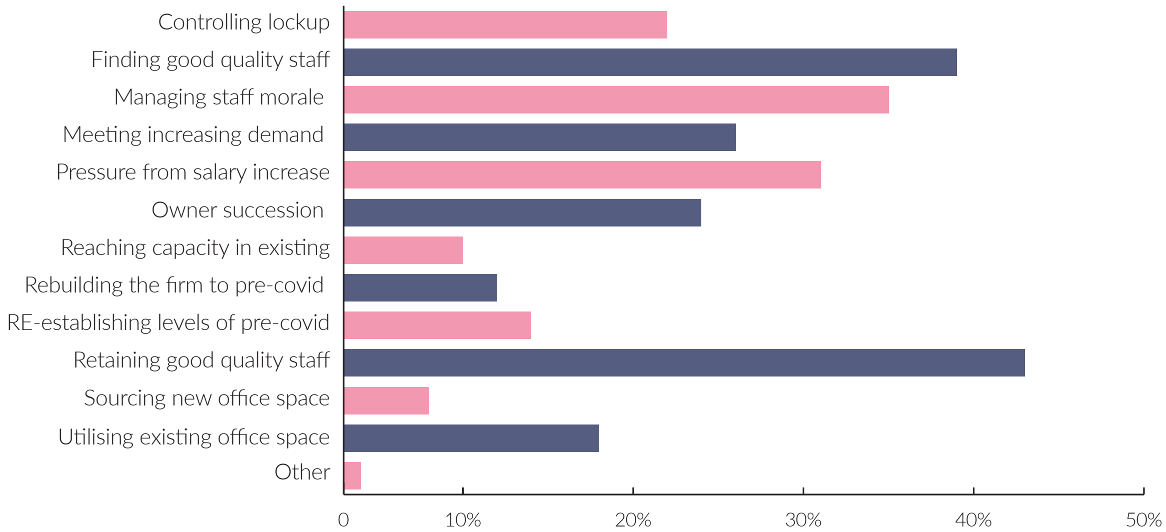
Fees per partner grew in the year, and at a greater pace than the overall increase in fees across all types of fee earner. Again, these levels were similar to pre pandemic levels and suggest that firms held back slightly on partner promotions during the period.

Average headcount was consistent with prior years, but we saw a 5% fall in support staff across our participants which is a continuation of the theme that was emerging early in the pandemic as firms looked inwardly to shore up their finances.

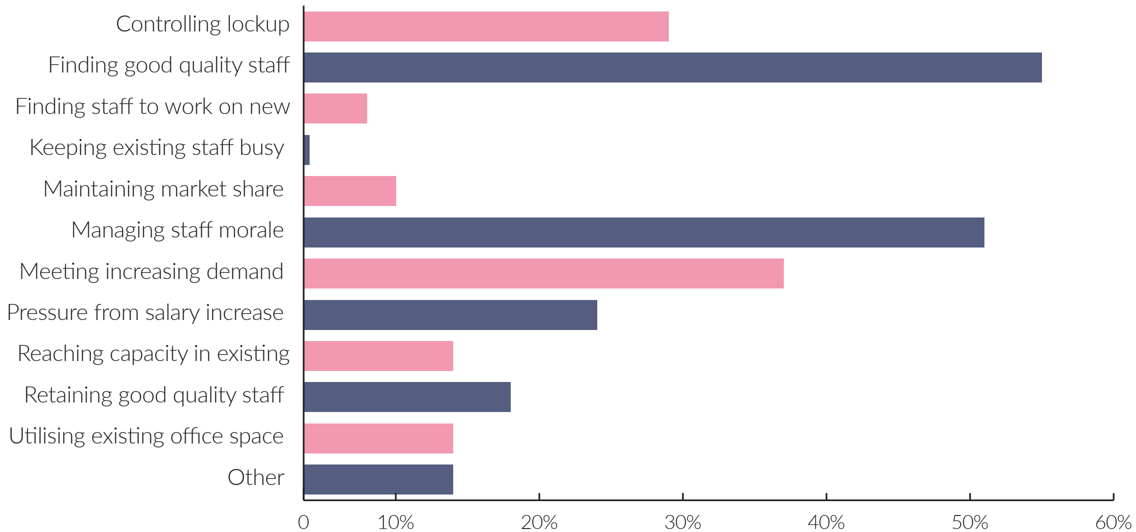
Staffing considerations are considered in greater detail later in this survey.

