

WHITE PAPER



The 2024 ‘Burning Issues’ Confronting Firm Leaders

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INTRODUCTION

Even the pessimists are upbeat. 26% of law firm leaders say 2024 is going to be an excellent year – firm growth and profits will take a healthy leap. Another 48% expect a good year – performance will improve and stay strong. The remainder – the pessimists, see a year of steady state – performance will match 2023. In short law firms’ leaders are more optimistic than not.

But this is just the opening act in terms of expectations and plans – we invite you to examine the detailed results of our newest survey:

At the end of December, we presented 200 Firm Leaders with a selection of over 40 timely and potential ‘Burning Issues’ – and asked of them “*what do you anticipate as the highest priorities occupying your leadership agenda going into the new year?*”

These leaders were asked to identify from a lengthy list we provided (as well as submitting anything we missed identifying) their top 3 priorities in each of three areas – covering the Economic, the Competitive and the Leadership pressures foremost on their minds. We also asked for their personal views on a few issues like client’s reactions to increasing rates; whether business development would be harder in 2024; and whether clients expected their firms to be future focused. We were pleased to receive responses representing firms from 200 to over 2000 lawyers in size.

To start with, what perhaps was particularly striking from the numerous responses we received, were those issues that did NOT get identified as being of much importance, irrespective of firm size. Now that may be the result of these issues already being adequately managed or it may be due to the sheer magnitude of other higher-stake priorities.

For example, from a selection of 14 various Economic pressures, the subject of **continuing tight controls of new partners admitted to the equity ranks**, ranked amongst the lowest priorities for these firm leaders. Since this subject has provoked quite a number of legal media articles during the past year identifying firms that instituted non-equity tiers and those adding a salaried partner tier, this came as somewhat of a surprise. Another issue that many respondents seemed to lack interest in was the supposed increasing involvement of Corporate Procurement Departments in their role of evaluating outside law firms. It would appear that wherever the involvement of **procurement professionals** are being utilized, it is not having a substantive enough impact on these firms to merit much attention. Perhaps as an interconnected issue, successfully **implementing cost containment** measures was also amongst the lowest priorities.

When it came to weighing their Competitive pressures going forward, we were informed that responding to **competitive selection processes** by clients, things like RFPs and beauty contests was of concern to only 2.7% of our respondents. Perhaps the most surprising feedback received from these same leaders by way of their stated preferences, was the response that **improving service delivery** and client satisfaction to enhance client retention was not amongst their top competitive pressures. In fact, it registered of some importance to only 16.2% of our firm leaders.

Finally, given that law firm diversity programs became targets following the landmark US Supreme Court decision, perhaps it should come as no surprise to see that under the umbrella of Leadership pressures, continuing to **improve the firm's diversity** scored with only 8.1% of our leaders, and the lowest. Somewhat interesting to us, it was followed by the issue of dealing with retiring 'baby-boomer' partners (who often may contribute a large share of a firm's current client base). This response would seem to indicate that **succession planning** is either under control or not really a pressing concern.

That all said, what follows is a summary of the TOP THREE BURNING ISSUES what were identified from our survey results in each of the three categories (and with an obvious sensitivity to maintaining confidentiality).

I. ECONOMIC PRESSURES

The number one, strongest priority across all three categories and the one that generated the most attention as the top issue for our firm leaders, of all sizes, going into 2024 was identified as motivating the lawyers to **work harder**. This was defined as deploying initiatives in your firm, whether through management, policies and/or compensation to increase focus on firm adopted strategic initiatives. As one leader explained, *"it's all about growth, more strategic rate increases, more effective delegation."*

Not surprisingly, the topic of devoting serious attention to **using AI technology** to deliver legal services to clients was the second highest economic priority on everyone's list . . . but that said, it only resonated with 37.5% of our respondents, which was considerably at odds with another recent survey we reviewed (of individual lawyers) claiming that 73% say they will be integrating AI in their legal work in the coming months. Now admittedly, our number seemed rather low and especially with many of our respondents being among the AmLaw 100. Near the conclusion of our survey, one of the additional questions posed to everyone was *"whether Generative AI will turn out to be a nothingburger – all firms will adopt and use it to little advantage."* Only a meagre 3% agreed with that statement! We concluded that these firm leaders were being guardedly optimistic while also being cautious.

