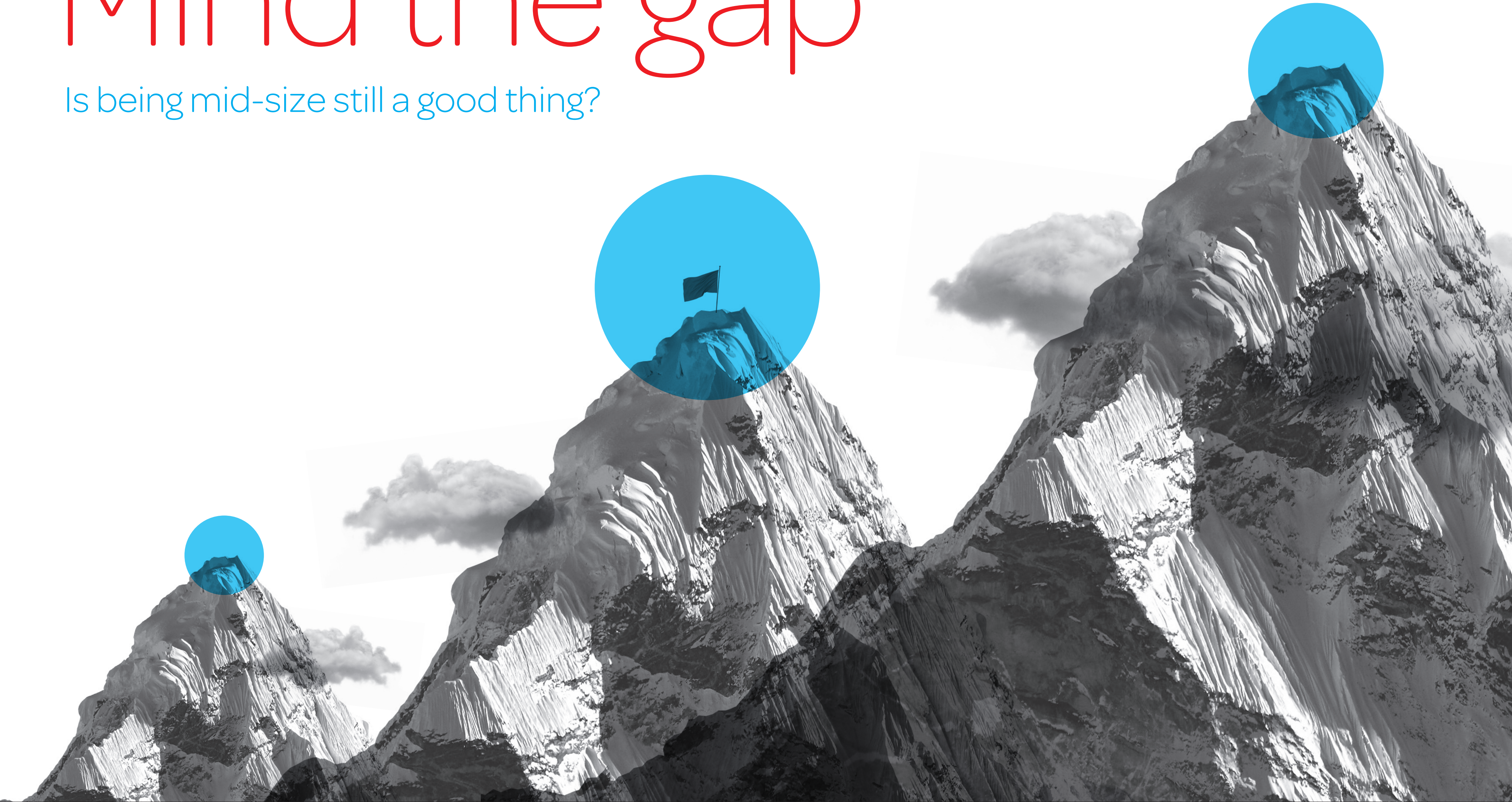
Mind the gap

Is being mid-size still a good thing?



After years of turmoil for mid-size law firms, those who've survived the storm are in good health and feeling positive about the future. But the decision-makers at the top of these firms often have a rosier view of where they are in the market and what it'll take to hold on to their position in the future than their practicing colleagues – and they both tend to have a higher opinion of their own service than the clients on the receiving end.

Based on interviews and surveys with over 150 law firms (56 decision makers and more than 100 practising lawyers), this report explores how mid-size firms feel about the health of their firm, their prospects for growth and how they're adapting to meet the changing needs of their increasingly demanding and tech-savvy clients and staff.

A bit of background

The legal landscape

There's been a great deal of speculation about how the legal landscape will change over the next five to ten years. Many predict that mid-size law firms will face the greatest threat.

But do the people who work in this sector share this view? And what steps, if any, are they taking to protect themselves?

In this study we explore these themes in detail, to give a broader picture of the dynamics – and tensions – within mid-size law firms. It follows on from our Bellwether reports, which explored similar themes among small law firms and sole practitioners (drawing parallels, where appropriate).

Bigger doesn't mean better

Being a mid-size firm still has its advantages

Most mid-size firms see their size as a competitive advantage and actively promote themselves as 'mid-size' to their clients. As one partner put it, *'Middle sized is a real entity. It is something we aim for. It is a really good selling point from our point of view.'* From the clients' perspective it means that: *'we're neither too big for them to get lost, nor too small to service their needs.'*

"Middle sized is something we aim for. It's a really good selling point, from our point of view..."

