



READY TO GROW

How are legal businesses planning to expand their horizons, and what are the strategic and technical challenges and changes ahead?

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Law firms recognise the opportunity to change

Welcome to HSBC's 2020 report on law firms' evolving growth and investment strategies, produced in collaboration with **Briefing**. As in previous years, this report is based on a wide-ranging survey of business leaders at leading UK-headquartered law firms, including managing partners, CEOs, CFOs and CIOs. It seeks to understand both current priorities and thoughts about the future.

This year's results must, of course, be seen through the lens of an exceptionally challenging year – the continuing Covid-19 crisis, working in lockdown, entering recession, and much uncertainty about the future. In this context, it's very encouraging that leaders say they plan to continue investing and growing, both in the UK and internationally. The proportion who name the UK as a priority region for growth has increased from 68% to 88%, and that is before any Brexit deal is finalised, while very few say they are looking to retrench from international markets.

As firms find their way into the 'next normal', IT spend also seems set to rise. Half of leaders report they plan to invest more in technology now because of the pandemic, and it should come as no surprise that the top priority is enabling even more of the agile, remote working that became established as a trend to watch several years ago. Firms will now be mindful of making the most effective use of their office space when the time is right to do so, and continuing to support the productivity and

wellbeing of their people working from home.

In contrast with previous downturns, many have reported the emergence of a more collaborative and entrepreneurial spirit through this crisis. Individuals have supported one another through difficult periods of isolation. Teams have embraced the need to do things differently. Firms have found cause to form stronger bonds with their clients, and the unavoidable organisational changes of 2020 could well prove the ground from which process and product-focused innovations flourish in the sector in future.

But all this must also be underpinned by some fundamental financial disciplines – particularly as 2021 is likely to see greater pressure. The top transactional banking priority named in this research is improving cash collection, which can call for investment in cultural or behavioural change alongside any advantageous IT.

In summary, 2020 has seen big changes businesses could not avoid. It's now time for leaders to make significant decisions and seize the opportunities for longer-term transformation.

We hope that you enjoy reading this report, and if you have any questions please don't hesitate to contact us.



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Law firm strategy is to keep growing

Firms' three highest priority regions for growth are the UK, Europe and North America

As was the case in HSBC's 2019 survey, it's clear that leading UK law firms are most focused on achieving growth at home this year. A decisive 88% of firm leaders identify the UK as one of their top three regional priorities in 2020, an increase on the 68% that said as much in 2019 (p5). Furthermore, over half (52%) of this group said that their firms were focused on the UK market only.

Preferred options for profitable international growth also closely track responses received in 2019. We see similar levels of interest in both Europe (32%) and North America (31%) – consistent with the two regions' gravitational pull in terms of proximity and economic size. And the same applies to China (16%) and the Far East excluding China (17%). Firms are

perhaps showing marginally more interest in China than was the case in 2019 (nobody then selected it as a first-choice destination for expansion), and there is a clearer indication of lack of interest in expanding in India, Russia or Central Asia.

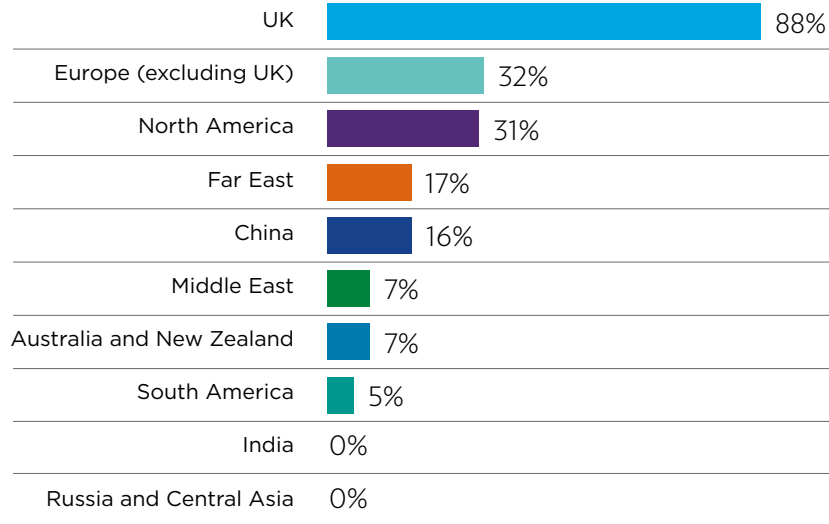
There have, of course, been some office closures around the world in recent months. Overall, however, this research does not indicate law firms are planning to apply the brakes to international growth plans in the face of the economic fallout from the pandemic. Four in 10 law firm leaders report that the current strategy is to grow internationally, 12% are planning either no change or a review, and a mere 1% indicate they are looking to retrench from global markets (p6).

Laurence Milsted, consultant and former chief financial officer for Freshfields Bruckhaus Deringer, says: "Removing UK-only, it appears that almost all other law firms are still looking to grow internationally, which is a pleasant surprise in the current environment. You might expect firms to be protecting themselves a bit – waiting for some stabilisation – but they are looking forward, and it's right to do so."

