

MHA legal sector forecast 2023

How can you, and your legal
practice, prepare for the year
ahead?

Now, for tomorrow



Welcome to the MHA legal sector forecast report for 2023



The legal sector forecast report combines expert opinion from a wide range of sector specialists, both nationally and internationally.

We address the current worldwide struggle with retaining and attracting top talent, how the current economic outlook is impacting the marketplace, how firms need to embrace a robust environmental, social and governance (ESG) strategy, and how client relationship management (CRM) is a priority in the boardroom.

This forecast includes a global insight provided by our colleagues at Baker Tilly Germany and Spain, as well as commentary from a representative of the U.S legal market. NatWest, Howden, and B Corp certified Brabners cover key topics and give viewpoints on the sector. To complete the forecast, a snapshot into what other legal practices are prioritising this year, can be used to aid your firm's strategy going forward.

The MHA Professional Practices Team





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UK perspective: Growth



Karen Hain

Partner and Head of Professional Practices at MHA

Karen Hain, analyses MHA's legal sector survey data, highlighting trends she believes are key in forecasting plans for 2023.

What do UK legal firms believe are their biggest obstacles for growth, in 2023?

At 63% by far the biggest obstacle to growth for 2023 is deemed to be recruitment. There is a demand across the legal market for experienced fee earners, at appropriate levels of seniority, being paid a sensible level of remuneration. Many firms are struggling to recruit what they believe to be the right people.

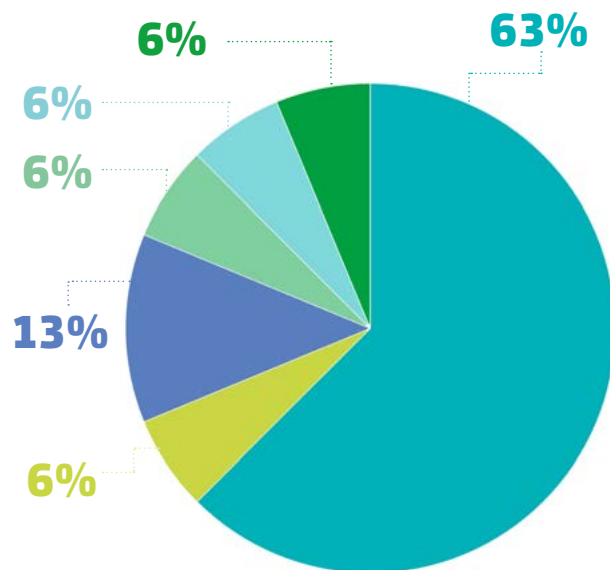
Some are flagging up the issue of staff retention since their fee earners are being bombarded with employment offers from across the sector.

As specific legal service lines have grown, firms have found it difficult to also grow their staffing capacity to be able to service that work to a standard they may have expected was normal a few years ago.

Salary demands have experienced significant growth over the last 12 months. But alongside this monetary pressure there is the new requirement for agile working, with work life balance almost outweighing a large salary increment. Hand in hand with the agile working demands, are staff expectations that their office environment will be modern and environmentally friendly.

ESG is becoming more important to employees and is likely to grow in significance in the future.

Legal firm's biggest obstacles for growth



- Recruitment
- Succession
- Pricing
- Internal issues
- Regulation
- Management



“At 63% recruitment is legal firms biggest obstacle for growth. Salary demands and pressure for creating the perfect agile working environment, are impacting on hiring experienced fee earners and at appropriate levels of seniority.”

The next major obstacle to growth in 2023 is deemed to be market forces, and to some extent regulation impacting negatively on prices. 13% of firms noted their concerns in this area.

Regulatory changes have required firms to become transparent by publishing their prices. This does mean potential clients can research lowest price quotations, and unless there is some differential quality designated to the service, there is a risk of downward pressure on pricing for standardised services.

Economic pressures and a slowdown in the housing market could well lead to a reduction in demand for legal services. But any of the lawyers who worked through the last economic recession will understand that there are still areas of the law that can benefit in a downturn.



25%

UK perspective: Success

25% of firms believe that success will be generated through marketing in 2023.

