



Law firm of the 21st century  
*An Eversheds report*

# Introduction

by David Gray, Chief Executive, Eversheds



How will our law firm need to change to meet the needs of our clients, our people and society in the future? What steps do we need to take now to ensure we don't get left behind? These are the questions we are constantly asking ourselves at Eversheds and is why we've commissioned this report.

Planning ahead has always been a part of the way we do things at our law firm. A quick look over our shoulders tells us that many things have changed in the legal world (and the world as a whole) over the past few years and none of us can expect anything different from the decades ahead.

At the moment every legal practice is facing up to a series of tough challenges. The globalisation of business, the demand for greater value from clients, the struggle for talent, the need to be responsible citizens, the desire for greater balance in our working lives: these issues and more all need to be tackled as the current century progresses.

To do this, and remain a world class law firm, we are listening to and learning from everyone who will talk to us. It's how we stay ahead of the game and keep meeting the needs of our clients, our people and communities around us. We'd like to share some of our findings with you.

I hope this report is useful to you as you plan your path for the future. The results are enlightening and sometimes unexpected. We'd also like to issue it as a challenge to our competitors to really start thinking about what their clients want and not just what they want to give them. Whatever the issues we face, and whatever the 21st Century law firm becomes, the legal profession is going to continue to be a fascinating place to work.

# Executive summary

## Research objectives

International law firm, Eversheds, commissioned specialist legal research company – *RSG Consulting* – to conduct an enquiry into the future of the legal profession ten years from now.

The research focused primarily on leading international law firms (top 25 by turnover) and their clients, who include major investment banks and leading FTSE 250 companies.

The object of the study was to gain an insight into:

- the impact of the Legal Services Act
- the structure of future law firms
- future client buying patterns
- the impact of commoditisation and standardisation
- the client-lawyer relationship
- whether law firms will or can be better places to work.

One of the unique features of this research is that it gives a 360 degree view on the future of the legal industry, from both partners and clients.

## Research methodology

The Eversheds report is essentially a qualitative study based upon, on average, 45 minute telephone interviews with 50 partners at top 25 firms, and General Counsel, Legal Directors, and Finance Directors at 50 of the world's most prominent companies and investment banks. In addition, we were able to draw some quantifiable conclusions from our results to illustrate key trends.

The 100 interviews with partners and clients were conducted on a confidential and non-attributable basis in November, December 2007 and January 2008.

# The Future Law Firm

## Predictions based on the 100 interviews

Of course no one can fully predict the future but, based on what our recipients have been telling us, we can see some definite trends for the next ten years.

When it comes to costs and billing we see that the future law firm is more likely to share risks with its clients. Transparency will also be an issue with e-billing and value billing playing a role in providing this. Controlling costs in general will be treated more seriously than it currently is amongst many major firms.

Advice that is, today, considered premium may well be commoditised in the years to come and delivered at a lower, fixed cost. However, we believe there will still be a role for premium, cutting edge advice as new areas of the business and the law open up.

Lawyers themselves will become more commercial, going beyond the delivery of black letter law and adding value as business consultants as well as legal advisers. They will work in closer partnership with in-house clients and align their service to match the individual needs of each organisation.

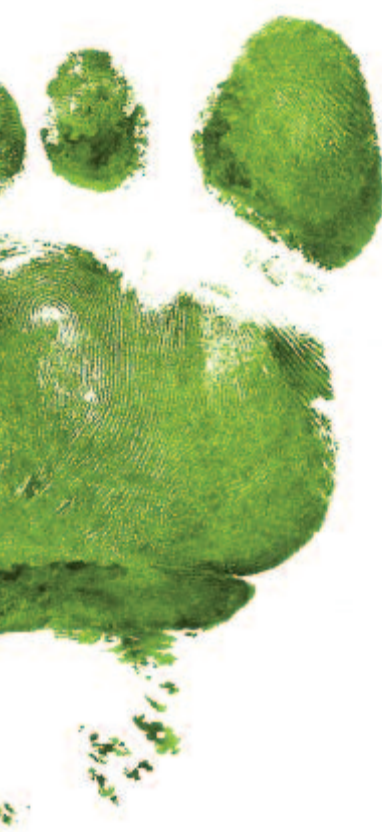
Internally, we still can't see an end to long hours and a compromised work-life balance in many firms, although solutions to this based on technology may well help to ease the burden. In addition, most law firms are unlikely to go public but, instead, they will offer alternative career paths for lawyers.

These are our conclusions, but read the report for yourself and see what you think.