Under the umbrella of an obvious concern for firm expenses and profitability, initiating plans to adequately **respond to economic conditions** came in as the third most pressing Burning Issue within Economic pressures. One firm leader shared the view that *"smart collaboration, hiring and engaging top talent plus finding ways to ensure clients pay on time will be critical to our future success."* And from another we heard, *"we simply must get better at improving profitability."*

II. COMPETITIVE PRESSURES

The topic of **laterals** was the second highest priority on everyone's list, across all three categories – defined as: how do we aggressively attract desirable lateral talent and entire practice

groups? Numerous leaders told us that they were highly focused in conducting “*lateral growth searches.*” For many it is all about “*recruiting and building team capacity to perform existing and prospective work.*” We should also note that the issue of maintaining cultural integrity was identified. “*Our firm, like most firms our size, has expanded primarily through the hiring of lateral attorneys. Although we attempt to vet each hire pretty carefully, there is always a struggle to incorporate them into our firm's culture. Not an easy issue.*”

Another identified Competitive priority for these firm leaders was to **differentiating ourselves** in a meaningful way from competitors. And this was one burning issue that seemed to contradict our earlier observation of how these leaders, by way of their stated preferences, reported that improving service delivery and client satisfaction to enhance client retention was not amongst their top competitive pressures. Now we obviously did not delve deeper into how one might define ‘differentiation’ so these stats concerning laterals and differentiation could cause one to conclude that perhaps there is increasing pressure amongst many firms these days to obsess around how to get bigger, rather than getting better! What do you think?

On a related note, was the issue of how to win more of the right kinds of business, thereby needing a focused marketing effort and investments in the firm’s **strongest “core” practices**. When it comes to the nature of what constitutes a strong core practice, both law firms and corporate legal departments are claiming that they expect increased demand for specialization with a decline in generalist work. We heard from one leader how “*Competitive advantage in practice areas and regionally (via geography) is becoming very transient for us all, except maybe the Top 50 law firms.*”

III. LEADERSHIP PRESSURES

Turning to the issue of Leadership pressures, the resounding and overall third most important burning issue that our respondents all pointed to was – the **identification and grooming of future leaders**. As one respondent rather bluntly put it, “*One of our more important burning issues is internal. Our practice groups and practice group management suck at getting anything meaningful accomplished. And unfortunately, we’ve never really held them accountable.*” And as another firm leader framed it, “*We have an abundance of terrific lawyers, but a real shortage of ‘leaders.’ I suspect that puts us in the same category as everyone else. The priority is to give some real focus now to the early identification, positioning, and training of those partners with leadership traits.*”

Now this second Leadership pressure may have been coincidental to the time of year that we conducted this survey as - managing our **partners’ expectations** (many of whom have an inflated outlook for what their compensation is going to be) was identified as an important Leadership pressure. We also heard from a few leaders that “*associate motivation versus compensation issues are a huge conundrum right now!*” Meanwhile in a few firms any perceived compensation difference between homegrown partners and incoming laterals is seen to be causing cultural ripples that firm leadership is having to find ways to resolve.

And, of course, no discussion of firm leadership pressures would be complete without some reference to **exercising strong discipline to maintain strategic focus** – with some clear direction focused on external and growth needs.

Readers may remember from our last survey results published in “*Examining The Inner Workings of Law Firm Leadership*,” how when compared with 5 years ago, 81% of leaders felt that the challenges today were “*more complex*” with another 13% candidly admitting that they are “*almost overwhelming at times*.” We learned that while some 82% of the firm leaders from firms of all sizes wanted to focus on ‘strategic direction’ as their primary area of responsibility only later to have to conclude that what really occupied their daily agendas and consumed their precious time were administrative minutiae and sorting out the strong egos of their fellow professionals.

OUR CANDID ANALYSIS TO PROVOKE THOUGHT

BURNING ISSUES THAT MAY NEED FURTHER EXPLORATION

Of the nine Burning Issues that were identified by these firm leaders, there were four that really jumped out at us, with two (Strongest Core Practices and Identification and Grooming of Future Leaders) that we believe were overdue for becoming firm leadership priorities.

• **Motivating The Lawyers to Work Harder**

While this was overwhelmingly identified as the strongest priority by 60% of our responding Firm Leaders, we could not help but wonder whether that was simply a consequence of our conducting this survey in late December. In other words at a time when most law firms are scrambling to close off their year ends, and perhaps noticing the sagging productivity (anticipated to have fallen off by over 2% in 2023), declining realizations, and that the accumulated billable hour totals were nowhere near earlier expectations.