8%

Technology

8%

Focusing on profitable service lines

8%

Third party referrals

17%

Retaining staff

17%

Client Relationship Management (CRM)

17%

Economic factors

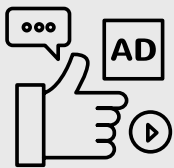
25%

Marketing



Where do UK legal firms see success coming from within the forthcoming year?

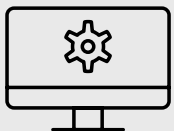
25% of firms believe that success will be generated through marketing in 2023, and several different positive changes are being anticipated in the coming year. During the period of lockdown, many firms repositioned their marketing efforts to move online, and this included learning new skills, such as virtual networking and raising awareness through social media.



Marketing has helped to focus the potential client to look for an individual lawyer with the skills and experience the client requires, so that their expertise almost sells their own time. Marketing plays an important role in recruiting and retaining staff who are looking for a certain type of employer, providing the right working environment and a desired level of work life balance, health, and well-being. Marketing is being used on an employment platform as well as a client platform.



Following on from the potential obstacles to growth discussed earlier, 17% of firms see success being generated by retaining staff, with a stable economy and underlying price consistency.



A further 17% of firms see success being generated by Client Relationship Management (CRM). This can come via the expansion of successful types of legal work underpinned by a strong team of fee earners. But it will also arise from improving the cross selling of service lines to each new client, and planning for how you will maintain your work relationship with existing clients, so that your firm is always there when a legal issue arises. There also needs to be a plan for how to preserve or develop strong work referral relationships.

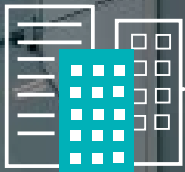


MHA Hub offers clients and contacts a diverse programme of professional events, training, and publications that has been created to offer the latest in best practice, good governance, and regulatory updates and insights,

UK perspective: Priorities

18%

18% of firms have prioritised staff retention for 2023, with training and development programmes being key.



16%

16% of firms are prioritising growth for 2023



Where do you see growth and success coming from for legal firms in 2023?

- The recurring issue of succession planning where the individuals who are not yet at the level of ownership of the firm, but who are seen to have potential, are taken through a specific support training package to get them ready. Firms are looking in more detail at complete employment packages that they can offer. Flexible working tends to form the basis of the non-monetary side of employment, together with other aspects of health and well-being.



Staff engagement surveys and activities are also high on the agenda for 2023.”

- Even with the threat of impending recession, 16% of firms are prioritising growth for 2023. In some cases, operating a larger practice gives more security against negative economic forces. Several of our survey respondents are looking for some consolidation of their position in their chosen marketplace. Expansion that has taken place since Covid lockdown is seen as a continued driver into 2023. Firms are also looking at new routes into the marketplace for legal service provision as well as considering new business partners who may add fresh ideas, new offerings, or referral sources.
- Sitting alongside the growth priority are 13% of firms who are scheduling marketing as a priority for 2023. Many firms have simply prioritised an increase in the level of marketing, while some firms have specifically prioritised refreshed branding or an improvement in the brand awareness across their current client base and in their chosen markets. Communication has been mentioned by a number of respondents as has the need to improve and increase the firm's social media presence.
- The other key priority for 2023 has 13% of firms planning to review internal efficiencies and cost controls. Several firms have listed projects that aim at improving the efficiency of workflow within specific areas of their practices. Alongside efficiencies are the plans to review expenditure with the aim of further reducing the cost structure of the firm. This process is key to completing profitability enhancements that have also been prioritised. In response to the threats of economic downturn, some firms will be prioritising a tighter control and management of cash flow.



International perspective from the U.S.



Daniel H. Minkus
Attorney at Law, Clark Hill

To gain an international perspective, and broaden our view on the sector, we discussed the three key questions from experts in Spain, U.S and Germany.

Daniel H. Minkus, Attorney at Law, Clark Hill (Clark Hill is an international law firm with 27 offices across the U.S., Ireland and Mexico) shares his thoughts on the forthcoming year for the legal sector throughout the U.S.

What trends are you seeing in the sector?

We are seeing an increasing number of financially challenged businesses. Inflation, the rise in interest rates, the cessation of COVID-19 relief monies from the government, the fluctuation of oil prices, and concerns over Ukraine, Russia, and China, are all contributing to uncertainty.

