Briefing
SMARTER LEGAL BUSINESS MANAGEMENT

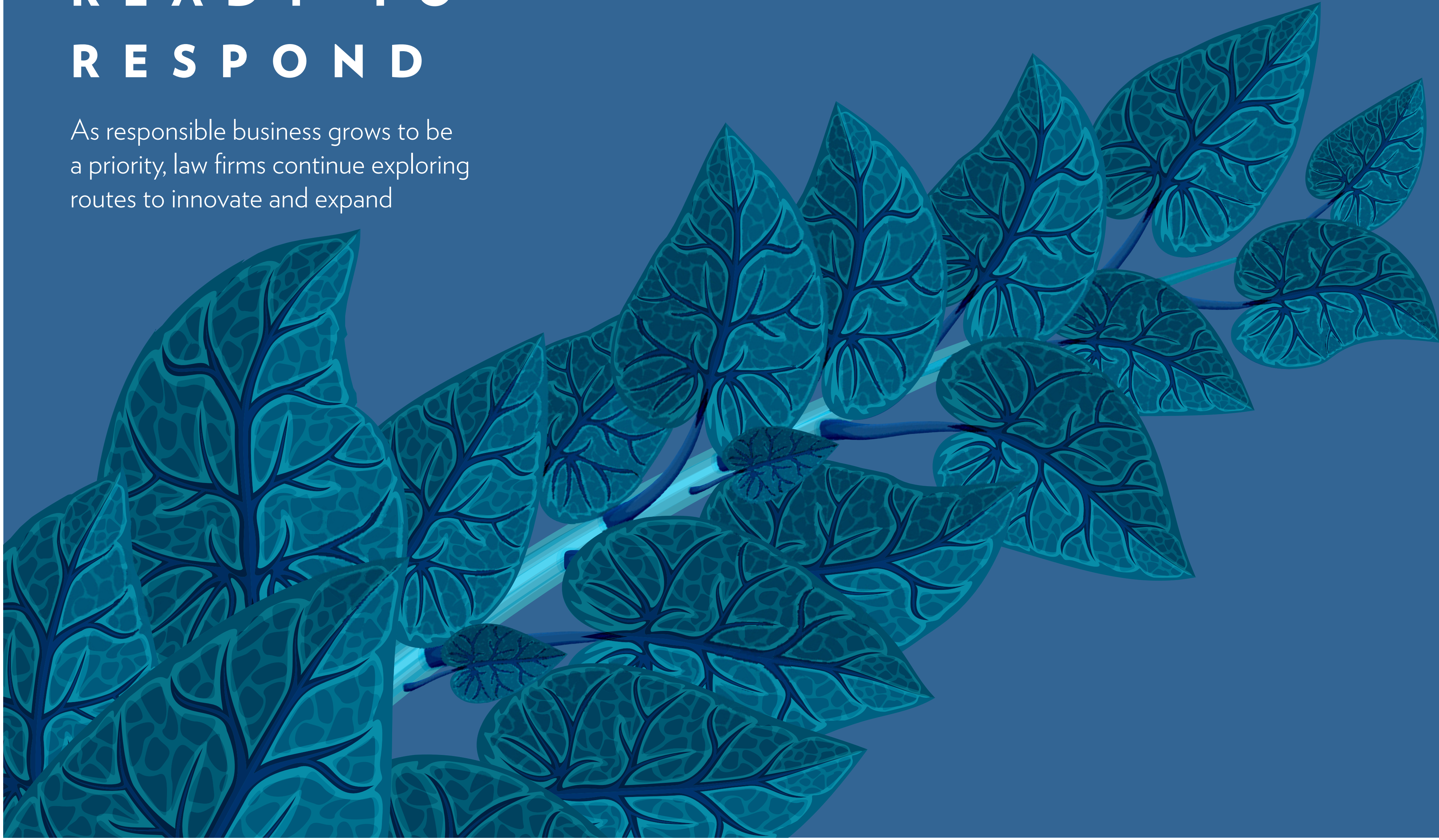
HSBC UK

Law firm strategy and investment survey

2022/2023

READY TO RESPOND

As responsible business grows to be a priority, law firms continue exploring routes to innovate and expand

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The age of agile law firm management is upon us

Welcome to **HSBC**'s law firm strategy and investment research for 2022/2023. Working with the editorial and data team at **Briefing**, this year we've polled the most senior strategic leaders at the UK's largest law firms – those with global annual revenues of between £18m and more than £1bn – about more aspects of their business management than ever before. We have answers about changing priorities and key policies from CEOs, Managing Partners, FDs, COOs, and those leading the way on innovation. The data is clearly displayed, alongside commentary from participants, so you can easily benchmark how your top challenges compare to the experience of your peers. In some cases, we also highlight how firms in different revenue bands may be reacting differently.

External events have once again moved rapidly. Our 2021 research, out before the Omicron variant of Covid-19 took hold, tried to gauge whether the recent pace of change for firms would keep accelerating. Would they seize the moment to invest in more expansion, process improvement, client collaboration and service innovation – see the opportunity to differentiate – or prefer to press pause and take strategic stock? On balance, while some change-fatigue might be understand-able, they inclined to the former – eyes firmly on the future.

This year's research was carried out online between May and July 2022 – after the outbreak of war in Ukraine, but before the Bank of England revised its outlook for the economy in 2023. It paints a picture of businesses both realistic about challenges and alert to opportunities.

Take the growing environmental, social and governance (ESG) agenda – which we asked questions about in 2021 for the first time. The number-one challenge for leaders in 2022 seems to be people – recruiting and retaining – but in addition to incentivisation, skills development and career progression, it's clear they also appreciate the need to invest in building a responsible business. There is a solid increase in the number of firms now committing to carbon emissions-reduction targets – including the supply-chain focus of Net Zero. Other ESG-based key performance indicators appear to be a priority for the year ahead, and there's evidence of growing interest in sustainable finance. Leaders must also keep the sustainable growth of a more diverse workforce front of mind.

Tied to this is the question of the future hybrid-working office – the shape it will take, approaches to flexibility, and perceived impact of these choices on wellbeing. The balance has implications for sustainability, collaboration, productivity and employee empowerment and engagement, at a time when competition for talent remains fierce.

If change is indeed 'the new normal' for business, law firms have already demonstrated how they can adopt a more agile mindset when it comes to transformation and investment – the key now is to embed that change as business-as-usual.

CHLOE CLIFT
HEAD OF PROFESSIONAL SERVICES, HSBC UK

HSBC UK

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Research executive summary

From weighing prospects for growth, to embedding new working patterns and elevating sustainability issues, legal business leaders are busier than ever

70%

Of large UK law firm strategic leaders foresee more M&A among firms in 2023

The **HSBC/Briefing** Law firm strategy and investment research 2022/2023 was an online survey carried out between May and July 2022. It drew 76 responses from strategic leaders in a wide range of board-level roles – including CEOs, managing partners, chief financial officers, chief operating officers and chief strategy officers. They represented law firms of all sizes (annual revenues of £18m+), falling into the following bands: 19% of respondents are from firms with revenues of £20-49m; 20% at firms £50-99m; 22% at firms £100-249m; 13% at firms £250-499m; 13% at firms £500m-1bn; and 13% at firms with revenues of more than £1bn. For the purposes of comparison, we've segmented some findings about relative priorities for progress, change or business improvement into firms with annual revenues of up to £100m and those with revenues of £100m or above.

PLANS TO EXPAND

Just over three-fifths (61%) of the responding firms already had an international presence at the time of answering, according to the leaders surveyed (p6) – approximately the same proportion as identified this in 2021. Among this group, 58% said their strategy for 2022/2023 is to continue expanding internationally – an increase on 52% reporting this in 2021. Only 11% said their firms would either be freezing or reviewing their growth plans, with none suggesting a need to move out of international markets (p7).

However, among law firms that don't yet have an office outside the UK, only 3% of leaders say the current strategy includes internationalisation – which is down from 11% in 2021.

ROUTES TO GROWTH

In terms of the wider UK legal landscape, 70% say they expect some increased merger and acquisitions activity affecting law firms over the next 12 months as a result of disruption or decisions during the pandemic period – 9% saying that's likely to be "significantly more" (p8). Almost a quarter (24%) expect "no real change" to M&A levels, and only 6% say they believe there will be less. A minority of strategic leaders (15%) also say they think the pandemic period has changed the appetite for private equity investment at larger law firms (although 62% are unsure about this – and almost a quarter think not), while 8% say their firm is most likely to be a public limited company by 2027 – an increase from 6% saying so in 2021 (p10).

COMPETITIVE PRESSURES

When asked which of a long list of market trends/forces present the greatest potential for disruption at the firm, the frontrunner is "peer firms with more tech-driven business models" for a second year (p12). "Lateral hiring/team carve-outs" are cited by 44% – an increase from 16% in 2021 – and more than a quarter (27%) see the prospect of disruption in mergers and acquisitions among firms with revenues of £20-100m.

INTERNAL CHALLENGES

In terms of internal forces challenging management, the leading concern is navigating competition for talent/salaries and managing risk associated with the so-called 'great resignation' of employee attrition (84%). Two-fifths of leaders (41%) identify cybersecurity risk and just over a third (34%) are concerned about their firms' cultures in an age of hybrid and more dispersed working (p14).

CHANGING THE OFFICE

Meanwhile, it's clear firms continue to make decisions about the amount of office space needed to accommodate future work patterns. Half of leaders now say their firms are planning to reduce the amount of space they occupy within three years – an increase from 35% saying that this was part of the strategy in 2021 (p17). Two-thirds say they continue to repurpose their remaining office spaces for more collaborative/hybrid working, and 29% say they have already achieved the reduction they need – which is an average cut of 13%.

APPROACH TO HYBRID-WORKING

Almost two-thirds (65%) of leaders insist their people have complete choice over how often they use any future office – although guidelines may be in place as part of a policy (p18). However, over one third (37%) say people are expected to attend on a number of days each week or month. Only 8% say the exact days are specified in advance. Three-quarters (74%) also say the hybrid-working policy is the same for everybody at the firm, regardless of seniority or part of the business (p20). Just 16% indicate their may be different expectations of time spent in an office for those at different stages of their career, and 15% say it's a similar scenario for different business roles.

ACTION ON ESG

As large firms also place more resource behind business choices classified as environmental, social and governance (ESG), gender diversity is the area where most leaders say their firms are focused on progress (85%). Over three-quarters (78%) also say they're increasing the range of support for employee mental health/wellbeing, and more than two-thirds (69%) indicate they're focused on change in terms of ethnic diversity. Almost three-fifths (59%) say the firm now has an independent ESG committee to advise the main board on such matters – which is an increase from 33% who said this in 2021. More are also implementing carbon emissions monitoring and sustainability-linked business travel policies (p23).

One third of leaders say the firm now has a "science-based" carbon-reduction target in place and one quarter have a target of reaching 'Net Zero' (up from 14% and 17% in 2021 respectively). More than a third (34%) also say they have a set of ESG-based key performance indicators in place, as 32% find clients are regularly assessing their environmental policies and targets (p26). Indeed, more leaders than in 2021 now call for a banking partner with clear sustainability commitments of their own (64%) and one fifth say they need sustainability-linked loans (p27).