# Key findings

- **Clients concerned over rising fees:** Over half (55%) of in-house counsel did not believe that the current growth of law firm fees is sustainable.
- **Priorities between clients and lawyers diverge on controlling costs:** The biggest challenges facing buyers' of legal services over the next ten years is controlling costs and achieving value for money. Just over half, (57%) of in-house counsel mentioned these challenges. However, these issues concerned only 21% of the partners interviewed.
- **Hegemony of 'magic circle' dented:** A third (34%) of the clients interviewed specifically mentioned plans to buy legal services from more firms outside the magic circle. Partly a response to fee increases, these clients felt they could obtain value for money and better client service outside the magic circle firms.
- **Hourly rate remains resilient:** The vast majority of both partners (82%) and clients (86%) believe that the hourly rate will be alive and well in ten years' time. This is despite the fact that partners and clients alike do not feel it is necessarily the most effective way to bill or to add value.
- **Legal Services Act will have limited impact:** The majority of partners (73%) do not believe that the Legal Services Act will result in significant changes at the top end of the profession. Specifically they felt that top commercial firms would continue to be run as partnerships (including LLPs). Clients were mostly un-concerned as to how their legal advisers organised themselves. (55%) were not bothered as to whether they instructed legal companies or law firms. However, a significant minority (24%) did feel wary about the continued reliability of their legal advice from an incorporated firm and were positively pro the partnership model.
- **Expert legal advice will not be commoditised:** The predicted transformation of legal services through technology is not expected to impact the elite end of the profession. The majority (70%) of partners did not wish to be involved in commoditised legal businesses although there was almost unanimous agreement that this trend was significant in the market. However, half the clients (50%) thought that commoditisation and standardisation could add value and help in controlling costs but as yet very few (19%) had direct experience of commoditised services.
- **Top law firm partners are happy, compared to their assistants:** The discontent amongst assistant solicitors, widely reported in the press, is not mirrored by partners at the top international firms. The vast majority (77%) felt that law firms are currently good places to work, and one-third felt that firms had become better places to work than ten years' ago.
- **Flexible working not the answer to work-life balance:** Over half (56%) of clients and (45%) of partners did not think that flexible working could be a realistic solution to work-life balance issues, particularly in transactional areas.
- **Clients and partners disagree about work-life balance:** Half of all clients (51%) thought that firms should be able to offer their lawyers a credible work-life balance alongside excellent client service and did not see their demands as a direct cause of the problem. However, 48% of partners thought that work-life balance for their lawyers and excellent client service was a contradiction in terms.





# Detailed findings

## Greatest challenge for in-house counsel and their advisers

- The key challenge facing buyers' of external legal services over the next ten years is **controlling costs and achieving value for money**. Just over half (57%) the clients mentioned these challenges. Many emphasised that internal pressure to reduce their legal budgets was bigger than ever: *"Everybody is focusing on cost-cutting. It seems as though the fees at major firms are inevitably rising to ridiculous levels. I don't understand how they can get away with it for much longer."*
- Clients were also asked what they thought the greatest challenge would be for leading law firms. 41% thought that it would be for law firms to control costs and justify their fees to clients. Law firms need to: *"wake-up and smell the roses. The demands they have made in terms of their fees in the past few years are simply enormous and it can't go on inevitably,"* said one client. However, partners in the top law firms were less concerned about this than their clients. Only 21% of partners thought that providing better value for money and justifying their costs to clients would be a major challenge in the coming decade.
- Partners and clients were united in recognising the problems of **resourcing and retention** for law firms although this was obviously of more concern to partners than clients. However, 17% of clients did think that problems here would directly affect the levels of client service they received. Twice as many partners (36%) were concerned. Many saw these challenges as directly related to the changing work-life balance aspirations of 'Generation-Y'.
- **Internationalisation** was seen as equally important as retention by the partners. 36% felt that meeting the demands of global clients and managing international networks would continue to be a challenge.
- **Consolidation** was considered a challenge by a significant minority (21%). Although partners interviewed thought that consolidation would most likely affect mid-tier firms, others thought that the legal market would become *"more brutal"* and firms would increasingly need to merge to survive.



## Fees and value

“Wake-up and smell the roses. The demands they have made in terms of their fees in the past few years are simply enormous and it can’t go on inevitably.”

