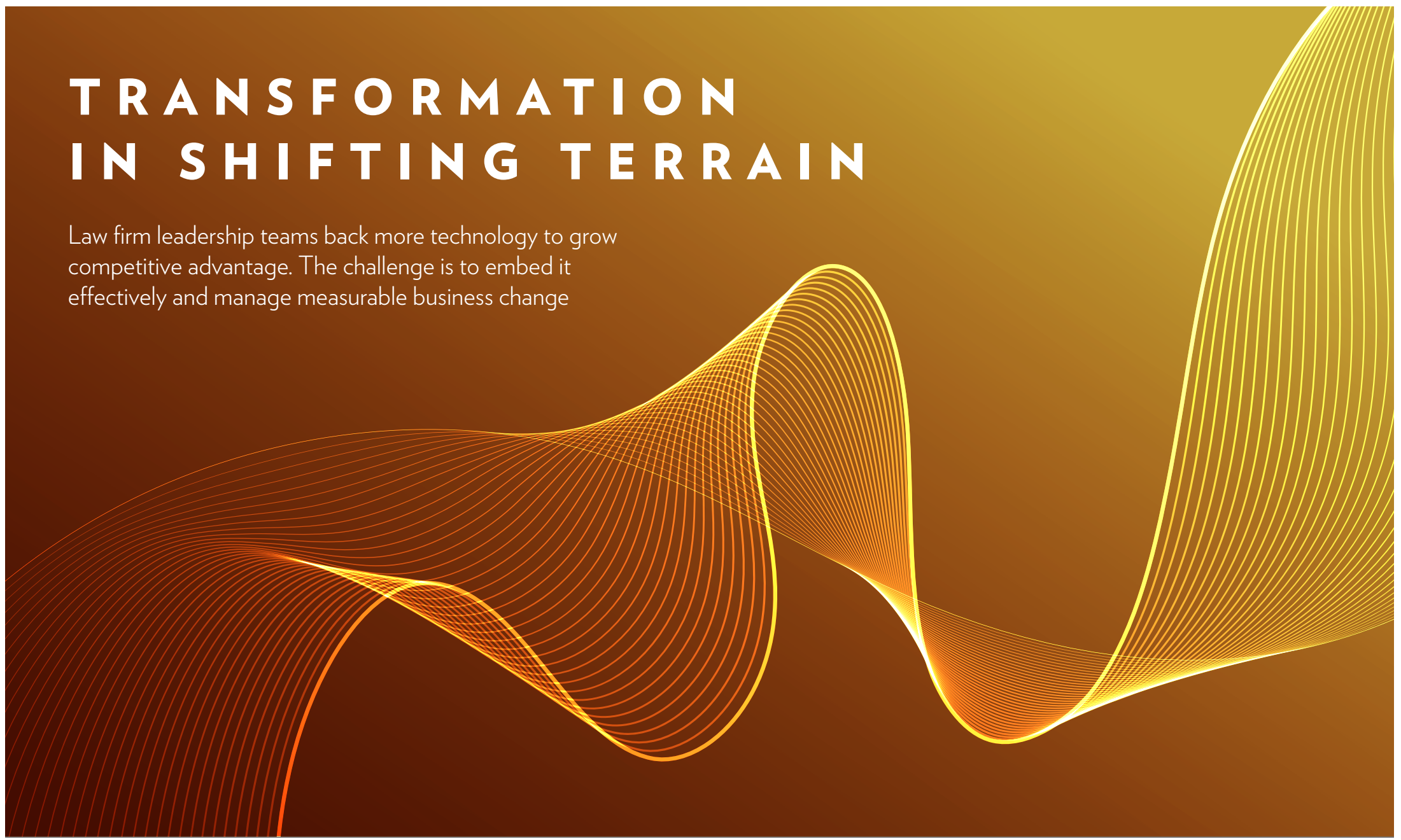


TRANSFORMATION IN SHIFTING TERRAIN

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The year for AI opportunity to be effectively integrated

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e are extremely pleased to introduce the **HSBC UK** law firm strategy and investment research for 2026 — the seventh consecutive year HSBC has partnered with the specialist legal business management publication **Briefing** to survey the market and mine fascinating insights into how firms are adapting to multiple pressures and prioritising their next strategic moves, according to their business leaders. The survey — carried out right across the summer — attracted over 100 responses to questions about growth plans, myriad competitive and organisational opportunities for change, and where leaders believe they need to invest in key areas of operational improvement to maintain momentum in all the right directions. All survey questions are answered by one of a firm's most senior strategic decision-makers, such as the managing partner, CEO, chief financial officer, chief operating officer or innovation leader, exploring when and how to move as rapidly changing technology capability opens up huge opportunities for both personal productivity and client service improvement. Effectively covering all the corners of potential 'smarter legal business management' across firm functions, **Briefing** is as attuned as the team at HSBC to the idea that the experts in all these areas of responsibility must collaborate highly effectively to deliver the agreed firm-wide vision of the future and witness the best results however they choose to grow.

Without giving too much away here on the report's very first page — read on for both the high-level findings

and illuminating commentary on what they most mean to some of those individuals sharing their positions — there are plenty of intriguing points that might give pause this year. And right at the top has to be how your firms are reacting to the surging power of AI today. Almost every firm we hear from now has a generative artificial intelligence (genAI) strategy of some description, and it appears this will move into ever more areas of management, perhaps even via agentic workflows that offer the tech more autonomy under carefully controlled conditions. There is even a potential role for AI to play in modernising working capital management — providing a more timely, trusted, data-based foundation for effective client invoicing and collection in the service of improved lockup. On the other hand, AI also ranks very highly this year as an overarching business integration and human change management challenge — ensuring the significant cost outlay can be recouped with the right levels of sure-footed, secure adoption for the most promising tasks from a client growth, efficiency, knowledge value, profitability, or even creativity, perspective.

I look forward to discussing this year's full set of findings with many of you in more detail over the coming months and learning more about how your perspectives and priorities compare to the consensus.



VICTORIA RITCHIE
HEAD OF PROFESSIONAL AND
BUSINESS SERVICES
HSBC UK

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Law firm strategy and investment 2026-2027: Executive summary

A survey of over 100 C-level UK and global law firm management leaders finds strategic growth still in focus – but implementing investment in AI consistently and impact on commercial models with clients are major challenges of the moment

The results of this year's survey finds a UK legal market still focused on growth into 2027, but operating with more caution, prioritising tighter financial discipline and a sharper focus on technology-enabled change. Growth ambitions remain evident, particularly around UK expansion, targeted lateral hiring, sector focus and investment in operational transformation. However, confidence has weakened as the trajectories of high-cost and time-consuming genAI implementation join persistent talent pressures, geopolitical risk and macroeconomic uncertainty in challenging decision-making.

Growth goals are perhaps more selective: 15% of leaders now say some plans have been paused, up from only 8% at this point in 2025, but almost two-fifths (38%) still have an internationally-focused strategy (p7). UK-focused

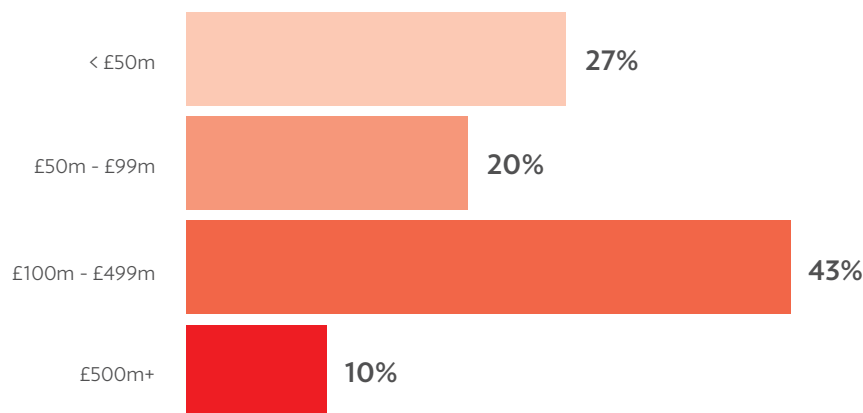
growth remains steadier (59%), supported by investment priorities: 94% place the UK among their top four regional focuses, while positions on North America and the Middle East have softened to 39% and 24% of leaders respectively (p8). Talent remains a leading constraint, still cited by 51%. Outlook uncertainty has also increased sharply, with 22% now feeling less than confident, compared with 6% a year earlier (p5). Even so, firms remain commercially ambitious: over half of leaders expect revenue growth (p11) of 6-10% (almost one third expect 11-15%), and more than half plan fee increases of 6-10% to match (p15).

Growth routes remain heavily people-led, with 87% expecting lateral hires in areas where the firm is already present and 58% in new geographies or specialisms. Sector focus is also a key strategic pillar, as 57% plan to expand or refine served sectors (p12).

Leaders believe funding for such moves (p13) is most likely to come from banks (88%), rather than private equity (11%), which is less likely to be seen as a more attractive prospect than last year (p17). On the other hand, 84% expect more mergers and acquisitions

73%
of leaders believe AI integration around the firm poses a major management challenge

Research responses from strategic firm leaders by firm revenue banding



across the market over the next 12 months (p16).

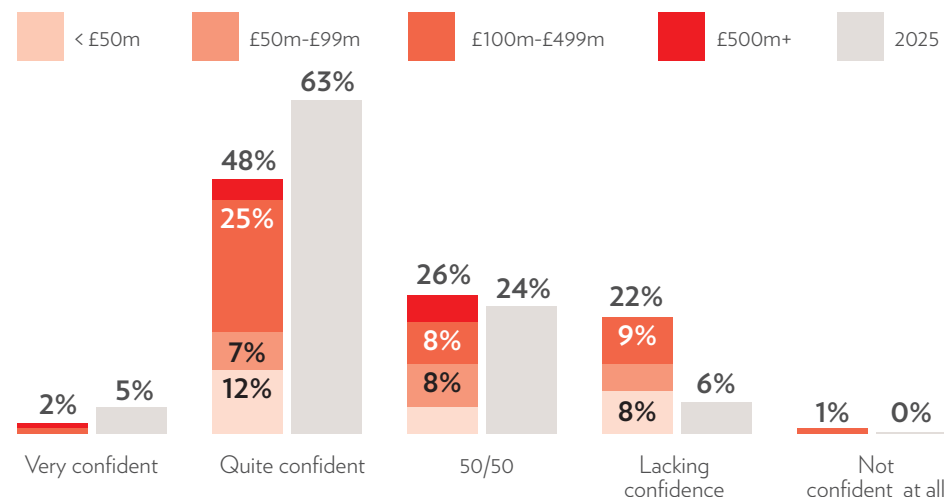
However, the more disruptive forces are clearly perceived to be others' plans for technology and clients' behaviour connected to it. Almost three-quarters identify greater use of technology in legal delivery as a key potential disruptor, and 60% point to clients bringing more work in-house (p18).

Return on technology investment is also a live question. Effective AI integration is the most cited organisational challenge (73%) but spending on this among other systems continues to rise, with just 2% reporting spending less, and a consistent average technology-related

spend of 6.1% of annual revenue figures (p21). Only one in 10 is 'very confident' in the value from all recent IT investments (p21) and 27% believe ROI is still a barrier to going further with genAI (p24). Other key barriers to faster genAI progress include opportunity cost and market-scanning time (37%), implementation workload across legacy systems and data (33%), and cost (29%). Pricing effects also remain limited: just over one third say AI is changing how their firms price 'to an extent', and only

How confident are you in the overall market/business outlook as you expect it to impact the firm's current financial year?

Trend of an increasingly uncertain outlook persists in 2026, with just half of strategy leaders now expressing confidence on balance



50%
of leaders are very or quite confident in the macro view, but one fifth now lack confidence

7% say clients regularly challenge cost or value when it is used (p25).

With working capital under more pressure for half (p29), leaders also look to AI to streamline areas of financial process, such as billing and lockup management – but the overall future direction of fees is unclear (p27). Demand for fixed and 'hybrid' varieties appears to be rising, but hours may have bounced back as a metric, while 'value'-focused pricing is only viewed as more in demand by under a fifth (16%).

01

Momentum behind measured strategic growth, as forces of technology add to turbulence

Only one fifth of leaders now see barriers to international growth plans, but channelling investment at home is a challenge as uncertainty becomes the new business norm

In a first for our legal market research into pressures and priorities facing strategic leaders of UK law firms over the last six years, in 2026 over one in 10 (15%) say their organisations effectively have some future growth plans on hold (just 8% in 2024) – which could perhaps be a sign of an ever more volatile geopolitical environment through which to steer any business strategy. Correspondingly, fewer than two-fifths (38%) now indicate there is an international growth

strategy specifically (45% in 2025), while the proportion focused on building presence by various means within the UK alone holds steady at 59%. It's unsurprising that firms with larger revenues are more likely still to have global growth on the agenda (p7).

The trend is borne out by the breakdown in terms of priorities for investment over the next three years by region, with 94% again placing the UK among their top four focuses. There are relatively small but possibly significant drops,

however — albeit only to 2024 levels of interest — in the show of intention with respect to North America (39%) and the Middle East region (24%) in a year much overshadowed by uncertainty about the duration and ultimate economic impact of the US/Iran war (p8). There is little movement in the relative position of other key regions from a strategic perspective (Europe and southeast Asia), with fewer focused as heavily on a footprint in Ireland. On the other hand, only a handful highlight any regions where growth appears to be in ‘significant’ decline overall. Just a quarter of leaders in this group identify China and almost a fifth other parts of Asia. One quarter at (smaller) firms also point to a challenging climate in the UK. Fewer report experiencing a drop in activity across the Middle East in fact.

It’s also striking that in 2026 less than a quarter (22%) of responding leaders say the firm has considered building an international footprint but ultimately been discouraged by any perceived barriers (p9). This has fallen from over a third (36%) in the equivalent research period in 2025.