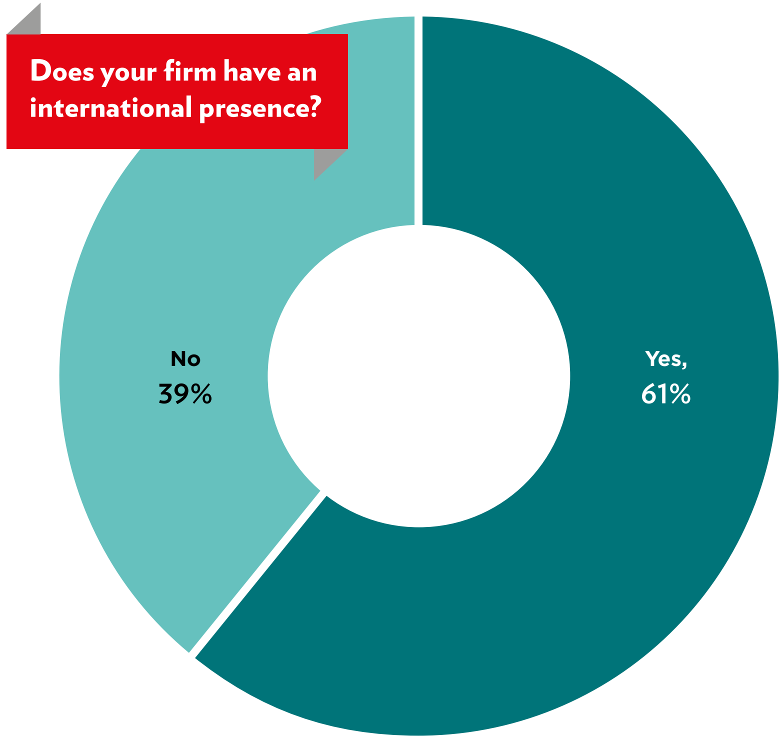
50%

Of law firm leaders are still planning to occupy less office space in three years

Almost two-thirds of leaders insist their people have complete choice over how often they use any future office – although guidelines may be in place as part of a policy. However, over one third say people are expected to attend on a number of days each week or month

Talent remains top business challenge as law firms plan to keep growing

Recruitment and retention is the clear front-running concern for law firm management, as 70% of leaders also anticipate more mergers and acquisitions ahead for the market in another economically challenging year

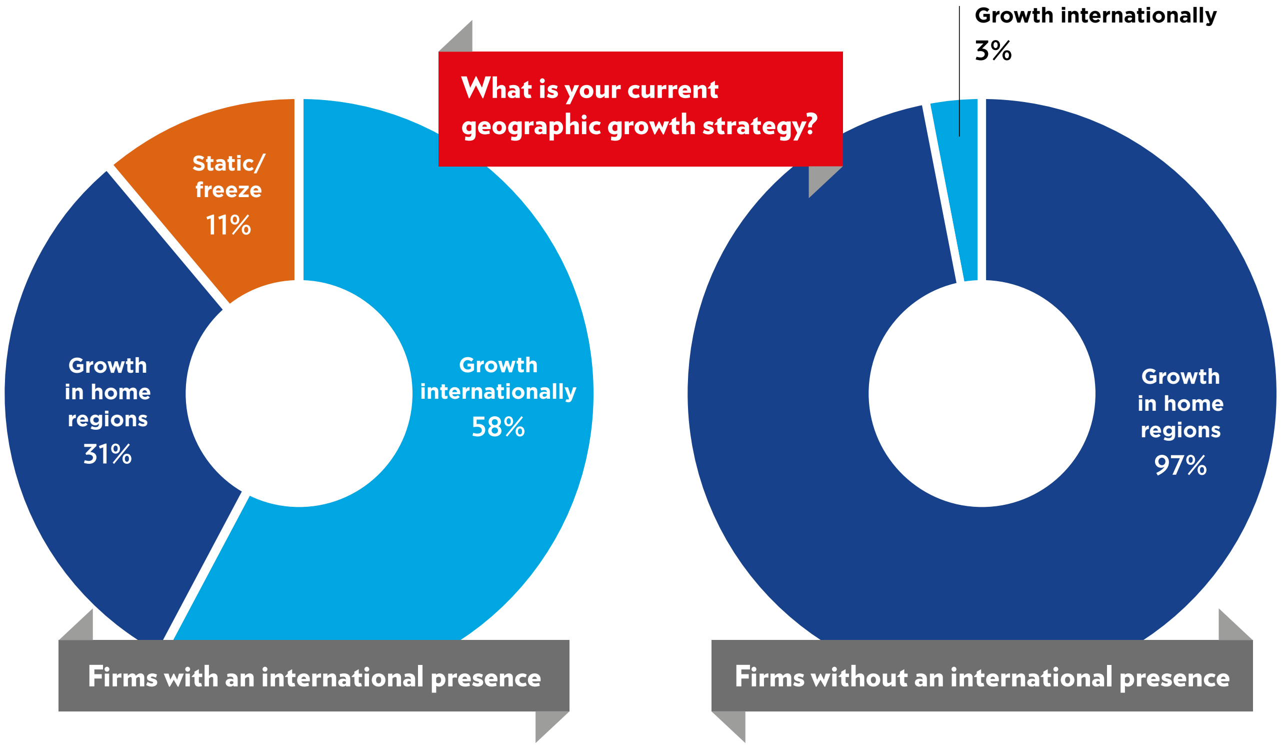


Leaders of UK law firms provided their views of the landscape for this year's **HSBC/Briefing** strategy and investment survey before the Bank of England boosted its key interest rate and predicted a year-long recession in August 2022 – and the picture is one of continued appetite for growth emerging out of the management challenges and change wrought by the pandemic.

Three-fifths (61%) of the firms covered in the research (annual revenues ranging from £20m to over £1bn) already have an international presence, according to their leaders (p6) – a small increase on the 59% who said this was the case in 2021. Among this group, 58% say the current strategy is to seek further international expansion (p7) – up from 52% in 2021 – and there's almost no change in the number who report freezing or reviewing their growth plans (11%).

Andrew Edginton, chief operating officer at Gowling WLG UK, says: "Our strategy continues to be anchored in growth, particularly non-UK growth, where we see stronger opportunities. We've seen most economies softening slightly, but not in a way that would lead us to change our strategy.

"Our key areas of focus remain Europe, particularly



"Our strategy continues to be anchored in growth, particularly non-UK growth. We've seen most economies softening slightly, but not in a way that would lead us to change our strategy."

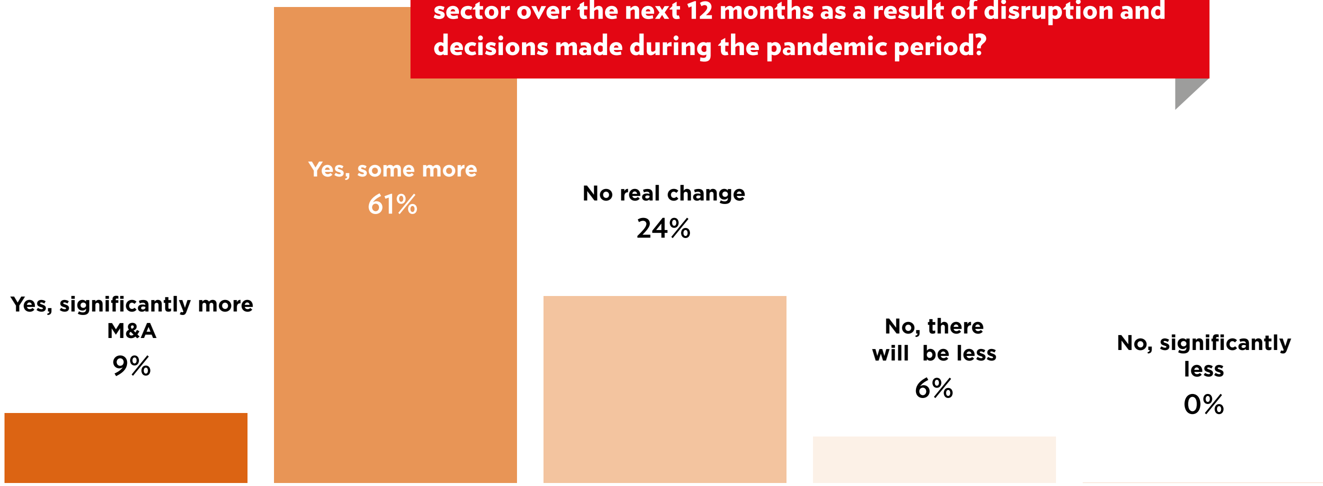
Andrew Edginton, chief operating officer Gowling WLG UK

Germany, Asia and the Middle East – and that sits alongside UK growth opportunities where they fit our clients' needs."

For law firms that don't have an office outside the UK yet, however – only reaching international markets through networks or alliances with firms in individual jurisdictions – 2023 is unlikely to be the year this changes. Just 3% of business leaders at these firms are pushing for international expansion – a significant drop from the 11% of respondents who suggested it in 2021.

While global factors may be at play here, the shift could also be connected to changing opportunities at home. The number of mergers between UK law firms continued falling as Covid-19 impacted business flows – firms were busier than ever and far outperformed expectations – but a period of consolidation may now begin as some seek to build broader national platforms and brand recognition. Although a quarter of respondents to the research believe we won't see "real change" in the volume of mergers and acquisitions materialising over the next 12 months, 70% anticipate at least some increase (p8). At the same time, 15% believe the pandemic has changed appetite for the option of private equity-backed investment and 8% can

Do you believe there will be increased M&A in the legal sector over the next 12 months as a result of disruption and decisions made during the pandemic period?



now envisage their firm as a public limited company by the year 2027 (p10).

In October 2021, fast-growing personal injury law firm Fletchers was acquired by the private equity firm Sun Capital, with the business since going on to acquire the cycling injury brand Cycle SOS. The firm's CEO Peter Haden said: "It's a good example of the type of acquisitions we're keen to make, as it brings additional capability, a valuable set of assets and a new route to market."

He says: 'It's still relatively early days for PE investment in the legal sector, although things are now starting to warm up – many firms are profitable but they require cash to grow.

"We're focused on our core areas for future growth, but the legal market as a whole remains incredibly fragmented. It's likely to consolidate. Cases are taking longer to settle, and we can see some owners re-evaluating plans, perhaps in light of the pandemic."

Neil Kennedy, managing partner at MacRoberts – based in Edinburgh and Glasgow – says his firm's strategy and focus as an independent "law firm of choice" in Scotland is unchanged.

"However, there is still a degree of fragmentation here. I expect to see a range of M&A activity – both acquisition of some independents and mergers between players of some scale," he says. "Drivers could include regulation and inflation, but also the ability to invest in tech solutions and to execute them effectively."