Client

- The current growth of law firm **fees are not sustainable**, said just over half the clients (55%) interviewed. Many felt that fees could only stay at current levels if matched by better value for money. Others wanted to see more value billing: *“Law firms try and run this one size fits all model for advice, so they charge too little for some work and too much for others.”*
- Clients who believed the growth in fees was sustainable related this to a sense that they **lacked the power to bargain** down the leading law firms: *“You’re caught between a rock and a hard place. I wouldn’t want to suggest for one minute it’s a cartel but all the big firms have raised their prices to a similar degree and so what can you do, that’s the rate you have to pay.”*
- **Magic circle firms** in particular were felt to offer **less value for money**. 34% of in-house counsel specifically mentioned existing or future plans to diversify their buying patterns to work more with firms outside the magic circle. *“The magic circle are really pressed and on the day to day stuff, you can really start to tell [...] we’d rather go to firms outside the magic circle, and get the best team there.”* Many felt there was little difference in the standard of legal advice: *“The quality of work is no different between the magic circle and other firms, and the smaller firms are cheaper, they are far more willing to negotiate on fees.”*
- The vast majority (83%) of partners and clients believe that **the hourly rate will still be used** in ten years’ time despite nearly a third of clients (32%) saying in emotive terms how much they hated it. Most clients (72%) did acknowledge that the hourly rate would become less important and many of these already used a variety of arrangements.
- Despite the topicality of **value billing and risk sharing**, only a minority of clients (22%) actively mentioned these approaches as a future trend. However, partners were a bit more forward-thinking with nearly half (48%) mentioning value billing, success fees and risk sharing as a key billing arrangement of the future.
- Overall, the majority of partners and clients accepted that budgets and fixed fees which give a degree of **certainty and predictability** to the whole billing process currently is, and will be, the most popular alternative to the hourly rate.
- Both partners and clients recognised that the hourly rate was probably not the most advantageous billing approach for clients. One partner commented: *“It’s not in the client’s interest. It provides an incentive to law firms to throw people at the work.”*

“Fixed prices come down to better project management.”

Client

## Law firm structure and outside investment

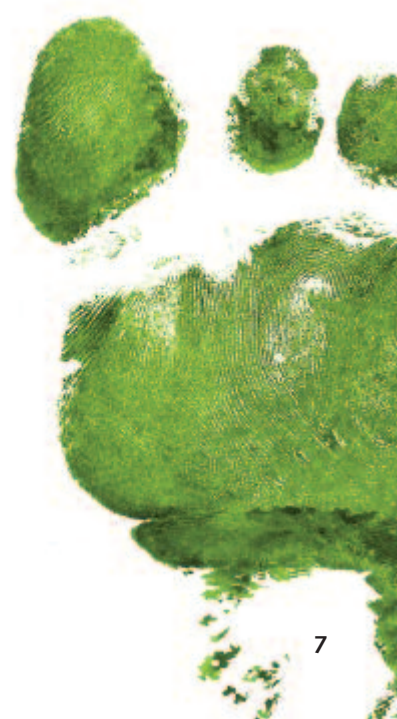
“If they became listed corporates they’d become more bureaucratic, and that could damage the profession.”

Client

- Views were mixed on the likely effect of the Legal Services Act over the next ten years. The majority of partners (73%) believe that the Legal Services Act will **not result in significant changes** to the partnership model (including LLP), over the next five to ten years: *“Top quality law firms will always be partnerships, run by partners.”* However, a significant minority of partners (20%) expect major changes including incorporation, whilst 7% didn’t know what the future law firm structure would be.
- The majority of in-house counsel (72%) were similarly not very concerned with the Legal Services Act. Most had either not given it much thought or could not foresee real change to the firms they instruct. If they did see change, it tended to be at the mid to lower tiers of the legal market or an increased move to LLPs. Very few saw law firms rushing to incorporate.
- Just over half the clients interviewed (52%) were not bothered as to whether they instructed an incorporated legal business or a partnership. However, a significant minority (24%) did express concerns as to whether a ‘legal company’ would be able to offer the same service and indemnities, and were positively pro the partnership model.
- Just under half (42%) of all partners thought law firms might take **outside investment**, but with qualifications: *“One or two smaller mid market players might go for it. But ultimately it won’t be enough to encourage the top 25 to do it because they don’t need recourse to that capital injection – they’re profitable enough as it is.”*

“From the point of view of a client the partnership structure is better because of its very personal nature, because you are dealing with people who own the business.”


Client





## The client-lawyer relationship

- Both partners and clients thought that the client-lawyer relationship is improving. The majority of clients (71%) felt the relationship with their lawyers was stronger, with just over a third of these believing it would continue to strengthen in future. Slightly fewer partners, but still the majority (52%) also thought the client-lawyer relationship was improving. Both groups thought that there was a move for external lawyers to move back to being the 'business' adviser, aligned with the in-house legal department and the business.
- The majority of clients (58%) emphasised that trust would continue to be of absolute importance in the client-lawyer relationship, more so than in other professional advisory relationships. *"The client/lawyer relationship is sacrosanct. Absolutely. You just can't use lawyers that you don't trust."*
- However a significant minority were more pessimistic about the client-lawyer relationship. 30% of partners thought there was less trust and closeness between clients and lawyers: *"I think it's more of a business to business relationship than a professional relationship built on trust and personal connection than it used to be. There's less loyalty."*
- Over half (53%) the clients interviewed thought the lawyers of the future needed to be more commercial. They felt that private practice lawyers needed to properly understand their clients' businesses (and their approach to risk), and to stop charging for this learning curve: *"They could probably improve efficiency in the way that they approach a job. We hate having to brief people giving us legal advice on our needs, especially when we're also paying for the privilege."* Others allied commerciality to value for money, which included a more transparent approach to billing and more pro-activity.