Andrew Edginton, chief financial officer at Gowling WLG, says: “We are still somewhat weighted towards the Middle East remaining a relatively attractive growth opportunity. The conflict in Iran is likely to inform business leaders’ thinking. Our assessment is based on a

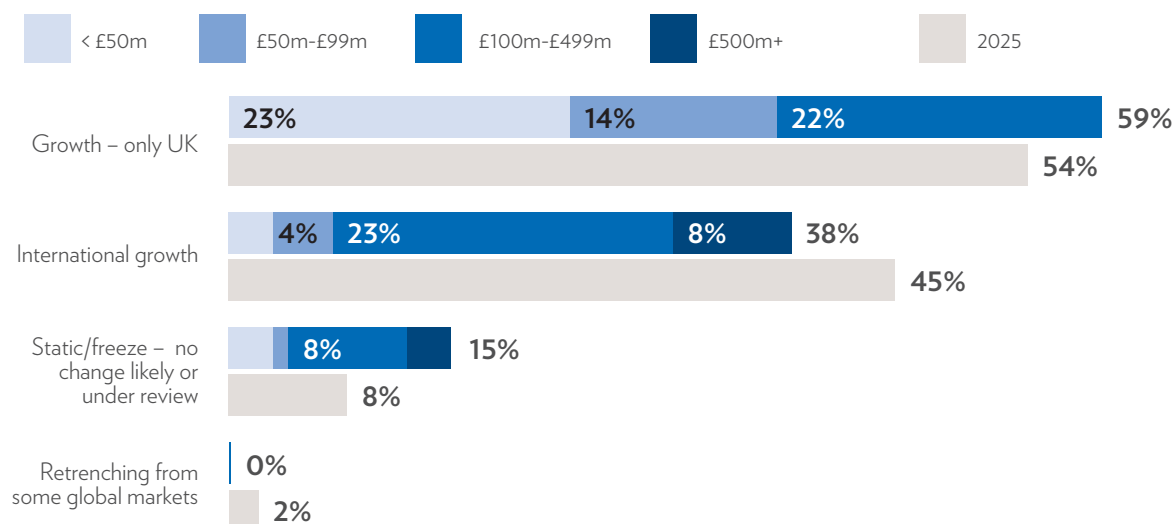
relatively swift resolution and return to a more settled economy.

“Barriers to expansion have not particularly changed – for the better or for worse. They are largely around meeting regulatory compliance requirements, especially in jurisdictions that are still developing and where legislation tends to change more frequently, such as in Saudi Arabia.”

In 2025 Gateley Legal opened an office in the Dubai International Financial Centre – a

What best describes the firm’s current geographic growth strategy?

Over one third of firms still see international growth into 2027, say leaders - but more seem prepared to press pause

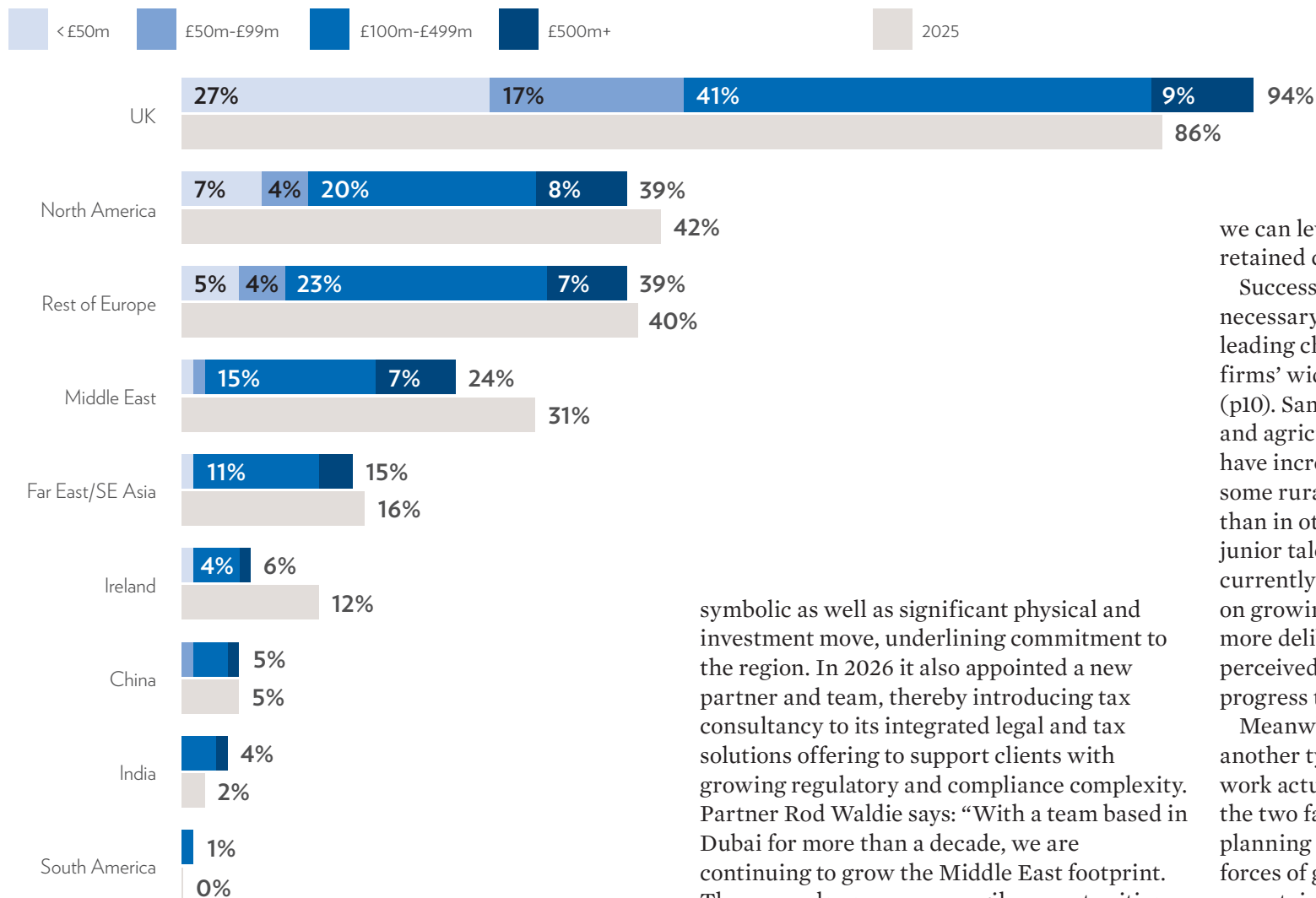


“In some rural areas it is more difficult to recruit than in others, particularly to attract more junior talent and trainees. Regions may grow to be perceived as more attractive as people hopefully progress their careers towards partnership.”

SAM ELKIN, FINANCE DIRECTOR, ROYTHORNES

Which regions or countries are you MOST focused on for your growth over the next three years? Choose four

A broad spread of firms anticipate growth across key regions, with the Middle East now less of a priority for larger firms



symbolic as well as significant physical and investment move, underlining commitment to the region. In 2026 it also appointed a new partner and team, thereby introducing tax consultancy to its integrated legal and tax solutions offering to support clients with growing regulatory and compliance complexity. Partner Rod Waldie says: “With a team based in Dubai for more than a decade, we are continuing to grow the Middle East footprint. There are also some more agile opportunities

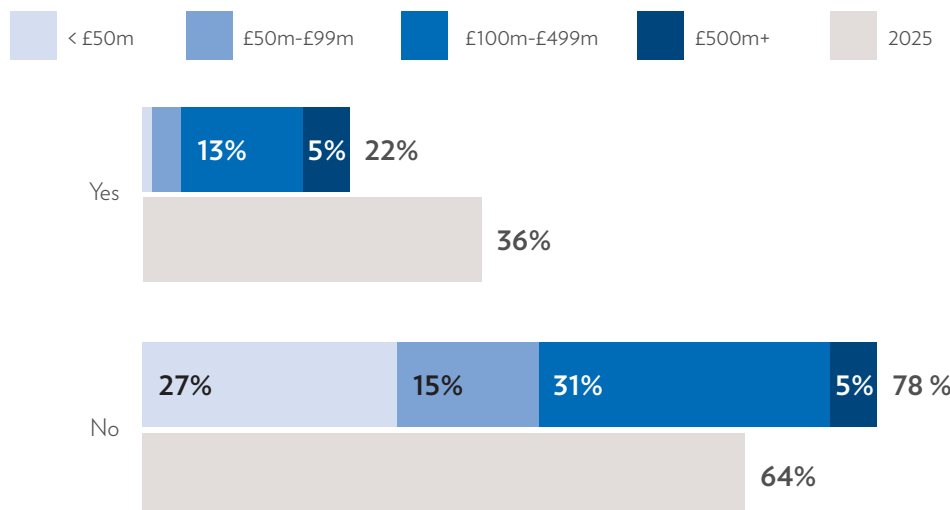
we can leverage in China and India through retained consultants in those regions.”

Successfully attracting and retaining the necessary talent clearly continues to be a leading challenge for many (51%), regardless of firms’ widely varying plans to land or expand (p10). Sam Elkin, finance director at Midlands and agriculture-focused Roythornes, says: “We have increased our geographic footprint, but in some rural areas it is more difficult to recruit than in others, particularly to attract more junior talent and trainees. Our city locations are currently smaller, and one idea is to try to focus on growing the younger demographic in those more deliberately. Other regions may grow to be perceived as more attractive as people hopefully progress their careers towards partnership.”

Meanwhile, attentions are also firmly on another type of terrain in terms of where legal work actually gets done today. Asked to identify the two factors most challenging growth planning among other key decision-making, the forces of geopolitical and macroeconomic uncertainty continue to be felt, but over two-

Has your firm considered growth internationally but later identified barriers to then pursuing it?

Barriers appear to be falling as only one fifth now report being put off plans



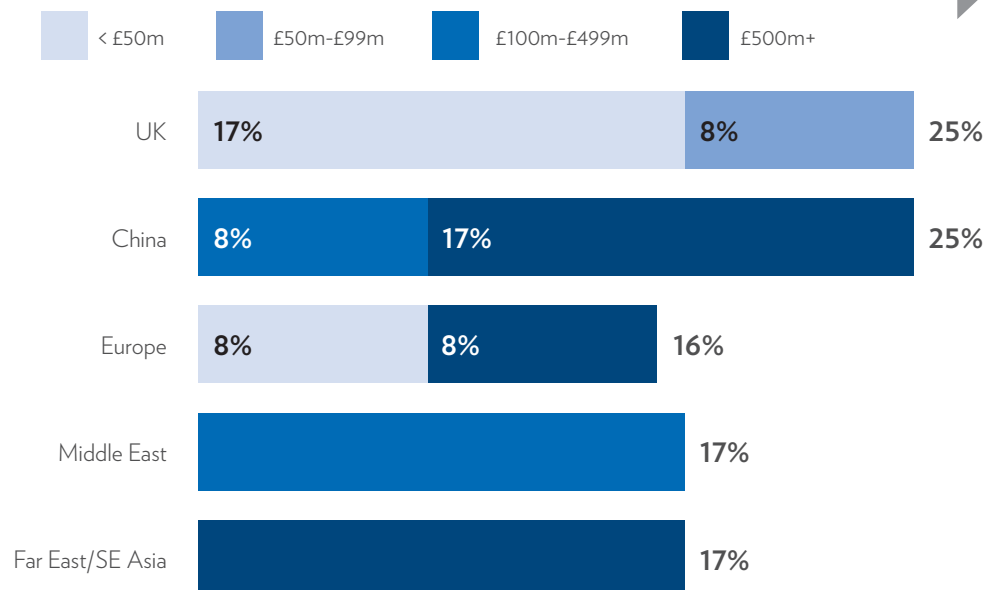
fifths are now wrestling with a very different dilemma: what a big fresh wave of potentially transformational technology will now mean for the business model of a law firm as pressure builds to see advantages of genAI investment to date strategically deployed and more deeply embedded, with the right levels both of adoption and oversight. An ecosystem is needed to direct individual actions as well as see AI securely built into the most appropriate workflows to unlock scale. Much work is

underway to manage this activity more thoughtfully, consistently where relevant, with positive client engagement, and of course ultimately as profitably as possible.

It's conceivable that all these looming factors have contributed to a striking shift in leaders' overall confidence levels — over a fifth (22%) now admitting to feeling markedly uncertain, compared to just 6% one year ago (p5).

Edginton continues: "Law firms have become very accustomed to working in environments of

Are there any regions where you see a significant decline in growth?

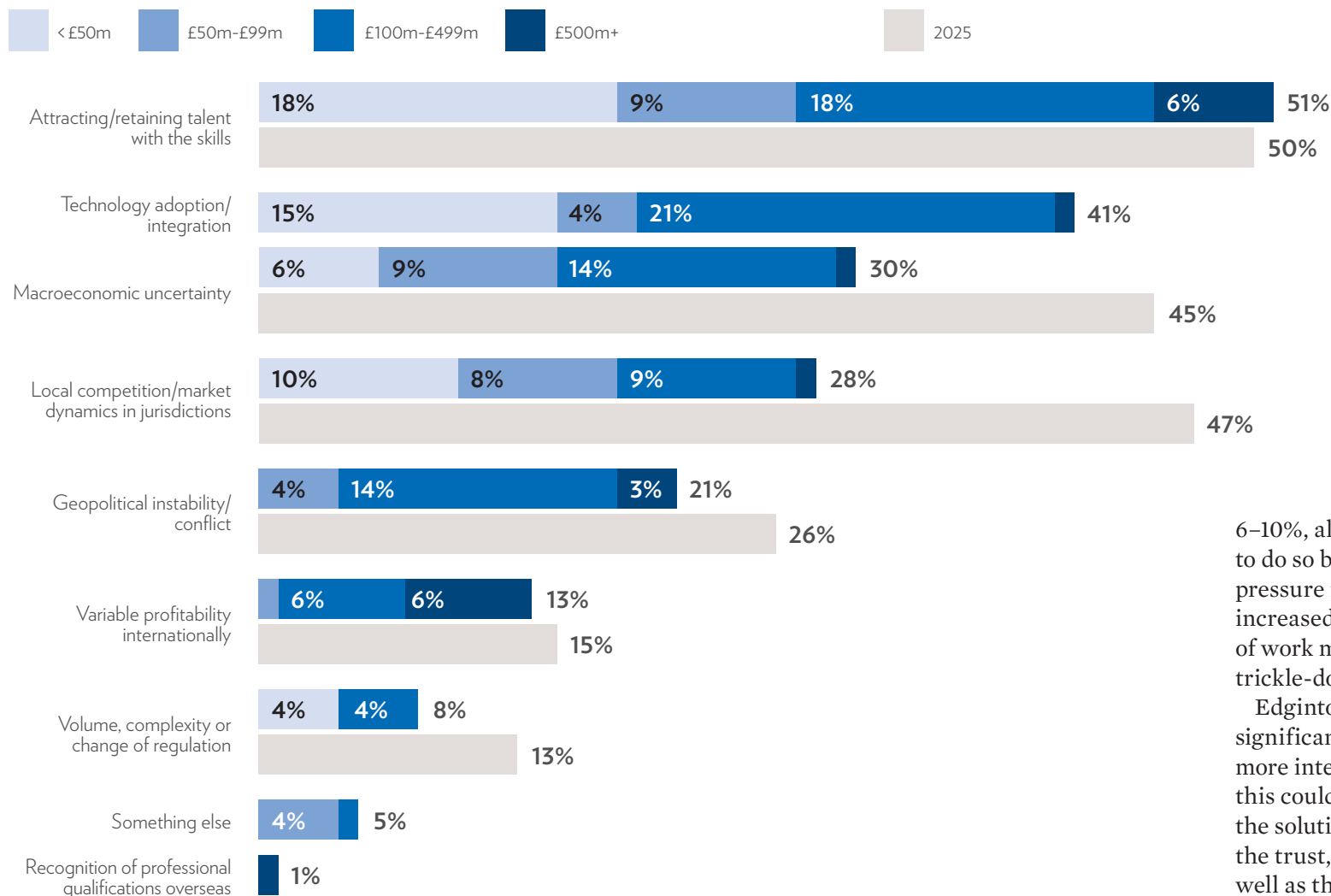


uncertainty – it's always expected and usually 'priced in'. You could say it's the only certainty, and we now spend more time on scenario analysis to try to model possible paths. We're aware, we monitor the changes, and build agile plans for business growth."