Alex Hatchman, chief executive officer at Fletchers, adds: "The UK legal sector is dealing with some quite heavy macroeconomic headwinds with both Brexit and the pandemic, which would usually increase risk aversion. So it is encouraging – however, expansion needs to be managed sensibly or firms could burn a lot of money in the process."

If firms don't have international growth plans, moreover, it's unlikely to be financing restraints that are putting them off. Only 5% of leaders cite this as a

Which three regions or countries are likely to be a priority for your firm in the next three years?



factor affecting the firm's strategic position (p7). This compares with the 33% who point to regional differences in profitability or local competition as a significant challenge – which comes above either the disruption wrought by Covid-19 (20%) or the complexities of navigating the firm's footprint through the Brexit process (12.5%).

Giles Jones, UK finance director at Osborne Clarke, says his firm's experience is different: "We operate through a Swiss Verein structure, with very supportive units – a one-firm approach in how we go to market – so profitability differences are something that we can plan for effectively."

Tamara Box, Reed Smith's managing partner for

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Laurence Milsted, consultant and former chief financial officer, Freshfields Bruckhaus Deringer

Europe and the Middle East, adds: "There are, of course, regional differences between the rates we recover for our work. The key is to understand the impact of that fact on profitability and to leverage your platform to manage it. Global law firms – especially where they are single profit pools, and run business lines globally, like Reed Smith – have an advantage to my mind in that they can use global resources to deliver services most efficiently and effectively, regardless of competitive tension created by local rates."

The apparent dominant focus on achieving profitable growth in the UK suggests that law firm leaders in the region are also likely to be on the hunt for new talent and teams, either through lateral hires or strategic acquisitions. Taken with the pressure the conditions surrounding the pandemic are simultaneously applying to the financial positions of some firms, this would imply a consolidating market – and it's very clear that's what the leaders surveyed now expect to see in the months ahead.

Almost 86% say they believe the pandemic will 'significantly' or 'somewhat' accelerate consolidation in the sector over the next three years, compared with just 13% who say they expect no significant change to the landscape in this respect (p8).

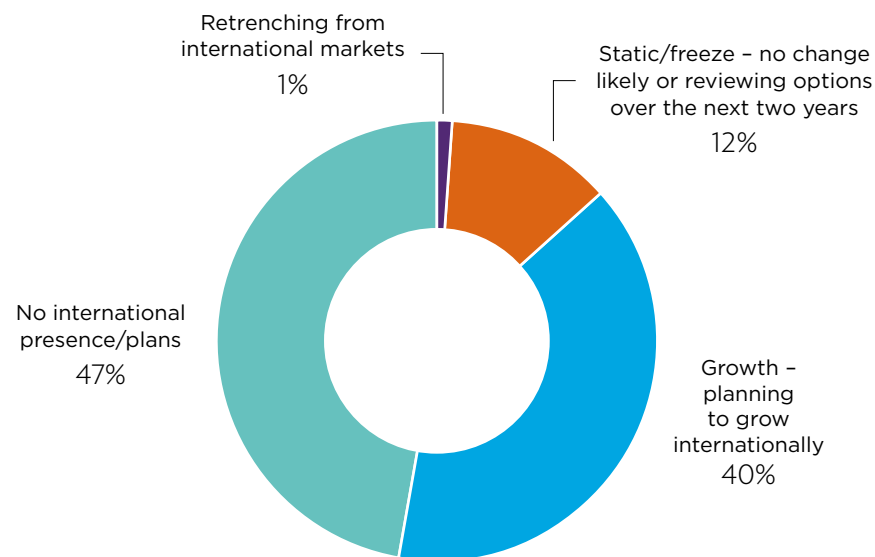
Patrick Firebrace, director of finance at VWV, is one of the 86%. "There will be some firms that cannot survive without consolidation. Our own approach, while being agile and nuanced to the circumstances, will be to focus on firms that are thriving, but clearly some firms will want to survive and look to a transaction to do that," he says.

Irena Molloy, executive director at Howard Kennedy, adds: “The future of where and how we work could create exciting consolidation opportunities, in that location may lose some of its importance. However, one of the challenges in any consolidation is the cultural aspect, and we will need to continue to find new ways of engaging people.”

Law firms have responded to unprecedented uncertainty about the future brought about by Covid-19 by implementing a number of measures – including taking advantage of the government’s job retention scheme, temporarily freezing or reducing pay, cutting hours, and deferring distribution of profit to partners. It’s striking, however, that 81% of leaders say they don’t have plans to pull on at least one longer-term financial lever – the number of equity partners they have relative to salaried fee earners (p8). As one leader suggests, partners are perhaps not prepared to dilute their profitability at this challenging time, and finance leaders know there are alternative means of financing. An equally small number of leaders on either side (6%) say their firms are planning to increase or decrease the firm’s equity, and there’s little evidence here of appetite to be the next legal IPO (2%). The partnership model remains the most popular – provided it is well run, as one leader put it.