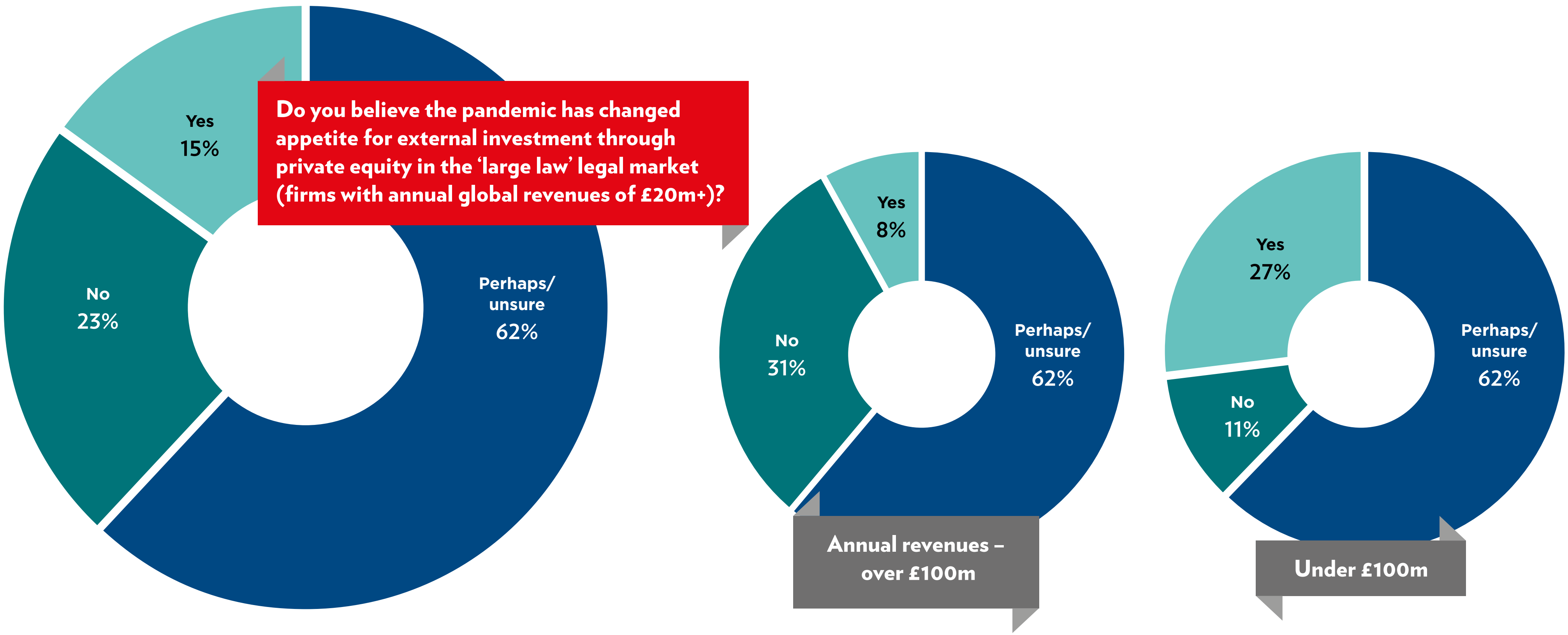
And Jonathan Patterson, managing director of the innovation and ventures group at DWF, says the considerations for UK law firms listing have been very well scrutinised: "You can make significant strategic investments and create more interesting, longer-term reward packages for people. The compliance will also push firms to be leaders in areas like risk management and ESG.

"The drawback is the factors outside the firm's control. Ultimately, it depends on understanding what a business is really trying to do, the volume of change required, and whether that's possible or realistic within a particular structure."

Sarah Walker-Smith, CEO of the Ampa group, which

"The legal market as a whole remains incredibly fragmented. It's likely to consolidate. Cases are taking longer to settle, and we can see some owners re-evaluating plans, perhaps in light of the pandemic."

Peter Haden, CEO Fletchers



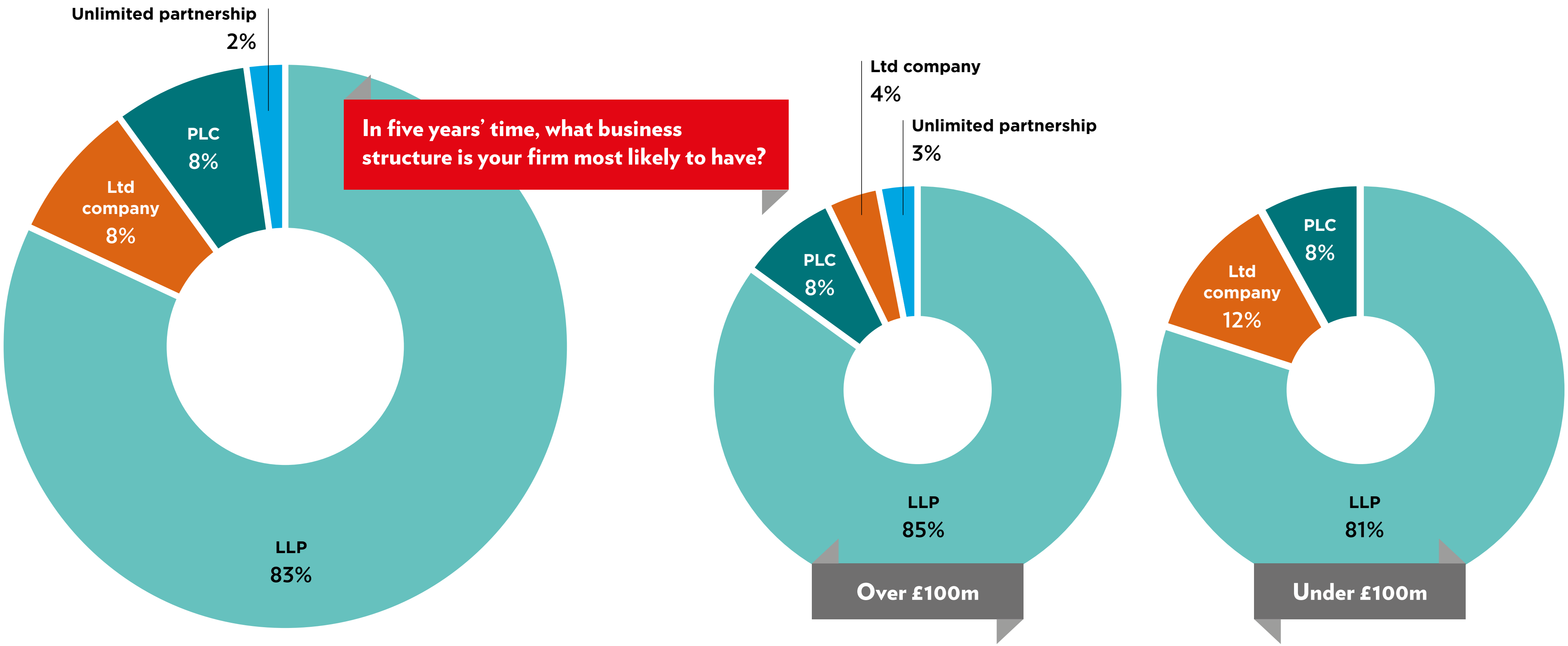
includes the law firm Shakespeare Martineau, adds:

"The limitations and demands of being a full publicly-listed company have become very clear in recent years, and for that reason I think those considering a float will be reappraising. However, planned coming tax changes will continue to erode the benefits of the LLP model and other forms of corporatisation could become attractive."

A further indicator of a climate conducive to inorganic growth in 2023 is that 44% of leaders now cite team lateral hires as holding potential for disruption at their firms (p12) – up from 16% a year ago. Although 'peer firms with more tech-driven business models' is once again the market pressure that appears to dominate management minds, lateral hiring is the factor where it seems that concern has significantly shifted. In addition, more than a quarter (27%) cite the likelihood of law firms with annual revenues of £20-100m being acquired this year. Understandably, firms that find themselves in this bracket are much more likely than larger ones to see it as a leading disruptive force (50%).

Meanwhile, inevitably connected to disruption, the organisational challenge identified by most leaders – by some distance – at law firms of all sizes is the sector's ongoing 'war for talent' (84%), fuelled by shortages and corresponding salary increases (p14). The ability to engage that talent through a common culture and set of values is also seen as more concerning (34%) than many other potential priorities.

Navigating the future hybrid-working model of time spent in and out of the office is more likely to be challenging business management teams at larger firms (33%) – whereas choosing the best technology (whether for fee earners or core business process efficiency) appears to be less of a focus for 2023, perhaps after two years of particularly pressured



investment decisions. However, one category is rated as a top concern by leaders at both large and smaller firms – preventing cyberattacks (41%).

Walker-Smith says: "The market is still in the midst of a supply problem for talent acquisition and retention, in part fuelled by changes to working attitudes through the pandemic. People have reappraised their lives and aspirations and are looking for more than just reward.

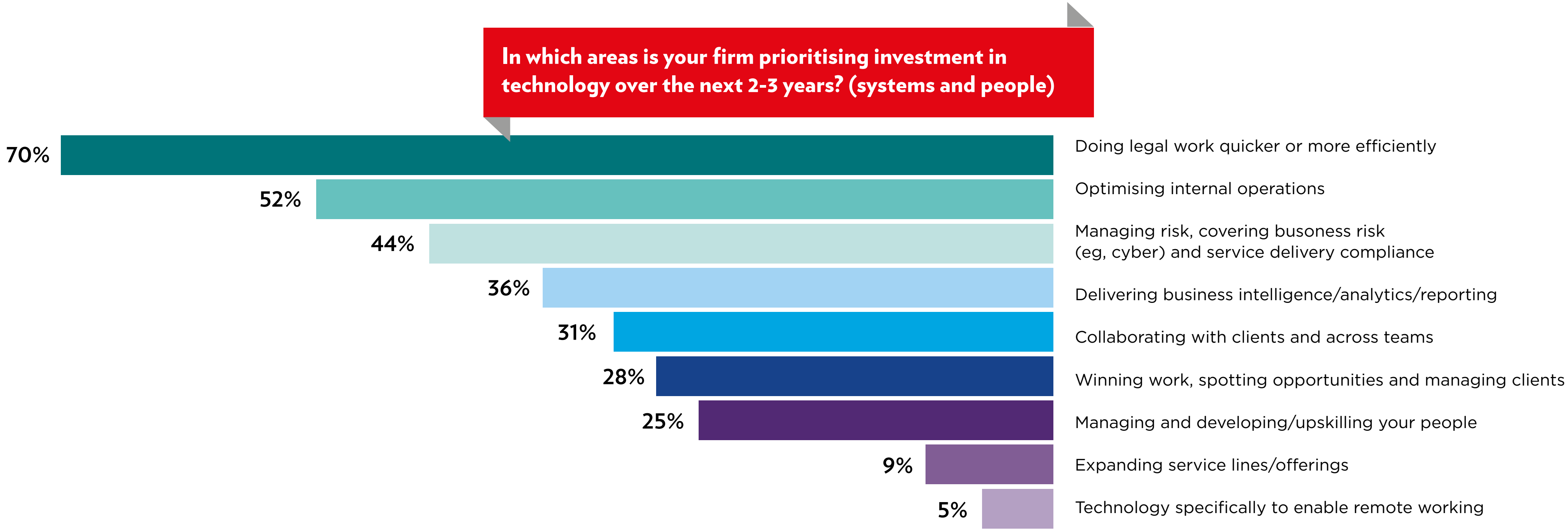
"Offering flexibility and being clear on organisational purpose and values are growing in importance, but this can't be at the cost of fair reward given inflationary issues and the current cost of living crisis.

"We're trying to stay focused on the long term and, with the likely economic downturn, ensure we're able to protect jobs and overall certainty of income levels by not building unsustainable inflation into the salary market."

Tim Nash, CEO at Edwin Coe, adds: "It is still possible to find good people. Clearly some, mostly larger, firms have thrown money at a challenge here – and so in order to counter that you need a really authentic alternative message about the quality of work, culture, colleagues, overall experience, and other benefits on offer. Candidates need to experience that promise as they walk through the door."

Fast-growing consumer-focused firm Taylor Rose MW expanded into the North-West of England by acquiring FDR Law in 2021. M&A continues to be a key pillar of strategy alongside traditional marketing, says CEO Adrian Jaggard. But an engine just as strong, if not more so, is its consultancy model – lawyers who source their own work and work how they wish, but can also benefit from referrals and infrastructure as needed. Almost half of the firm's fee earners are consultant lawyers.

"The model has gained in credibility, alongside



"Whereas appetite and adoption were often challenges to law firm change before, the pandemic experience has really pushed change forwards. Leaders are likely to be investing now to take advantage of that goodwill."