## Coronavirus and the impact on UK law firms

### Fig 3: What have been your greatest operational challenges over the past 12 months? (top 3)

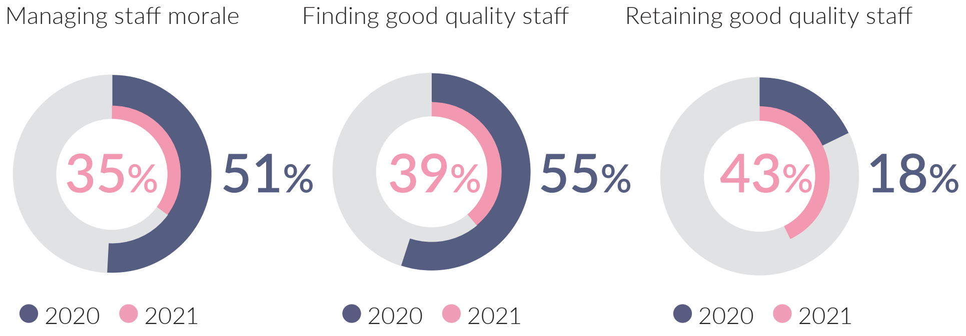



### Fig 4: What will be your greatest operational challenges over the next 2-3 years? (top 3)



## Challenges and opportunities – staffing

### Fig 5: The changing nature of the challenges facing law firms




When we ran our series of shorter surveys in the first half of 2020, we saw that the majority of law firms – more than 90% - were in the process of furloughing staff, though we noted that the degree to which those firms were taking the action was not deep.

There was a very real sense that firms were simply not prepared to make short term staffing decisions that might leave them under-resourced in the future and so most firms were taking a longer term approach.

It is therefore not surprising to see that staffing matters sit at the front of the minds of law firms and, in particular, finding, managing and retaining staff going forward.

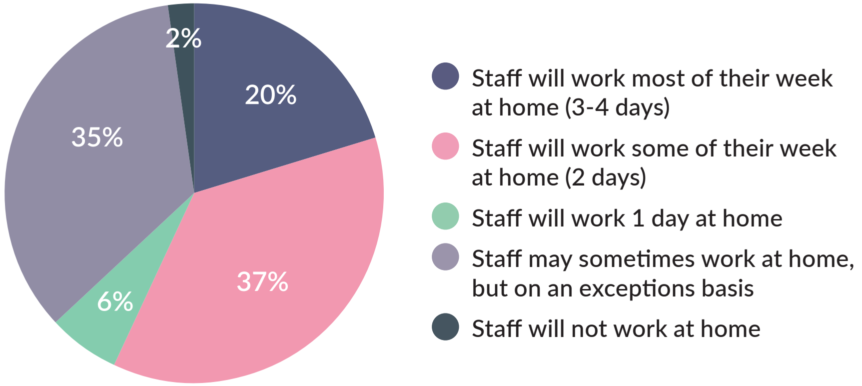
It was clear that retaining staff during the pandemic was not a primary concern for many firms however. There was little in the way of staff moving between firms as, particularly in the early months, recruitment was frozen for lots of practices. However, as restrictions have eased and many professionals have begun to return to the office, recruitment has again jumped to the front of people's minds.

Speaking with managing partners, the message that we are hearing repeated is that there are simply too few people in the job market. However, it is important to make a distinction between available staff and good quality available staff and the pandemic has not changed that view.

Managing staff morale during lockdown has been an ongoing concern for firms, especially during the periods of lockdown, but it is clearly not a concern that has gone away entirely. As working patterns have changed, there is no longer a one size fits all approach to working practices and policies and firms are learning that giving flexibility to those that want it can really help ease the retention headache. On the other hand, there is a growing number of employees who want to be back in the office full time, but not all firms are willing, or able, to provide that. This requirement to balance the varying needs of the individual with the needs of the business will likely be one of the more enduring legacies of the pandemic.