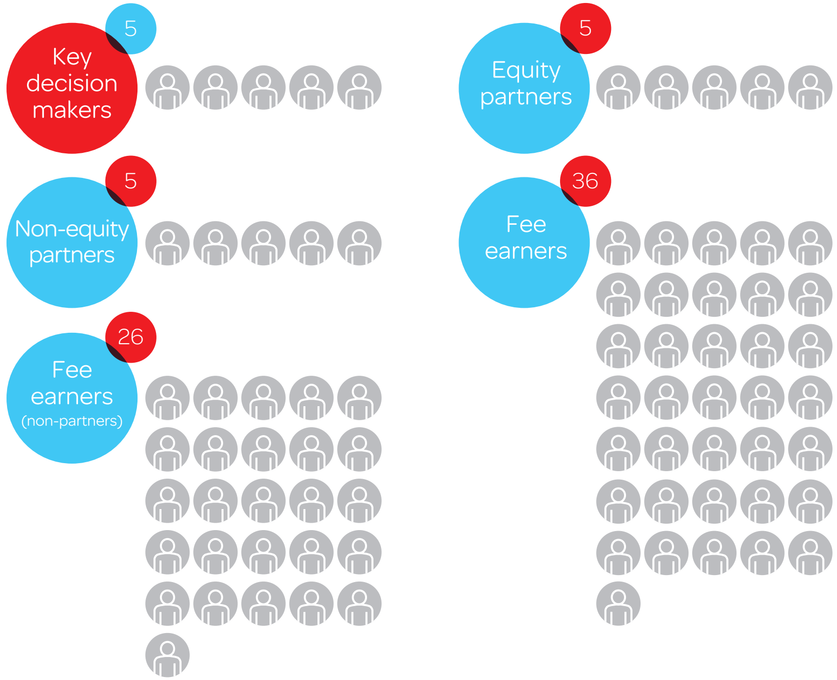
They also see several other advantages to being mid-size. A mid-size firm is big enough to get onto panels – but small enough to make decisions fast. In the words of one partner, *'At our end we are quite nimble and can cut costs quickly. The ship doesn't take that long to turn. Larger firms have bigger cost bases. Clients don't want to pay for that.'* Some also argue that a mid-size firm can offer a clearer career path and better work/life balance than larger firms. So it seems that despite all the upheaval in this sector, being mid-size is still seen as something to strive for and hold on to.

When you talk about your business to clients/other lawyers, how do you describe its size?

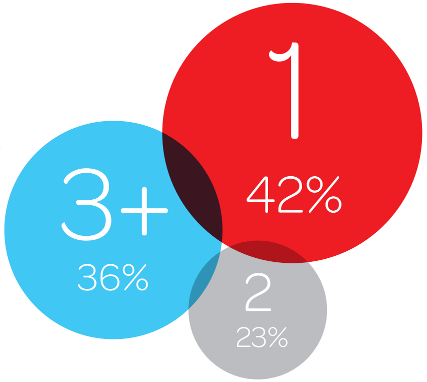
But what do lawyers see as mid-size? Just over 40% had only one branch, the average having two-three branches. On average, they employ around 36 fee earners, including around ten partners five key decision-makers. This suggests that most mid-size firms have an agile structure (though some would argue these ratios are still too top-heavy): *'Part of the reason companies fail is that there are less than 20 fee earners and 5 equity partners. It just doesn't work!'*

Thinking of the firm's personnel, approximately how many fall into each of the following categories?

(Average numbers)

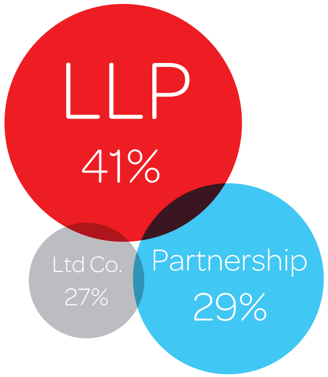


How many branch offices do you have?

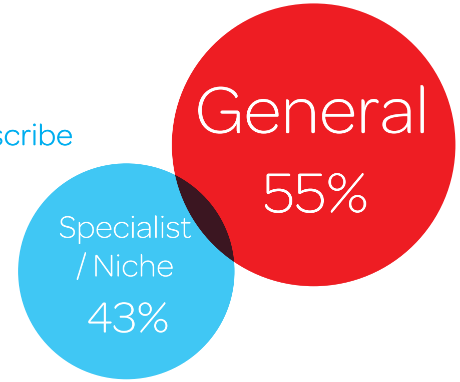


Around three quarters of firms follow the LLP or Ltd Co. model, over the traditional partnership model (with a marked preference for LLPs). And just over half would describe themselves as general, rather than niche or specialist.

Is your current firm set up as a:



Would you describe your firm as:

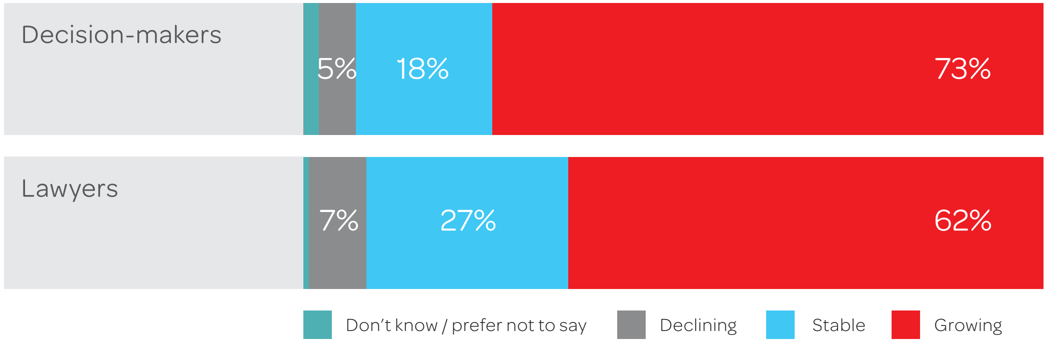


Good health, positive outlook

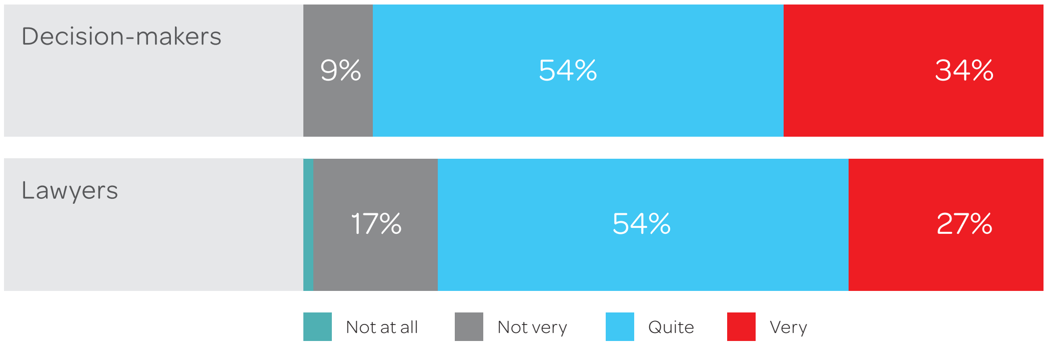
Since we began our series of Bellwether reports at the tail end of the recession in 2013, we've witnessed a significant rise in both the health and confidence of both small firms and sole practitioners. This also appears to be the case for mid-size firms, who are generally bullish about their current performance and mid-term growth. Over four in five describe themselves as 'quite or very' confident about their firm's future, and the vast majority say they're growing – hardly surprising, when you consider the fact that most of the firms which survived the recent shake-out are growing through mergers and acquisitions.

This sense of optimism is especially strong among decision-makers, 84% of whom say they expect to grow in the next five years, thanks to a resurgence of demand in key sectors like property and family.

Thinking about the performance of your practice compared to three-four years ago, would you say that business is...



How would you describe your level of confidence for your practice looking forward?



And thinking ahead for five years or so, is the firms plan to:

"Conveyancing is massive."

"The sky is the limit."

"The recession came but it was quite good for us."

"We have grown the income quite substantially and profit margins are good."

"When I started at the firm in 2005, we had 4 offices. Now we have 8."

This underlying confidence is reflected in their upbeat language.

If we take these findings at face value, mid-size firms see themselves as well-positioned to face the challenges and opportunities in the market head on – and aren't always aware of any imminent cracks in their structure.

Yet growth brings its own challenges. The systems that work for a smaller organisation don't necessarily work as well once you scale up. So despite being in good health, mid-size firms still need to review every element of their organisation and make changes, where necessary. As one partner put it: *'We are still running as a small firm with £5 million turnover, and it is beginning to, not fall apart exactly, but creak at the edges, now we are a £10+ million firm.'*

What's on the agenda?

The top challenges and priorities for mid-size firms in 2016

On the face of it, the main challenges and priorities for mid-size firms are the same as for most firms in the service industry – mainly revolving around client and staffing issues. But although they say that getting the right processes in place to tackle these issues is a high priority, they're somewhat reticent about devoting the time to make sure their information systems are as up to date as they can be. By the same token, there's a certain degree of complacency among decision-makers, who seem to feel that they've dealt with the issues, once and for all.

This mismatch between perception and reality is especially obvious when it comes to marketing issues – with more decision-makers saying they have a clear competitive edge over their competitors than those who actually do.

"As an industry, we are miles behind in terms of marketing, business development and approach."

The challenges

There's a clear sense that mid-size firms still face a considerable number of challenges. The top five challenges all revolve around clients and staff – not just attracting them, but holding onto them over the long-term. And even though mid-size firms are seen to offer a better career path and work/life balance, the lure of high salaries from city firms remains a real threat not just to outer London firms, but also regional players near major business hubs like Manchester and Leeds.

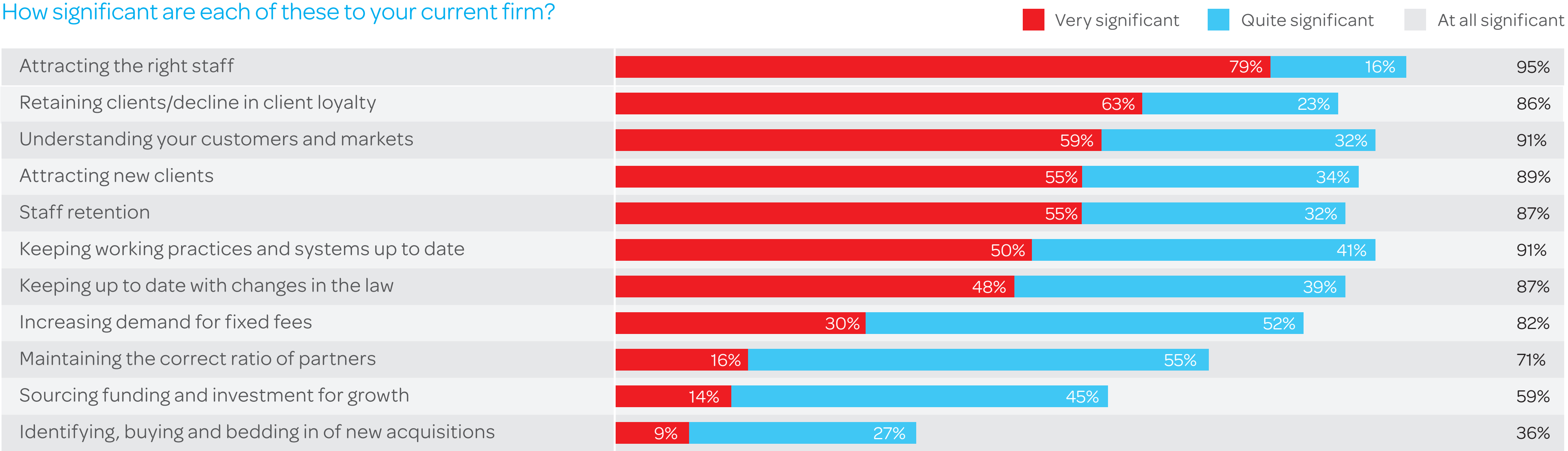
Clients no longer walk through the door unsolicited, which places a heavy onus on marketing – which isn't a strong point for many firms. In the words of one lawyer we spoke to, *'I think as an industry we are miles behind in terms of marketing, business development and approach. Which is why we find ourselves in trouble now. We have allowed ourselves to sit there and wait for the work to come through the door. Now that it doesn't, or at least not as much, firms are struggling more.'*

At the same time, clients' expectations have grown. Lawyers today have to do more than simply serve their clients' legal needs – they need to develop a deeper and broader understanding of their clients' businesses and sectors, much as accountants do.