Is this really the time to ponder whether this is an issue of working harder – or is this perhaps an issue of **working smarter** and how might we define “working smarter?” Going even further, rather than being consumed with the notion of working harder which usually translates into getting more business, perhaps we should explore getting *better* business; and then what flows from that is how do we define what constitutes **better** business- and that maybe very different depending upon the various areas of practice or industry focus.

This reminds us of occasions where we have posed an issue to firm leaders:

“You have two partners, one is billing 1600 hours this year while the other has billed 2400 hours. It would appear to be a significant difference in productivity! The one billing the 1600 hours, if we look closely, has focused their practice on developing an emerging niche expertise in the energy industry wherein they are becoming recognized for their work with Hydrogen companies; while the other is doing good litigation work, but in a fairly commoditized area of Insurance. It is now time to determine year-end compensation. Which of these two partners is **more valuable** to your firm?”

And please notice, we are not suggesting that there is any right answer to that question, but only that there are perhaps other factors that need to be assessed, beyond any basic billable hour goal. And also notice that this situation may not even be able to be properly measured, simply based on any difference in profitability of the different efforts, as either one may have the means of increasing their profitability way behind the other, going forward.

• **Focusing on the Strongest “Core” Practices**

Going back to the subject of better business for a moment, this notion of working harder seems to correlate with firm leaders identifying a need to focus their marketing effort and investments

in the firm's **strongest “core” practices**. When it comes to the nature of what constitutes a strong core practice, both law firms and corporate legal departments are claiming that they expect increased demand for specialization with a decline in generalist work. And of course, the further evolution of Generative AI is likely to have a significant effect on generalist work, and perhaps in this coming year.

In a profession that has long been consumed with promoting the “full-service law firm” label, this item came as a surprise but one that we think is long overdue. The familiar notion of trying to be all things to all people is an addiction that is going to be difficult for many firms to divest. After all, how do you tell some senior partner or gifted rainmaker that their particular area of practice is no longer amongst the blessed, without them feeling like they have now become a second-class citizen in their firm.

Our question then becomes whether these firms will realize that the riches are in the niches within these identified core practices. In other words, it is not good enough to declare that one of your core practices is in Construction and then expect the world to understand without getting granular in identifying all of the various areas of construction that you have the required expertise and are targeting to be a dominant force in providing services to. Take for example, if a prospect goes to some firm's website, as so many do, to look for your expertise in either 3D printed buildings; commercial repurposing; or senior housing, are they likely to procure enough information to give them comfort that you have expertise in those niche areas? What we see is that in far too many cases, what the prospects finds is only a list of what “legal” services you provide to companies in the Construction industry, with no granular listing of what specific kinds of companies within that core area that you have experience in serving.

Firms must take a hard look at where they compete in the market, where they are building specialized expertise, define a strategy that plays to their unique strengths, prioritize building their skills in those areas, and take action to become a dominant force.

• **Differentiating Ourselves in a Meaningful Way**

As already mentioned, when one thinks of meaningful differentiation, in addition to specialized expertise, one of the core elements that clients define as an important differentiating factor is your firm's ability to provide exemplary service; but for some reason many of the responding firm leaders ranked that very low – and below options like aggressive marketing initiatives to target selective industries and their clients; or encouraging cross-selling efforts – both of which may be very difficult to execute without stellar client service.

Now when it comes to client service, what often happens is that firms will talk a good story about their how they provide service but lack providing any supporting proof. Many clients have long joked that if you want a good laugh simply Google “law firm client service standards” and then read through the over 1200 results and vague promises of how some firm resolves to “understand their client's business; always provide the highest quality legal services, be responsive and accessible, find ways to add value” and so forth – all leaving prospects and client to wonder, yeah but “how” will you possibly guarantee that it happens.

We remember a recent Financial Times Report on the “*Changing Face of Professional Services*” wherein they asked: “*Which of the following have caused your organization to end a commercial relationship with a professional services firm?*” The overwhelming first choice was: “*poor delivery of service*” – far more important than “*understanding my business, lack of innovative approach, or lack of flexibility on fees.*” The report claimed that “*Clients are looking for long-term strategic relationships. Curiosity and a deep understanding of commercial reality are prized by clients in search of specialist expertise and industry knowledge. They are also exploring a broader range of metrics to measure **client satisfaction.***”

You may be able to differentiate your firm without regard for delivering good client service. We’re just not sure how one might accomplish that.