## Working from home – the new normal?

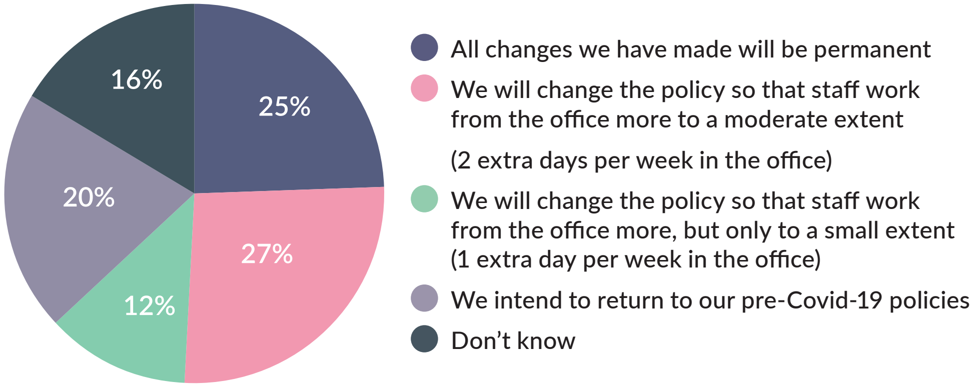
Fig 6: To what degree will staff work from home over the course of the next 12 months?




There has been a clear shift in attitudes towards home working since the start of the pandemic, and we asked firms if, and to what extent, they saw their policies changing in this respect.

For almost 2 years, most homeworking policies have shifted and adapted, sometimes at short notice, to comply with legal requirements. As such, most firms have adopted temporary measures and there has been little in the way of permanent changes. At some point, and presumably not far in the future, staff members will want to know what their future long term working practices will look like and there has been pressure on firms to formalise this.

Fig 7: To what extent do you feel that your current working from home policies will remain beyond the next 12 months?



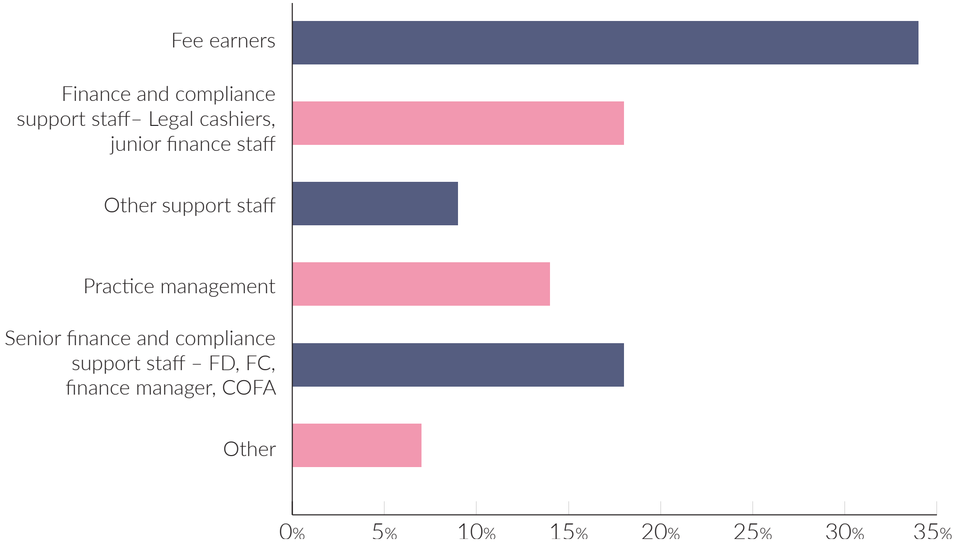

Only 20% of firms are planning to return to their pre-Covid working from home policies, with 25% considering their changes to date being permanent. 26% of firms are planning on moving back towards being in the office more, but this will be only to a relatively small degree – with no more than one extra day in the office being anticipated. Only 12% of firms are planning on changing this to a greater extent and 16% of firms are undecided.

**So, what do these changes look like?**

57% of the firms surveyed said that staff will work at least two days from home in the future, and well over a third of those firms think that staff will spend most of their working week at home.