Aside from these challenges, mid-size firms also need to make sure their infrastructure is as up to date as possible. As the business and branch numbers grow, they need to be able to serve clients efficiently, to a consistent standard and house style. And their lawyers need access to the best sources of legal information and systems.

Further down the list of challenges for mid-size firms is the partner issue, which affects almost 1 in 3 of the people we spoke to. Getting the partner to turnover ratio right, is fundamental to the health of any firm – and with so many mergers and acquisitions taking place, living up to people's traditional expectations of being partner can be problematic: *'It's amazing how many don't understand the business model. They want large salaries, no risk. We had a partner with a £300k following who wanted a £250k basic salary.'*

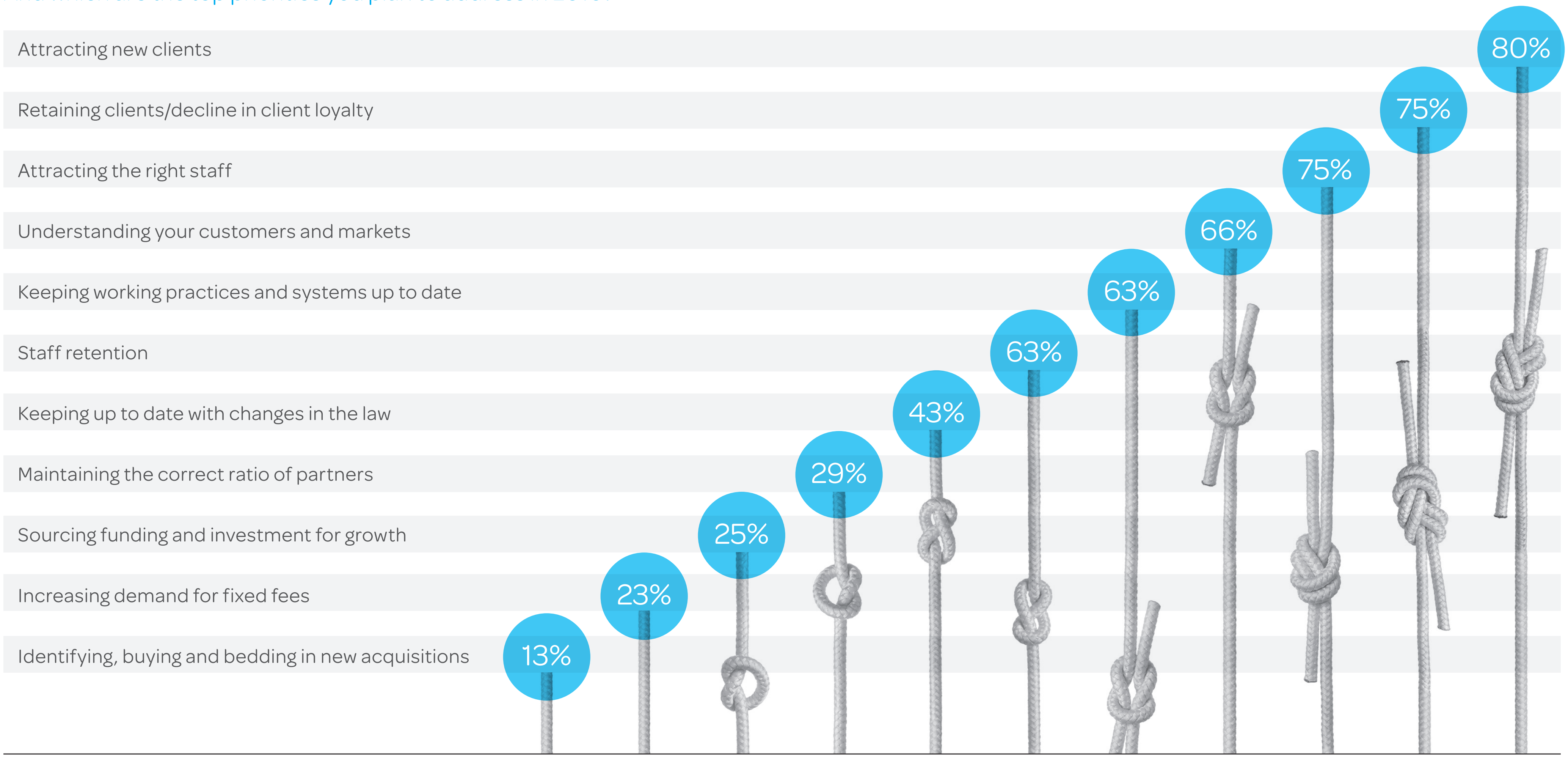
The following challenges were raised by other lawyers we've spoken to. How significant are each of these to your current firm?



The priorities

The top priorities for 2016 mirror the top challenges – clients and staff. Worryingly, this means ‘keeping up to date with legal developments/news’ is likely to go on the back burner.

And which are the top priorities you plan to address in 2016?



A sense of complacency

Interestingly, most decision-makers feel they've already done much of the groundwork to address changing market needs and growth. The top areas they've already invested in are staffing, web development, processes and training – with marketing lagging behind, in fifth place. However, these issues are never finite. There is always work to be done, despite the feeling among many decision-makers that they've done all they need to. The only area where everyone agrees there is 'work still needing to be done' is reviewing their sources of legal information, to make sure they're giving their clients the best possible advice.