• **Identifying and Grooming Future Leaders**

Now we hope this is not just wishful thinking. We say that because of newly released research (that Patrick Fuller from AMLAW was involved in conducting) entitled, “*The Expanding Role of Professional Development in Law Firms,*” found that “*Few leaders enjoyed the benefits of formal training.*” To be specific, we’re informed that absolutely **NO** leadership training was provided this past year, in 2023, to partners (4+ years) and only 5% to those who had already taken on some Leadership role were accorded any training; with the amount of training provided those partners amounting to **only about 5.4 hours.**

In the judgment of the firm’s internal professional development leaders in 40 of the world’s largest law firms, when asked: “*How effective do you believe your current leadership development programs are at creating the most well-prepared Leaders to guide the firm into the future?*” – the majority responded that their leadership programs **remain largely ineffective.**”

Much of this corresponded to our own recent survey results (“*Examining The Inner Workings of Law Firm Leadership*”) with firm leaders wherein we discerned that 67% of them had no clear job description, 81% telling us that they “*perceived the challenges that they faced to being far more complex;*” 13% even freely admitting they were, “*almost overwhelming at times,*” and one in five reporting it to be a “*pretty much sink or swim*” exercise when they first took on the job. Not surprisingly and completely consistent with these survey results, our leaders reported being given next to no formal preparatory training such that only 11% felt they were “*pretty much prepared for everything they encountered.*” What have we been doing to these people?

If we were to look across at the accounting profession and some of their larger firms for comparative statistics, would you be surprised to learn that there are numerous training sessions both online and offline, that it is mandatory for all professionals to complete at least 40 - 80 hours of training yearly and that these firms **invest heavily** in leadership development?

NOT A BURNING ISSUE BUT NEEDING MUCH MORE ATTENTION

• **No Concern For Succession Planning**

To grasp the urgency of succession planning, one need only examine the law firm demographic landscape. The distribution of partners by the year they each received their J.D. paints a telling picture. Do you know that today, the statistics show that in firms of most any size, over 60% of partners are 55 years of age or older? And what we have personally been observing is that it is very easy to find firms where anywhere from 65 to 75% of the client base is attributable to partners 60 years and older.

And, do you know that there is a competitive firm out there right now that is targeting the clients of your soon-to-rotate partners? They are gambling that you will NOT get your succession matters in order and that certain highly-lucrative clients will soon be up for grabs. Exacerbating this situation is the sad reality that partner compensation systems, for the most part, fail to reward partner efforts at developing younger lawyers, transitioning client responsibilities, and helping them grow.

Succession planning scored amongst the three lowest of over a dozen different Leadership pressures as a concern with only 16.2% of our firm leaders. Meanwhile, firms are exposing themselves to serious pushback from General Counsel. In-house legal departments are starting to ask firms for a copy of their formal, written Succession Plan, concerned about what they will be required to do when their long-time lawyer leaves. We've heard from a few clients that some of them don't see capable successors within their outside firm and so may become concerned about who will be taking over their business. In other words, they are not seeing younger professionals with the kinds of credentials they respect. Younger professionals may not have the bios, the profiles, and really haven't invested in building their personal brands, such that to the client the handover may seem like a downgrade in expertise and experience.

Growth issues such as bringing in new clients and helping make the firm grow have pushed succession planning to the back of the list of leadership priorities, but most legal profession academics and observers regard it as *the #1* endemic problem within the profession. And it's going to get worse before it gets better.

It has been said that succession of baby boomers is an issue that many firms avoid addressing and firm leaders resist succession planning due to a fear of having to deal with the emotional components and having to engage in difficult conversations. For those who have engaged in proactive succession planning, it is one thing to set up a plan for some years down the road and forget about it with everyone caught up in the day-to-day busyness of business. It is another to proactively schedule periodic meetings to check in and ensure that the good intentions of the plan are being carried out properly. One firm leader told us that he has scheduled conversations with his partners at least once a year leading up to their retirement. It is a good way to ensure the plan is moving along or to spot areas that need remedial attention, long before they become an issue.

CONCLUSION

While these varied observations may be viewed as a basket full of thorny, deeply challenging issues facing firms today, we heard from 74% of our law firm leaders that they fully expect that 2024 will be a highly successful year for their firms. Now while that may seem like optimistic thinking, knowing a number of these leaders, we firmly believe that they possess the persistence to face their burning issues and create strategies to give themselves and their firms a prosperous new year.



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Examining The Inner Workings of Law Firm Leadership

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