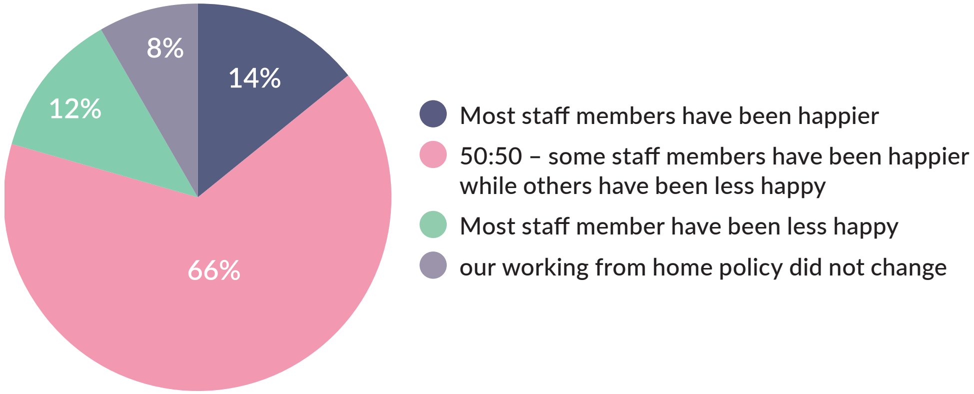
We asked a similar question of firms back in September 2020 when there was still a lot of uncertainty around when and to what extent the industry would move out of lockdown and it's interesting to see that firms haven't really changed their views on homeworking. Back in 2020, over 60% of firms predicted that their staff would work two or more days from home and that view appears to have held.

### Fig 8: Which roles do you feel are best suited to working at home?




One third of firms recognise that fee earning staff are better equipped to work at home, while no more than a third feel that non fee earning staff can work as effectively in this way. We have observed during times where lockdown restrictions have been fluctuating that it tends to be the finance staff and practice managers that have spent the majority of time in the office, and these findings confirm that.

### Fig 9: How do you feel the overall wellbeing of your staff had been affected by working more at home over the last 18 months?



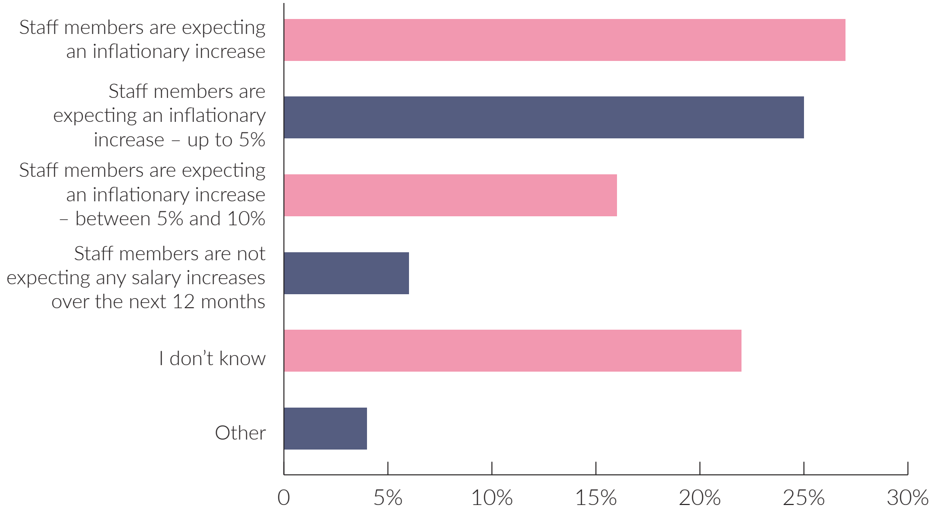

Clearly home working isn't for everybody and a lot of people thrive on being in close contact with colleagues, while others enjoy the bustle of working in a busy environment. On the other hand, others we speak to have been glad to leave the daily commute behind, but on a practical level, not all roles are well suited to being performed away from the office.

Two thirds of firms have reported that there has been a fair balance of staff members who prefer working at home and those who do not.

## Recruitment and salary expectations

So far we have seen that finding and retaining staff is a challenge, as too is balancing the changing needs of individuals as working practices are changing, but expectations around salaries appear to be secondary to the more prominent theme of wellbeing.