The figures suggest a certain degree of complacency. Take 'increased investment in process/training', for example: twice as many decision-makers see it as 'done and dusted'. And the ratio for web development is even more extreme, with decision-makers five or six times more likely to think they've done all that needs to be done – taking a somewhat tokenistic view of its contribution to the business. Perhaps senior managers don't always appreciate the need to constantly keep evolving in the digital age, because it's an area they don't have much personal experience with and they've delegated to other people: *'We get the students to write blogs. We could be more progressive with things like that, we could do better. One of our junior solicitors does Facebook. My trainee does the tweeting, she runs things by me to check they are ok.'*

This disconnect becomes even clearer when you look at what their practising lawyers see as the top priorities for their firm. All of these are at a much higher than the decision-makers' 'planned changes' – often twice as high, or in some cases three or more times (staffing levels and web development).

Is this disconnect simply a question of poor internal communication? Or is it something more fundamental, a symptom of the creaks and growing pains associated with being a mid-size firm in today's market. Are those who aren't in the driver's seat being too demanding – or is it that they have a better handle on the day to day needs of the business. And if so, does the fact that the balance of power rests in the hands of five or so senior partners start to become the problem, without clear and open communication? As one decision-maker observed: *'In order to be agile you do need to have only a few people making most of the decisions. But you also need to have people they feed into who carry everyone else along with them. It is no good making decisions and not carrying your colleagues along with you.'*

Please tell us whether each of the following is: already implemented/planned?

		Implemented	Planned
Taking on more staff	%	79	11
Website development	%	75	13
Investing in training	%	59	27
Increased investment in processes/technology	%	57	25
Increased investment in marketing	%	41	27
Outsourcing non-legal responsibilities	%	27	11
Employing management consultant/business mentor	%	25	7
Review of information sources	%	21	38
Acquiring/merging with another legal firm	%	7	18

Which changes would you like to see implemented by your firm in the next year or so?

	Changes Planned Decision-makers		Desired Changes Lawyers	
	%	Rank	%	Rank
Review of information sources	38	1	15	7
Investing in training	27	2	42	3
Increased investment in marketing	27	3	43	2
Increased investment in processes/technology	25	4	56	1
Acquiring/merging with another firm	18	5	16	6
Website development	13	6	38	5
Taking on more staff	11	7	38	4
Outsourcing of non-legal responsibilities	11	8	11	9
Employing management consultant/business mentor	7	9	14	8

Keeping up with the Joneses

This begs the question whether mid-size firms take some of their key support functions seriously enough in this digital age. Even though it's become common practice to either outsource IT or employ an in-house specialist, the same can't always be said for other non-revenue generating roles. In fact, around 1 in 4 fee earners have taken on responsibility for areas like marketing, social media and PR themselves – usually, a far cry from their own areas of expertise, experience and training. Do mid-size firms fully grasp the growing importance of these areas, or could they be missing a trick?

However, some of the decision-makers we spoke to had brought in marketing specialists – and by and large, felt this was the right decision, while recognising that it hadn't been a particularly easy or smooth process. The challenge isn't just finding the right person or people, but *'to get lawyers to accept them'* as *'lawyers tend to rate lawyers ahead of everyone else.'* Whatever the solution adopted, marketing seems to be an area where it's really possible for mid-size firms to gain a competitive edge. Or, as one of our more cynical respondents put it: *'the biggest advantage you have in gaining new business is that your competition is other lawyers.'*

Who is responsible for each of the following functions in your firm?

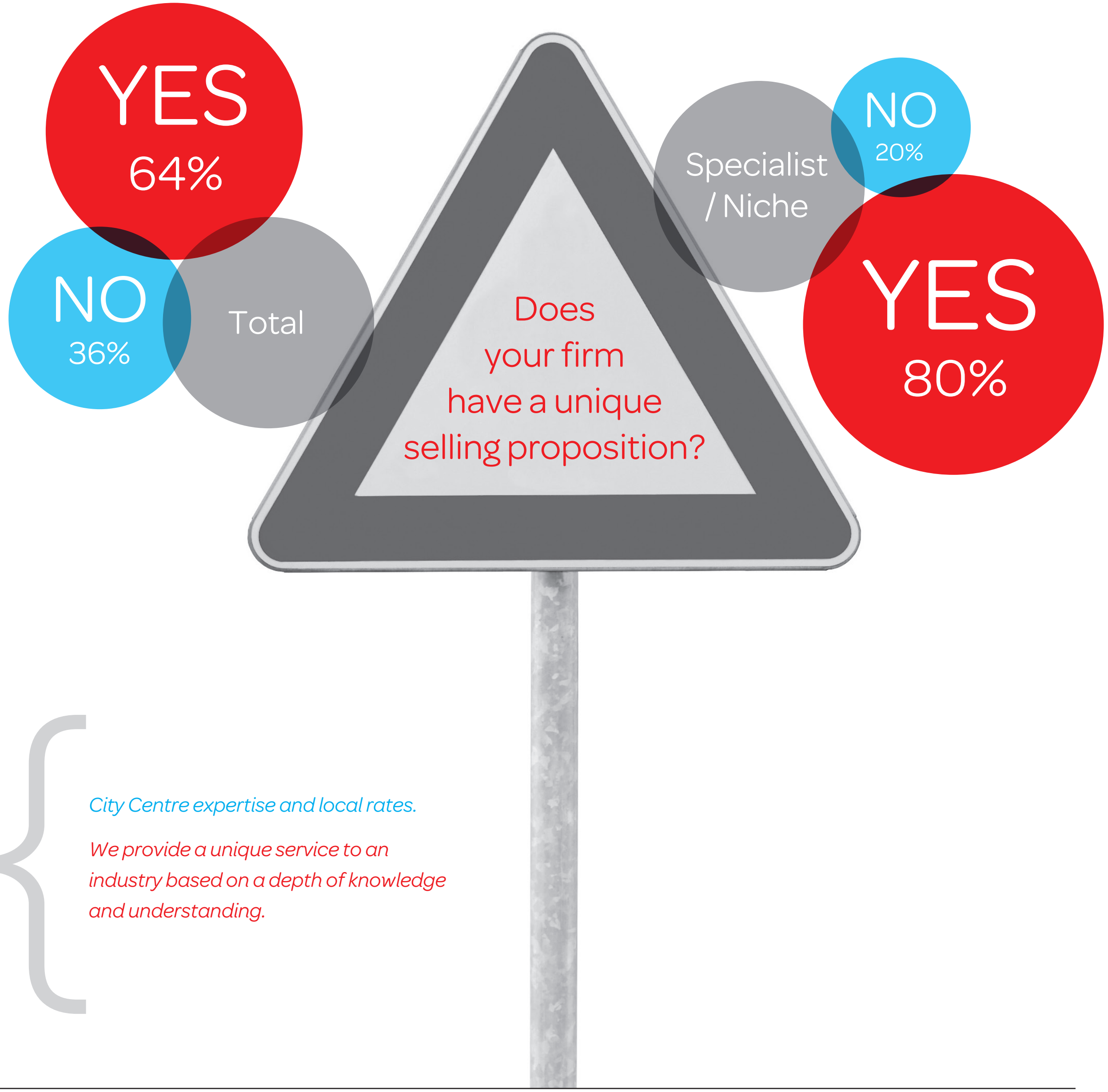
		Fee earners	Non fee earners	Outsourced	Do not have
Practice management	%	41	52	-	7
Knowledge management/library	%	41	36	9	13
Digital/social media	%	30	43	18	9
Marketing	%	27	59	9	5
PR	%	23	39	21	14
IT	%	11	46	39	-