This uncertainty manifests itself in reduced consumer confidence, which in turn generally adversely affects consumer purchases. Many consumers in the U.S. are now significantly reducing luxury purchases and are spending a greater percentage of their salary on food, petrol, mortgages, utilities, and other "basics". This is causing housing sales (and therefore the mortgage industry), and other large purchases to wane. You could believe that the demand was pulled ahead during COVID-19 due to government subsidies. Now, without such subsidies, consumer confidence is low.



Buyers will be more selective, and less willing to overpay for opportunities."

Daniel's 2023 forecast

- 1** From a legal perspective, this means that many businesses will need to reduce expenses (reductions in employees, less capital investment, and perhaps less research and development). Several U.S. businesses will not be able to meet bank covenants associated with lines of credit and other loans.
- 2** Litigation is likely to increase as businesses become more protective, and less willing to extend terms to customers that place the vendor in further financial peril.
- 3** A significant volume of M&A transactions will continue, but the multiples will likely be less than in the prior three years. Buyers will be more selective, and less willing to overpay for opportunities. The number of buyers will also be less than the record numbers recently seen as money becomes more expensive to borrow.

What is the largest obstacle your firm is facing?



Attracting and retaining talent

First, the younger lawyers who were born between 1985 and 1997 appear to have a different set of priorities than earlier generations.

Rather than competing and charging forward for economic success, these lawyers identify quality of life and life balance as top priorities.

One of the chief elements of that life balance is the flexibility to work remotely, often from home. Technology allows for this, but the lack of “face to face” time with colleagues and mentors, results in fewer training experiences.

Firms and legal departments will need to accommodate a new set of priorities, while still trying to maintain the culture of the organisation.

It is also likely that lateral movements by younger lawyers will remain active as the goal of having an entire career with a single employer is not common.



Quality of staffing

It appears the younger lawyer is more focused on flexibility than training, and firms that allow greater flexibility are more successful in recruiting. While this may be a victory in the short term, one must wonder if the quality of work and the development of such lawyers will be less than desired.



Remote learning

Associates appear to want to be trained, but not be required to do so in person. This is a practical difficulty, especially for some who are very willing to train but are not comfortable with remote learning. In addition to substantive subject matter development, client development is looked at and perceived differently by newer lawyers.



Firms and legal departments will need to accommodate a new set of priorities, while still trying to maintain the culture of the organisation.”





Where do you see success coming from in 2023?

The M&A market

The M&A market is likely to remain strong through 2023, but it will shift to more of a buyer's market from the seller's market which has prevailed for the past several years. Purchasers, including private equity will find difficulty justifying multiples that match those in the marketplace in the past five years.

There will be a significant number of business owners who do not want to wait out the economic downturn. Businesses that could have sold for record prices in 2020 through the first half of 2022 will now be priced more consistent with historic trends. The marketplace will still have many transactions, but buyers will be fewer in number, more selective in the opportunities pursued, more cautious about taking on risk, and not willing to overpay for the opportunity. Auctions will become less common and specific industry research by investment bankers to identify the best likely buyers will be at a premium.

In addition to M&A activity, it is likely that creditors rights, insolvency, workout, and bankruptcy lawyers will see a meaningful uptick in work. Many businesses had record years in 2020-2021, this was only because of governmental assistance through the pandemic.

With a return to basic economics and free market factors those businesses which have not focused on continuous improvement will be challenged by the continuing needs to address technology, data privacy, and capital. This will result in businesses failing, and those businesses will need counsel, as will their creditors. This sector of the legal community has not been very active in a decade, but that is likely to change in 2023.



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Economic impact

Private Equity firms still have vast amounts of money which it expects to deploy. However, with increased interest rates, the investment community now has more attractive alternatives for cash.

While interest rates have increased multiple times in 2022 and are likely to continue to rise again in the first half of 2023, many expect the Fed to ultimately manage the Federal Funds Rate to a number lower than we see at the end of 2022.

Certain investors will be willing to acquire businesses with plans to re-finance such acquisitions once interest rates subside.

Data privacy

Data privacy will continue to explode in all sectors of the legal services sector.

Principally for those providing counsel on data privacy and protocols, but also litigation arising out of data breaches will continue to increase.