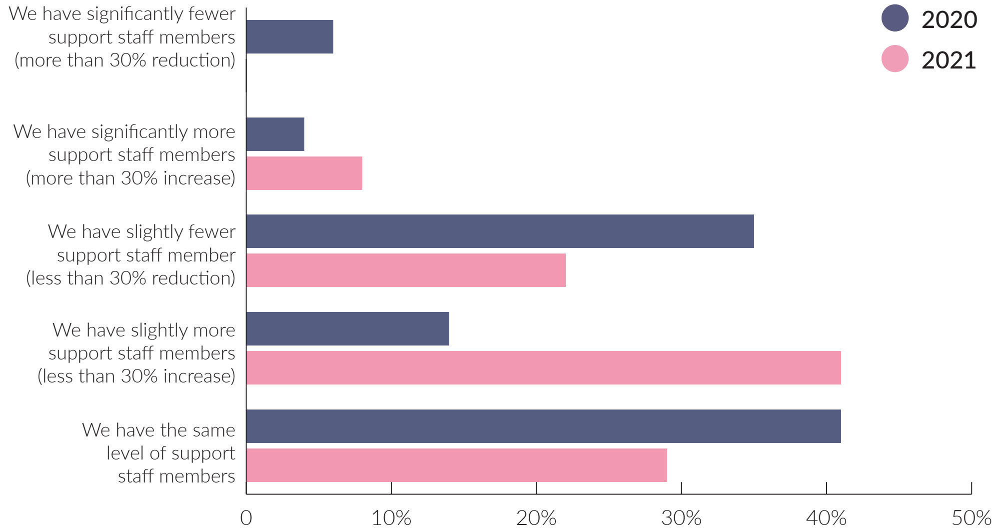
### Fig 10: What is your current experience of staff salary expectations?




Over one quarter of staff member are not expecting a salary increase in the current year, while almost the same number are expecting only an inflationary increase (though recent experience suggest that an inflationary increase may be higher than we have seen in the past).

Two thirds of firms have reported that there has been a fair balance of staff members who prefer working at home and those who do not.

### Fig 11: Looking back to where you were pre-Covid-19, how does your current support staff level compare?




Most firms have not seen a fall in fee earning staff numbers; in fact 70% have more, or at least the same, number of fee earners, but it is not quite the same picture for non fee earning staff.

While 30% have fewer fee earners compared to pre-pandemic levels, 40% have fewer non fee earning staff members. This was a pattern that we saw emerging early in the first lock down period where the majority of staff members being furloughed were non fee earning, and that trend is being borne out in retained staff numbers.

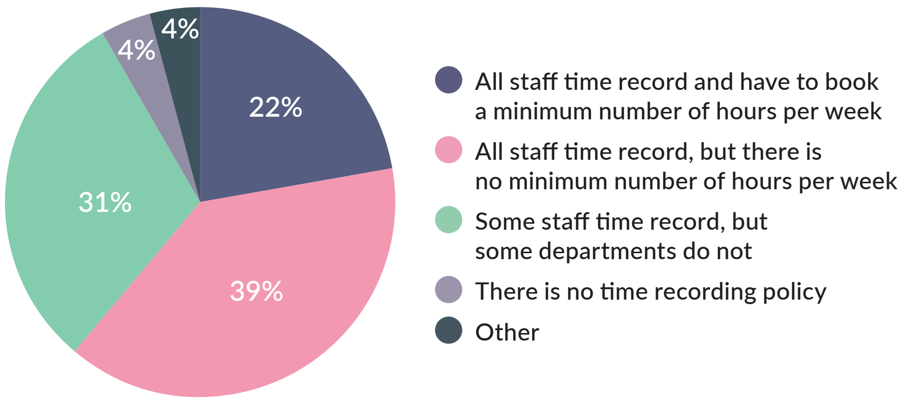
## Monitoring and maintaining success

Moving away from staffing issues and the theme of Covid-19, we wanted to understand how a typical firms goes about capturing, measuring and recording profitability.

Two thirds of firms recognise that maximising the number of fee earner chargeable hours and the amount they are able to charge for those hours are the key factors in maximising profitability, and that is natural. However, it is important to not lose sight of issues such as gearing and ensuring that, before firms look to recruit new fee earner, they ensure that fee earners are working at, or close to capacity.

Introducing new staff members to a team that already has some slack when it comes to chargeable time will not result in more hours worked – it will simply result in an increased cost base and an increase in non-chargeable time.