Responding to a new question in this year's research (p11), more than half of leaders (56%) also expect to see revenue growth of 6–10% (and almost a third 11–15%). Over half also plan to achieve this by increasing total client fees by

Which factors are MOST challenging your strategic growth planning and decision-making in 2026? Choose only two

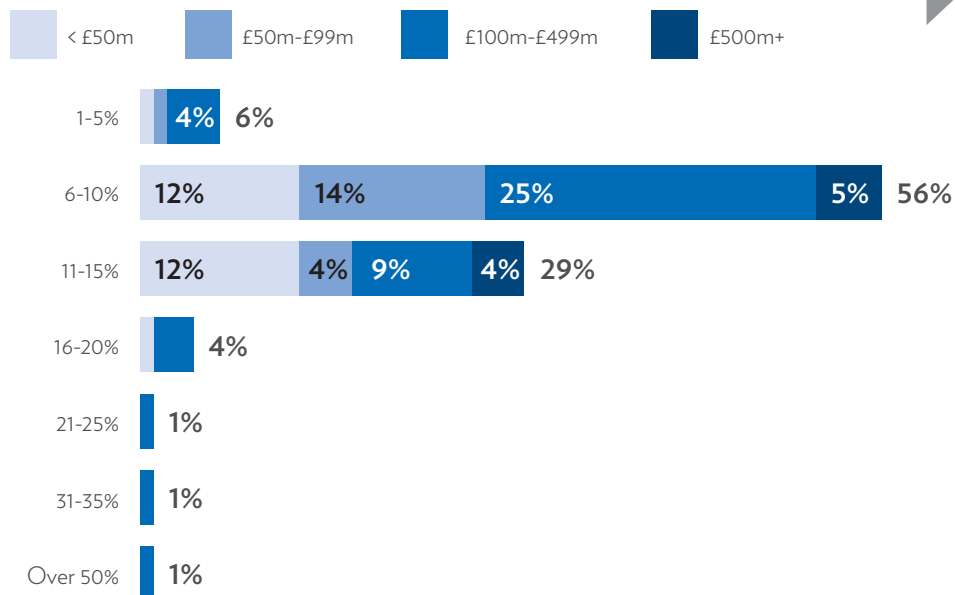
Leaders now view internal transformation and resourcing pressures as bigger challenges to change than external factors (eg, macroeconomic, geopolitical, competitive)



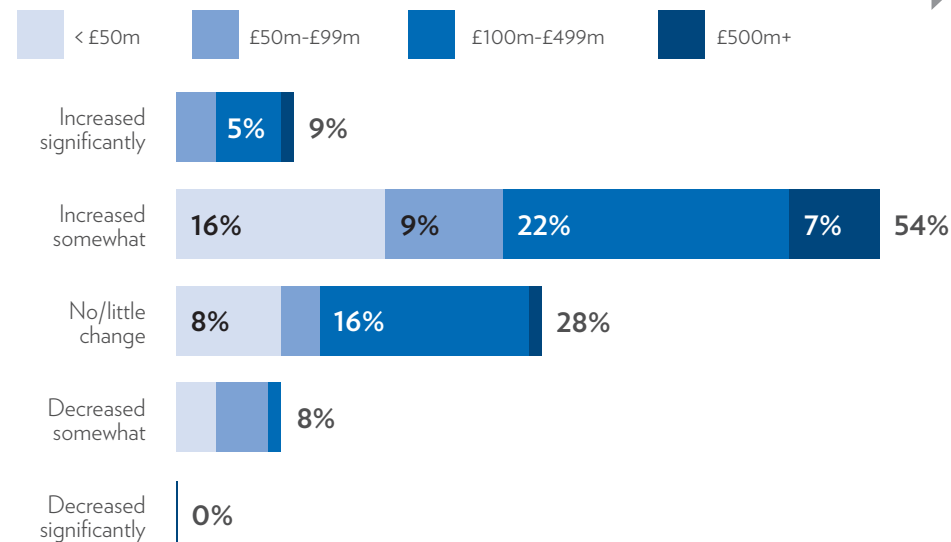
6–10%, although here almost a third only plan to do so by 1–5% (p15) — perhaps experiencing pressure from some for lower costs in light of increased technology (AI) use making elements of work more efficient and the expectation of a trickle-down impact.

Edginton says: “We’ve carried out some significant work exploring how as AI becomes a more integrated part of a firm’s operating model this could affect commercial approaches and the solutions we offer clients. There needs to be the trust, of course, and the client readiness as well as the commercial thinking. Some client

What's the firm's projected revenue growth for financial year 2026-2027?



How has cost pressure surrounding competition for lateral lawyer/team hires changed for the firm in the last 12 months?



challenge on price is appropriate. We work together to explore different options that turn on willingness to include using AI for different combinations of work. One possible scenario is that different, more AI-enabled services emerge at different price points and with different levels of PI cover in future.”

At the same time, clearly many will also be seeking to serve new and existing clients with deeper human expertise and relationships. Among potential pillars of a growth strategy for

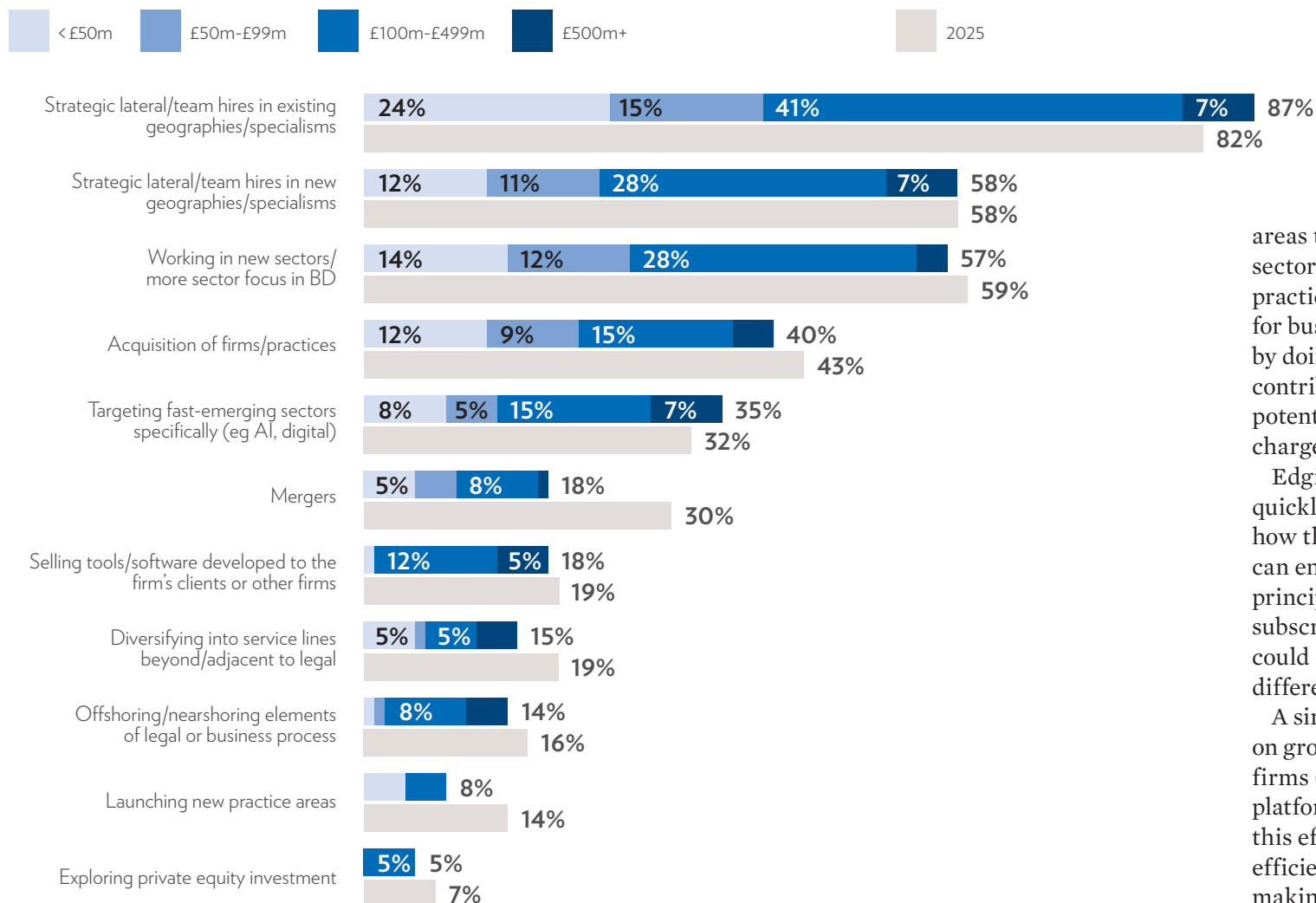
2027 (p12), lateral hires remain the most likely route leaders say their firms will pursue (87% in existing markets, 63% in new geographies or specialisms). Almost three-fifths (57%) still plan to expand or distil the spread of business sectors they serve, and more than a third (35%) still say they are specifically targeting opportunities in sectors such as AI development itself. Almost a third (31%) say they have also seen at least moderate growth in work connected to company ESG strategies, risks, regulation or

requirements. With a growing group of potential legal technology suppliers clamouring for attention, almost a fifth (18%) also still indicate firms are investing significantly in development of technology products of their own — an approach that, alongside meeting client need, could generate welcome revenue from other legal businesses turning to more delivery solutions (p12).

Jonny Lee, chief finance officer at Brodies, says: “We’re becoming more focused on certain

Which routes to growth will your firm actively be pursuing or expanding throughout 2026-2027? Choose all that apply

Leaders say firms remain most likely to see growth through lateral hires, and two-fifths will still seek acquisitions, but fewer than in 2025 now have merger on their mind



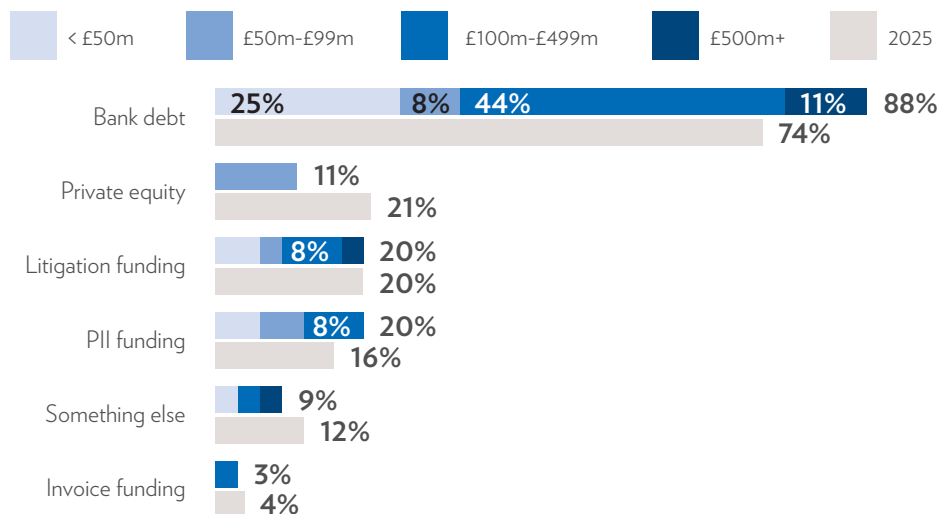
areas that are core with a targeted model of sectors that works well with the traditional practice lines – and we’re continually looking for business services to make us more efficient by doing more of the work where lawyers contribute less added value. That includes AI potentially being applied to more work that isn’t chargeable.”

Edginton adds: “It is worth watching how quickly firms’ technology products grow and how they decide to bring them to market. You can envisage a world where a firm has both its principal brand and others for more automated, subscription-style products – where clients could effectively go in different directions for different experiences.”

A similar proportion as in 2025 also have eyes on growth through the acquisition of compatible firms (40%) – including via new consolidator/platform models that potentially offer more of this efficient back-office organisational efficiency and consistent data-led decision-making across the member firms.

Is the firm considering any alternative funding for its growth plans?