Changes to processes, initiatives and policies



Attention to Environmental, Social and Governance (ESG) and Diversity, Equity, and Inclusion (DEI) processes, initiatives and policies will continue to receive increased attention in 2023. Many law firms are seeking to increase their own DEI initiatives, and to reflect the general population they serve.

Corporations are placing greater focus on formal DEI and ESG goals and seeking the same from their service providers.

International perspective from Spain



Jordi Mercadé
Partner, Baker Tilly Spain

Jordi Mercadé discusses what trends he is seeing across the legal sector in Spain.

There are significant changes due to the recent pandemic in both the internal organisation of law firms, and how these interact with the market and their clients.

Technology is constantly challenging the professional services sector in general, and the legal market. New work methodologies within law firms have been consolidated by means of smart working and the use of technology to provide a more efficient and cost-effective service to its clients.

It is key for Spanish law firms to keep updating their capabilities, to ensure they are competitive in their offering to existing and new clients. In addition, law firms should be fully aligned with sustainability, equality, and climate change policies, which are qualities clients are looking for. Nowadays, clients not only demand a high quality, specialised legal service, but also that the firm providing those services are compliant with these basic values.



New work methodologies within law firms have been consolidated by means of smart working, and the use of technology to provide a more efficient and cost-effective service to its clients."



Focusing on strategic sectors such as LegalTech, AI and ESG, I believe is a clear success path to follow, for both law firms in Spain, and worldwide."

What do you think is the largest obstacle legal firms are facing currently?

In terms of the internal organisation, the main challenges law firms are facing is finding a good balance between presence within the office, smart working, offering flexibility to their lawyers and staff, and in general, offering the best working conditions to retain talent.

The legal sector is experiencing a significant movement of talent in all categories, seeing entire teams moving between law firms. Clients are also demanding more cost and time efficient services, without losing the high-quality standards of the services promised.

Following the pandemic and financial crisis, firms need to consider requirements to restructure and re-financing to relaunch their business, provide alternatives and avoid even more negative scenarios impacting on their business.

Where do you see growth and success coming from for legal firms in 2023?

Strengthening the law firms' international network, and capabilities worldwide, is key to engage international clients and offering local clients the international coverage when expanding to other countries. Furthermore, focusing on strategic sectors such as LegalTech, AI and ESG, I believe is a clear success path to follow, for both law firms in Spain, and worldwide. Finally, the inflows of external financing and consolidation of funds in the legal market, will be key to seeing positive developments among the developments in the Spanish legal sector.

International perspective from Germany



Gerrit Sadowski
COO Tax & Legal / Legal Director International, Partner,
Baker Tilly Germany

Gerrit Sadowski discusses recent trends he has seen across the legal sector in Germany.

I see two main trends; the retention of lawyers, and the wellbeing programme a firm offers. Firms will have to increase their efforts to help lawyers enjoy their working environments and want to continue their work with them. Secondly, the efficiency inhouse, and within law firms, is something that needs to be a main focus, and development upon. I feel there has been improvement within this area, however, there is a way to go.

What do you think is the largest obstacle legal firms are facing currently?

