



2020 Vision

Our strategy work with law firms is focused on planning for the future. Three to five years ago our strategy work often involved developing a 2020 vision and strategy – 2020 had a nice ring to it. Now we have arrived in 2020 and the future is today.

A Look Back at 2019

Before we look ahead, it is helpful to look back at 2019. Based on early returns, 2019 was a good year for many law firms, driven particularly by a strong second half of the year. We expect that a higher percentage of firms will report year over year improvement in profitability than in the past few years, where uneven performance across firms was more common.

Growth and consolidation continued to be a priority for firms, although the total number of mergers was down compared to 2018's record year. It was an active year for lateral growth, as well as for entry level associates. However, given retention and turnover issues, as well as retirements, many firms are finding that they had to hire aggressively just to maintain their current size.

Diversity and inclusion continued to be a top of mind topic for many firms in 2019. Firms focused on diversity in everything from pitch teams to partner classes to Executive Committees. The legal industry was also subject to an uptick in gender bias litigation and claims of harassment in firms that shined a light on some of the obstacles to inclusion.

All of these factors play into what we see as key themes for 2020.

A Look Ahead to 2020

While the pace of change in law firms may be slower than in other industries, it has accelerated relative to prior years. We expect to see further changes in 2020. Here are just a few of our predictions for 2020 that warrant preparation and action.

Managing in Potential Headwinds. Historical cycles indicate that we are due for a recession. While the next recession is unlikely to be as deep or as long as the 2008/2009 downturn, nor have the same impact on law firms, it is still a threat. Because firms are operating more leanly than they did pre-recession, and because demand for legal services has remained largely flat over the last decade despite the recent upticks, there is less room to maneuver than there was in 2009. Even if the next downturn doesn't come in 2020, we expect that firms will manage conservatively this year to be prepared. The key to long term success will be for firms to continue to invest in smart strategic initiatives, rather than dramatically halting all spending. This includes hiring new talent, investing in technology, and investing in client facing innovation.

Innovation 2.0. In recent years, many firms have incorporated innovation into their strategic priorities, others, however, remain skeptical. Innovation is still a murky term that covers everything from budgeting and pricing legal work, to investments in technology, to consulting arms, to alternative legal service providers. While 2020 is not likely to bring a revolution, we are nearing a tipping point. Increasingly, firms that ignore the need to think creatively about how to serve clients effectively, look for efficiencies, and think about future demand for the services they provide and the price clients are willing to pay, do so at their peril. The Big 4 and other ALSPs are getting traction and will accelerate the conversation in 2020. More and more law firms are thinking creatively about how they serve client needs. This includes an increase in consulting arms, legal staffing solutions for clients, and application of AI to client matters. While clients aren't always clear on exactly how they want their outside firms to innovate, they often want to see some evidence that firms are trying. We expect that in 2020, firms will need to invest more in these initiatives than they have in the past.

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Focus on Scale. While there were no large mergers among US firms in 2019 (those where both firms had at least 100 lawyers), that was an aberration - there are already several very significant mergers effective in the first quarter of 2020. These mergers have reinvigorated the discussion among the leadership of many firms about scale and what is required to compete in the legal market today. While bigger is not necessarily better, there are increasing advantages of scale including the breadth and depth of practices, the ability to make investments in growth, technology, innovation and other strategic initiatives, and the ability to weather the ups and downs of various practices. We expect that a significant segment of firms will continue to prioritize growth in 2020, and mergers will pick up steam.

Leadership Opportunities for Women and Diverse Lawyers. Two years ago, we predicted that firms would place a greater emphasis on developing women and diverse firm members into top leadership roles. We have seen progress on that front with more firms naming women and diverse lawyers as Chair/Managing Partner or as members of Executive Committees. We also see diversity of leadership being a key consideration in the nominating and election process for future leaders, helped by the commitment that many firms have made to the Mansfield Rule standards. We expect that in 2020, firms will continue to look for the best candidates for leadership roles and that many of those candidates will be women and diverse lawyers.

Reinforcing Behavior Expectations. The stories about various alleged bad behaviors by lawyers and incidents of gender bias have changed the conversation about expectations, particularly for partners. There is far less tolerance of bad behavior and increased willingness to quickly remove partners, even those with significant business or management roles, who have violated a firm's conduct expectations. More firms are revising their partnership agreements to clarify behavior expectations and consequences. It is likely that we will see more stories emerge in 2020 and a continued focus on quick action. Law firm leaders will need to address not only the issues that emerge, but also the underlying causes, to prevent future bias and harassment. In addition to being the right thing to do, a focus on prevention contributes significantly to a firm's ability to attract and retain talent.

Aligning Partner Compensation. The trends identified above are difficult to manage if a firm's partner compensation system is not aligned with critical firm goals and priorities. Successful firms often refine their approach to partner compensation to ensure it is encouraging the behavior the firm desires from partners. Firms today are focused on expanding the ways they value contributions to revenue generation and expansion in order to ensure that different partner roles are rewarded and partners are encouraged to work together to expand the pie. Profitability is increasingly a factor in compensation, to ensure that the firm is considering the bottom-line impact rather than simply the top line number. We expect firms will continue to focus on partner compensation in 2020 in order to achieve their broader goals.

2019 ended on a high note for many law firms. 2020 and beyond will bring opportunity for firms- *if* firms not only pay attention to the fundamentals, but also focus on what is required to succeed longer term.

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