



Embracing Change is a Leadership Imperative

The legal industry continues to accelerate and evolve. For decades, law firms have operated within a relatively stable model—steady demand and a pricing structure anchored in increasing billing rates. That model is now under sustained pressure from multiple directions, yet many firms (and partners) remain resistant to change.

Profitability is becoming more differentiated across the market: a subset of top-tier firms continues to capture disproportionate gains, while many middle-market firms face margin compression and strategic drift. Since 2020 the AmLaw50 (firms ranked 1-50 by revenue) have increased profits per equity partner by 72%, to an average of \$5.2 million. In the same period the AmLaw 2nd 100 (firms ranked 101-200 by revenue) grew profits per equity partner by 40%, to an average of \$1.2 million. The dollar gap continues to grow.

Partner mobility has accelerated, with lateral partner moves in the AmLaw 200 up 20% just between 2024 and 2025. In some cases, the move of a significant group to another firm has destabilized the firm they departed. Lateral additions and departures are now common in all segments of the legal market.

Artificial intelligence is accelerating the automation of routine legal work and reshaping the economics of service delivery. Clients are demanding more value transparency and are increasingly unwilling to subsidize inefficiencies. Ultimately the shape of firms will shift, and the skills required of lawyers will change.

This divergence is creating a clear imperative: firms must adapt, or risk becoming irrelevant.

The New Reality: A Market of Winners and Stagnators

The legal market is no longer a rising tide that lifts all boats. Instead, it is fragmenting into distinct performance tiers. High-performing firms are scaling advantages through depth of expertise, specialization, technology adoption, and disciplined client selection. Meanwhile, firms that remain anchored in legacy operating models are experiencing declining realization rates, talent attrition, and erosion of client loyalty.

This pattern mirrors what McKinsey has described in other industries as a "power curve" dynamic—where a small number of firms capture the majority of economic profit. In such environments, incremental improvement is insufficient. Firms must pursue step-change transformation to reposition themselves on the curve.

Many firms recognize the need to evolve but default to incrementalism: resistance to investing in technology, limited tweaks to outdated compensation models, a willingness to address only the most significant underperformers. While these efforts may produce some gains, they are unlikely to be enough to keep up with even the middle of the pack.

Breaking with the Past

One of the most significant barriers to transformation in law firms is cultural inertia—the deeply embedded belief that the traditional way of operating is inherently superior. Culture and core values are important, but culture should not be used as an excuse to avoid change.

Overcoming this requires intentional disruption. This requires setting an ambitious strategic agenda. Rather than incremental targets, these firms define what winning looks like in concrete terms—whether that is becoming the market leader in a specific practice area, achieving a step-change in profitability, or building a differentiated client experience powered by technology.

This ambition must then be translated into a coherent set of strategic choices:

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- Where to play: which clients, industries, and practice areas to prioritize
- How to win: the capabilities and differentiators required to succeed
- What to build: investments in talent, technology, and processes

Firms must be willing to make investments in the future. While managing expenses is important, it can't be the primary driver of profitability. Setting an investment budget – whether for talent or technology - is critical. This balance is often one of the biggest challenges for firms who feel pressure to deliver short term profitability.

This is not about change for its own sake. It is a recognition that past success does not guarantee future relevance. A strategy that preserves the status quo is not an option.

Leadership: The Critical Differentiator

At the center of this transformation challenge is leadership. Firms that successfully navigate disruption are led by individuals who do more than manage—they challenge assumptions and mobilize change.

Transformation in the legal industry is fundamentally a talent challenge. Firms must attract, develop, and retain lawyers and business professionals who can operate effectively in a changing environment.

Firms that succeed will be those that create an environment where diverse skill sets can thrive—and where innovation is not an exception, but the norm.

This requires a deliberate shift in how leaders are selected and developed. Traditional criteria—tenure, book of business, or even internal standing—are no longer sufficient. Instead, firms must prioritize leaders who:

- Demonstrate a clear orientation toward innovation and change
- Are willing to question entrenched practices
- Can articulate and execute against a forward-looking vision

In many cases, this means making difficult choices: elevating leaders who may not fit the historical mold but possess the mindset required for the future.

For firm leaders, the question is not whether to respond, but how boldly to act. Those who embrace change—who select the right leaders, challenge legacy assumptions, and commit to ambitious transformation—will position their firms to succeed in the next era. Those who do not may find that the window for action closes faster than expected.

The forces reshaping the legal market are unlikely to reverse, and the pace of change is only accelerating. In an increasingly competitive and fragmented market, standing still is no longer a viable strategy. The future will belong to firms that move decisively—and differently.

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