Laurence Milsted says: “Addressing partnership structures is something firms clearly aren’t planning to do in a hurry, which reflects the busy time that most have had so far this year – Covid-19 hasn’t been enough to trigger a knee-jerk reaction. However, the repercussions could be an accelerator for change in this area in the longer term.”

If your firm has an international presence or an ambition to grow, what is your current strategy?



TIME FOR TECHNOLOGY CHANGE?

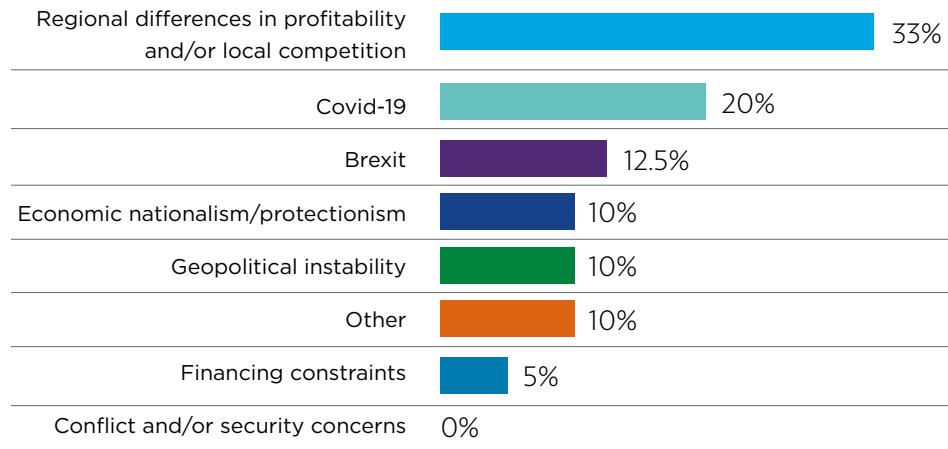
It appears that the pandemic could see law firms increasing the amount they’re prepared to spend on IT systems and infrastructure. This process may already have begun, of course, as firms perhaps needed to source any extra laptops and other devices at short notice, or fast-track the deployment of collaboration tools to keep teams connected. At the same time, the longer-term cost of delaying projects partway through a roadmap may have been viewed as a less efficient course than continuing to spend on them now – and clients are applying their own economic pressure to see value.

Just over half (51%) of leaders report their firms are

increasing technology spend in response to the pandemic – 3% say significantly so – while just under a fifth (19%) say the plan is to invest less in light of Covid-19 (p9). The chief financial officer of one leading global law firm comments: “It was the tech investment decisions of recent years that enabled the quick and seamless transition to homeworking. Decisions like this were once criticised by partners, but they’re now seen as fully justified.”

Firms’ current estimate of their IT spend as a percentage of firm-wide revenue is an average (mean) of 5.2% in 2020. Previous HSBC surveys have found this metric peaking somewhat in 2017 (75% of leaders saying their firms spent 5% or above), before dropping

Which of these factors is most affecting your international strategy position?



back. **Briefing's** annual Frontiers Legal IT Landscapes report has tracked the number since 2014, and the average hasn't moved significantly from around 5% in all that time. "It's a very small change, and realistically only represents standing still at best," says Laurence Milsted. "And this at a time when the economic climate is also seeing increased competition for clients from technology-driven alternative legal services providers and the spending and project-management power of others such as the Big Four."

Perhaps the least surprising finding of all in this year's survey is that the highest-ranking priority tech project in 2020 has been 'remote teams and agile-working solutions' (p10) – although that could, of

course, cover investment in upgrading infrastructure, new software and devices. Firms will now be considering whether they need even greater capability, efficiency and resilience for significantly more remote working in future.

For Patrick Firebrace at VWV, the lockdown period coincided with a point in the IT buying cycle and a strategic review. "We had been through a process of updating and embedding core systems, and we're now looking at devices. We were mindful of our approach to flexible working before Covid-19. It's fair to say we'll need rather more than we thought at the start of the year, but we also won't have wasted any expenditure.

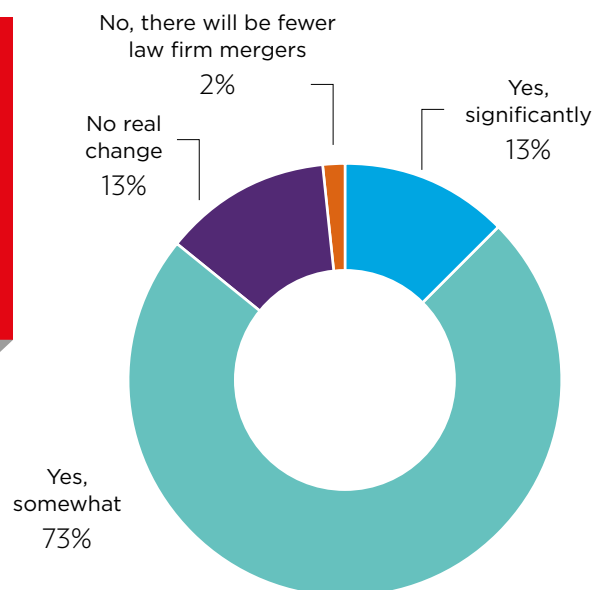
"Our direction is also moving in part from capex to opex, identifying third parties to deliver cloud-based software-as-a-service and disaster recovery-as-a-service, and buying technology for small teams, then seeing if it can be applied in the firm more widely."