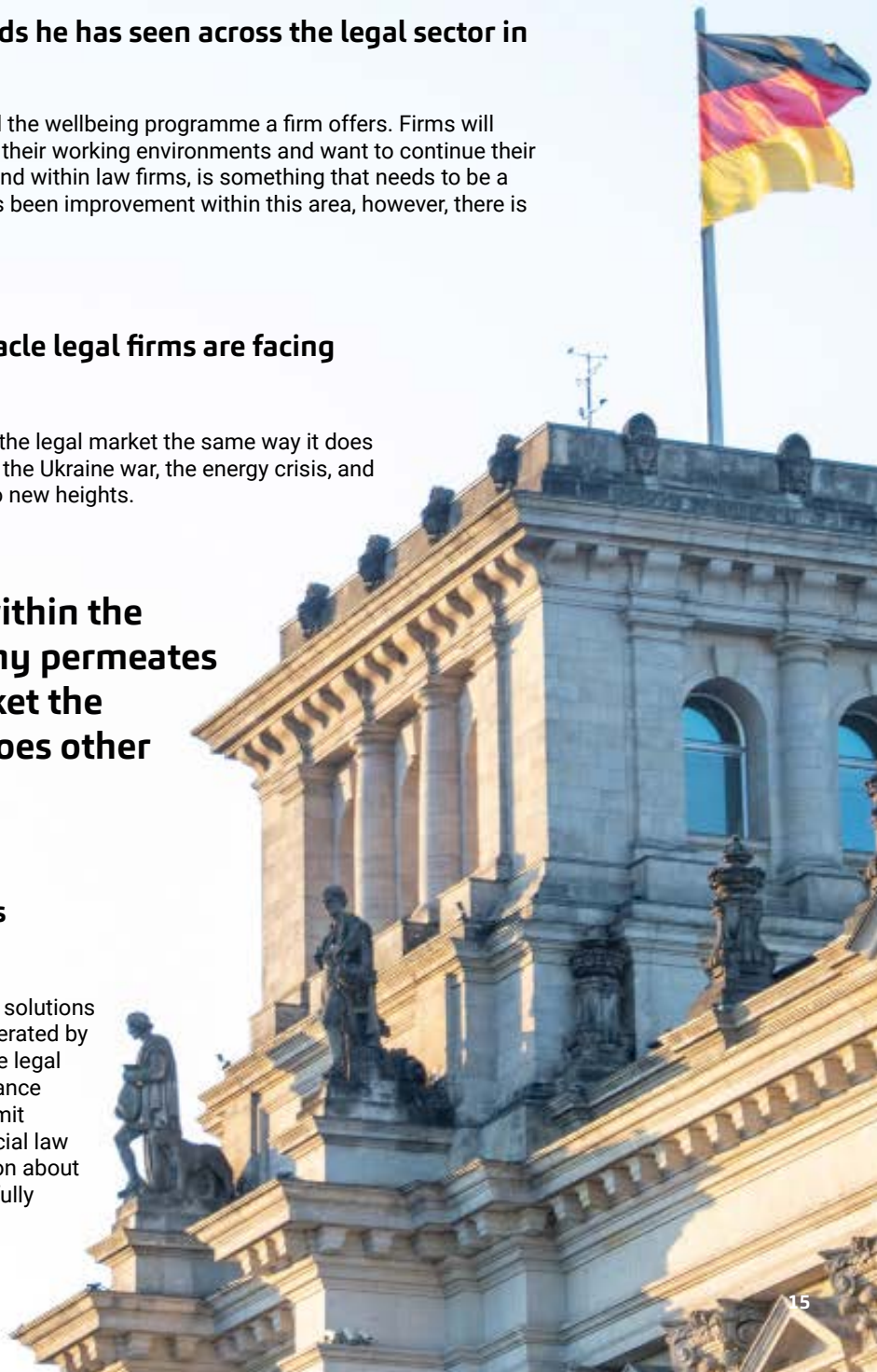
Uncertainty within the macro economy permeates the legal market the same way it does other businesses. The sooner we see solutions for the Ukraine war, the energy crisis, and the inflation, the sooner the legal market will rise to new heights.



Uncertainty within the macro economy permeates the legal market the same way it does other businesses.”

Where do you see growth and success coming from for legal firms in 2023?

In 2023, success will come from law firms offering solutions instead of internal perspectives. This could be generated by setting up practice groups, an example being where legal firms can offer energy law, and they can offer guidance on how to deal with the European mechanism to limit excessive gas prices. They can also offer commercial law or a self-assessment tool to receive a first indication about the necessity to change supply chains. This gives fully integrated legal solutions.



A view from the legal insurers



Colin Taylor
Director, Howden group

To gain an insight into the insurance market's view of the sector, we spoke with Colin Taylor, Director, from the Howden group, to discuss the next 12 months for the insurance market, and what firms can do to be prepared.

Where do you see the legal insurance market in 12 months time?

There were positive signs towards the end of 2022 that we are starting to move on from the hard market we have experienced for the past few years. We expect to see a continuation of the "flattening of the curve" that we experienced in 2022, however there is one major caveat to this, the current economic landscape.

If we look back at historic claims experience, we can see that claims against solicitors increased significantly following the recessions in both the early 1990's and again in 2008. This makes underwriters nervous about the potential impact of the current economic issues. They will be watching this closely and if the economic position deteriorates beyond what is currently expected, and they see an increase in claims coming through, then our transition out of the hard market could be delayed.