1 in 4 fee earners have taken on responsibility for areas like marketing, social media and PR.

Standing out

One of the most critical factors underpinning any kind of marketing is having a clear picture of what your firm stands for and what sets it apart from everyone else in the market. In this competitive, value-driven age, clients need a reason to choose you. So time spent defining your niche or unique selling point is time well spent.

Encouragingly, two-thirds of the decision makers we spoke to feel their firm has a clear position – and among specialist firms (43% of our sample), the rate is even higher: four out of five. Unfortunately, the vast majority of these so-called USP's are fairly generic. While it's obviously harder for a generalist firm to achieve a point of difference, this lack of difference explains why clients are often so focused on fees. A far bigger problem, however, is the number of firms who believe their customer service is their key differentiator (as we'll explore further).



Providing high quality work at affordable prices.

Service delivery and client care.

Real people....well rounded advice....brighter outlooks.

Dealing with clients and colleagues with honesty and integrity we aim to provide a high level of client care. Not so much a USP as most firms would say but there is a real commitment to this.

Professional and approachable.

VS

City Centre expertise and local rates.

We provide a unique service to an industry based on a depth of knowledge and understanding.

An attitude problem

Decision-makers, lawyers and clients have different ideas of what makes a great law firm

Differences of opinion

The disconnect between decision-makers and lawyers in mid-size firms over what their firm's top priorities are – and just how much work remains to be done – seems to be not just a difference in perspective, but attitude. Perhaps unsurprisingly, decision-makers seem to have a far rosier view of their firm than the lawyers practising there do.

These differences focus mainly on employment issues, with the biggest gap surrounding the quality of training. Having a democratic bonus system and high staff retention are also areas where lawyers seem much less satisfied than decision-makers – despite the fact that staff retention levels are supposed to be higher for mid-size firms (owing to a better work life/balance and career path).

Equally, lawyers also score their firms lower on business management and structural issues (being agile, having a clear strategy and direction) than decision-makers. Again, this could either be a case of poor communication, or a wake-up call for decision-makers to realise that their firms aren't as dynamic as they think. As this is seen to be one of the key ingredients of success, it's essential for decision-makers to be able to step back and take an honest, unvarnished view of their firm.

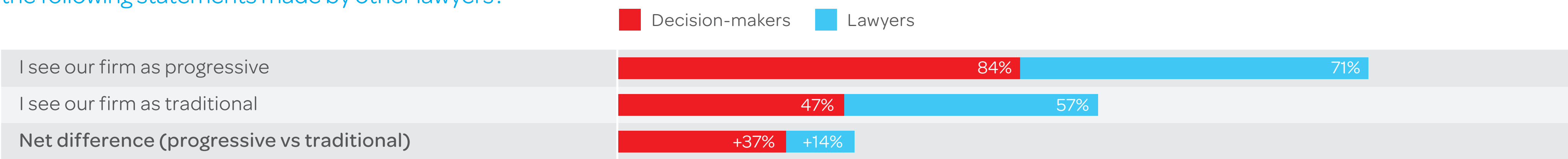
How much do you agree or disagree with each of the following statements made by other lawyers?

	Decision-makers	Lawyers	Net difference
We pride ourselves in the quality of our staff training	68	34	+34
We have a clear strategy for the future direction of the business	84	62	+22
I see our firm as agile when it comes to key decision making	72	52	+20
We have high staff retention	83	64	+19
We have a democratic bonus system	41	22	+19
I see myself as entrepreneurial	72	57	+15
As a firm we actively embrace change	83	71	+12

Though the majority of both decision-makers and lawyers say they see their firm as progressive, around half (47% of decision-makers and 57% of lawyers) also say they're traditional – suggesting they find it hard to throw off traditional values and ways of working, because they're so deeply ingrained. As one lawyer said: *'We would like to think of ourselves as progressive, but in reality how progressive are we? Lawyers aren't the most progressive of people.'* Getting everyone to buy in to this new vision and keeping them focused on it will be key to mid-size firms' long-term success, as one decision maker pointed out: *'The challenge we have got, as we grow, is to keep it all going as we started out. It is the people and trickling down the values that are important, and dynamism and hiring the right people.'*

"We would like to think of ourselves as progressive, but in reality how progressive are we?"