More are turning to the bank to finance investments, while just over one in 10 are still considering private equity backing



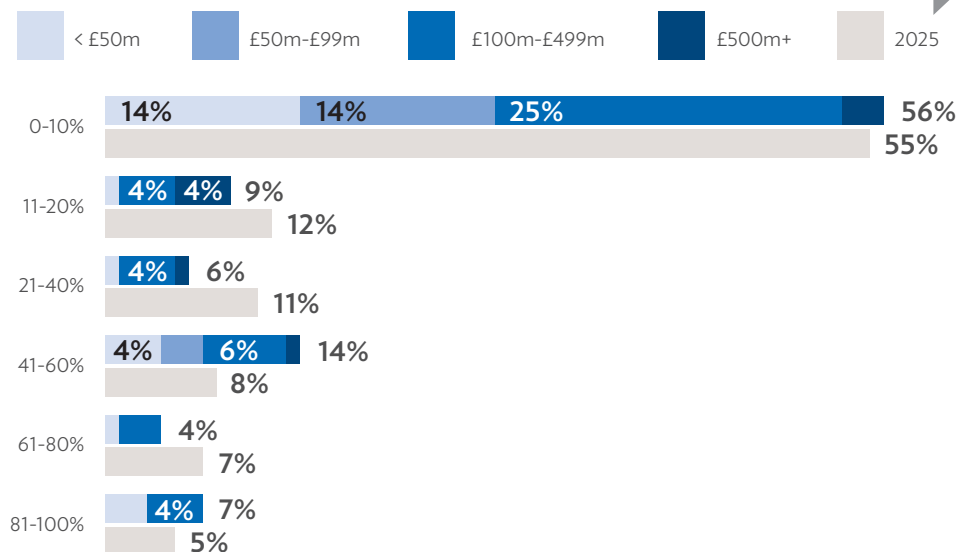
However, it seems ‘mergers of equals’ are believed to be less likely. Fewer than one fifth now identify them as a likely engine, compared to almost one third in 2025. Only 5% continue to say they are actively exploring private equity investment to power their growth and investment plans.

In 2025, Gateley acquired its 15th business since becoming the first law firm to list on the London Stock Exchange in 2015 – trademark attorney business Groom Wilkes & Wright.

Waldie says: “This joined two other IP firms as part of an acquisition and organic growth plan to extend the reach in patent and trademark work. They have all been rebranded as Gateley IP. The plan is now primarily focused on consolidation in consultancy and organic growth through targeted lateral and team hires.”

Elkin adds: “Focus on continuously improving what you have internally will often produce a much better result than a high-profile merger

Approximately what % of the firm’s total financing comes from external funding (eg private equity, bank or other third-party)?



– something that might boost the top line significantly overnight but can come with challenges for what you’re creating in cashflow and culture.”

It’s clear firms remain much more likely to be looking towards banks to help fund their growth (88%) than to either PE (11%) or litigation funding arrangements (20%) – but for almost two-thirds (65%) any external funding amounts to less than 20% of total financing. For one fifth this rises to 20–60% (above).

02

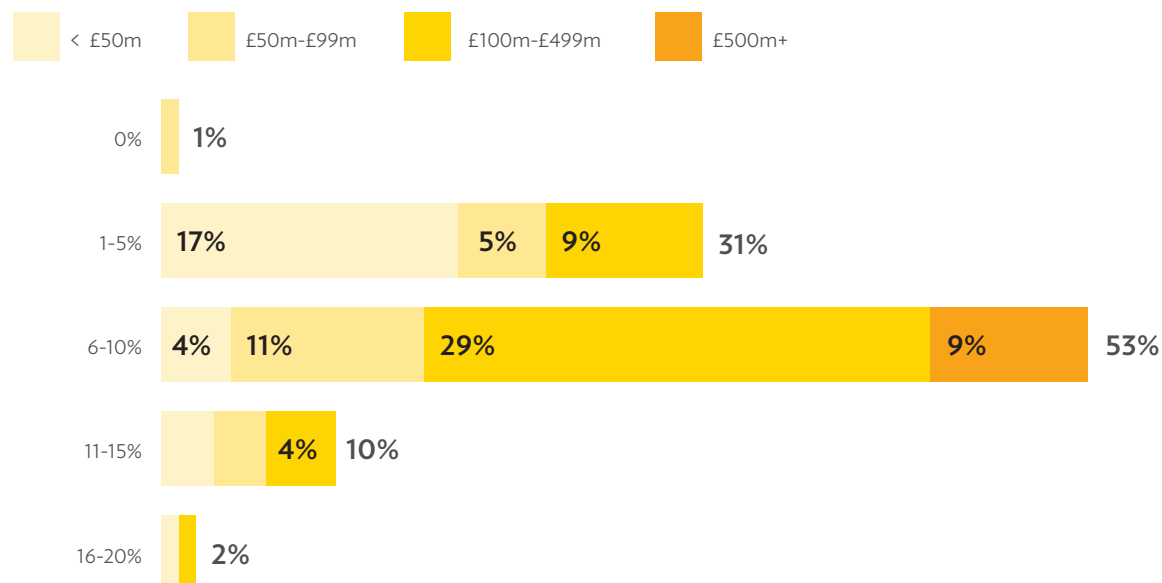
AI integration and client response loom heaviest in leader views of landscape

Most firms plan to increase total technology investment once again, but managing effective integration and the competitive effects appear cause for concern

However other factors define or shift strategic focus, there is a general view that what is widely regarded as a highly fragmented legal services landscape will keep consolidating as pressures to transform business operations and stay competitive only intensify. A consistent majority (84%) say they expect to see more mergers and acquisitions reach fruition through 2026–2027 (p16) — if not very significantly more than were sealed the previous year (9%).

Significantly fewer, however, anticipate little to no change on this front (11%). Another possibility for a firm is to attract some financial and scaling firepower with private equity investment. Deals with UK firms to date have concentrated at the mid-sized to smaller end of the market, where practices tend to comprise more revenue that is confidently repeatable and some are bolting acquisitions onto so-called ‘buy and build’ platforms to benefit from operational consistency and economies of scale. In our 2025

How much does the firm intend to increase its total client fees charged in 2026-2027?



research, almost a quarter of leaders said the prospect of working with PE was at least ‘more attractive’ than it had been in the two years prior – whereas in 2026 this trend appears to have reversed (p17). Just 6% of leaders can now say they see it as a more attractive route to growth than it was, with 17% describing it as less attractive (10% in 2025). For most respondents the obvious advantages of the limited liability partnership model – income tax paid on distributed profits, risk mitigation and more management flexibility – also continue to make this the favoured structure for the foreseeable future (81%), outweighing the outside and share ownership options of a limited company, although 8% now believe they are likely to be a Swiss Verein after 2030 (p16), sharing resources that serve a common identity but with separate finances and remuneration

arrangements to protect regional profitability. Waldie at Gateley says: “In an LLP structure partners need to agree on directions in a way that isn’t the case for a corporate. Our mission was always differentiation by making strategic acquisitions of highly complementary businesses, and specifically increasing revenue from consultancy services. Corporatisation was the best route to achieving it.

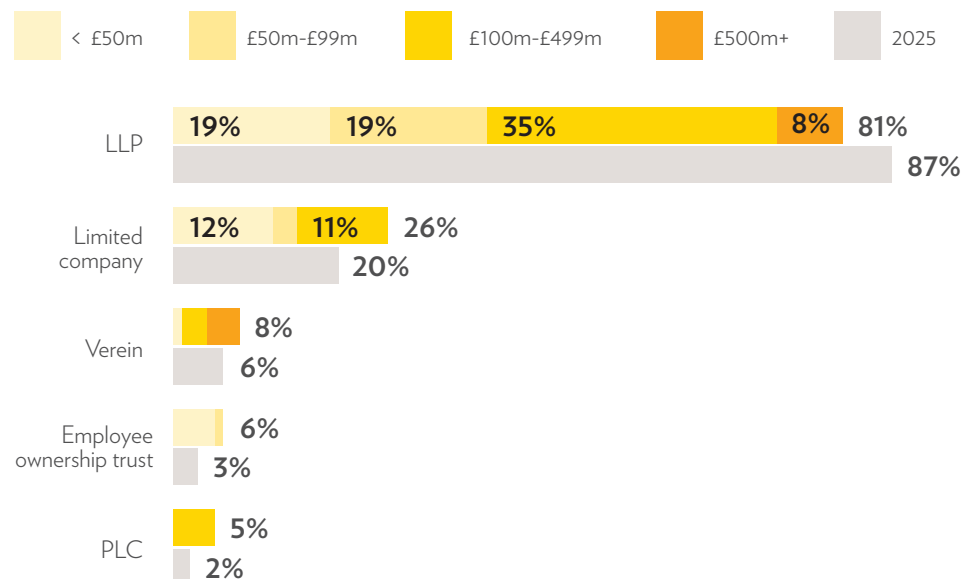
“Private equity investors have mostly seen opportunity in somewhat smaller firms with

“We’re becoming more focused on certain areas that are core with a targeted model of sectors that works well with the traditional practice lines – and we’re continually looking for business services to make us more efficient by doing more of the work where lawyers contribute less added value.”

JONNY LEE, CHIEF FINANCE OFFICER, BRODIES

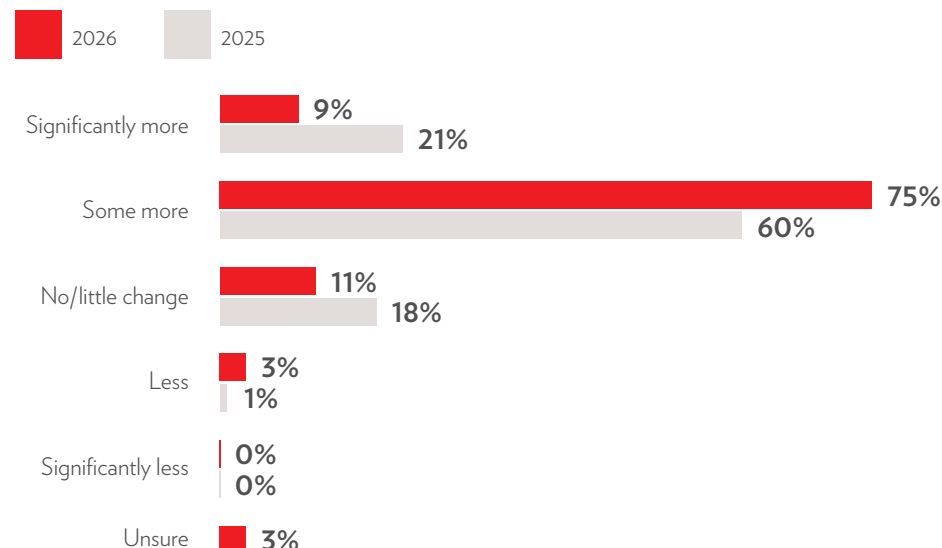
What ownership structure(s) are most likely for the firm after 2030?

The limited liability partnership continues to be the model most leaders expect to be operating in five years' time



How do you think the volume of mergers and acquisitions seen across the UK legal sector will change over the next 12 months?

More than four-fifths continue to expect more market consolidation, with fewer now foreseeing little change to the lay of the landscape



“There needs to be a strong strategic reason to take on the trade-off between funding and control, particularly for firms with a relatively strong balance sheet, no debt and good access to bank funding.”

ANDREW EDGINTON, CHIEF FINANCIAL OFFICER,
GOWLING WLG

more niche operations, or where there is a focus on building platforms. The investment cost of that could be a little higher than expected, leading to a more measured appetite this year.”

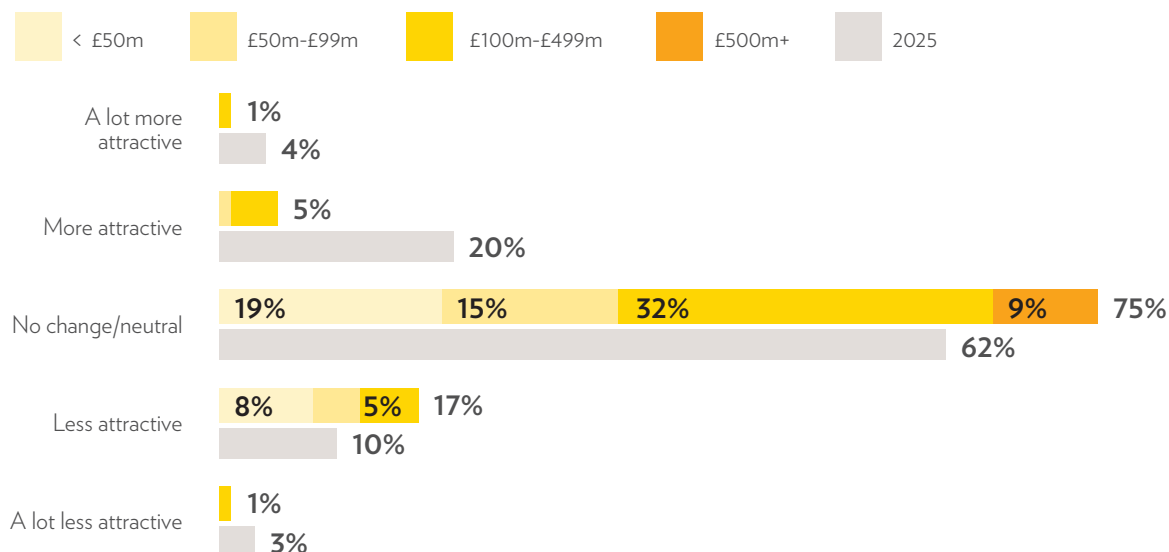
Edginton at Gowling WLG adds: “It’s likely that alternative funding, such as private equity, requires a change to how a firm is owned by the partners, for example – and the market is also yet to see how an exit from the latest deals will work. There needs to be a strong strategic reason to take on the trade-off between funding

and control, particularly for firms with a relatively strong balance sheet, no debt and good access to bank funding already when it’s required.”

David Beech, CEO at listed law firm Knights – which announced the acquisition of the commercial and private wealth business of the firm Moore Barlow in August 2026 – argues: “It’s possible that there is a disconnect materialising between two worlds – private capital’s need to leave money in for the long

How has your perception of private equity investment as a route to growth/transformation changed in the past two years?

Enthusiasm for external investment down – but more also suggest sense of opportunity PE presents for their firm has not changed



term and the partnership income model that wants to take it out.”

Even if significantly more strategically strong mergers do make their marks on this landscape, leaders don’t seem to share a view that this would lead to a particularly disruptive experience for their own firms’ positions (p18). Under one third point to this for firms at the smaller end of the market, and just 13% now see signs of it destabilising others at the top.

Likewise, competitors luring talented lateral hires (24%), expansion of US-originating firms in the UK (17%) or competitor firms diversifying with new service lines (9%) aren’t considered major pressures or problems.