Alex Hatchman at Fletchers says: "We aren't increasing our IT spend as a result of Covid-19. This is because we had already invested in infrastructure and software, and this enabled us to respond to the situation at speed. However, there are other strong reasons for us to increase spend. After team productivity, the biggest is making the customer journey even more compelling and convenient."

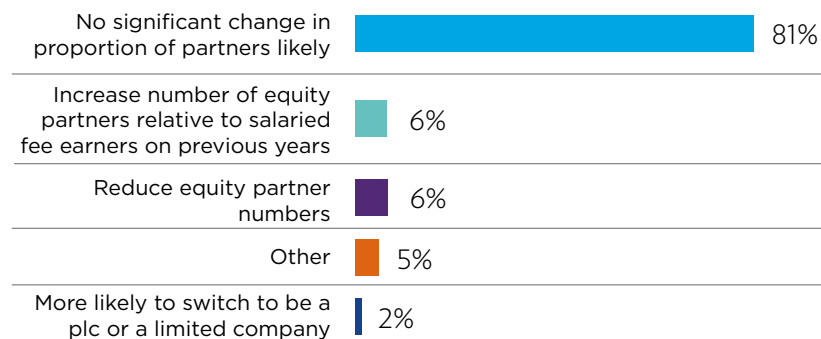
Irena Molloy at Howard Kennedy adds: "We are investing more in this area in any case, but the situation has accelerated the focus, both on effective remote working and on access to management information for the data to make better decisions."

In fact, after agile working, the second-highest priority for all leaders surveyed is management information, such as business intelligence solutions (58%). This is followed by process automation technologies, such as new business intake/compliance tools (56%). These are two categories of technology also associated with the specific demands of 2020, where fee earners have needed to become more self-sufficient at home. Timely and accurate data about financial progress, business development efforts and utilisation will have been key to making swift decisions to protect both profitability and future business pipeline. And automation projects have helped to reduce reliance on paper-based admin and

Will the pandemic accelerate market consolidation in the legal sector in the next three years?



Will your firm make any changes to its partnership structure as a consequence of Covid-19?



hard-copy documents – simultaneously offering a sustainability boost – to support process consistency and onboarding the right clients efficiently.

Completing the top-five tech priorities of 2020 are cybersecurity (48%) and client collaboration technology on matters (45%). Notably, these are the technology types that ranked second and first respectively in HSBC's 2019 report. So, is this because these investments are now more likely to be in place, or – perhaps more likely – because there has been some shift in priorities for law firms that have been in crisis-response mode?

Hatchman at Fletchers says: "I would have expected cyber to feature rather more highly, as any malicious

actor will know that more frequent homeworking, with its potential for using personal devices, makes a business more vulnerable."

Laurence Milsted adds: "Firms have been forced into a lot of change in the last year, so the fact they're looking to continue investing in that direction is encouraging.

"The focus on enabling remote teams is hardly surprising, but I do think that firms de-emphasise support for collaboration at their peril at a time when it has been so important in supporting client relationships.

