Strategic sector insights for the legal profession 2025:

Mid-sized firms

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The Law Society in association with MHA

Introduction

This Law Society Strategic Legal Sector Insights Report has been developed in association with MHA, to capture key trends and insights from decision makers of medium sized law firms. It identifies the key strategic priorities for law firms in 2025, based on the results and feedback received from practices.

Partners and other senior representatives of mid-sized law firms with 8 to 50 partners in England and Wales, which generally operate on a national or regional scale, were asked to complete the online survey with questions covering their firms' outlook and strategic priorities reflecting people, technology, property, ESG and financial aspects. 64 respondents completed the survey in September and October 2024.

This report compares financial data such as charge out rates, turnover and lock up , as well as deeper understanding of firms' technological, environmental and social development. Questions on borrowing give an insight as to how any organisational growth will be funded.

Rising costs present one of the biggest challenges to mid-size law firms, which will be further impacted by the increase in employers' national insurance revealed in the recent budget. Despite good profitability and earning potential, the costs of running a mid-tier law firm may explain the reduced appetite of senior management seeking partnership or directorship.

This report aims to help you identify strategic opportunities for your firm.

Introduction

MHA is in a unique position as advisors, auditors and reporting accountants to the legal sector. Its professional practices team acts for a range of mid-tier firms on financial, compliance and regulatory assignments.

MHA work with the Law Society, the Solicitors Regulation Authority (SRA), the Institute of Chartered Accountants in England and Wales (ICAEW) and other stakeholders on compliance and regulatory matters within the profession. Good internal controls, systems, and procedures are the basis for good compliance, sustainable growth and ultimate success of a legal firm. This forms the cornerstone of meaningful reporting and management information.

The following MHA experts worked with the Law Society's Head of Research and Insight in developing and reporting on the study.

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Executive Summary

Growth was the ultimate objective of most firms surveyed – both organically or through a merger or acquisition. Gaining an increased share of the legal market can give mid-size firms a significant advantage over similar sized competitors.

There can be little doubt that the workplace is very different in the corporate post-COVID-19 world, although the survey reveals a settling of office attendance trends and the acceptance of a more flexible approach. It appears staff are returning to the office on a more regular basis, which enables in-person training, especially of new recruits and junior staff.

Interestingly, our report shows how senior management believe that remote working has not reduced staff productivity, which may explain the majority of firms surveyed reporting only a one to five percent staff turnover rate in the last 12 months. Such change from the traditional five days in the office means that constant investment in IT infrastructure and security software is imperative.

The desire for growth allows firms to spread their geographical footprint and even open new premises, which less than three years ago would seem unimaginable. Drilling down into what expansion entails reveals trends towards specific service lines and niche work, presumably to differentiate a firm from its competitors in such a tightly packed market. Areas firms are either involved in or looking to develop include environmental, social and governance (ESG) strategies and the use of artificial intelligence (AI).

Strategic Outlook

Mid-sized law firms have identified talent retention, succession planning, technological advancement, and geographic expansion as key areas of focus over the coming 12 months.

As referred to in the executive summary, the strongest trend is towards growth. Many firms are seeking to sustain the momentum gained post-COVID-19, while others aim to increase it further.

Organic growth has emerged as a central theme. Firms are focusing on expanding their internal talent pool and enhancing productivity through targeted investments in people and technology. This includes looking at pricing of services provided.

In addition to organic expansion, a proportion of the firms questioned are exploring mergers and acquisitions to accelerate growth and supplement growth targets.

To support these objectives, firms have identified specific service lines to prioritise over the next 12 months with a strong emphasis on tapping into niche markets, with private client work being a common sector firms have highlighted in their plans.

Recruitment and talent retention was also identified as a key priority for firms. This was in response to an initial open question as to a firm's key strategies for the next 12 months. Retaining skilled employees is essential to maintaining strong service standards in an increasingly competitive market, and it plays a vital role in achieving the ambitious growth plans outlined above.