Rather, there are two likely connected trends that clearly leap out from leaders’ combined views about the most disruptive forces (p18). They are still seen in the greater application of

technologies, however funded, to delivery (73%), while at the same time there is a growing perception that clients/general counsel are deciding to resource more elements of work that would once have gone out to these firms internally (60%). GCs may even be using the likes of AI solutions that partner firms have themselves recommended or developed to meet their needs.

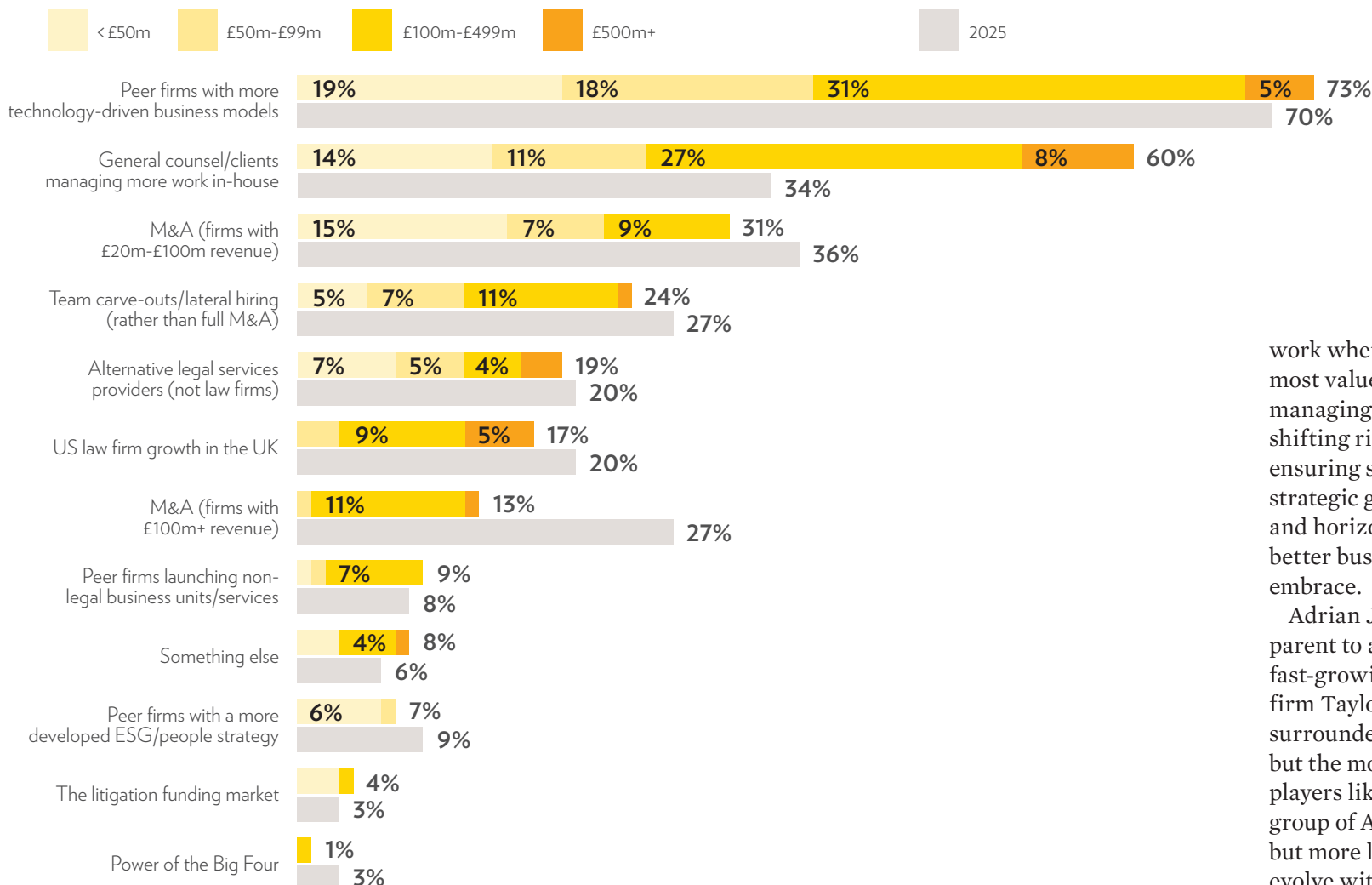
This finds firms more pressured to make the case for an ongoing relationship and regular

“It’s possible that there is a disconnect materialising between two worlds – private capital’s need to leave money in for the long term and the partnership income model that wants to take it out.”

DAVID BEECH, CEO, KNIGHTS

Which forces/drivers in the legal market present the **MOST** potential for disruption at your firm? Choose three

Many more leaders now see clients' reduced reliance on firms as a potentially disruptive market movement – significantly more than see this in any merger spree or scenario

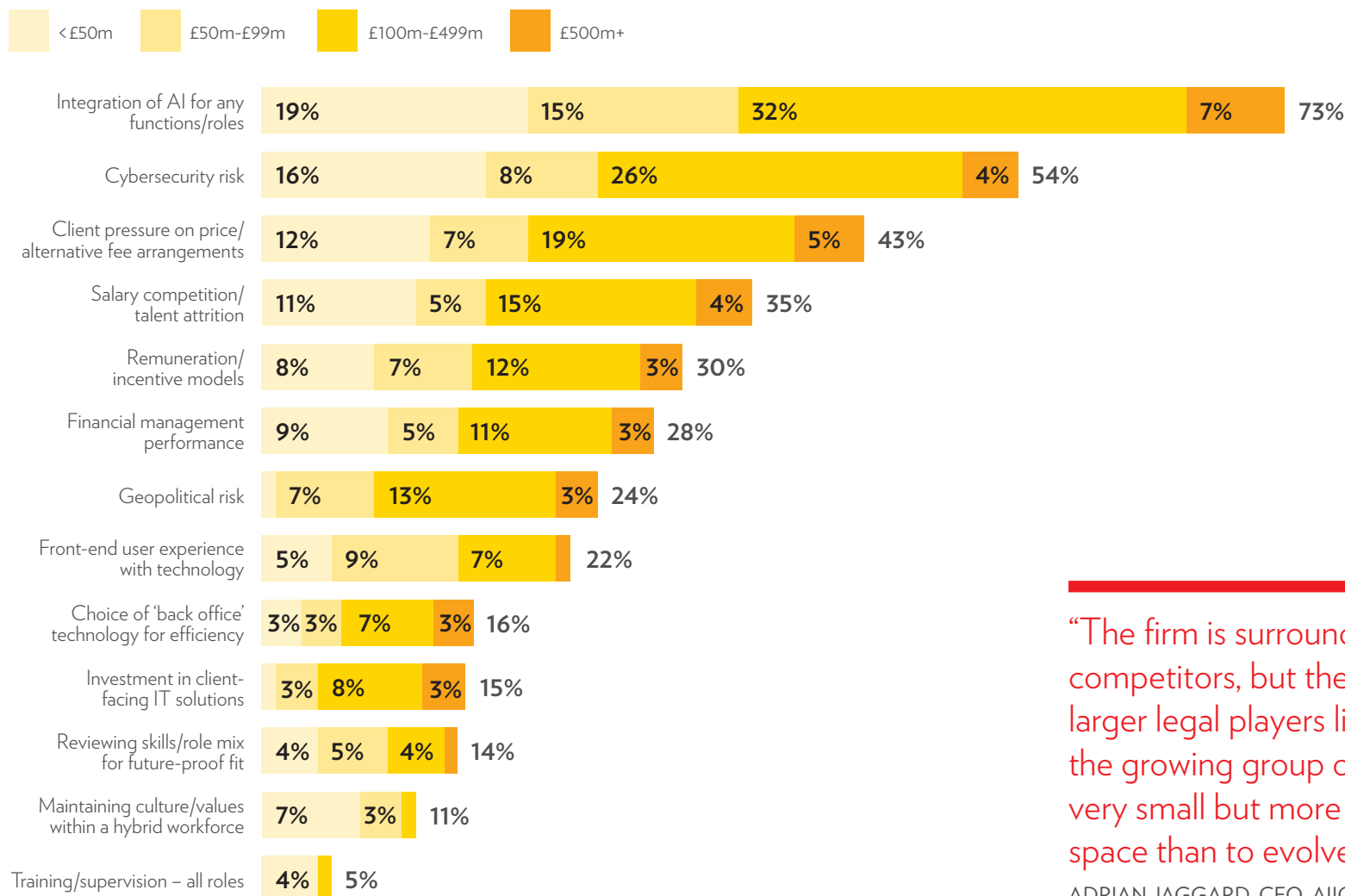


work where they believe they continue to add most value to a set of problems. This could lie in managing the greater complexity and sprawl of shifting risk profiles (covering more ground), ensuring strongest alignment to deliver strategic growth priorities, or harnessing data and horizon-scanning capability to identify better business opportunities their clients could embrace.

Adrian Jaggard, CEO at AIIC Group – the parent to a group of legal brands that include fast-growing hybrid-consultancy lawyer model firm Taylor Rose – observes: “The firm is surrounded by many high-quality competitors, but the most serious threat to larger legal players like ourselves may now be the growing group of AI-native businesses, often very small but more likely to revolutionise a space than to evolve with it.”

Which organisational challenges are the most concerning for firm management in 2026-2027? Choose up to four

Embedding appropriate use of AI technology is now leaders' top business-transformational challenge – followed by management of increasingly complex cybersecurity and client pressure to drop or change pricing



“The firm is surrounded by many high-quality competitors, but the most serious threat to larger legal players like ourselves may now be the growing group of AI-native businesses, often very small but more likely to revolutionise a space than to evolve with it.”

ADRIAN JAGGARD, CEO, AIIC GROUP

03

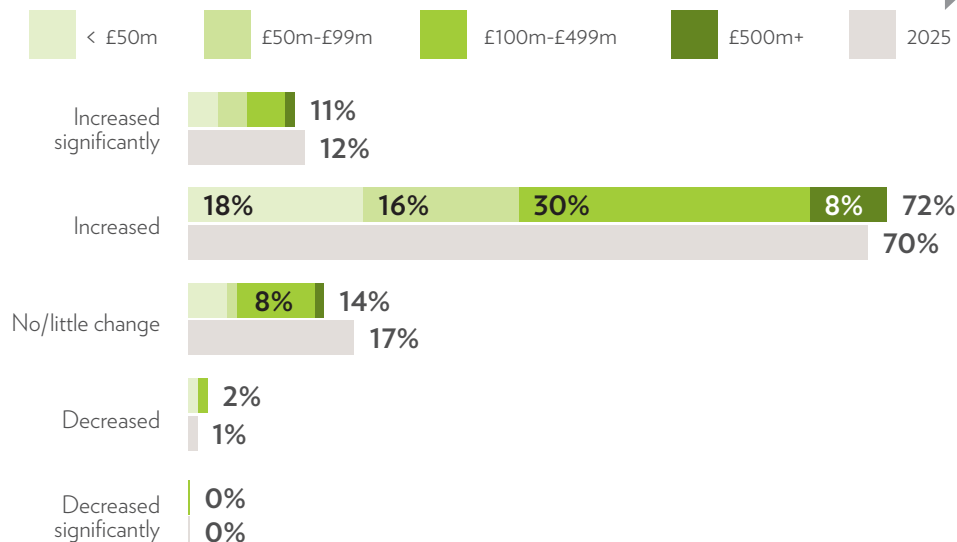
Tech investment powers ahead – but cost and benefit questions remain

Over four-fifths plan to increase total spend on IT solutions and capabilities again – maintaining an average level of 6% of a firm's annual revenue – but just one in 10 are 'very confident' in the value of previous implementations

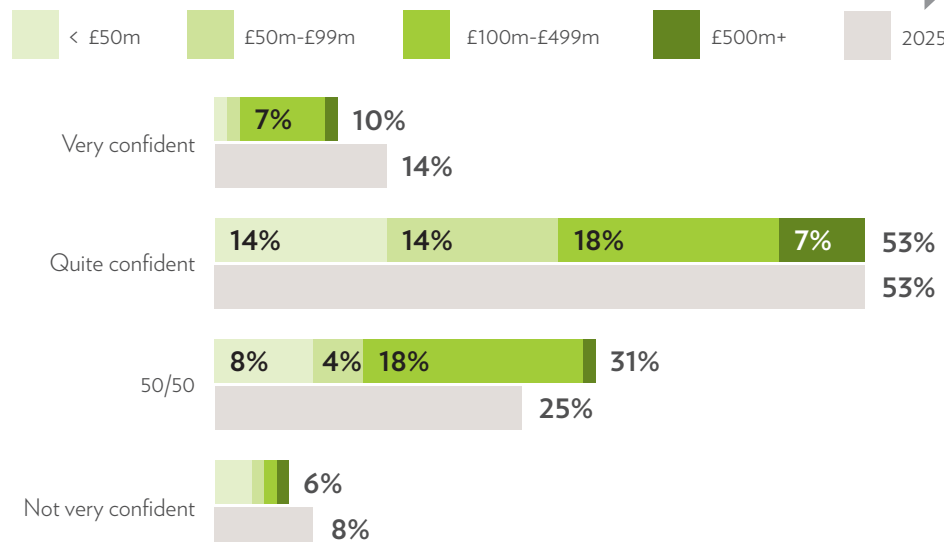
It can come as little surprise that effective AI integration is identified as the most concerning organisational challenge of all for the coming year (73%), eclipsing even the cybersecurity risks that new ways of working with new technology invariably introduce (p19). In August 2026 the Solicitors Regulation Authority released a warning notice concerning Code of Conduct breaches in cases where inaccurate AI-generated materials reach court and client-confidentiality breaches where solicitors have used public tools, risking a

relationship's legal professional privilege. Firms must manage to balance the pressure to adopt AI and adapt their practices and processes in line to stay competitive, with the clear need to control and supervise that use because their people ultimately remain accountable for every outcome. After this in the ranking of top challenges comes continued cost pressure from clients (around price) and their own people (to raise or match pay and the wider package). This is followed by how to incentivise all tiers of talent most effectively for a broader business contribution leaders want to see (30%).

How does the firm's planned technology spend for 2027 compare to total investment made throughout 2025-2026?



How confident are you that investment in new technology since 2024 has delivered good value/return on the investment?