How much do you agree or disagree with each of the following statements made by other lawyers?



What makes a great law firm?

Even if our decision-makers and lawyers are out of step in their views on their firm's style, direction and staffing issues, they are very much of the same mind when it comes to defining what makes a great law firm.

Above average service tops the list (as it did for small firms and sole practitioners, in our Bellwether reports), followed closely by transparent fees. Client service is seen as a traditional weakness among lawyers – which means that it's also one area where it's still possible to make your mark: *'I think as a general rule of thumb that the legal sector is poor at customer service. If you compare with retail and financial services we are miles behind, but as a firm we are a lot better. It is from the top down here.'*

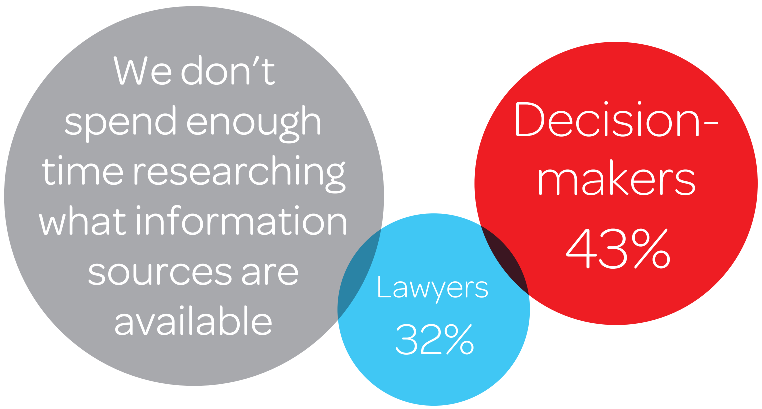
Two other areas stand out. One, having a clear business development strategy and forward-looking mindset (though as we've already seen, decision-makers are more likely to have an inflated sense of these things). Two, investing in staff training and access to the best legal information available, to make sure their lawyers are in the strongest possible position to give the best advice. Technology and systems are important, but only if all these other pieces of the jigsaw are in place.

Having a clear marketing strategy comes seventh – suggesting that mid-size firms are waking up to its importance, even if they're not quite there yet.

What are the characteristics which make a great law firm in your view?

	Very important	Decision-makers	Lawyers
Above average level of client servicing	%	91	82
Transparent in its client charging	%	84	71
Has a clear business development strategy	%	64	68
Forward looking	%	68	67
Provides access to the best legal information	%	66	67
Investment in staff training	%	61	65
Has a clear marketing strategy in place	%	61	59
Technologically advanced	%	55	53
Investment in the best systems/processes	%	54	42
Supports flexible/remote working	%	25	34
Willingness to use specialist consultants	%	21	15
Willingness to outsource non-legal work	%	13	5

How much do you agree or disagree with the following statement made by other solicitors?



What does great service look like?

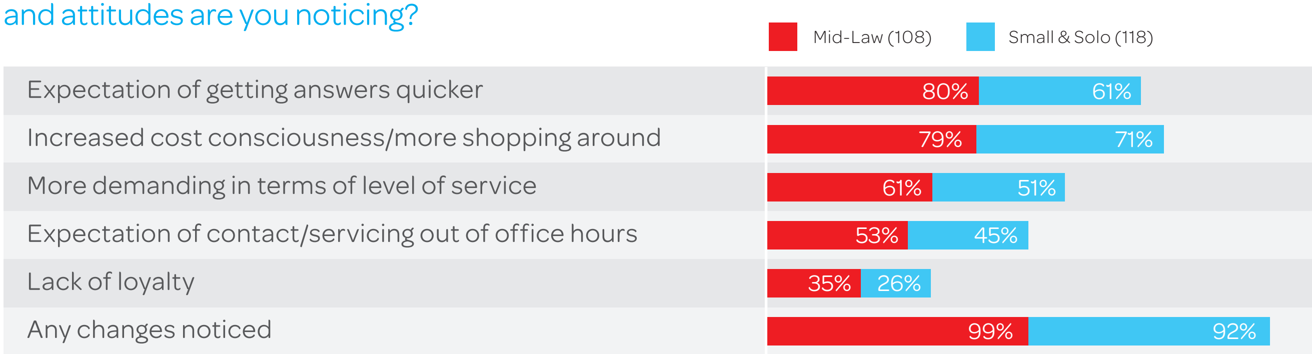
Decision-makers and lawyers both agree that the main key to their future success is the quality of their service – but they also acknowledge that the goalposts are moving, as clients become more and more demanding. Just like small firms and sole practitioners (in our Bellwether reports), mid-size firms say they're facing growing pressure from clients to work faster and provide a higher level of service, while cutting costs and offering value for money. This is, of course, a much wider social phenomenon that's reshaping many industries and professions, not just law. But it may come as more of a shock to a profession which hasn't traditionally placed as much emphasis on these things.

At the same time, lawyers' ideas about what constitutes good service lag well behind their clients'. Decision-makers seem particularly confident they're getting it right, with 46% rating their service *well above* average and 85% *above average* – though the lawyers themselves aren't far behind (as we also found among small firms and and sole practitioners). This is in stark contrast to the clients themselves. In a separate survey we carried out last year with over 500 clients, only 15% rated the recent legal service they'd received as *well above* average, and 42% *above average*. Most clients by far rated the service they'd received as *average*, which shows that the legal profession as a whole needs to be more self-critical in its approach and recognise that it has some way to go to satisfy today's savvy consumers.