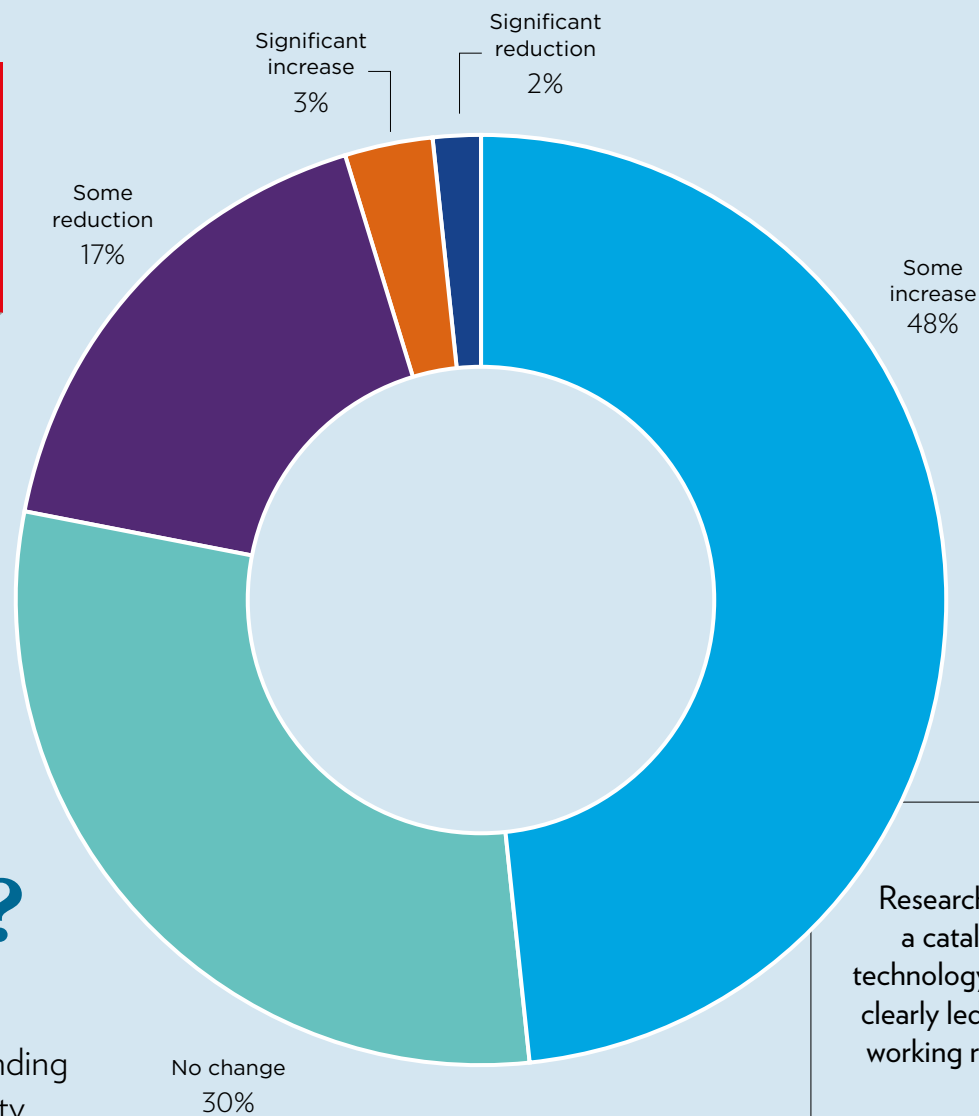
"Collaboration tools also help firms to support in-house departments to manage their own businesses,

and their budgets are under just as much pressure."

Rhianne Armstrong, solutions director at Osborne Clarke Solutions, the firm's client tech division, agrees: "We were investing heavily in working collaboratively with a lot of our clients using online platforms even before the pandemic, including to help them explore and improve their own internal processes.

"Now we're also looking at transaction management software. The period of having everyone working remotely has actually been a great time to try out collaboration tools – to track things online, for example, and help to reduce the number of calls that are needed." ▀

How is technology investment being affected by the pandemic in your firm?