### Fig 12: Which of the following most closely reflects your policy to time recording?



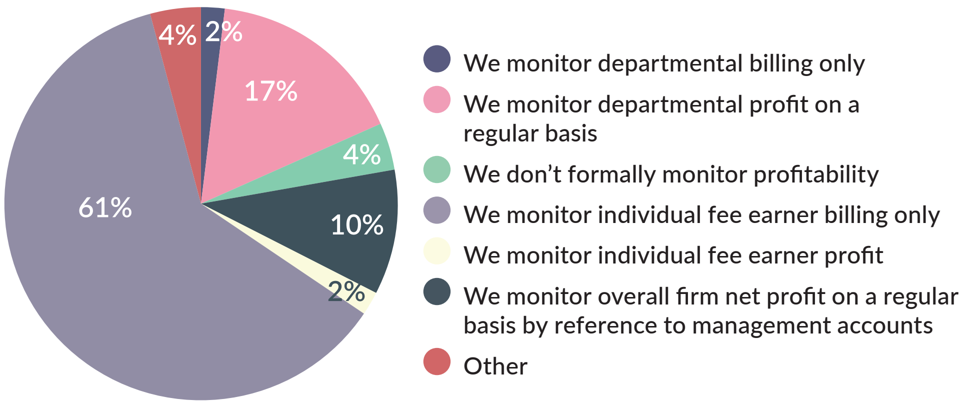

The most effective way to monitor how close staff members are to working at capacity is through properly enforced time recording.

Over one third of firms either do not time record, or do not enforce time recording across the whole organisation. Even for teams that bill on a fixed fee basis, it is important to understand how long is being spent on matters and to be able to monitor the level of fee earner non chargeable time. Without this information it is difficult to be able to price work properly and budget effectively, and, ultimately, maximise the contribution of each fee earner, both tangible and non-tangible

39% of firms have a policy whereby all staff time record, but there is no minimum number of hours that must be charged every day. Ultimately, this could lead to fee earners only recording their chargeable hours, but how does this allow firms to easily capture other, equally valuable, time such as business development and networking? Furthermore, a lack of accountability for non-chargeable time can lead to fee earners under recording their chargeable time for fear of making poor recovery at the point of billing.

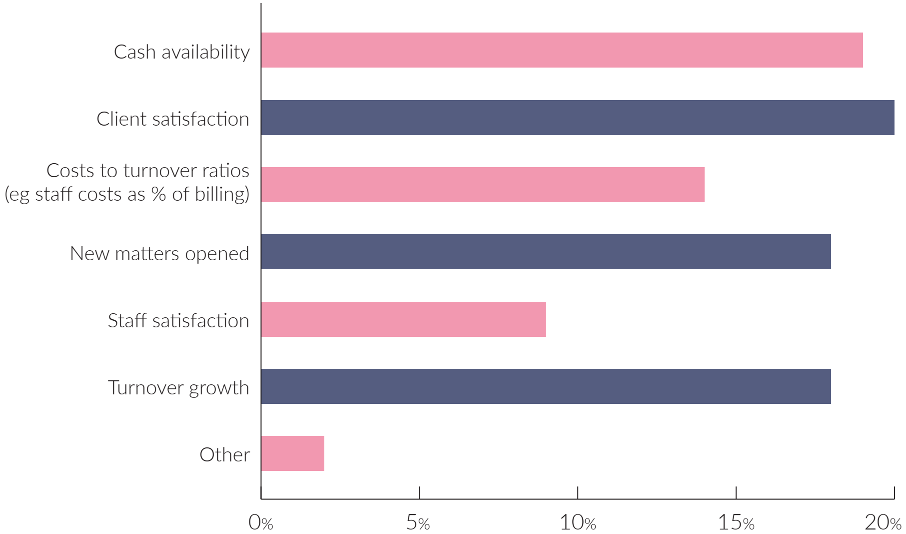
Given that most firms recognise the importance of maximising fee earner charge-ability, it was surprising to see how few firms target this as their main way of monitoring profitability.

Fig 13: How do you monitor profitability?




The majority of firms monitor performance at a firmwide level and only 16% primarily measure it at a departmental level. While this approach might work for very small firms, or firms with only one or two clear service lines, a lack of granular data can make it difficult for firms to benchmark themselves against others and may lead to decisions that are too general. The ability to drill down to the root of performance issues is very important and without this ability, firms may take action that is unfocused and inefficient.

Fig 14: What other KPIs do you use to monitor business success?