For example, a drop in the volume of conveyancing transactions is widely expected. A recent report from [Savills forecast](#) a drop of 28% and the [Council for Licensed Conveyancers](#) advised members to undertake scenario planning based on a 40% reduction which they advise was the reduction experienced by their members back in 2008.

The anticipated drop in transaction volumes will put some firms under financial pressure and a reduction in gross fees may not necessarily translate to a reduction in premium. Given that PII policies are written on a "claims made" basis and underwriters continue to cover you for all past liabilities, it would be unwise for firms to reduce the amount they have budgeted for PII at this point.

Despite those reservations it is useful to note that there has been a significant movement of underwriters around the market in recent months. As individual underwriters get their feet under the desk in their new place of work, we anticipate they will be keen to attract those law firms they know to be good, well-run firms that present insurers profitable risks based on their experience. We anticipate that this could result in competitive pricing for some firms.



This makes underwriters nervous about the potential impact of the current economic issues.”

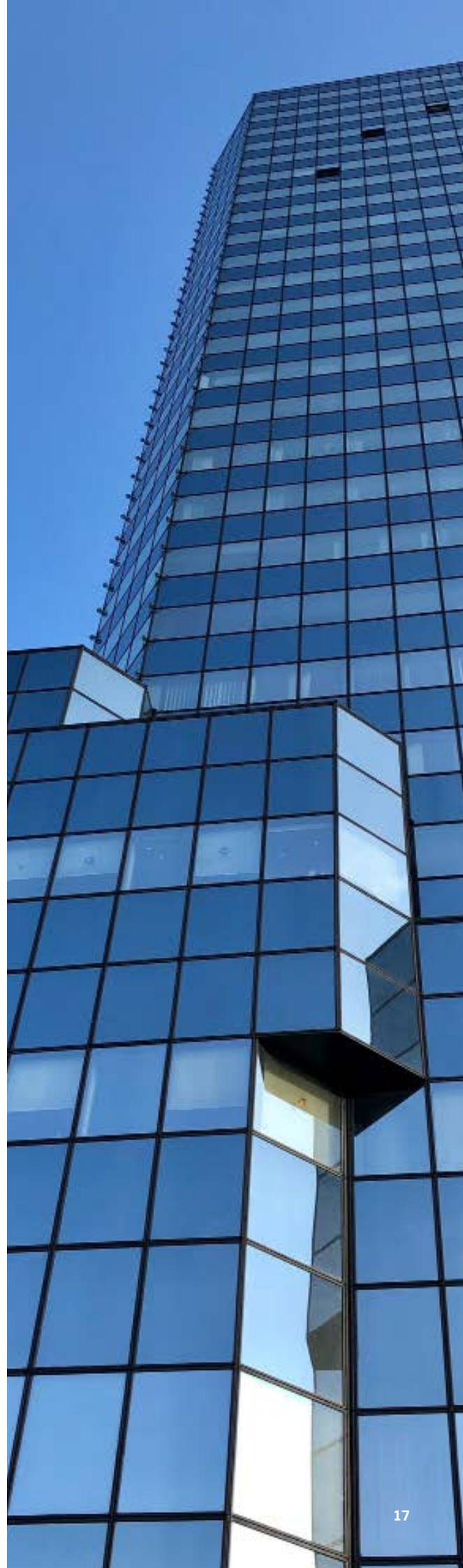
How can firms better prepare for these changes?

It is important for firms to showcase their business to underwriters in the best possible way. Proposal forms leave little room to detail issues such as new risk management initiatives, a change in strategic plan or even a change in management that could be relevant to the assessment of risk. These points can be discussed in meetings with underwriters, but the reality is only a limited number of firms can engage in such meetings.

How do you get this information across if your firm doesn't have that opportunity? If you do have the opportunity, how do you prepare for those meetings? The answer is for firms to take professional advice from their broker. A specialist PII broker with a large book of law firms and wide access to insurers, know the specific issues underwriters will focus on. They will also be able to advise on how to prepare a covering letter or supplementary document to submit to insurers with the proposal form. They will know what good looks like. Typical areas of underwriter interest are financial stability, conveyancing, cyber controls, sanctions, Russia/Ukraine, supervision, flexible working controls, to name a few.