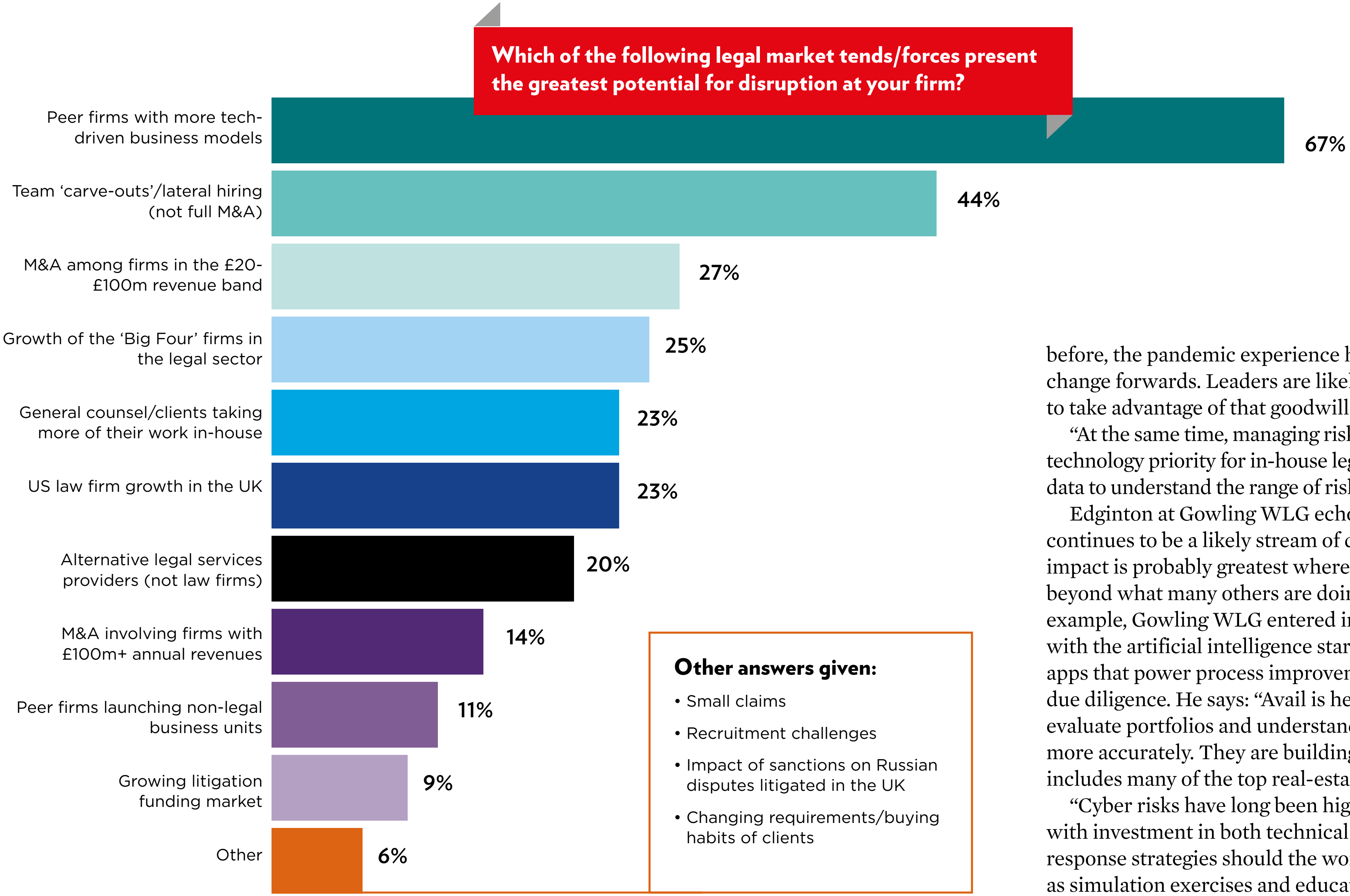
Jonathan Patterson, managing director, innovation and ventures, DWF

disillusionment with some of the more conventional options – equity partnership and restrictions at smaller firms," says Jaggard. "The pandemic also removed any barrier to homeworking as standard, and we soon saw a big surge of interest."

Finally, as in 2021, where firms are spending more on technology (p11), leaders are most likely to be directing that investment into new systems that enable 'doing legal work quicker or more efficiently' (70%). Collaborating with clients and across teams has fallen as a technology priority however (31%), overtaken by optimising internal operations (52%) and broader risk management (44%).

Jaggard continues: "Our technology budget is now bigger than our premises budget, which is a big opportunity for a consolidator." In addition to increased cybersecurity investment, he cites more automation in consumer case management and client relationship management. "The idea is to create a scenario that effectively captures one-off customer interactions and transform that into a longer-term relationship," he says.

Patterson at DWF adds: "Whereas appetite and adoption were often challenges to law firm change



Other answers given:

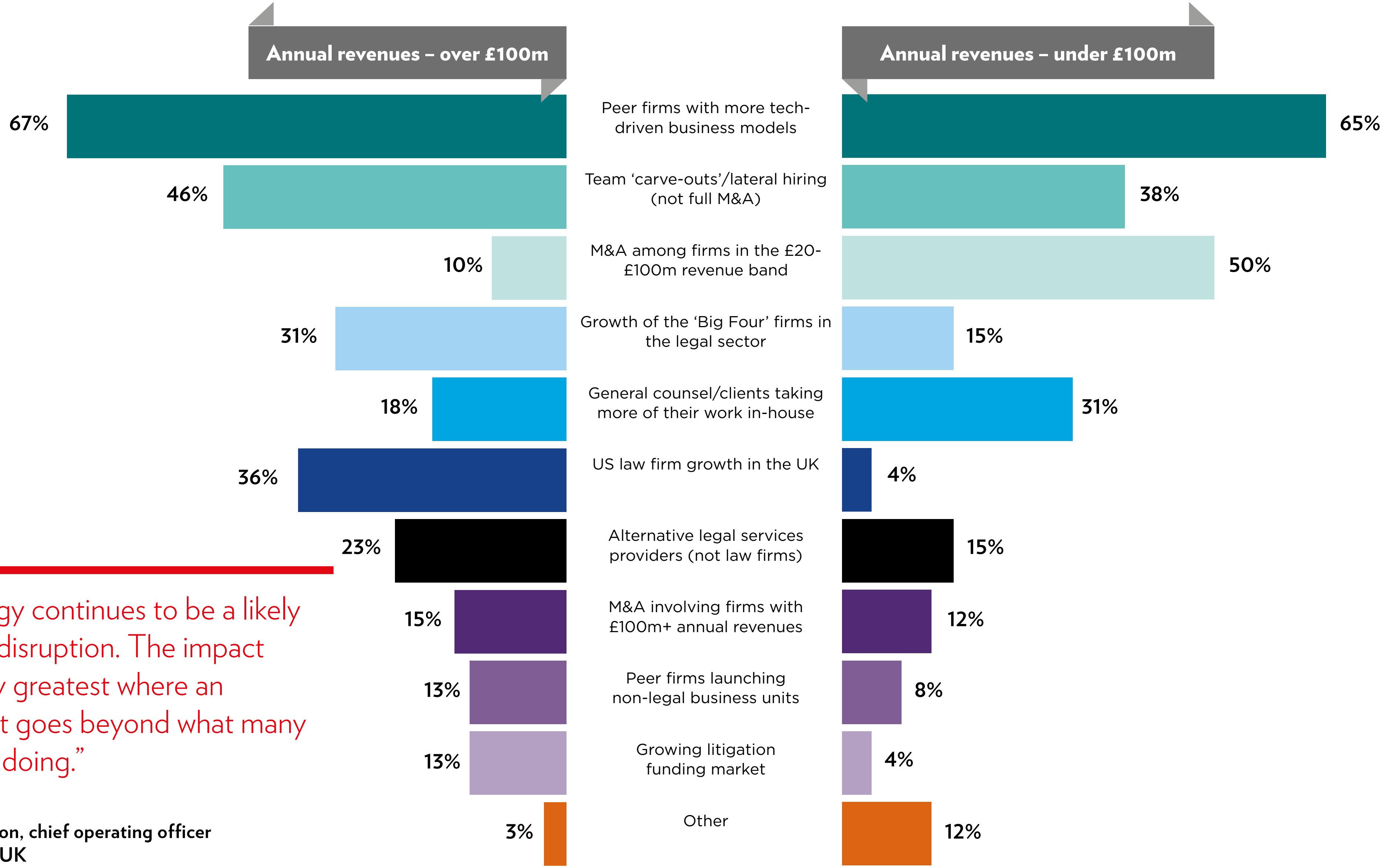
- Small claims
- Recruitment challenges
- Impact of sanctions on Russian disputes litigated in the UK
- Changing requirements/buying habits of clients

before, the pandemic experience has really pushed change forwards. Leaders are likely to be investing now to take advantage of that goodwill.

"At the same time, managing risk is growing as a technology priority for in-house legal teams – harnessing data to understand the range of risks and their impacts."

Edginton at Gowling WLG echoes this: "Technology continues to be a likely stream of disruption. The impact is probably greatest where an investment goes beyond what many others are doing." In 2019, for example, Gowling WLG entered into a joint venture with the artificial intelligence startup Avail, focused on apps that power process improvement in real estate due diligence. He says: "Avail is helping our clients to evaluate portfolios and understand risks faster and more accurately. They are building a client base that includes many of the top real-estate law firms.

"Cyber risks have long been high on our agenda, with investment in both technical defences and response strategies should the worst happen – as well as simulation exercises and education. All law firms are



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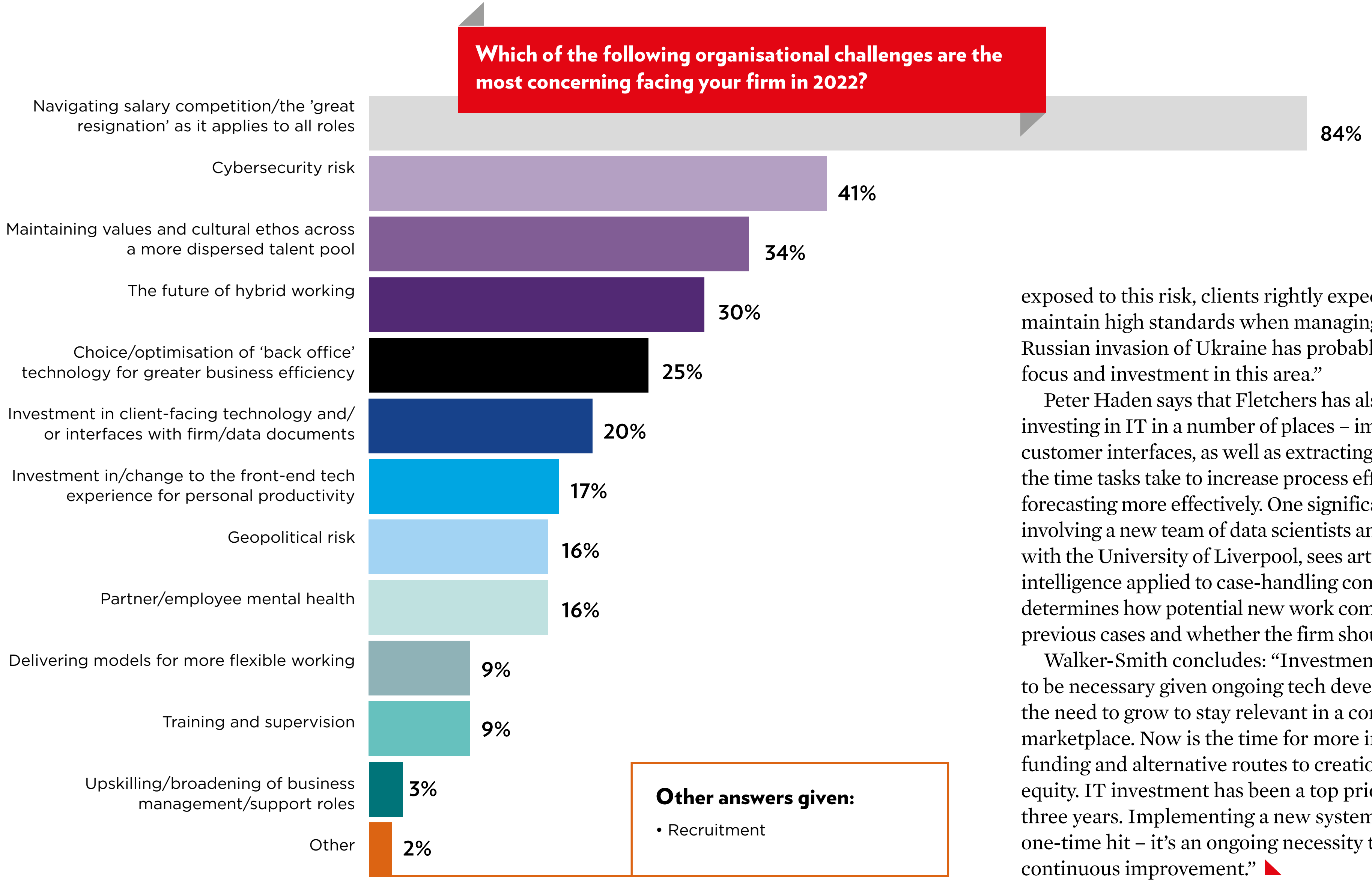