5.2%

Average law firm spend on IT as a proportion of revenue in 2020

77%

Of leaders report prioritising investment in IT for agile working

52%

Of leaders say their firms are increasing tech spend in response to the pandemic

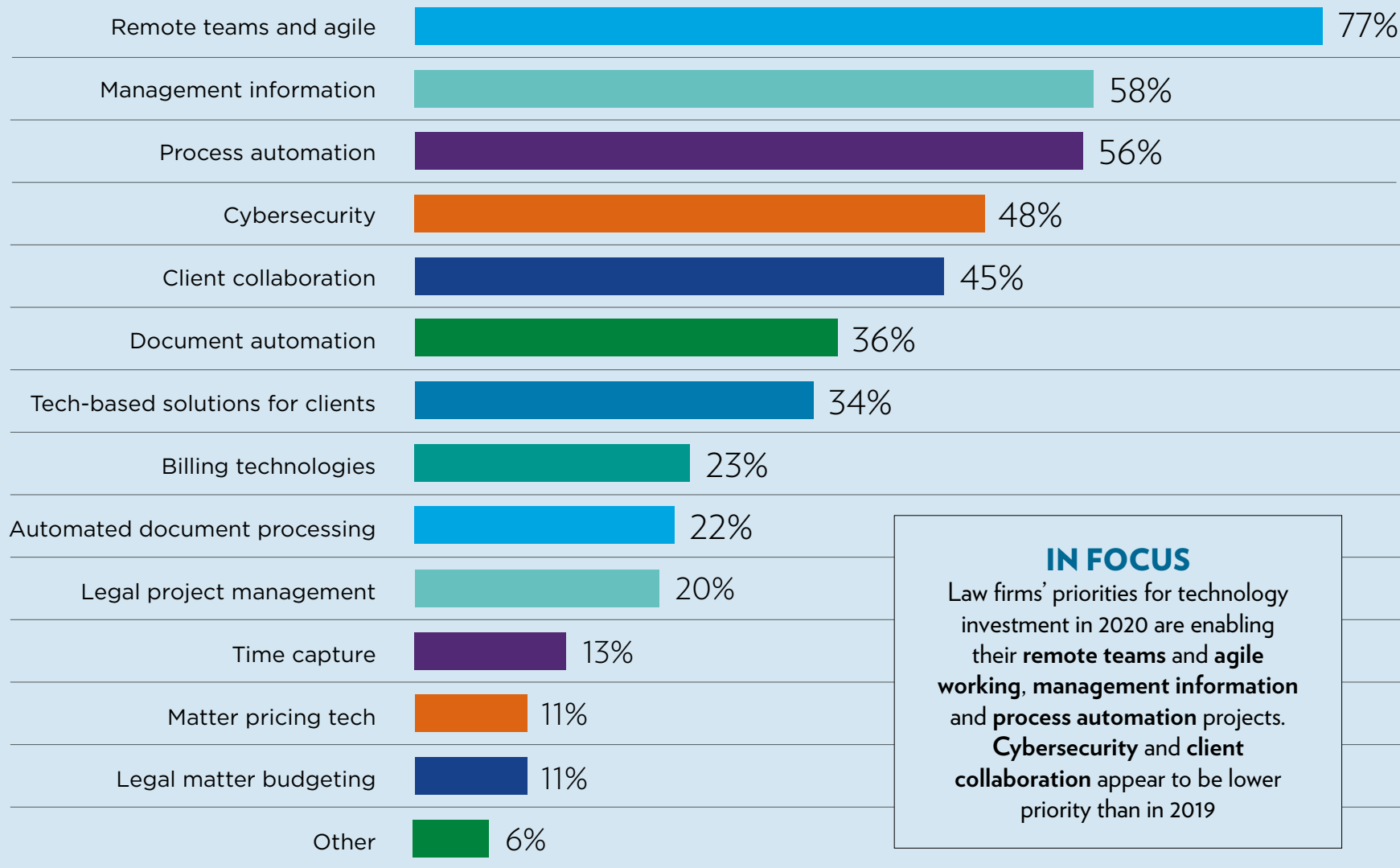
IN FOCUS

Research finds the pandemic becoming a catalyst for greater investment in technology solutions/skills at top law firms, clearly led by the need to support people working remotely, both during lockdown and in the future

Technology strategies transformed?

More than half of leaders say firms are spending more on technology in 2020, but top-priority projects have changed

In which of these areas is your firm prioritising its investment in technology (including spend on systems and people)?



IN FOCUS

Law firms' priorities for technology investment in 2020 are enabling their **remote teams and agile working, management information and process automation** projects. **Cybersecurity and client collaboration** appear to be lower priority than in 2019

A future in or out of the office?

Two-thirds of leaders say they are planning to encourage more homeworking, and almost half plan to reduce some of their office space

Does the pandemic signal the end of the traditional day at the office for a law firm's people, replacing it with widespread remote/homeworking, making good on the promise of greater choice for people, perhaps in search of a more appealing work-life balance? Of course, at the time of writing much is still uncertain about the long-term impact of Covid-19 on office life. This research, however, suggests the daily commute isn't set for a radical overhaul in legal just yet.

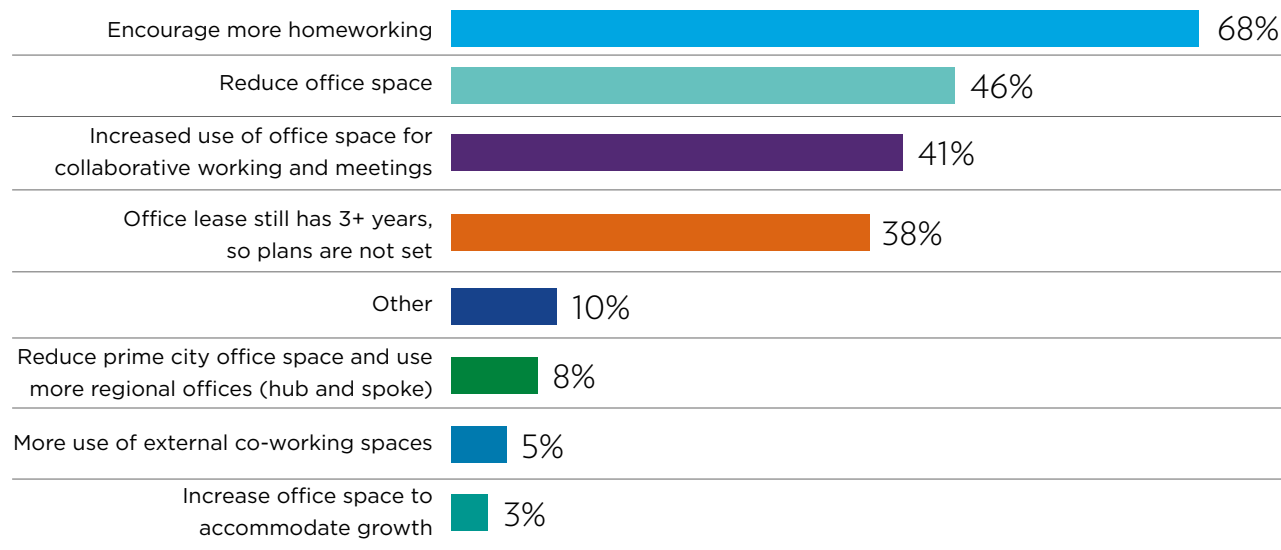
After all, almost two-fifths (38%) of leaders say their firms have office leases with three years or more still to run, so their strategies cannot realistically be changed (p12). Offices can be a 20-year commitment. A significant majority (68%) will actively encourage their people into more homeworking, but that won't

necessarily mean for the majority of the working week in the long term. Firms have spent the summer of 2020 working on desk-booking apps and other systems to support agile working. Although 46% say some reduction of office space is in the strategy, however, this is somewhat offset by the number seeking increased use of office space for its collaborative benefits, such as just-in-time knowledge-sharing, unlocking innovation and internal or client-focused workshops (41%). Few leaders report their firms are looking to acquire more floors or buildings today (3%), but nor are they planning to reduce their prime space (8%) or turn to co-working spaces (5%) in significant numbers.