**"It still is about individual relationships, and I actually think that in some respects those have become stronger, and there's more trust there."**

Client

## Commoditisation and standardisation

- A majority of partners (70%) at the top international firms claimed they did not wish to work in commoditised legal businesses. They felt that these trends were most likely to affect mid-tier firms outside the international elite.
- However, many clients (50%) thought that commoditisation could lead to added value. Many saw it as a possible route towards more added value, although there was uncertainty as to whether law firms would in fact pass related savings on to clients. Just under half (43%) the clients did acknowledge the value-adding role of technology to law firms' services and cutting costs.
- In reality, commoditised services are still, for many, a future development. Only 19% of clients interviewed had had direct experience of commoditised or standardised legal services from their lawyers. A significant minority (27%) of clients agreed with some of the elite partners, saying they did not think the work they did was suitable for commoditisation. One client commented: *"With some firms it's all about commoditisation. They will develop less good relationships with clients because it's all about cost. But legal relationships especially at the high end are still all about people, there's no getting away from that."*
- Most partners and over half the clients (53%) did recognise that, overall, commoditisation and standardisation were important trends in the legal sector but they felt that it was for "bread and butter transactions" and routine legal work – not for strategic legal issues.

"Today's rocket science becomes tomorrow's commodity."

Partner

"All areas of business go through a life cycle where things start off highly bespoke and then you get standardisation."

Client

## Work-life balance and flexible work

“There are more people looking for flexible, different ways of living their lives and working as lawyers.”

Partner

“I do know that City firms are still a sweatshop and they haven't seen the runes yet.”

Partner

- The growing discontent among assistant solicitors in the legal profession, widely reported in the press, is not mirrored by partners at the top international and City firms. The vast majority of partners (77%) felt that law firms are currently good places to work.
- One-third of partners felt that law firms had actually become better places to work over the past ten years, and many related this to the introduction of more professional human resource practices. Just 28% of partners believe that leading law firms have become worse places to work today compared to ten years ago. 39% thought that overall, the working environment and conditions had got neither better nor worse.
- Partners were split over whether it is possible for major city law firms to give their lawyers quality of life and at the same time deliver top-notch service to clients. Nearly half the partners (46%) felt that achieving a work-life balance would be a key challenge for law firms over the next ten years, linking it to their core business: *“Unless you've got motivated people, you won't get excellent client service.”* However, 48% of partners felt that the two objectives are a contradiction in terms. *“The easy answer is no. You can fiddle around at the edges. But at the end of the day, clients expect 24/7 from the leading firms.”*
- Half of all clients (51%) thought that firms should be able to offer their lawyers a credible work-life balance whilst delivering on client work. Very few felt that their demands were unreasonable and compromised lawyers' work-life balance. However, these clients felt that law firms needed to make radical changes to the way in which they ran themselves as businesses. In particular, some clients felt that firms were too profit driven: *“Their targets are such that a pound of flesh is absolutely expected.”*
- Flexible working, often touted by lawyers as the panacea to the problems of work-life balance in the profession received a mixed reaction from both partners and clients. Over half the partners (56%) and nearly half the clients (45%) interviewed did not think that flexible working could be a credible solution, particularly in transactional areas. As one client said: *“to be honest, when we're paying these huge fees, we do expect our lawyers to be there and it's difficult to accept if they are not there when we need them.”*
- However, significant numbers of clients (41%) and partners (38%) did feel that flexible working could be a realistic solution. These positive respondents felt that flexible working in the legal industry was a business imperative and that many of the impediments to it had been swept away by technology. In addition, it was seen as a pressing demand from Generation Y which is intrinsically linked to one of the key challenges facing law firms today – retention.

## Diversity

- Diversity is theoretically a hot topic for leading law firms. However, it did not figure strongly in this research suggesting it is not as high a priority as some would like to suggest. In total, just 27% partners and 13% of clients spontaneously mentioned the challenges related to the retention of female lawyers.
- Diversity in any other sense (e.g. ethnic, cognitive etc) was similarly neglected, and was mentioned by just one partner, who spoke in general terms of the need for equality, inclusivity and fair treatment of staff. This was not mentioned in any context by a single client, which is perhaps surprising given recent reports that clients are pushing diversity up the agenda.



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