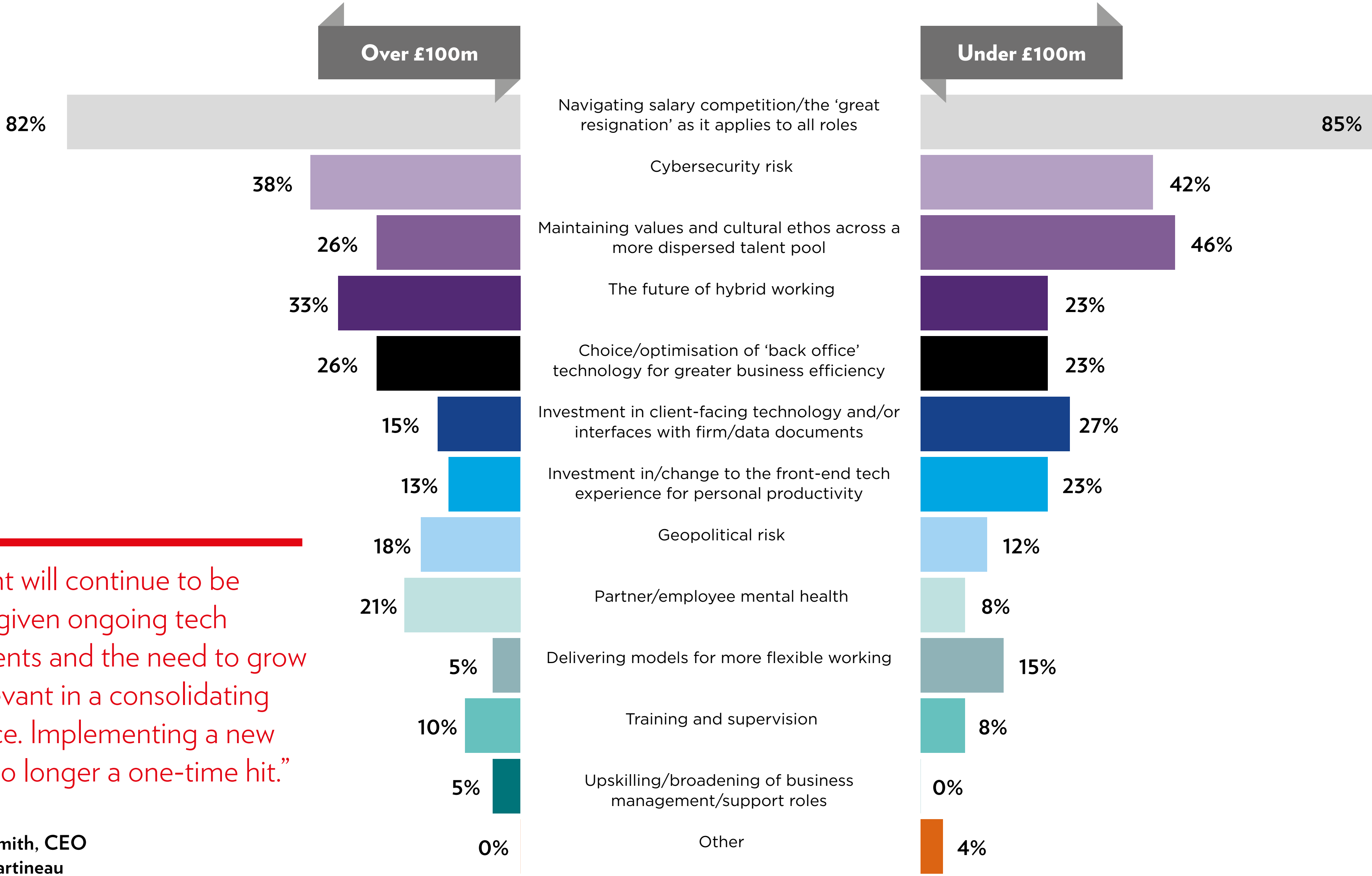
Other answers given:

- Recruitment

exposed to this risk, clients rightly expect us to set and maintain high standards when managing it, and the Russian invasion of Ukraine has probably increased focus and investment in this area."

Peter Haden says that Fletchers has also been busy investing in IT in a number of places – improving customer interfaces, as well as extracting detail about the time tasks take to increase process efficiency and forecasting more effectively. One significant project, involving a new team of data scientists and collaboration with the University of Liverpool, sees artificial intelligence applied to case-handling conversations. This determines how potential new work compares to previous cases and whether the firm should accept it.

Walker-Smith concludes: "Investment will continue to be necessary given ongoing tech developments and the need to grow to stay relevant in a consolidating marketplace. Now is the time for more innovation in funding and alternative routes to creation of more equity. IT investment has been a top priority for the last three years. Implementing a new system is no longer a one-time hit – it's an ongoing necessity to drive continuous improvement."



"Investment will continue to be necessary given ongoing tech developments and the need to grow to stay relevant in a consolidating marketplace. Implementing a new system is no longer a one-time hit."

Sarah Walker-Smith, CEO
Shakespeare Martineau

Hybrid office set to stay, with full flexibility the most popular policy

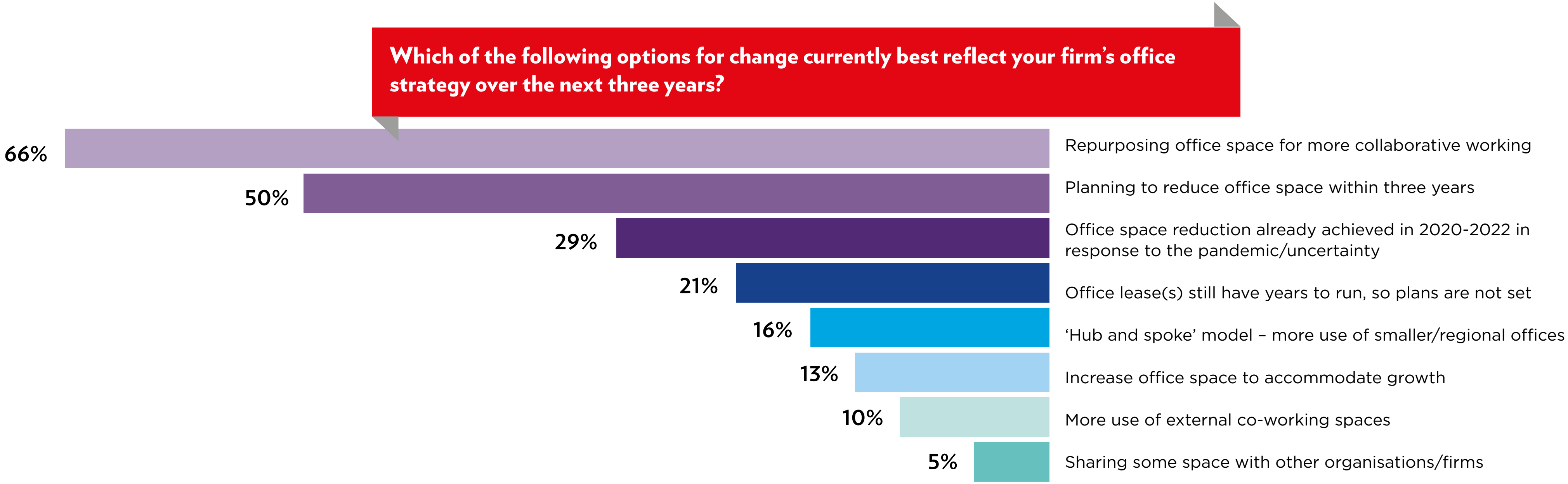
Two-thirds of leaders say people at their firms can choose when they need to be in the office, and almost three-quarters suggest the rules or guidance underpinning hybrid-working are the same for all

Law firms continue to review their space requirements in light of changes to working patterns and locations, clearly with potential to take out some cost at the same time. In the process, two-thirds (66%) of the strategic leaders surveyed in this research say they continue to "repurpose" existing office space to facilitate more effective collaborative working when people do come together (p17).

In 2021, 75% said they were doing this, so the decision-making – and perhaps building – work for many continues. However, while the idea of a 'destination office' to encourage people to attend for useful group activity grows, more now say they plan to cut the amount of office space available to seat people within three years (50%) – an increase from 35% expressing this a year ago.

Almost one third (29%) say their firms have already achieved the reduction sought after calculating the impact of pandemic working and potential cost savings – and the average cut is 13%. Of those leadership teams still planning reductions, almost half (47%) anticipate a reduction of 11-20%, a quarter up to 10%, and 13% expect to cut 31-40%.

Firm leadership is also now more willing to embrace a 'hub and spoke' model (16%) – making more use of any



"We'll continue to have anchor points for lawyers and clients in the new world of working from home – but spend less and less on space as a percentage of revenue as we grow."

Adrian Jaggard, CEO
Taylor Rose MW

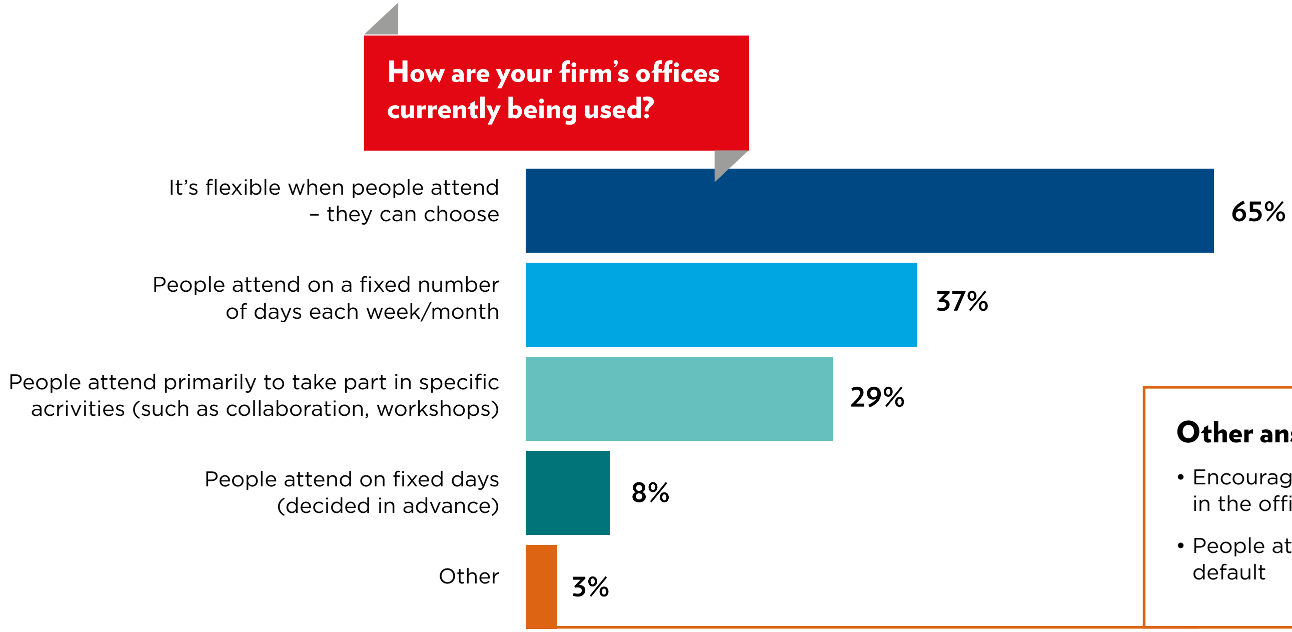
smaller offices in the network, with connection to a more cost-effective central space – and very significantly, to consider co-working spaces. Not a single business leader reported this was part of the future office plan in 2021, but that increases to 10% looking to 2023.

