



Looking Ahead to 2022

Each year we look ahead and make predictions for the coming year. The last two years have been unpredictable in almost every way, but clearly demonstrated the resilience of the legal industry.

While final financial results are still coming in, we expect that 2021 will be a record year for many law firms, particularly large corporate-driven firms. Revenue increases were driven by a combination of increased demand and stronger pricing power, with firms able to increase rates and capture a higher proportion of those increases than in prior years. While expenses were higher in 2021, particularly driven by increases in associate compensation, there were still savings relative to 2019. The strong revenue performance and lower expenses combined for unprecedented partner profitability for many firms, and well beyond what we might have predicted a year ago.

As we look ahead to 2022, the outlook looks good, but there is always a chance for headwinds and unpredictable events. That said, here are a few of our predictions for 2022 that law firm leaders need to be thinking about as you plan for the year.

War for Legal Talent

The war for talent, associate talent in particular, was the story of 2021. Associate compensation levels increased mid-year, and more firms matched those levels than ever before. Lateral hiring at the partner and associate level was very competitive, with guaranteed compensation returning for partners, and significant signing bonuses emerging for in-demand associates. As we move into 2022, lateral partner activity remains very active. And some firms have increased associate starting salaries to \$215,000, with knock on effects in European markets as well.

We expect the talent market will remain heated in 2022 as firms focus on growth, but perhaps not as super-heated as in 2021. While firms outside the top need to replenish their ranks, they also need to be careful that there is alignment between revenue generation and compensation. The margin on associates for firms who are not commanding premium billing rates and high productivity is shrinking. If demand ebbs a bit in 2022, that margin will shrink further.

The other critical element of winning the war for talent is effectively managing the hybrid work environment. We expect the majority of firms will have some form of hybrid work going forward and it will be critical to design approaches for training and development of younger lawyers, collaboration among colleagues, and delivery of work that are effective in a hybrid environment.

Elevation of Business Professionals

Firms have long accepted that they need strong business professionals to manage the business side of the firm. The operational complexities over the last two years have only reinforced this need. In addition, the mix of operational talent in firms has shifted to professionals who bring expertise in pricing, innovation, client service, technology and other areas and help move the firm forward rather than simply running in place. In 2022, firms will need to determine the right mix of talent for the firm given the changing staff needs post-pandemic. This will require determining the strategic priorities of the firm and the talent that is required to execute those priorities.

One complicating factor as firms seek to augment business professionals is that, just like legal talent, attrition of business professionals picked up in 2021, with finance and IT professionals becoming particularly hard to replace. Both short- and long-term success requires firms to attract and retain top business talent. While compensation is an element of this equation, there is a need for firms to invest in talent more broadly. This includes training and development, well-being, and most importantly, respect for their contributions.

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Focus on Strategy and Growth

While many aspects of strategy were on pause over the last 2 years as firms focused on pandemic response and then responding to the demand increases of 2021, the interest in growth continues at a very high level. Firms in the 200-600 lawyer range, who often feel very midsize and struggle to compete in the lateral market, are particularly focused on growth through merger, but we see interest among all sizes of firms. Completed mergers were lower than normal in 2021, as they were in 2020, but several have already been announced for 2022, and merger discussions are ramping up.

Any growth initiative needs to be rooted in strategy, and revisiting strategy needs to be front and center on the agenda in 2022. Strategy needs to address not only growth and talent issues but also longer-term competitive issues. As the market continues to segment, more dramatically in 2021 than ever, firms need to carve out their competitive position and define their source of market differentiation.

Sense of Purpose

Part of developing a strategy and vision is articulating a sense of purpose. What does the firm stand for and value? When will the firm take a stand on something? Employees around the globe are prioritizing purpose in making decisions about joining/leaving jobs, and law firms are not immune from this trend. In fact, it is an area where law firms may have an advantage as they can use firm talent and resources to fight for social justice, sustainability, or other areas where the law can advance the firm's values. Having the opportunity to be involved in these efforts can be a draw for young lawyers. And because clients are also reinforcing their values and purpose, being able to partner with clients when those values are aligned can be a powerful tool for client retention.

Having this articulated sense of purpose may also help connect talent in a hybrid work environment where connections that goes beyond daily face-to-face interaction will be critical.

Maintaining Financial Performance

While the strong performance of 2021 was certainly welcome, it may be hard to replicate. Matching 2021 performance, much less exceeding it, will require focus and tough decision making. Further, leaders will need to combat complacency among partners who may be feeling quite satisfied with recent profitability. It will be critical to set ambitious targets and determine what is required to meet those targets.

Further, firms need to be thinking more creatively about what they do with the strong performance. One of the challenges with a cash-based business is making investments, whether that is in innovation, talent, or critical capital investments. But, given record levels of profitability growth in 2021, if there were ever a time to invest, and the ability to invest, that time is now.

2021 was a financial success for many law firms, but it will take hard work to continue that success in 2022. While the challenges will be different than they were over the last two years, there will continue to be challenges. It is a time of change and transition for the business of law firms, and leaders who prepare their firms to take advantages of the opportunities created by those changes will see their efforts pay dividends this year and in future years. As always, we are here to help firms understand these forces and develop plans to address them.

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