Profitability on its own does not necessarily equate to success for businesses and the ability to monitor cash availability is critical. Thankfully, the majority of firms see cash availability as a key trading measure, but it is worth remembering that information of this type should not be purely historic. A well run firm that forecasts their cash requirements ahead as far as possible, anticipating cash 'crunch points' well in advance will be better placed to properly deal with opportunities and threats before they arise.

Two thirds of firms recognise that maximising the number of fee earner chargeable hours and the amount they are able to charge for those hours are the key factors in maximising profitability

## Future strategies

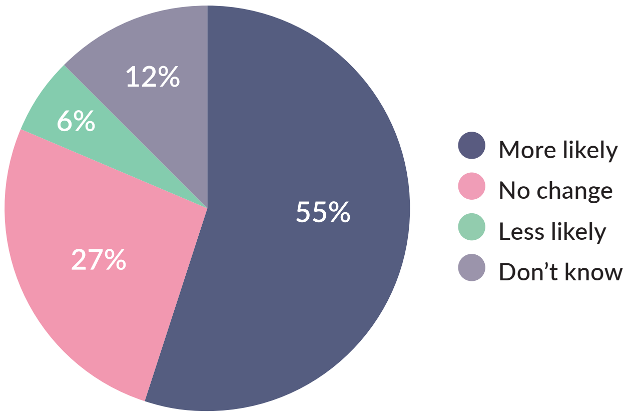
When you look across the legal sector, there is a tangible sense of pent up energy and a growing appetite for M&A that is revealing itself.

Two years ago, the acquisition market was looking a little sluggish, but since then activity has increased.

In many cases, the need to join forces with another firm has been through necessity and we are seeing more and more firms having simply been unable to weather the financial and operational uncertainties of recent times.

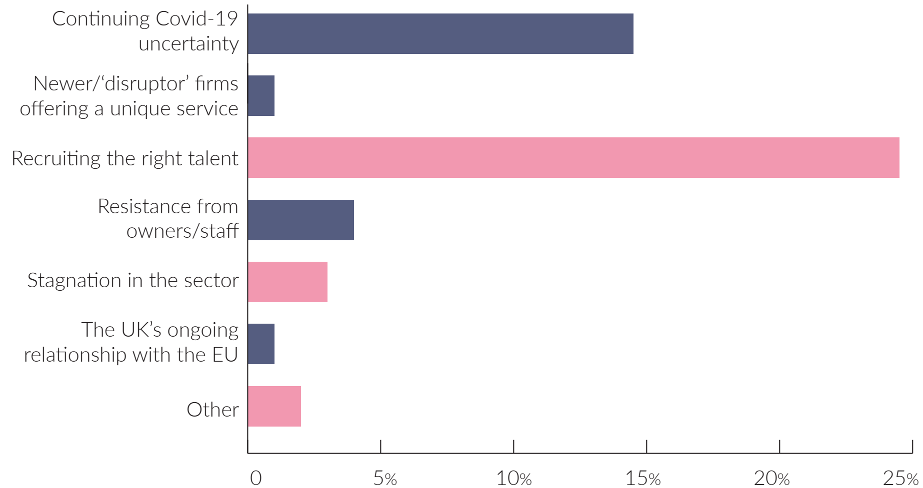
It is not limited to just the smaller firms and the recent increase in M&A activity is not driven solely through distressed purchases. Many firms have found themselves sitting on unprecedented cash reserves, and many of these through a combination of cost cutting measures, furlough income, government aid and loans, as well as unexpected high levels of trading, and they have been well placed to take advantage of opportunities in the market.

### Fig 15: Looking back to where you were two years ago, do you find it more or less likely that you will pursue a growth strategy in the short to medium term?




55% of respondents feel that they are currently more likely to pursue a growth strategy than they were prior to the pandemic, but those strategies are primarily centred around organic growth and fewer than a quarter are considering a merger or acquisition of a small target.

### Fig 16: What do you see as the potential barrier to a potential growth strategy (even if you are not presently pursuing one)?




Because the majority of growth strategies are inward facing, the barrier to growth for most firms is the availability of the correct talent to drive that growth. 50% of firms see recruitment as being the key challenge that their growth strategy faces, while a lower, but still significant proportion, feel that Covid-19 continues to cast a shadow over the future.

As we have seen throughout this report, the legacy of the pandemic is far reaching and, even as we find our new normal, its impact, usually negative but sometimes positive, will be felt for a long time to come.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