In June 2022, Taylor Rose MW opened its first Welsh office in Cardiff. However, Adrian Jaggard says of this and other recent additions: "They are fully hot-desk – people book a desk or room in dedicated zones by app. Two London offices also have business lounges, with different seating and no booking at all."

"We'll continue to have these anchor points for lawyers and clients in the new world of working from home – but spend less and less on space as a percentage of revenue as we grow."

Neil Kennedy says the pandemic accelerated MacRoberts down a hybrid-working path he had already identified as the future: "We'd reduced our footprint significantly and channelled the savings into more investment in people and the infrastructure for hybrid working." The firm's current Edinburgh office, for example, has up to 50% less desk-working space than a former base, but it has grown at the same time.

"We ran three surveys during the pandemic, and it



Other answers given:

- Encouraged to spend two days in the office each week
- People attend every day as a default

became clear hybrid was also our people's preferred model. They wanted the flexibility, but also to collaborate, share and socialise – the human aspects of work. There's a wellbeing consideration as well. We recognise some of our people may need access to an office environment more than others, and we will accommodate that."

Firms may also need to make substantial technology investment in this context, he explains. "Leaders are now used to operating in an environment where change keeps coming, with lessons for planning agility, priorities and communication. We've invested in a new practice management system, which will enable more automation, cascading down the most relevant real-time information, and dashboard personalisation. In an inflationary world, productivity becomes ever-more important – requiring fewer manual business processes and more efficiency."

Gowling WLG is another firm that consolidated some offices, sublet space in others and embarked on an agile-working policy before the pandemic. Andrew Edginton says: "There are more people who now want to use an office differently, particularly to prioritise more collaborative work – and they want a consistent experience whether working remotely or from one of

"It became clear that hybrid was also our people's preferred model. They wanted the flexibility, but also to collaborate, share and socialise – the human aspects of work."

Neil Kennedy, managing partner MacRoberts

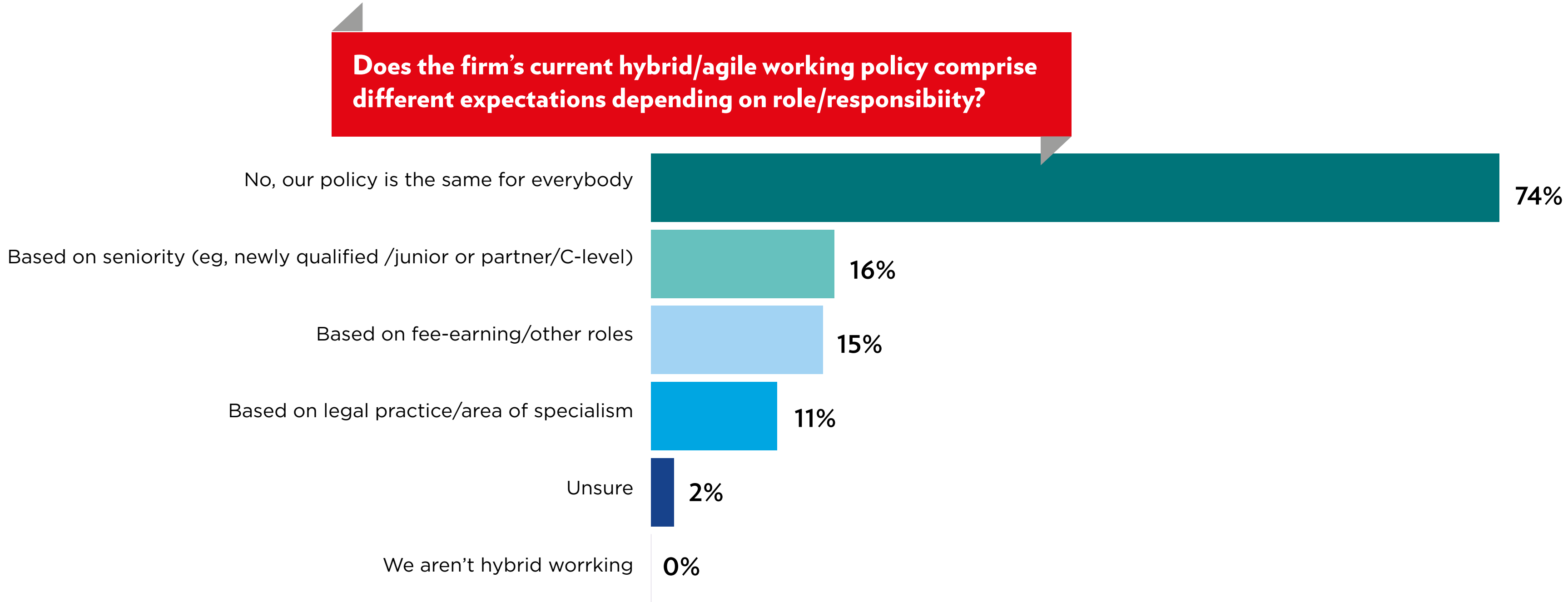
our offices." The firm is also set to open a new dedicated "innovation space" in one of its UK offices. "It's designed to create an environment that prompts creativity through things like choice of colours, furniture and technologies – not the usual working environment. Our people and clients will be able to drop in and work with our internal innovation team on an idea," he explains.

Jonathan Patterson at DWF adds: "Reconfiguring spaces and processes to increase choice for people is the big objective." In managing innovation activity, for example, his team has developed different online or hybrid formats to suit people more geographically dispersed, or even tailored to the idea under investigation.

"We can work productively on some projects worldwide if we want to. Some ideas are better explored fully together for the focus, and online there is a risk of switching off," he says. DWF has designed workshops lasting five days that alternate "alone time" with sharing and comparing in online groups of different sizes.

But as much as it may boost engagement, he also highlights that new technology can present a risk: "Any 'always-on' culture can have a negative effect on motivation. Our remote working has increased the importance of management and communication being human."

In addition, there's the question of how frequently these future office spaces are used – and whether that is mandated (p18). Some firms produced future hybrid-working visions as long ago as 2020 after the first long lockdown lifted. Now, almost two-thirds (65%) of leaders say the balance of office and remote-working time is fully flexible for their people. They can decide when being in the office best fits their needs (or



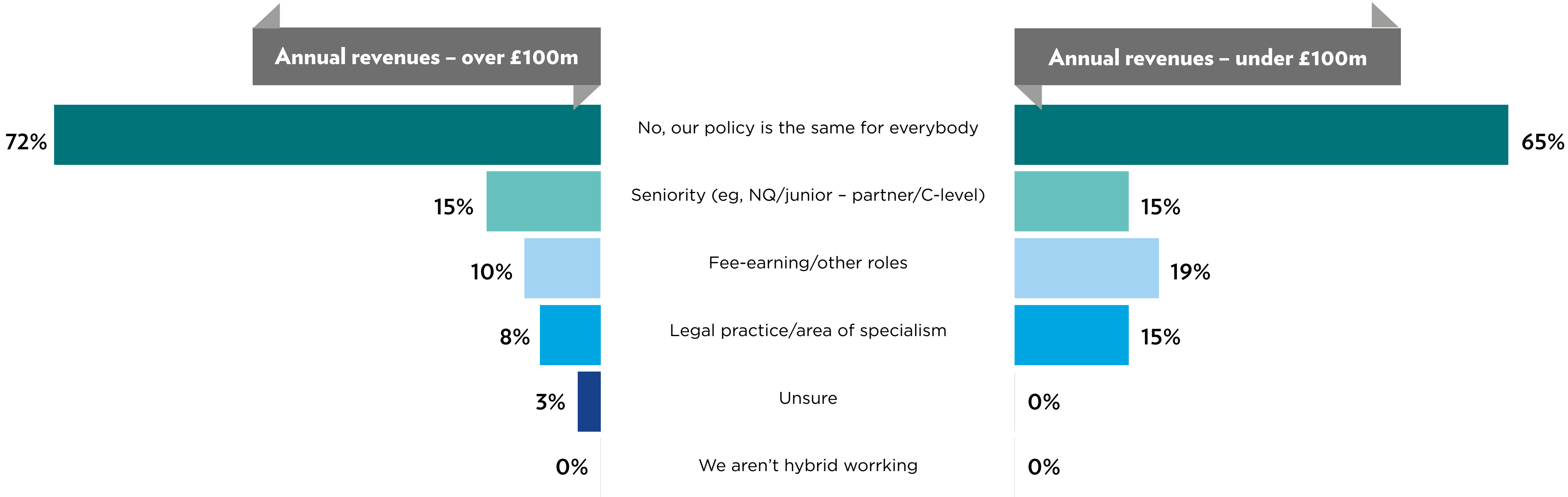
perhaps the needs of their team). However, although few say that days in an office on any given week are necessarily prescribed in advance, over a third (37%) indicate firms expect the journey to happen on a certain number of days each week or month.

For MacRoberts, presence of more people than potential space for them in one office clearly requires a certain amount of structure. Neil Kennedy says: "There's an expectation that certain teams will be present together on allotted days, albeit with some local management and fluidity." And across both offices – as space isn't the same driver in Glasgow – there is a guideline in place of 40-60% of time spent in an office space.

Tim Nash, CEO at Edwin Coe, adds: "There's still a lot of variation between firms. It will probably take some years for a consensus modus operandi to emerge. There's an opportunity to differentiate, but risk that you may need to reverse out of it." Edwin Coe itself has guidance and expectations around hybrid working. "They can flex depending on circumstances, but there are benefits of some days in the office for culture, collaboration, supervision and learning." The last of these is particularly hard to handle fully remotely, he says.

However, Fletchers CEO Peter Haden says: "We're all-in on hybrid working and see the productivity benefits in action every day. Development is very important, but the idea that you need to sit next to people to learn effectively may be an ingrained view – based on how those now managing people were once trained in the past."

Nevertheless, others have suggested a world of largely remote working may also make for less effective inductions and ongoing knowledge-sharing. But three-quarters (74%) of leaders say that any policy



"The idea that you need to sit next to people to learn effectively may be an ingrained view – based on how those now managing people were once trained in the past."

Peter Haden, CEO
Fletchers

they have is the same for everybody working at the firm (p20) – only dropping to two-thirds (65%) in the case of smaller-revenue firms. Just 16% indicate there can be significantly different expectations of the hybrid blend for those early in their careers, and a similar minority identify at least some difference in requirements for different business functions or types of legal work.

Taylor Rose MW has a general policy of up to three days a week working from home, with management sign-off. However, says Jaggard: "This is driven by whether a role is suitable, alongside some designated homeworking roles, as well as longer-term considerations such as succession planning and knowledge transfer." The firm's more flexible consultant lawyers can also have 100 days in an office.

Edginton concludes: "It's hard for a large diverse firm to have a one-size-fits-all solution. People need flexibility depending on their roles and priorities at different points in time. We aim to give everyone access to this flexibility. All have the same options, so our policy focuses on principles and guidance, while empowering local decision-making that works for our clients, our teams and our people."