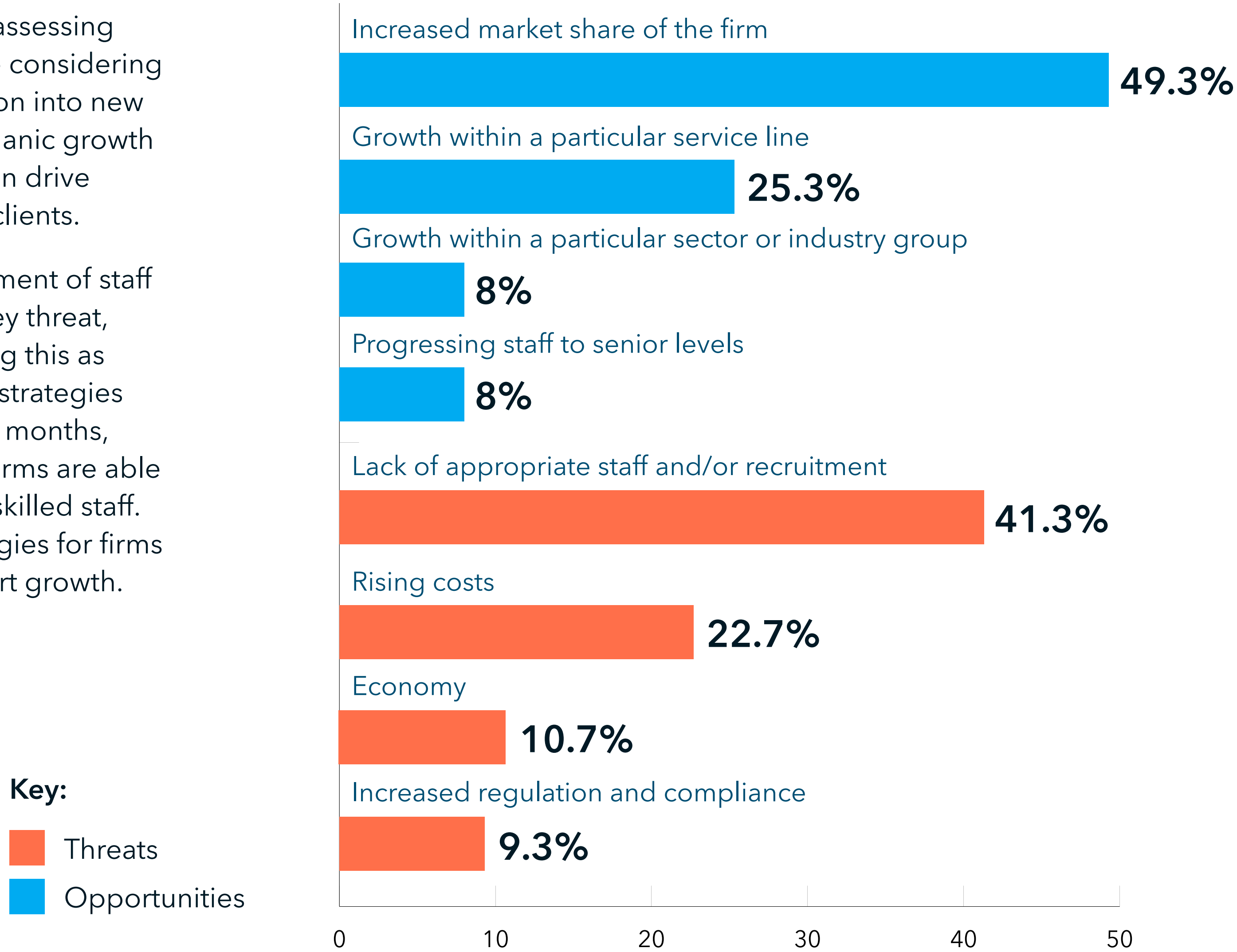
This focus on talent aligns closely with succession strategies as firms aim to ensure that when partners or directors are ready to retire, there is a well-prepared team ready to step into leadership roles and continue the firm's growth trajectory.

Furthermore, technological advances, are increasingly recognised as a strategic priority for mid-sized firms seeking to remain up to date with the latest technology to drive efficiency. Many firms are concentrating on updating and investing in their current IT infrastructure to ensure all systems and hardware are upgraded and run on the latest technology. Another discussion theme is how AI can be used to improve efficiency, although most respondents are not yet using AI, with the current focus being on automation.

Strategic Outlook

Finally, many mid-sized law firms are reassessing their geographical presence, with some considering relocation of existing offices or expansion into new areas. The primary aim is to support organic growth by identifying strategic locations that can drive development and attract niche market clients.