Tamara Box at Reed Smith says: "There's no professional or financial services organisation out there that isn't rethinking the purpose and value of its real estate to its workforce. We simply aren't ever going back to where we were in 2019. The likely landing place for office space will be on the 'three Cs' – collaboration, camaraderie and culture. It certainly won't be as resource or equipment-focused as we used to think it needed to be."

Indeed, it has been suggested office space could move from being firms' second to their third-largest fixed cost. Irena Molloy at Howard Kennedy adds: "One likely feature of the future will be acceleration in the shift from investment in office space to technology, including to support improvements in client service. But there's also a big concern in the industry around ensuring people entering the

Which of these actions currently best reflect your firm's future office strategy? (You may choose more than one)



68%

Of law firm leaders say their strategy will include encouraging more homeworking

38%

Of firms say they have office leases with three years or more still left to run

profession, and in the early years, don't miss out on important supervision and training. Some learning by osmosis has been lost while remote working, and that requires a conscious leadership effort."

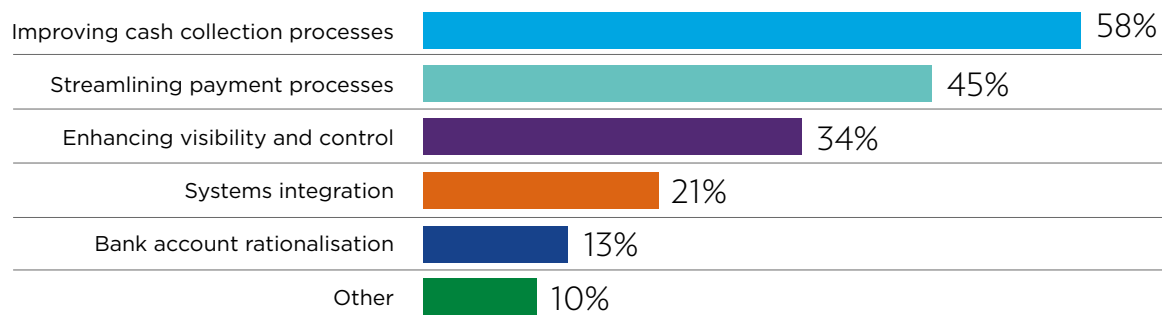
Patrick Firebrace at VWV agrees: "Most firms would want to be able to see how their people are developing, advising, selling and engaging with clients, and that's much harder to do from separate residences. On the other hand, we have growth aspirations and more remote working means we can attract more talent in our sectors outside our usual geographies."

Giles Jones at Osborne Clarke says that before 2020 the firm had already reduced floor space in its London

and Reading offices, with fewer desks available than total employees and more focus on the use of collaborative spaces. It's currently planning the fit-out of a new office building in Bristol, which he says will be one of the sector's first post-Covid office designs on opening in 2022.

An additional strategic and operational challenge is deciding the optimum structure and location of support functions such as secretarial, balancing business need against cost of delivery. Largely remote working may be more feasible for certain combinations of administrative tasks, but the amount of support lawyers require may also have changed. Can some roles be retrained or combined?

What are your transactional banking investment priorities?



“The likely landing place for office space will be on the ‘three Cs’ – collaboration, camaraderie and culture. It certainly won’t be as resource or equipment-focused as we used to think it needed to be.”

Tamara Box, managing partner, Europe and the Middle East, Reed Smith

With cost under such scrutiny, leaders’ top priority for the transactional banking process is addressing cashflow. Almost three-fifths (58%) are focused on improving cash collection – a perennial challenge for the legal profession, it seems – and just under half (45%) would like to streamline payments (see above). Although firms are reporting some improvement in reducing lockup debtor days compared to efforts in 2019, one leader suggests collection could also be linked to profit distribution – and focus on profitability of work completed is, of course, key.