Elkin at Roythornes says: “There is a need to become more innovative with service delivery to ease some of the client pricing pressure. We’re actively working towards some possible structural solutions around improved work distribution and greater sharing among fee earners that makes that work more economical.”

Lee at Brodies adds: “The firm will continue to invest in technology that proves useful both for our own efficiency and client-service improvement. We are also very comfortable we can continue to add examples of value that clients will be very willing to pay for. At the

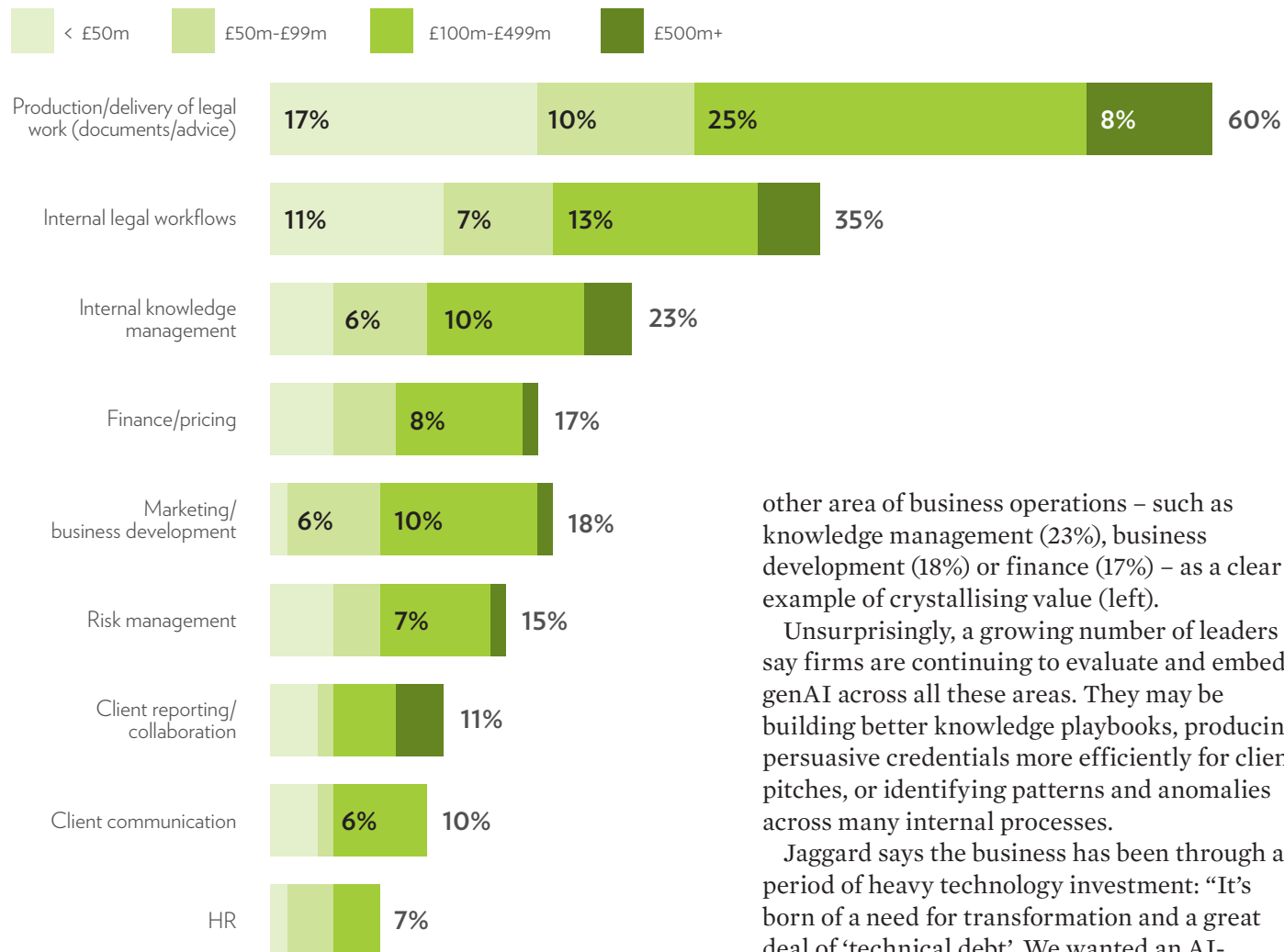
same time we need to manage to keep the strong pipeline of talent moving up through the firm and be effectively incentivising a group of high-performing people.”

Whether it’s fresh rounds of investment or higher use costs for what is already in place, most leaders (83%) continue to say the firm is spending more on its technology stack and related needs (a consistent average 6.1% of annual revenue across all spend categories). A mere 2% are spending less — and of course this raises the question of return on that investment (above). Almost two-thirds (63%) claim to be

confident in how such investments have fared over the last two years, but only one in 10 is very firmly in this camp, and one third sit in the middle on the matter – smaller firms are less likely to be as confident. Most are more confident in precisely those places where clients might be expecting to see a corresponding cost reduction (p22): the production of the legal work (60%) and workflows leading to it (35%). From more focused or responsive client communications, to effective intervention in financial management processes for smoother cashflow, fewer than one quarter point to any

In which areas/functions of the firm are you most confident that new technology has generated most value over the last two years? Choose two

Strategy leaders feel most confident in their investments in front-line technology



other area of business operations – such as knowledge management (23%), business development (18%) or finance (17%) – as a clear example of crystallising value (left).

Unsurprisingly, a growing number of leaders say firms are continuing to evaluate and embed genAI across all these areas. They may be building better knowledge playbooks, producing persuasive credentials more efficiently for client pitches, or identifying patterns and anomalies across many internal processes.

Jaggard says the business has been through a period of heavy technology investment: “It’s born of a need for transformation and a great deal of ‘technical debt’. We wanted an AI-

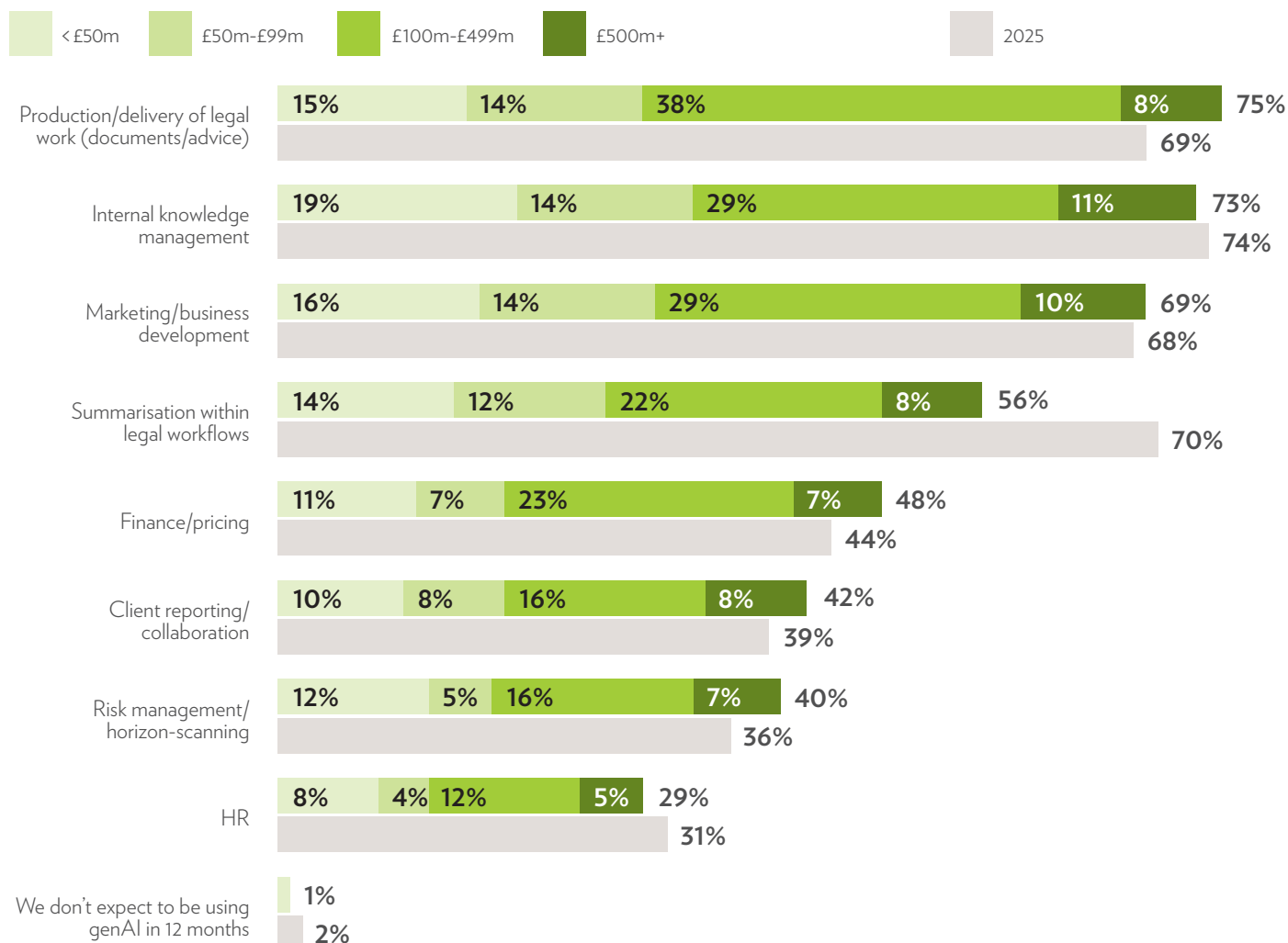
empowered, end-to-end cloud-based solution that brought all the detail of our strategic discussions and our data – client, people and finance – together in one place so it would be safer and ready for that AI. Whether people need to know the date of the Christmas party or details of dealing with a politically exposed person, they can simply ask for information or an update in natural language on the phone.

“At the same time emails and any letters are auto-allocated and scanned into the system, with a high degree of accuracy already and prudent safeguards that mean somebody will step in if something isn’t clear. We’re also building functionality to auto-reconcile bank transactions to ledgers and have sensitively introduced an element of AI to switchboard routing. We don’t need to drive costs down so much as improve efficiency where it can support reliability and predictability.”

Beech at Knights adds: “We have invested significantly in introducing more digital working, for example within the document management system, to help people become more efficient and self-sufficient with technology. We’ve also launched a new tool layered on the practice management system that can create engagement letters and draft scopes for them in seconds. But it’s important to be careful with upfront investments – AI will only

In which areas of the firm do you expect at least some processes to involve generative artificial intelligence (genAI) within the next 12 months? Choose all that apply

Legal work leads the way, but almost half also now see genAI applied to one or more areas of financial process



become more expensive, and the market moves on fast.”

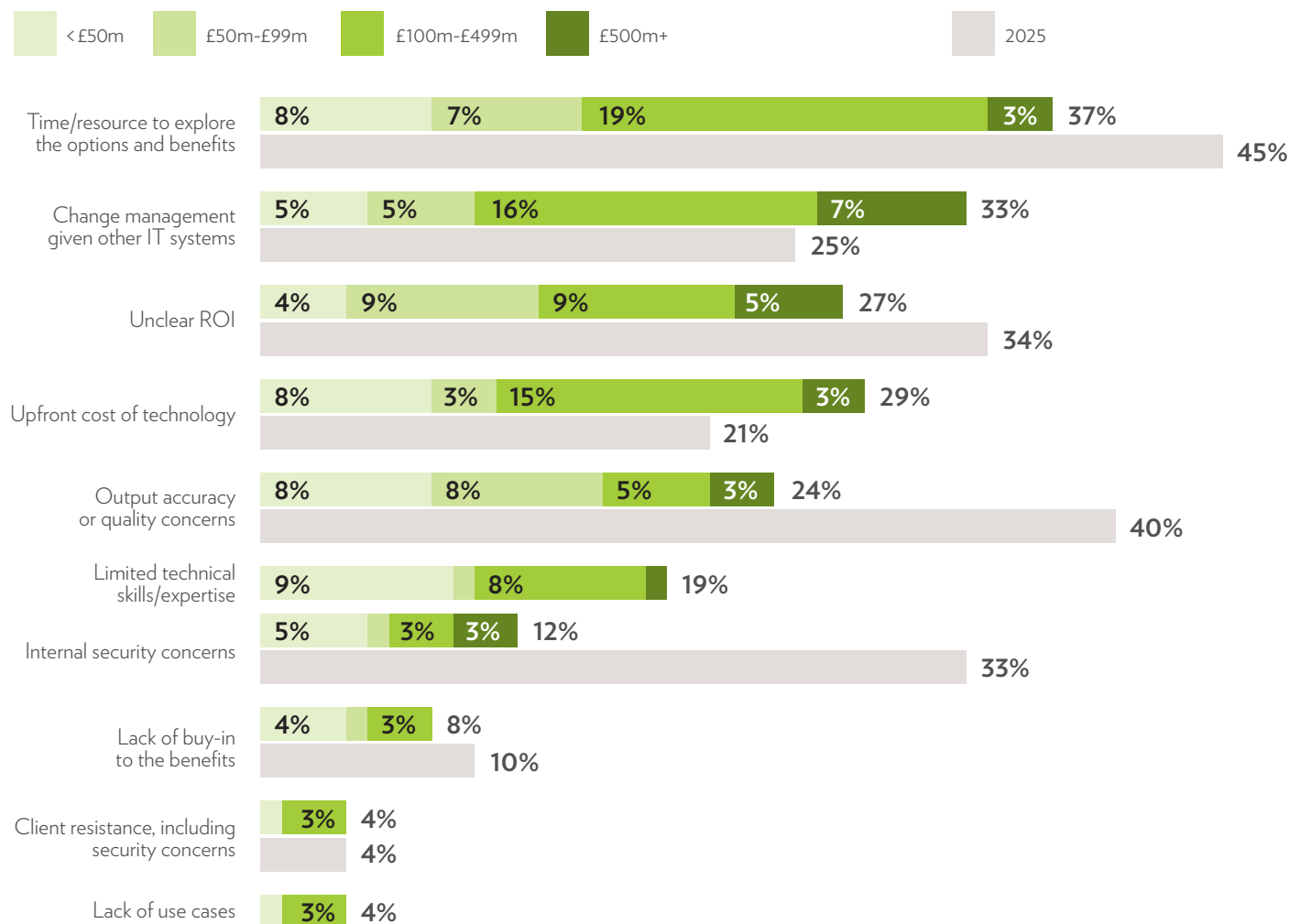
Over a quarter (27%) also continue to be unclear on ROI in their AI efforts (p24) – and that can be a barrier to doing more. This is often automatically identified with achieving time savings. While clients may understandably expect a corresponding reduction in bills, however, firms must be focused on what having more time means they can do better, more or differently for clients. It may be feasible to cover more complicated work scopes or build deeper insight into changing legal needs. In some cases firms may be able to support or collaborate with clients in entirely new ways.