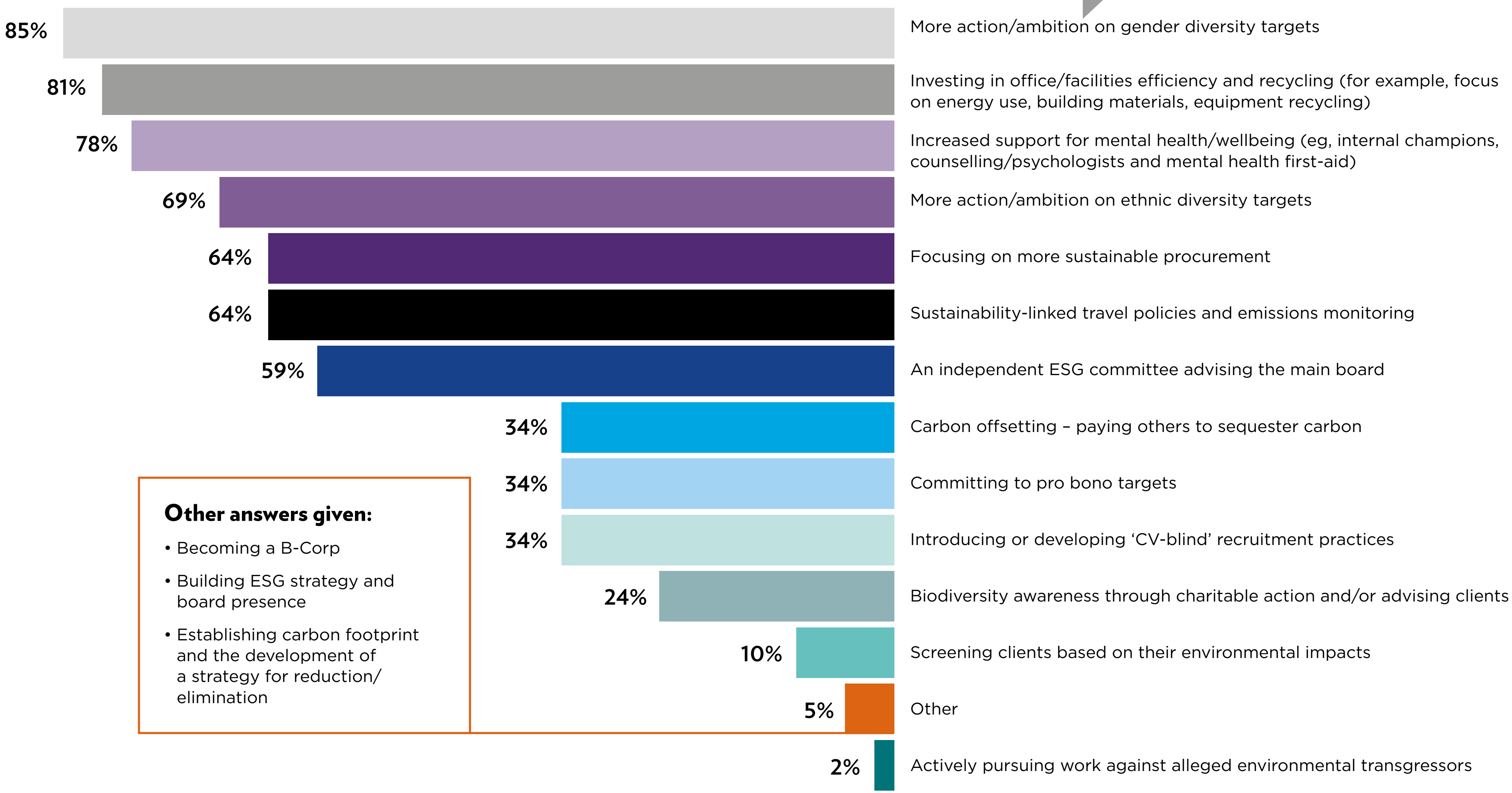
More firms commit to environmental, social and governance action

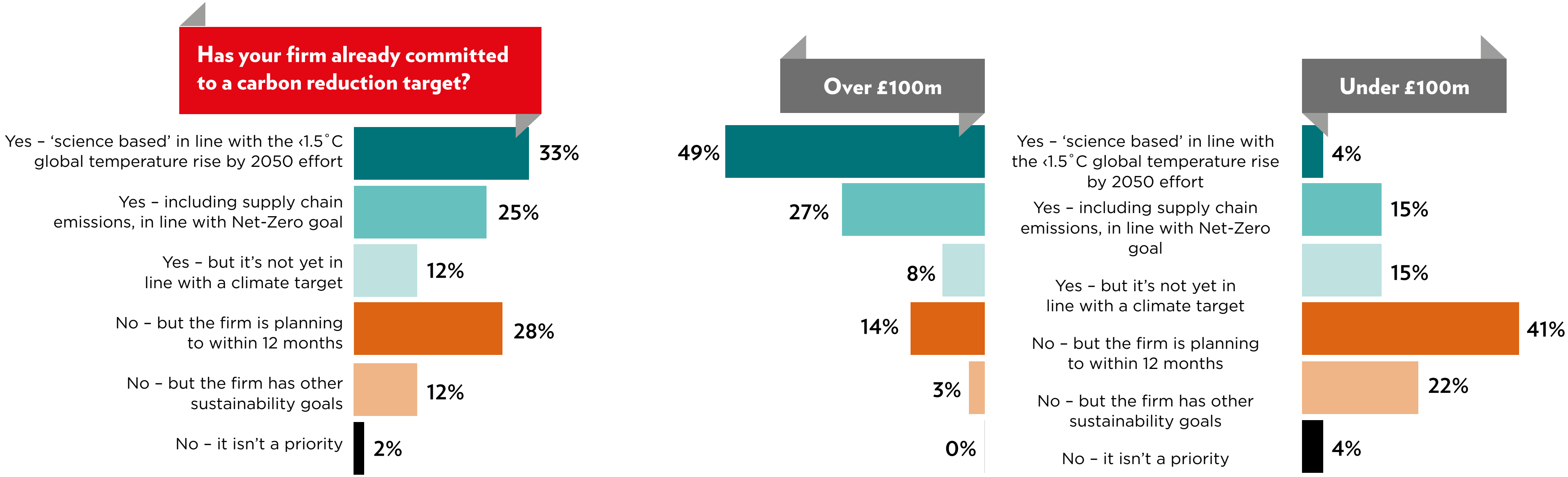
One quarter of firms have now committed to a 'Net Zero' emissions target, one third already have specific ESG key performance indicators and 59% have an independent ESG committee in place

In a year that saw the temperature in the UK exceed 40°C for the first time, this research once again asked law firm leaders about the specific actions their firms are taking to position themselves as responsible businesses – making changes under the umbrella of environmental/social/governance (ESG). A number of firms have already recruited new leadership roles to oversee progress and ensure accountability in an area of management and decision-making which is increasingly linked to reputation – among current and prospective employees as much as the wider business world.

Leaders indicate their firms are most likely to be reviewing targets and the surrounding processes for improving gender diversity specifically (85%). As an example, in July 2022, 32 law firms joined a range of other businesses in signing up to a new UK Model Diversity Survey (UK MDS) to establish an industry-standard way of providing diversity data to clients – including intersectional data (for gender and ethnic origin) for the first time. And although mental health has dropped down 2022's list of organisational challenges of most reported concern (cited by just 16% of leaders – perhaps as other priorities have risen) 78% say they're

Which of these actions is your firm taking to move the dial on internal ESG (environmental, social, governance) objectives? (Choose all that apply)



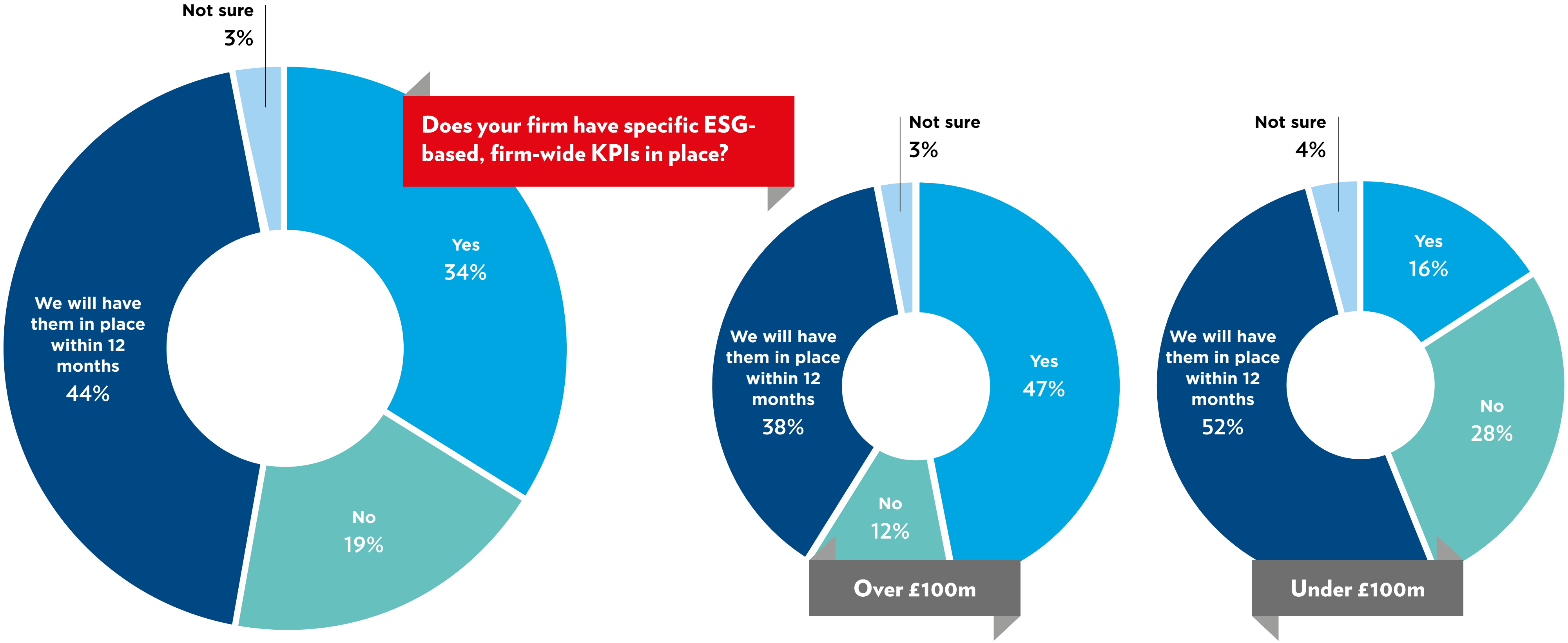


now investing in more support for workforce wellbeing (p23). Tim Nash, CEO at Edwin Coe, says: "We've run a number of people surveys during the pandemic to gauge attitudes, and found they are increasingly alert to progress on gender and ethnic diversity, to equal opportunity, and support for more disadvantaged groups."

In terms of environmental sustainability, the most likely area for action continues to be office design/refurbishing choices and procurement practice (81%) – with almost two-thirds (64%) also now linking their post-pandemic business-travel policies to carbon footprint monitoring.

Substantiating the need for more accountability or coordination, almost three-fifths (59%) of leaders say their firms have established an independent ESG committee – an increase from one third who said they'd done this in 2021. And one third will carbon-offset to reduce their footprints (up from one quarter in 2021). Although firms remain very unlikely to actively pursue work against "alleged environmental transgressors", one in 10 will now screen potential clients in terms of climate impact, say leaders.

In addition, there is steady growth in the number of firms committing to one of two carbon-reduction targets (p24) – either in line with the UN goal of keeping global temperature rises to less than 1.5°C above pre-industrial levels by 2050 (33%), or in pursuit of Net-Zero by also factoring in emissions generated throughout the legal services supply chain (25%). The 'Net-Zero standard' requires businesses to make deep emissions cuts across the value chain by 2050, under three scopes – their internal processes, heating and electricity use, and the impact of suppliers and users of their services. In 2021, several UK firms joined forces to form a 'Net Zero Lawyers Alliance' – collaborating, but also committing to



> "Setting ambitious targets and reporting back at group board level ensures joined-up thinking and most senior accountability. But the best ideas come from everyone."