Difficulty with recruitment and development of staff has been noted amongst firms as the key threat, with 41.3% of the participants identifying this as the greatest challenge. This links to the strategies firms have put in place over the next 12 months, ensuring quality staff are retained and firms are able to recruit the same level of quality and skilled staff. This also underpins the other key strategies for firms with recruitment being crucial to support growth.



Strategic Outlook

The second most significant threat, accounting for 22.7% of all those identified, relates to rising costs for law firms. **In recent years, the key expenses which have risen for firms include:**

Professional Indemnity Insurance (PII) premiums: one of the major expenses for law firms, PII premiums have seen notable increases in recent years.

Interest rates: firms with floating-rate external loans have been impacted by the sharp fluctuations in the Bank of England's base rate, which stood at 4.75% in January 25. Rising rates increase debt servicing costs and impact cash flow. This has been mitigated by the increase in interest on client money which has been a welcome saviour to many firms. The regulatory duty under Rule 7.1 of the SRA Accounts Rules 2019 to pay a "fair sum" of interest to clients should also be considered.

Staff costs: with the cost-of-living crisis, firms face additional pressure to offer competitive salaries and pay rises that align with inflation. In October 2022, inflation hit a 41-year high of 11.1%, albeit it has since decreased but salary inflation continues to return at a rate higher than inflation.

Employer National Insurance (NI): following the Autumn 2024 budget, the chancellor announced that employer NI rates will increase from 13.8% to 15% for mid-tier firms, and the NI threshold, which is the amount employers start to pay NI, will drop from £9,100 to £5,000. This change will automatically increase costs for each employee by a minimum of £615 (£9,100-£5,000 x15%). This is clearly a tax that disproportionately affects people businesses, and the extent of the impact this will have is currently unknown.

Strategic Outlook

Other threats identified include the economy (10.7%) and increased regulation and compliance (9.3%).

From a more positive perspective, the primary opportunity identified by firms was an opportunity to increase market share, accounting for 49.3% of opportunities cited by respondents, which aligns with their key strategies for the next 12 months.

Other significant opportunities noted include:

1. Growth within a particular service line (25.3%)
2. Growth within a particular sector or industry group (8.0%)
3. Progressing staff to senior levels (8.0%)

Many of these opportunities are connected to firms' strategic focus on increasing market share, particularly in relation to sector or service line specialisms. The main service lines where firms are seeing potential for growth are private client matters, litigation, property, and family law.

One respondent highlighted that, with the right recruitment efforts, there could be significant growth in commercial real estate. However, while niche markets offer opportunities for increased fee demands, they also present challenges due to the heightened skill set required.

Given that recruitment is viewed as one of the highest threats for mid-tier law firms, achieving this growth may prove difficult. Although there are opportunities to upskill trainees, this process will take time and may not align with short-term goals.

Additionally, advancements in technology present further opportunities for firms looking to enhance operational efficiency. One notable area of interest is the integration of AI tools, which certain firms are exploring to improve their workflows and overall productivity.

Growth plans *Including mergers and acquisitions*

Growth strategies for firms may include options such as mergers and acquisitions, but most commonplace are organic strategies such as opening a new office, expanding a current location, or divesting into new work types.

Over the past 12 months, 13.2% of respondents engaged in a merger or acquisition (M&A). Looking ahead to the next 12 months, 2.7% of firms are considering selling their business whilst 17.2% are planning to pursue a merger or acquisition. Most participants in the survey confirmed that they are not looking at any growth plans which include M&A in the near future. This aligns with the broader theme of pursuing organic growth over acquisitions and mergers.

MHA expert opinion: We find the low percentage of firms looking to grow in this way interesting, bearing in mind the legal market is still highly fragmented compared to other professions and a merger provides a short-cut to growth.

Anecdotally, we believe this may be due to firms not knowing where to start with a merger or how to identify targets, as well as a reluctance to dilute control. The accountancy profession provides a stark contrast where M&A activity is at an all-time high.

The survey reveals that firms see specific achievements as more attainable through acquisitions rather than mergers or sales. These include:

Geographical coverage: firms view acquisitions as a less risky way to gain a presence in new areas by acquiring an established business with an existing foothold.