Jaggard continues: “We know we’ve saved an incredible number of hours, but the biggest challenge in being very confident of ROI is that the endpoint keeps moving. Currently AI isn’t like a lot of other software that settles in. Hopefully we are relatively agile at adoption, but the reality is that the technology capabilities move faster.”

Edginton at Gowling WLG says: “A lot of firms at a similar level are buying a lot of the same technologies, so the difference lies less in the spend than what you do with it to transform client service. There’s a risk firms collect pieces of technology and automatically think it’s the answer, rather than taking time to understand the particular business problem or client

What are the barriers to doing more with any tools that involve genAI in a process at the firm? Choose all that apply

Security, accuracy, resource and ROI questions less likely to be change obstacles, with intense exploration and successful implementation more challenging



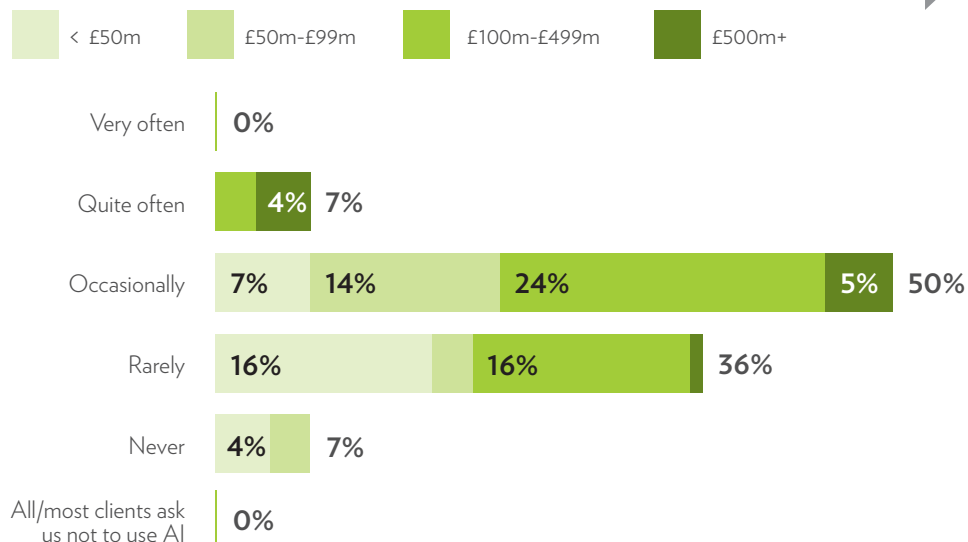
requirement. It's also essential to move on from R&D and experimentation, which is uncontrolled development, to have people with the strong transformation and change-management skills to work closely with the lawyers in understanding how to apply the technology in a more structured way that adds true value. Buying the technology itself may not even be the biggest part of the investment."

Helen Drayton, CEO of Penningtons Manches Cooper, agrees: "There is an AI roadmap out to 2030, but we aren't building process agents yet. Existing technology needs to be better used to its fullest potential before turning to something more expensive. We have so many different practices, spanning multiple sectors, all with different needs. Strategic investment needs to work in line with all client service needs."

Elkin at Roythornes adds: "It's an area we are approaching with caution – closely monitored, and while some client decision-makers grow more tech-savvy others are not. We've seen potential productivity gains but have not yet been able to crystallise them. There is the challenge of a certain inertia in how people work, which is perhaps more of a priority to overcome than working with AI specifically."

There is clearly little perception of a significant shortage of plausible AI use cases (a barrier cited by only 4%), nor problems getting

How much are clients challenging the cost or value of services where AI is used in the work?



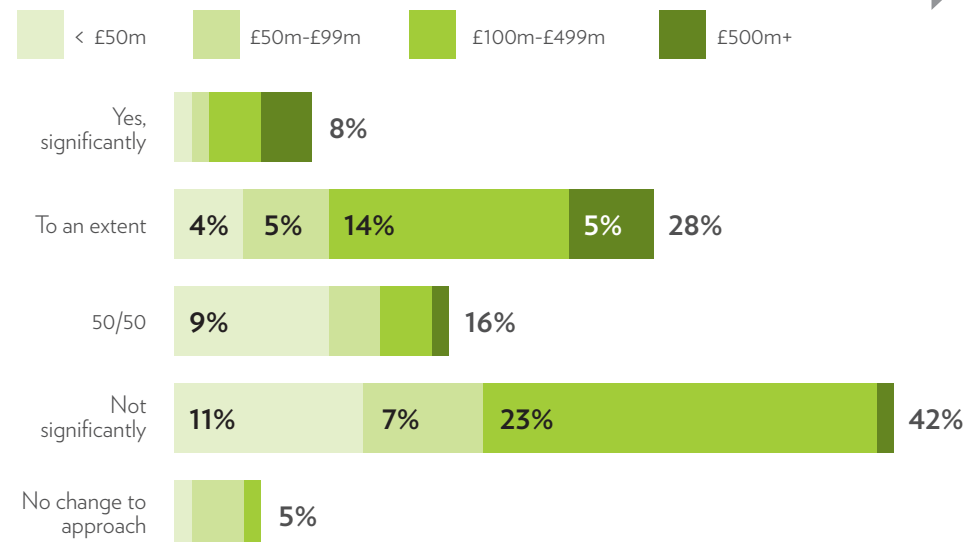
buy-in for introducing the necessary change (8%) or client consent (4%). However, some may be surprised that accuracy concerns, such as hallucinations, or overall outcome quality – with differentiation maintained – don’t still feature more prominently as barriers to making faster progress, cited by only 24% (p24).

Rather the genAI barriers most leaders still identify are the time and opportunity cost of such comprehensive technology market and toolset exploration (37%), implementation workload in the context of managing a firm’s other older systems and data held (33%) and of

course, the headline price for the purchase or development (29%) – no small investments where the ROI remains in doubt but perhaps necessary to keep pace with the market, nonetheless.

As to how the costs are absorbed, it’s worth noting that only one third say AI is yet changing the way the firm prices its work even ‘to an extent’, and fewer than one in 10 (7%) that clients are regularly challenging cost or the corresponding value delivered as a result (above). More than two-fifths (43%) say this is still a rarity or that it simply never happens.

Is AI already changing the firm’s approach to pricing/management in relation to the billable hour?



“Existing technology needs to be better used to its fullest potential before turning to something more expensive. We have so many different practices, spanning multiple sectors, all with different needs. Strategic investment needs to work in line with all client service needs.”

HELEN DRAYTON, CEO, PENNINGTONS MANCHES COOPER

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Cashflow under pressure, but firm progress on financial process

Almost half see growing strain on strength of working capital, as some pull ahead with changes to lower lockup times – but pricing approaches are a tougher proposition to transform

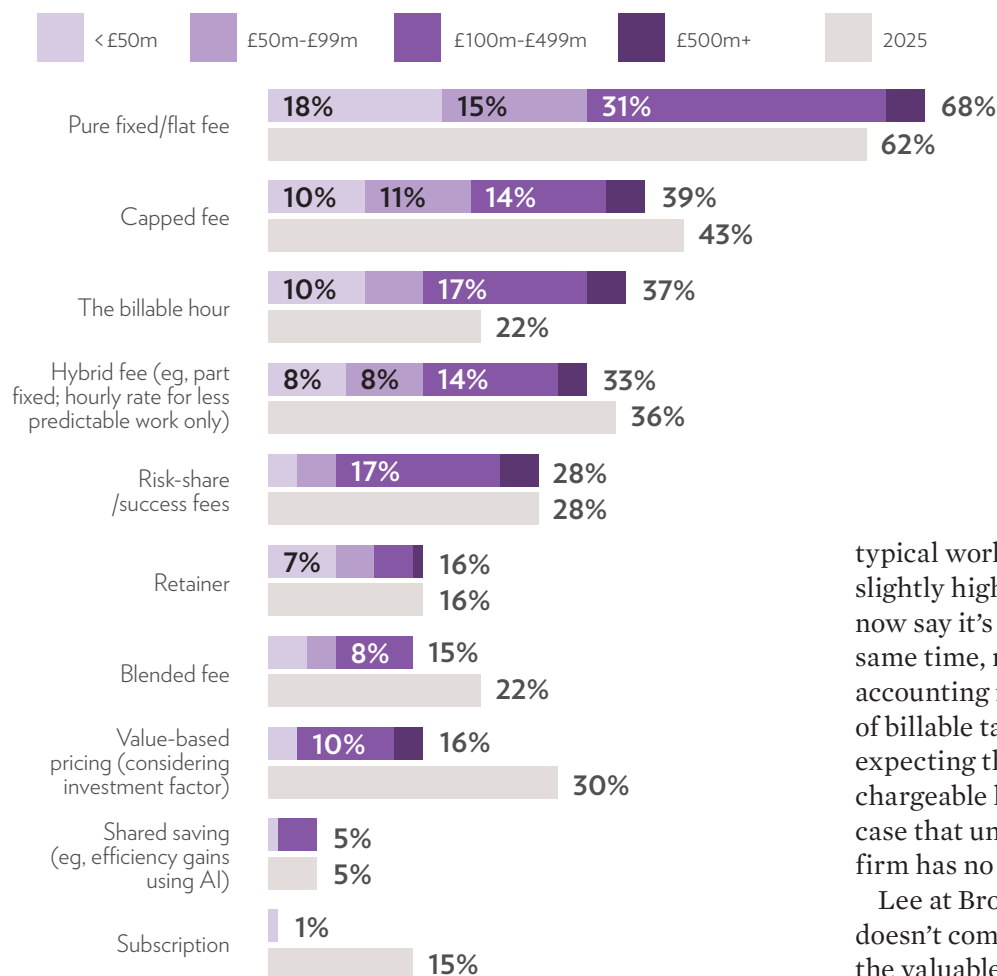
A similar proportion as say that challenge is rare also find clients still more likely to request the billable hour breakdown (37%) as part of their fee structure – something it has long been argued is ripe for reduction – in order to understand the components of costs more clearly (p27). Among fee model options, it's clear leaders are most likely to see more demand for the straightforward fixed fee (68%). The popularity of 'hybrid' fee structures among clients (fixed fees applied only to more predictable parts of work) still holds up (33%), but the feasibility of a

'value-based' arrangement tied to a particular outcome the client wants to achieve appears to have fallen (16%).

This must raise the question of whether it's realistic that clients themselves can define what they value other than through the certainty of recorded time, and whether their firms are effectively opening conversations to explore alternatives to the billable hour. Indication in the research is that prevalence of alternative fee arrangements (AFAs) across the market has changed little in the last 12 months. As in 2025, 71% of leaders believe no more than 40% of the

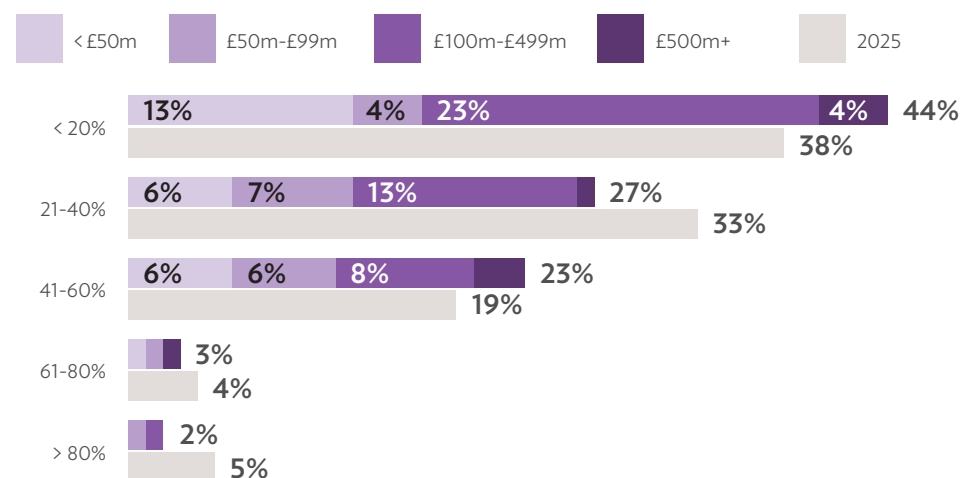
Which pricing arrangements are the firm's clients calling for most frequently? Choose up to three

Fixed/capped fees still in highest demand – but ‘value’ pricing concept to manage impact of increased technology costs fails to keep pace, as over one third find more clients want to work with billable hours



How much of your firm's overall work is priced with any alternative to the billable hour (include any fixed fee/value-based approach?)

Fewer alternatives? At over two-fifths under one fifth of total work is priced with an alternative fee, say leaders – but for almost a quarter it's 41-60%



typical work mix is priced with one – and a slightly higher figure of more than one fifth now say it's between 40-60% (above). At the same time, most of the market still sees lawyers accounting for their time in line with some form of billable target (p28). There may be fewer expecting the very highest number of chargeable hours (1800-2000), but it's still the case that under one in 10 leaders (8%) says the firm has no targets at all.