It is also important to provide concise information as underwriters do not want “war and peace”. Underwriters will not look kindly on a firm providing lever arch files of processes and procedures.

Whether you are a sole practitioner or Top 100 firm it is important to start the process early and work towards ensuring insurers understand the good work that you do on the many risk issues you face. Without doing so you may be paying far more for your PII than is necessary.



The importance of Environmental, Social and Governance (ESG) to law firms



Simon Lewis
Partner at Brabners LLP

Brabners have recently been certified as B Corp business, therefore understanding the importance of ESG within law firms. There has always been a moral case for improving the sustainability of law firms, but recent years have shown the business case is equally strong, particularly in the case of attracting and retaining clients and talent.

In the case of clients, it is no longer enough to focus solely on price and service levels. The importance of sustainability in tender processes has increased markedly, with more and more clients pushing their ESG agenda down through their supply chains. Large corporates are already under pressure from investors to improve sustainability, but pressure is increasingly coming to bear on SMEs from finance providers, customers, and staff. This means sustainability is going to become more important no matter what sort of client base a firm has.

In the case of talent, whilst money will always be important when choosing where to work and work/life balance is an established key factor, sustainability is becoming more and more important – particularly at sub-partner levels. Firms that are not cognizant of this may find themselves losing talent or having to pay more for talent than other firms.

I have come across businesses for whom the fear of being accused of greenwashing or hypocrisy makes them shy away from talking publicly about some of the great work they are doing on ESG matters, or even shy away from trying in the first place. As the carbon footprints of law firms tend to be relatively modest (with business travel making up most emissions if firms use renewable electricity at their offices), this should be less of a concern. Firms that lead by example are likely to be rewarded with increased client and colleague engagement.

Having said that, greenwashing is undoubtedly a hot topic, and it is likely that law firms will look to external accreditation for their ESG efforts. This could be through public accreditations such as B Corp certification, PlanetMark etc or assessment platforms like EcoVadis. Each have their merits and firms without some forms of accreditation are going to start to stand out.

There are many ways to make a positive impact and so law firms can tailor their initiatives to their own ethos. At Brabners we chose to invest in peatland restoration because we found an exciting project, Kingsdale Head Farm, that has allowed us to engage beyond a simple financial contribution. The project is now at the heart of our sustainability initiatives with colleagues visiting to plant trees there, regular updates on the restoration work and even colleague training on regenerative farming. Firms that are willing to put thought into their sustainability initiatives are likely to get the most return out of them.

Gender and diversity gap



Kate Arnott
Professional Services Partner at MHA

Kate Arnott, Professional Services Partner at MHA, discusses the importance of diversity quotas, and how law firms should include it within their business strategy.

The UK's [Financial Conduct Authority](#) published a policy decision in 2022 around diversity quota listing rules and reporting requirements for executive management and key board committees of listed companies.

The new targets require women to make up at least 40% of a company's board, with at least one senior position, such as chair, chief executive, chief financial officer, or senior director to also be female.

In addition to the gender diversity requirements, the rules require at least one board member to be from a non-white ethnic background. Rather than just meeting a target quota firms should put in place the right leadership team regardless of race, sexuality, and gender, and it should be about giving them the right opportunities to get there.

Businesses need to develop a strategy that looks at their recruitment policies, as well as their mentoring and sponsorship policies, whilst putting the right things in place to make sure their leadership roles and their boards are diverse in the future.



While there has been significant improvement, there is still a long way to go to achieving true equality.”

A view from the lenders



David Weaver
Head of Professional and Business Services for NatWest

David Weaver, Head of Professional and Business Services for NatWest, discusses how the key findings from our legal sector forecast mirror the conversations he is having with clients currently.

The key findings in the report mirror what our law firm customers are telling us about current challenges and opportunities.

Securing and retaining talent remains the number one focus for many firms whilst the future of work and hybrid working, ESG, inflationary pressures, succession, cyber security, and the adoption of technology being key areas of focus.

The sector has remained impressively resilient with robust profitability achieved throughout Brexit, the pandemic and current macroeconomic and geopolitical challenges.

We view the sector outlook as broadly positive despite emerging macroeconomic concerns and known headwinds.

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