Consolidation and growth in an existing location: acquisitions allow firms to strengthen their position in existing markets and at the same time reduce local competition.

Access to talent: targeted acquisitions can strengthen expertise in specific service lines and sectors.

New service lines and diversification: acquisitions can facilitate the addition of new services, allowing firms to expand their offerings.

A more sustainable business: acquiring established firms can add stability and sustainability to the acquiring firm's business model.

Growth plans, including mergers and acquisitions

Diversification into complimentary non-legal areas of work remains highly unusual in smaller and medium sized firms.

In smaller firms, over 10% of respondents saw their growth opportunity being linked directly to the progression of staff through to partner levels, thereby increasing partner capacity.

Over a third of respondents linked their growth opportunity to particular sectors or industries, which was unexpected, particularly in the smaller scale firms. This indicates there may be a trend towards a greater level of sector specialism within service lines. We have seen larger law firms organising in this way for some time, but in smaller firms this is a new trend.

In terms of succession, which is essential for growth, there is a disappointing statistic indicating a meaningful number of firms believe that progression to partnership is now a less attractive proposition than before.

In the next 12 months, 17% of firms are intending to pursue an acquisition strategy which will go a long way to assist with succession challenges. It is surprising that, given the concern about staff having a desire to progress to partnership, there is not a greater focus on merger and acquisition. However, the results appear to show that the trend is likely to move towards greater levels of mergers and acquisitions in the future.

People

The survey clearly identified the definition of a fee earner as an individual who charges their time to client matters, generating billable income for the firm. As such, their contributions are essential to the firm's growth and overall success.

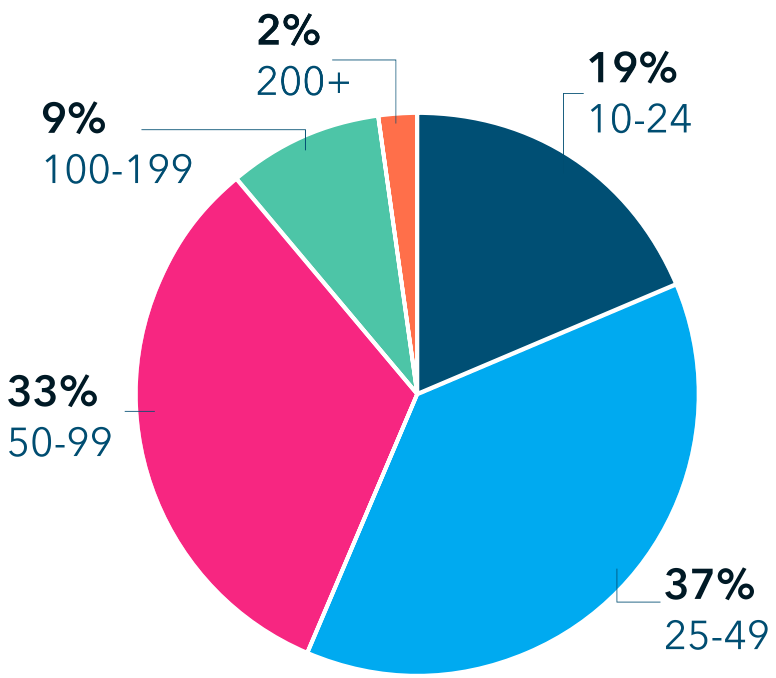
Most respondents indicated that their firm falls into the 25-99 fee earner bracket, with shares in the other bands shown on the right.

Survey findings suggest that the traditional partnership path may become less appealing, potentially due to individuals weighing the risks against the rewards of taking on partnership responsibilities

The reduced appetite to advance to partnership roles may also be tied to shifts in business structures, contributing to the decline in traditional partnerships, as fewer individuals are inclined to assume joint and several liabilities.

It seems that this downward trend has continued since the publication of the Law Society's annual statistics report in November 2023, which revealed a decline in partnership numbers. The role of a partner carries added responsibilities, and it is evident that many professionals prefer to focus solely on practicing law rather than taking on business management duties.