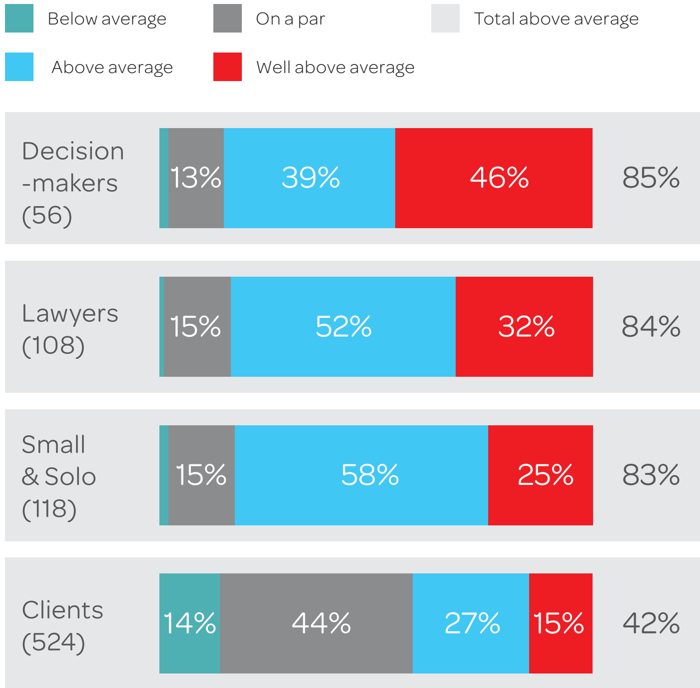
This change will, arguably, require a radical overhaul of both internal attitudes and client service procedures. But clearly, this is no time for complacency. The world of customer service has moved on, and lawyers could learn so much from other professions, who've been quicker to adapt to people's changing demands.

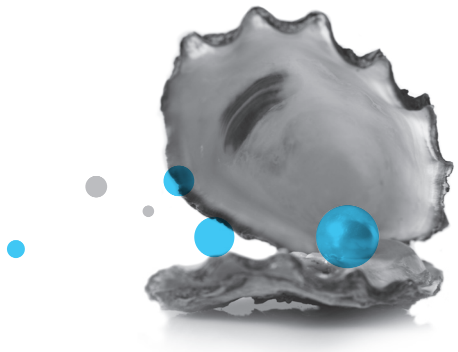
For the successful lawyers of the future, quality of client service should be seen as a given – or 'hygiene factor' to use FMCG terminology. To treat it as a USP or part of your brand positioning is to miss the point.

Which of these changes in client behaviour and attitudes are you noticing?



Do you feel that your firm's level of client servicing is...





Minding the gap

Despite all the hurdles and upheaval we've seen among mid-size firms, those working in the sector still see being mid-size as a strength – for both their clients' sake and their own. On the whole, those who've survived the shake-out feel confident about the health of their business and their chances for growth and success in the future. But with more growth comes new challenges, and there's evidence to suggest that some of these challenges haven't fully sunk in yet.

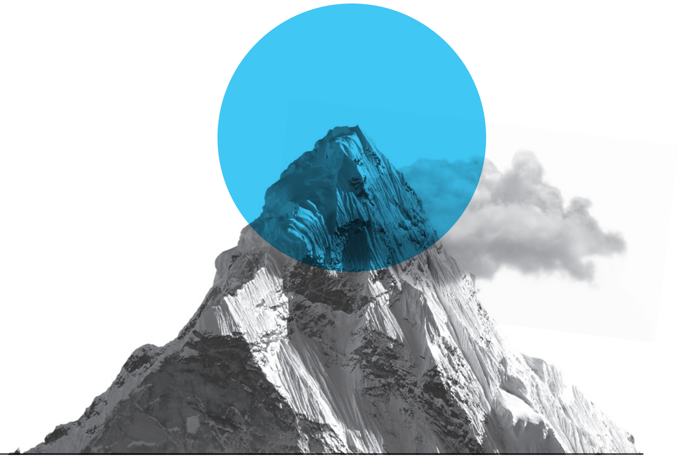
Decision-makers, while seeing their own firms as agile and proactive, tend to have an exaggerated sense of their own progressiveness and a sense of complacency about the changes that still lie ahead. There also appears to be a disconnect between those at the top and those on the front line. Though there is no doubt that many of these firms have made significant progress on many fronts, there's a tendency for decision-makers to see them as a fait accompli, rather than a 'work in progress'. This disconnect also extends to differing opinions on staffing, management structure and strategy. Are these gaps down to poor internal communication issues or are mid-sector firms less dynamic than their leaders think?

As mid-size firms grow, they may increasingly need the support of specialists for key non-legal roles (marketing and IT, for example). Some firms don't appear to have faced up to this yet, opting to 'wing it' or rely on junior staff for emerging areas like social media and mobile.

One of the key tasks facing any marketing team is to make sure their brand is built around a clear, compelling point of difference that sets it apart from its competitors. Unless firms are completely abreast of the latest developments in these areas, they're in danger of thinking they have the edge, when they're actually just doing what everyone else is doing. And without a genuine competitive edge, there's even more pressure on firms to compete on the basis of fees.

While decision-makers and lawyers are unanimous that the key to their future success lies in the quality of their client service, both have an overinflated sense of their own service (echoing what we found among small firms and sole practitioners, in our Bellwether reports). Today's clients are much less satisfied with the service they're receiving than lawyers think – rating as average the service that lawyers see as above average. A willingness to accept and address this is essential for any firm that wants to succeed in the digital age.

Overall, the mid-size sector it still a good place to be, with real potential for growth. But those working in mid-size firms – especially the key decision-makers – need to beware being complacent about the need to keep constantly evolving, or oversure of their own performance. They need to mind the gaps – the gap between their perceptions and reality, and the gap between their idea of good service and their clients.



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Jon Whittle is Market Development Director at LexisNexis.

With 15 years of experience in research, insight, and business strategy, throughout his career Jon's been passionate about understanding and representing the voice of individuals to big businesses. Jon is currently focused on advocacy and community development for independent legal practitioners. He produces cutting edge research, such as the industry leading annual Bellwether report into the changing landscape for independent legal practitioners, and is a key contributor to the Business of Law blog, an online independent legal community.