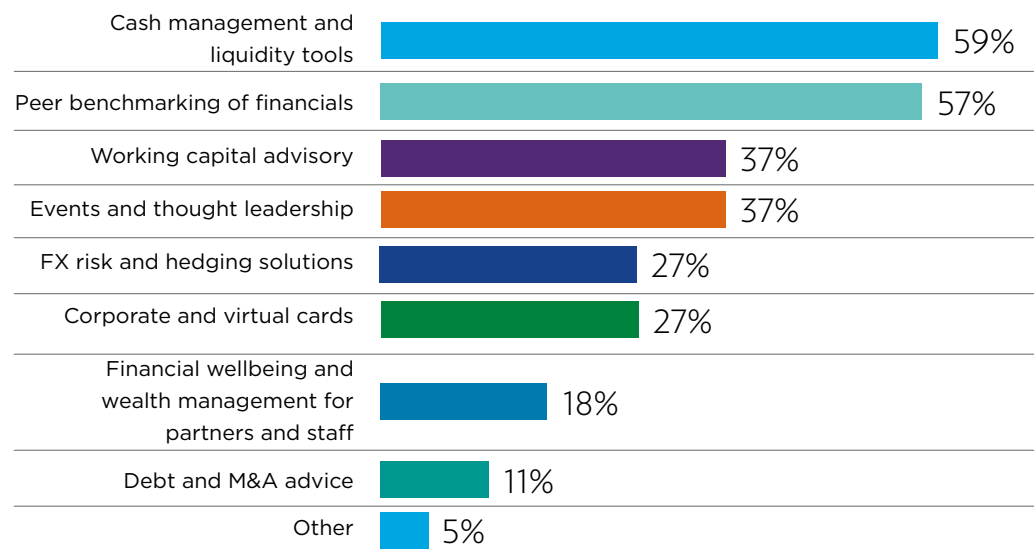
Alex Hatchman at Fletchers says: “For cash collection to come top of all is a bit of a red flag – a finance team certainly shouldn’t be relying on the bank to manage that

– but a streamlined and secure payment process is important. More generally, banks need to move from being transactional suppliers to being real strategic partners. They hold some very detailed data about trends among all their customers, and they can use that picture to share and advance best practice in challenging times.”

Giles Jones at Osborne Clarke adds: “Cash is king at the moment. We have healthy cash reserves and a prudent approach, but we continue to focus on it. We have technology supporting a strong credit control team, with tight automated processes for statements and for how frequently letters are sent to clients.”

However, Laurence Milsted points out that improving working capital management needs

What advice and tech solutions do you think legal finance teams most need from their banks?



“Collection is most enhanced through better engagement from lawyers with their clients throughout the matter lifecycle. The biggest benefit for me would be systems integration, which is linked to visibility and control.”

Patrick Firebrace, director of finance, VWV

investment in managing behavioural change alongside any IT solutions to the problem: “Culture must support the use of technology, and much also hinges on the level of transparency firms can achieve with their clients.”

Tamara Box at Reed Smith adds: “We’ve put a lot of effort into improving our collections and our payments mechanisms, as well as more accurate forecasting, given the degree to which many clients are paying slower and amending payment terms. We look to our banks for tech and process support, but part of the cash-collection dilemma will only really be resolved through better communication with partners and clients. Open dialogue around budgets and timing

is critical, and we’ve really begun to home in on this, encouraging regular contact between finance, partners and our clients all year round.”

Patrick Firebrace also agrees that this particular challenge is more about the people and relationships: “Collection is most enhanced through better engagement from lawyers with their clients throughout the matter lifecycle, and we’d be more focused there than on a role for the bank.

“The biggest benefit for me would be systems integration, which is linked to visibility and control. Ensuring that payments are made to the right people is still a very manual process of carefully reading and checking, and having banking software to validate this

“The deployment of automated global disbursement and receivables services can improve operational efficiency and create enhanced visibility – helping firms to lower the overall cost of doing business.”

Tom Baldwin, head of cash management for professional services, HSBC

– taking information directly from the firm’s system – would offer both efficiency and peace of mind. It would also be a big advantage for larger law firms, which spend a great deal on back-office work.”

Laurence Milsted concludes: “Transactional banking remains important, but a strong banking relationship will also help to secure support for activities like technology investment, and acquisition and growth opportunities if, as expected, the UK market continues to consolidate.”


Tom Baldwin, HSBC’s head of cash management for professional services, says that the bank’s recent investment in some innovative liquidity and transactional banking solutions will address the priorities highlighted in the survey. “As a bank we’re focused on supporting firms

59%

Of leaders think their finance teams need cash management and liquidity tools from banks

57%

Value the ability of banks to help them benchmark financial performance against peer firms

to streamline payment and collection processes. The deployment of automated global disbursement and receivables services can improve operational efficiency and create enhanced visibility – helping firms to lower the overall cost of doing business, while also potentially strengthening supplier relationships and improving the client experience. It’s also imperative that, at a time of financial and operational transformation, firms are kept informed of changes across the cash management landscape. HSBC’s professional services sector specialists keep up to date on both cash management and legal sector news, and work with clients to deliver working capital optimisation and ensure any new solutions are configured for a sustainable and successful partnership.” 

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“As a global bank with strong relationships across the UK’s legal services sector, we have a real sense of the profound and wide-ranging challenges experienced by firms in 2020. As we look to the future, we will continue to help our customers build resilience to navigate today’s uncertainties and support them with future growth opportunities.”

– **Ian Stuart, CEO, HSBC UK**



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