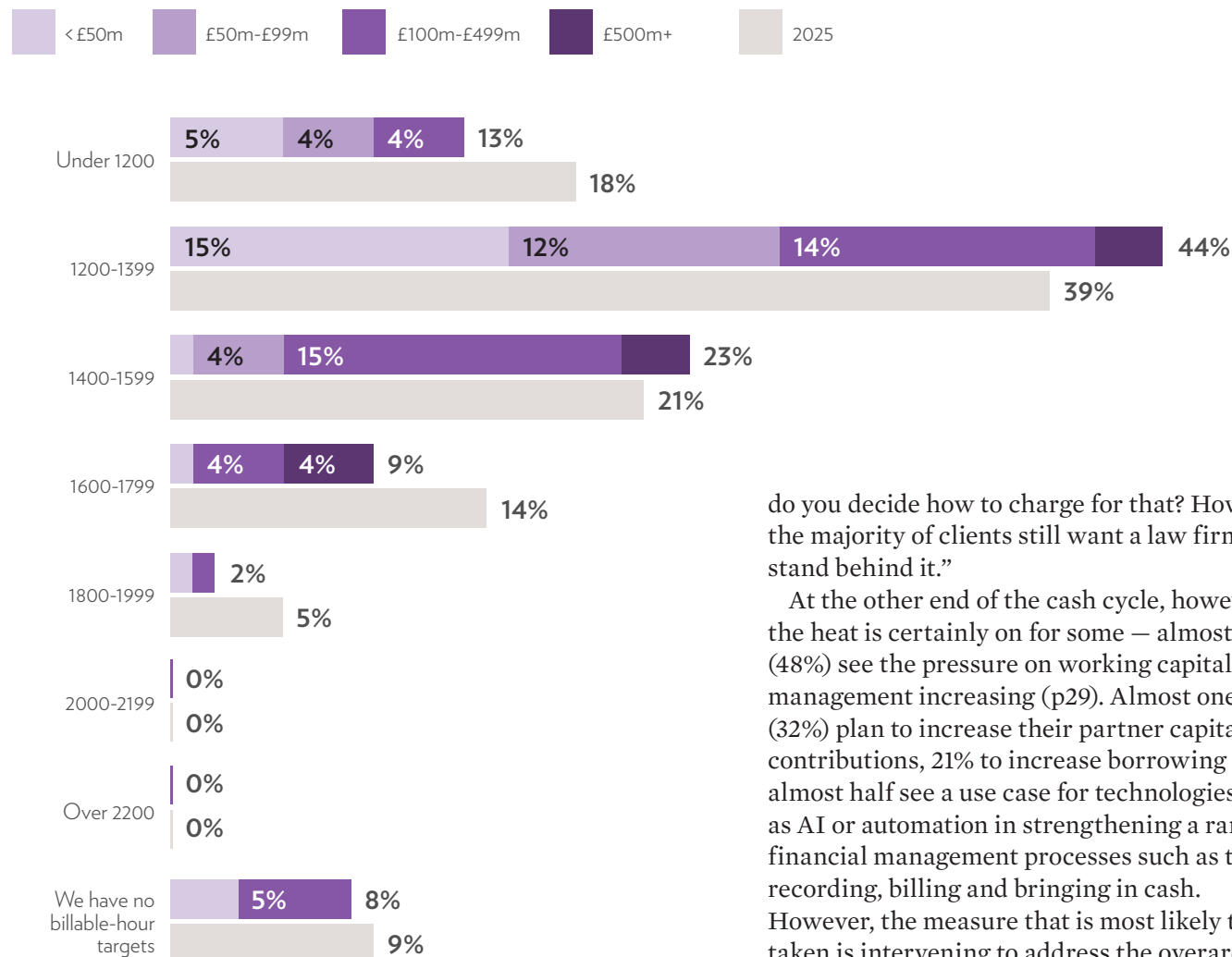
Lee at Brodies says: “The business technology doesn't come for free, and of course neither does the valuable work. Law firms must continually

monitor where they're adding value and price accordingly. There may be new elements to introduce – and there is a role for finance teams in supporting and shaping approaches with good management information – and over time we are then likely to be closer to the lawyers having those client conversations.”

Drayton agrees: “Clients increasingly try to do more for themselves, and they're accessing plenty of their own AI tools in order to do it. Some clients can also arrive at meetings with their own AI-generated strategies which the lawyer must spend time advising against. How

What is the average annual billable-hour target now expected of fee earners working at the firm?

Under one in 10 report lawyers are working 1600-2000 hours – over half still say under 1400



do you decide how to charge for that? However, the majority of clients still want a law firm to stand behind it.”

At the other end of the cash cycle, however, the heat is certainly on for some – almost half (48%) see the pressure on working capital management increasing (p29). Almost one third (32%) plan to increase their partner capital contributions, 21% to increase borrowing and almost half see a use case for technologies such as AI or automation in strengthening a range of financial management processes such as time recording, billing and bringing in cash. However, the measure that is most likely to be taken is intervening to address the overarching

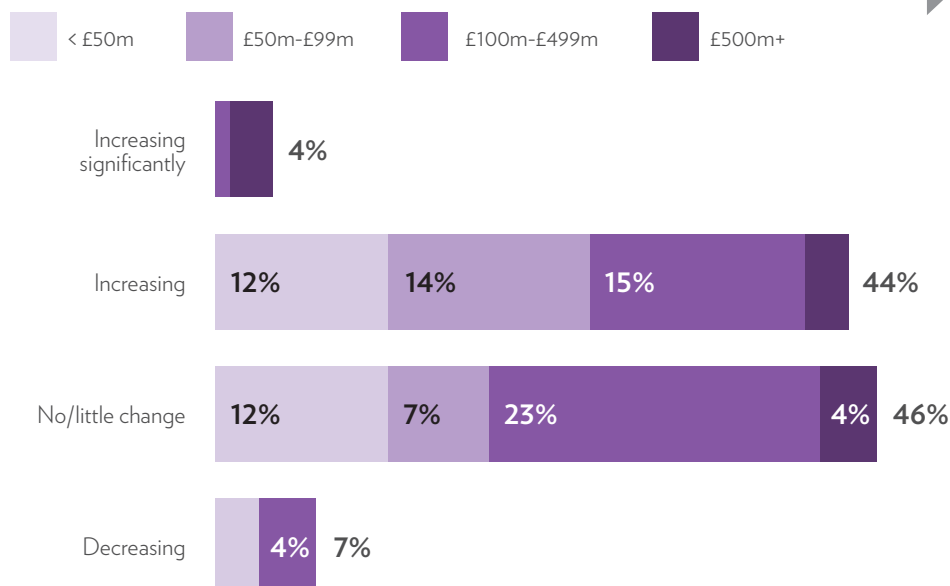
mindsets or improve the behaviours involved in ensuring the firm is paid correctly for services delivered.

Lee continues: “Everything starts with the process, and then you overlay the technology, such as automation and AI, for further efficiencies. There’s an efficiency play coming in across the market and we have a keen current focus on cost control in the back end.

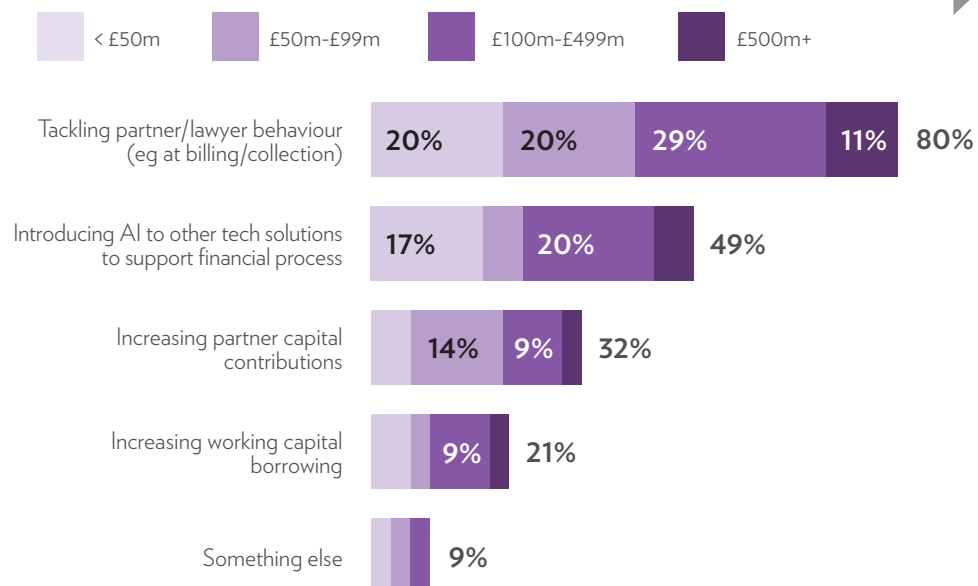
Drayton agrees: “Applying AI as part of particular financial processes can also help people to understand more about the data involved with greater efficiency, and then use that to make better business decisions.”

Edginton at Gowling expands: “We’re applying AI first to assess what we know about client guidelines and preferences to take actions that optimise the billing schedule, and then to direct partner and client behaviours on the other side of managing payment and collection. Traditionally firms are likely to have applied the same credit control process to everybody. It helps us to direct more resource to higher-risk areas, with a lighter touch where more confident of punctuality following existing processes. The education and awareness work to influence behaviours – partners doing the right things at the right time – never really goes away, but applying technology for more access to better data can definitely inform it.”

How is pressure on working capital management changing in 2026?



What actions is the firm taking, or planning to take, as a result?



Waldie says that Gateley recently purchased a new piece of software that assists with matter planning, scoping and pricing – and which can help to identify instances of scope creep: “It does this in good time for a lawyer to have a prompt and positive conversation with their client about options at that particular fork in the road.

“The challenge managing lockup is often more cultural. We’re focusing on increased interim billing, and we’ve moved responsibility for

collection itself from the lawyers to the finance time with more rigorous monitoring of the results.”

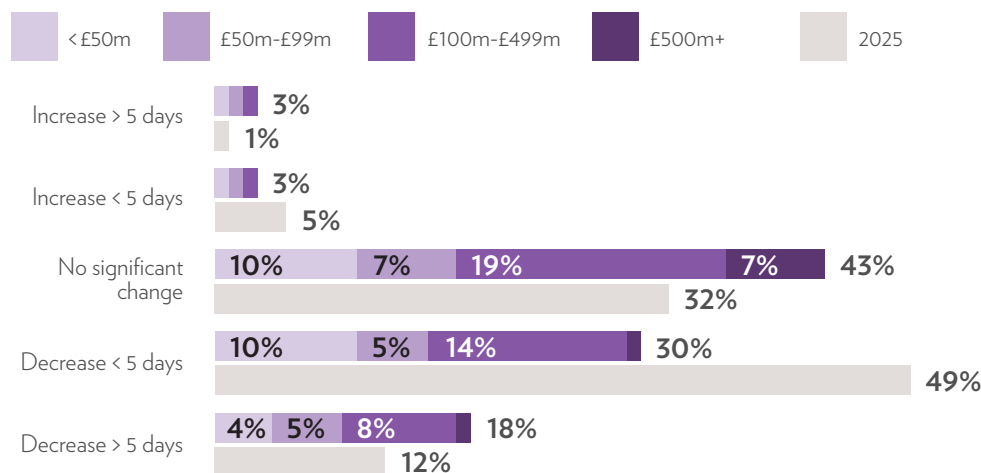
Only around half of leaders believe any steps they’re taking will see lockup performance improve in the coming year (p30), albeit with a very small minority expecting an increase in the total number of days to cash collection on average, and almost one fifth (18%) predicting a reduction of more than five days. It’s notable that almost one quarter of leaders say the firm is

“Applying AI as part of particular financial processes can also help people to understand more about the data involved with greater efficiency, and then use that to make better business decisions.”

HELEN DRAYTON, CEO, PENNINGTONS MANCHES COOPER

How do you expect the firm's annual lockup performance (number of days) to change in 2026-2027?

Almost one fifth believe it will take over five fewer lockup days for invoices to be settled next year



now running a 'modified lockstep' initiative for rewarding their partners – with a bonus element that is linked to the idea of a more holistic blend of business responsibilities. This could include billing rate expectations to build collective buy-in to that as a priority and direction, among other management factors.

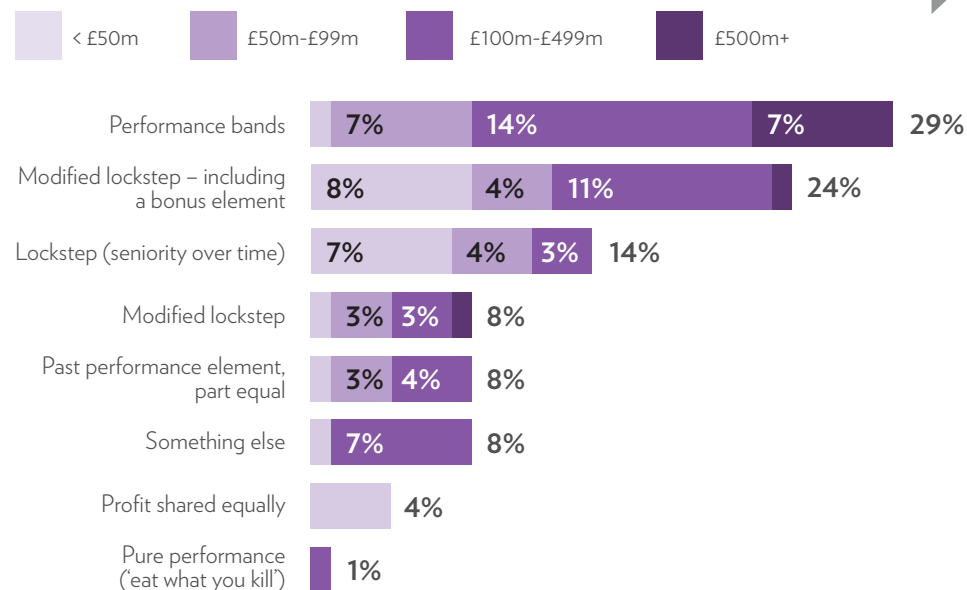
Drayton says: "Building a large client base can also create a certain challenge for a firm to ensure it does not miss opportunities to serve them all in as many ways as possible across

practices. We recently launched a partner remuneration review that includes considering how best to encourage and unlock more focus in that direction."

Jaggard says much of the work at Taylor Rose is "already scoped to a fixed fee and around three-quarters of lawyers are consultants, so masters of their own destinies with respect to the hours they work."

Beech at Knights adds: "We removed fee targets 14 years ago to encourage and nurture a

Which structure best describes the firm's partner remuneration model?



team culture in which colleagues of different experience levels and work types join together to collaborate and give the client the full benefit of all our resource and expertise.

"Our people can see performance data – hours, recovery rates, WIP and debtor days – but while numbers play a part in remuneration they don't tell the whole story. Our regional leaders need to know and understand colleagues to ensure we reward people on merit while instilling a collaborative business culture."

Some see a
mountain to climb



Others,
a chance to scale

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