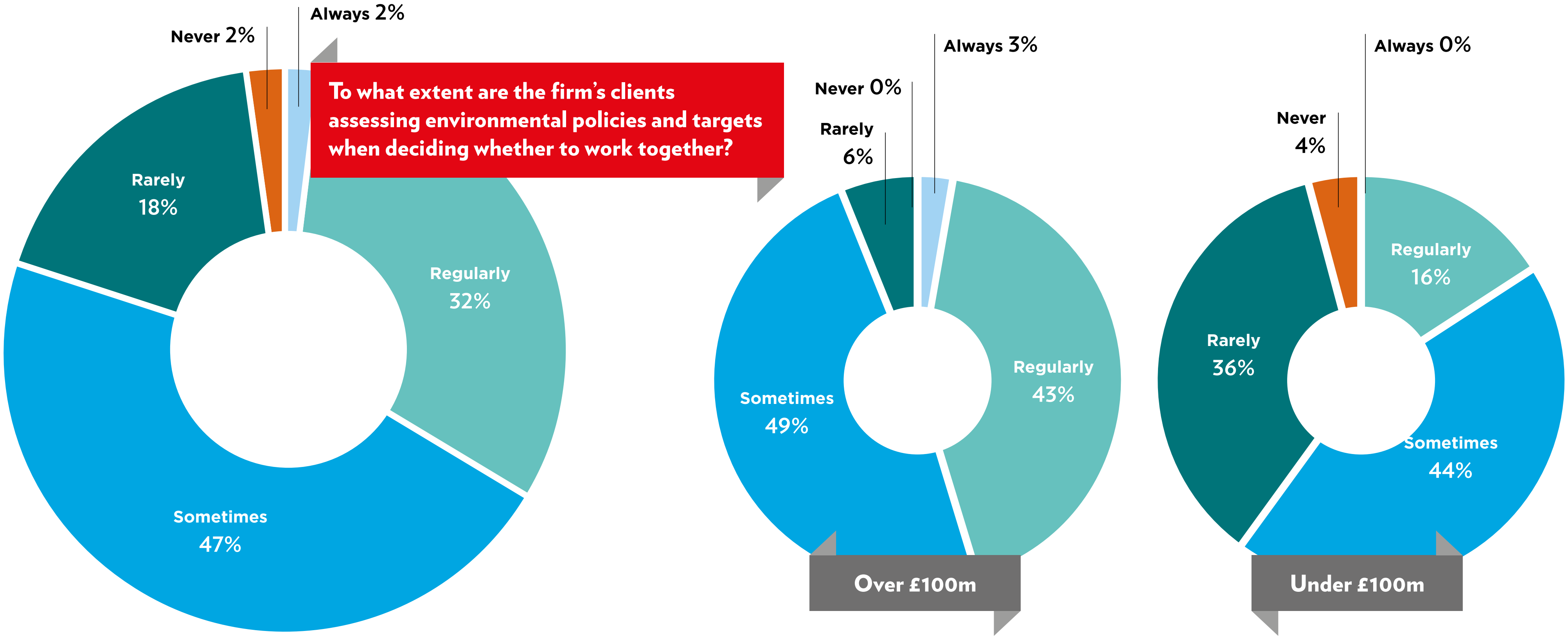
Sarah Walker-Smith, CEO
Shakespeare Martineau

reduce their individual operational emissions by at least 50% on 2019 levels by 2030 and to establish pro bono targets and training.

It has to be said that firms with annual revenues of £100m+ are much more likely to have such a target in place – but almost one fifth (19%) of leaders at smaller firms also expect to have adopted at least one of them by this time next year. More than a third (34%) of leaders also say their firms measure performance with reference to other ESG-based key performance indicators in place (p25) – as clients, of larger firms in particular, maintain pressure including through buying decisions (p26).

Tim Nash says Edwin Coe's clients aren't pushing it to do more. However, the firm's in the process of applying to be certified as a 'B Corp' in any case – recognition that a business is already meeting certain standards for social and environmental impact. He says: "As well as formalising the many activities we undertake already, this can unlock insight into areas we could enhance. We already measure, but are now improving the monitoring of the tiers of emissions."

Ampa is also B-Corp-pending. CEO Sarah Walker-Smith says: "Setting ambitious targets and reporting back at group board level ensures joined-up thinking and most



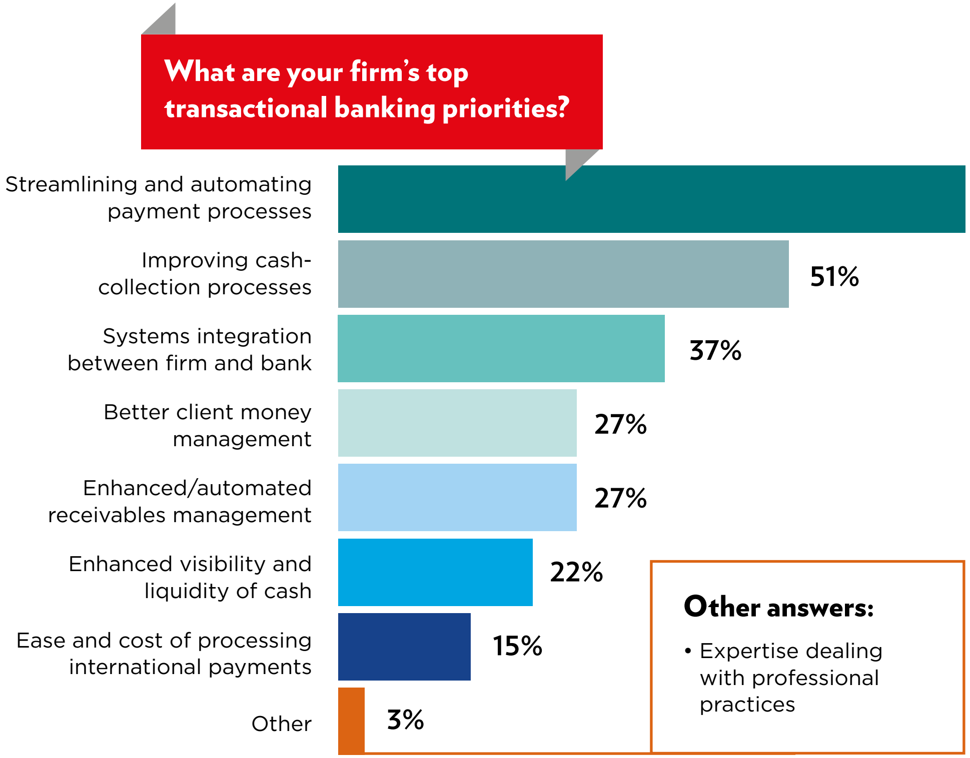
senior accountability. But the best ideas come from everyone, so creation and empowerment of 'green champions' is how we drive the innovation and activity. We've also had our paid summer interns report back on how they see things, which highlighted some blind spots."

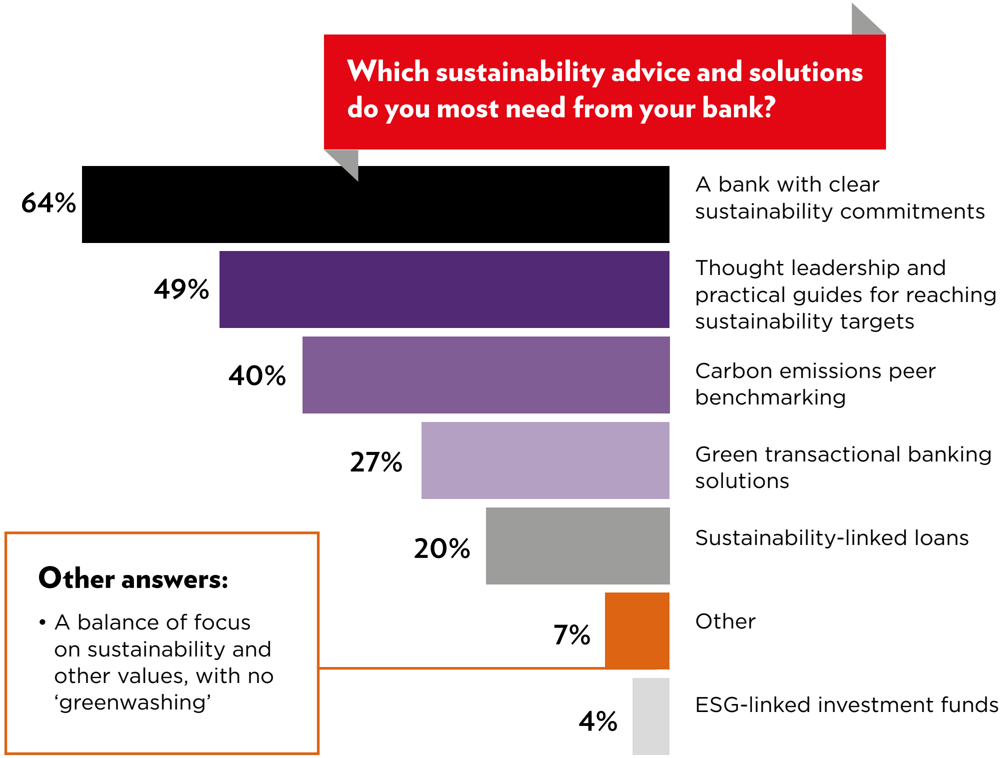
Gowling WLG has opted for Net-Zero as one of six core goals – others including zero avoidable waste – by 2030. "Flight-booking at the firm now includes, for example, the carbon impact of each journey and how it can be offset; facilities choices prioritise the opportunity to reuse or recycle where possible," says Edginton.

"Carbon impact must be managed throughout the supply chain. The board is reviewing a refresh of targets, and we adopt new reporting standards early to ensure maximum transparency."

And as ESG as an aspect of business evolves, more leaders now say they need a banking partner with clear sustainability commitments of their own (64%) – with twice as many as in 2021 also valuing the opportunity to benchmark emissions-reduction performance against peers (40%). In addition, there's evidence of growing demand for financial products tied to these efforts. One fifth express interest in sustainability-linked loans, for example (p27) – an increase from just 6% that signalled this in 2021.

Against a backdrop of political turbulence and businesses transformation, one thing that has not changed for leaders is their firms' top three transactional banking priorities (p27) – streamlining payments (71%), improving cash collection (51%) and the effectiveness of firm/bank systems integration (37%) continue to dominate. As wider economic challenges spread, pressures on these levers of efficient financial





management – and ultimately profitability – are also unlikely to lift.

Nash at Edwin Coe concludes: "Scenario-planning against changing variables was crucial when adapting business in the pandemic, and that focus on profitability and commerciality really must now remain – everything leads back to it." Transaction management itself can be further digitalised to support this goal in what is a highly regulated sector, he adds. "More steps and decisions can be automated and built into the process – a clear direction of travel for future investment."

Contact HSBC to discuss further:

Head of professional services, HSBC UK
Chloe Clift
M +44 (0) 7920 417856
chloe.clift@hsbc.com

Associate, professional services, HSBC UK
Allon Eveleigh
M +44 (0) 7384 795064
allon.v.eveleigh@hsbc.com

"The legal sector has shown itself to be extremely resilient during a challenging 18-24 months. Law firms are continuing to face pressures, such as the shortage of talent, rising costs and regulatory changes that require strategic decision-making and leadership. In an increasingly competitive employee environment our clients are rightly placing focus on their sustainability agendas from both an environmental and a people perspective, and we're confident that firms will continue to navigate the turbulent macroeconomic environment successfully.

HSBC UK's strong market penetration demonstrates that we understand your business and are well-equipped to support you with your domestic and international growth aspirations."

Stuart Tait
Head of Commercial Banking
HSBC UK

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