Percent (%) of firms in the sample by Fee Earner Bands:

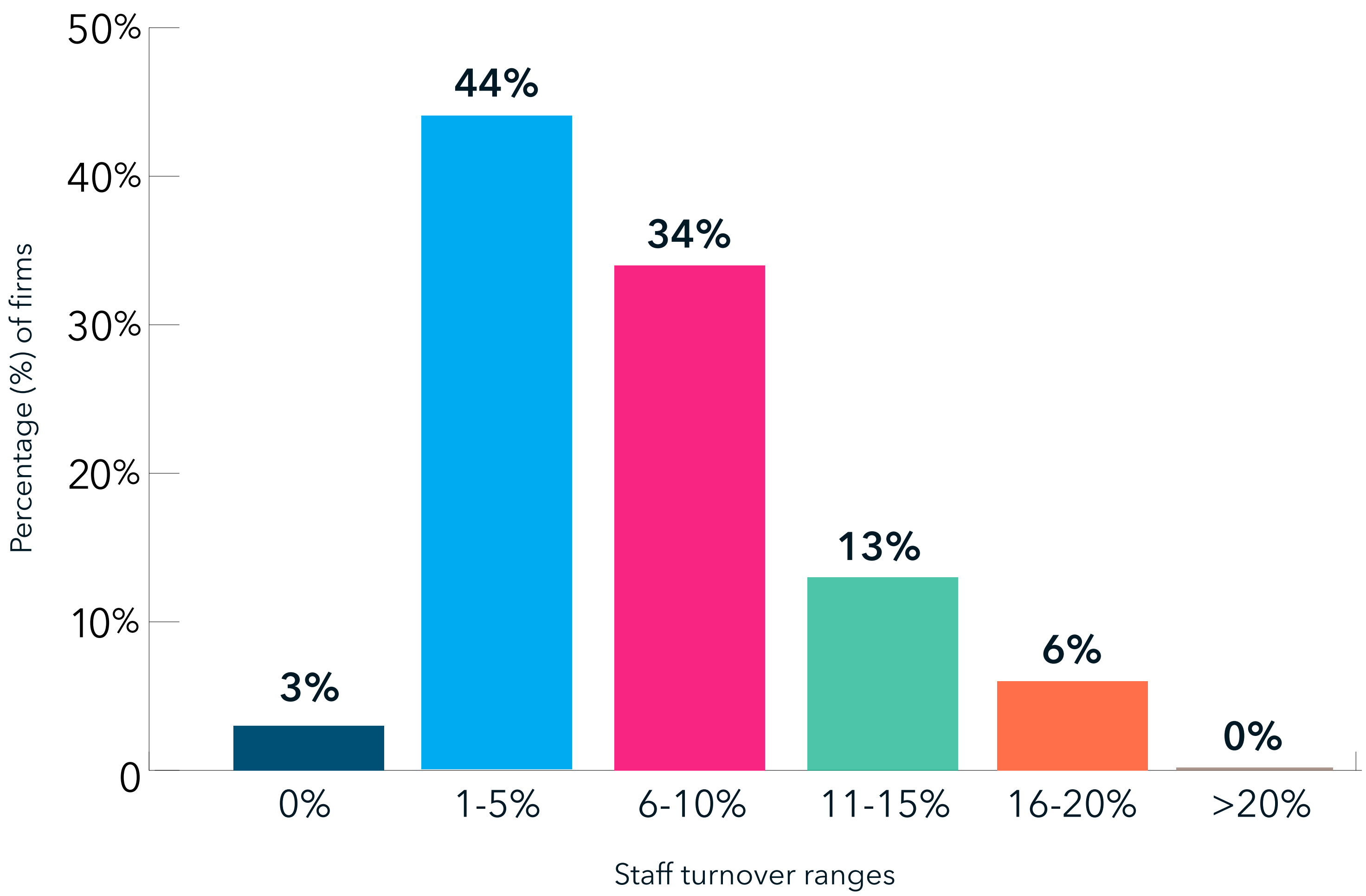


People

Retaining talented staff has been seen as both a key strategy and a threat to mid-sized law firms. To assess retention rates, we looked at staff turnover for firms in the past 12 months, shown in the chart below.

The turnover rate equates to the number of departures divided by the average number of full-time employees for the period.

Percent (%) of firms in the sample by staff turnover ranges:



People

The key reasons identified for people leaving firms were as follows:

Better pay elsewhere (34.9%): this is the clear front runner on why individuals are leaving and reflects the competitive nature of the market in which firms operate. This could be linked to the cost-of-living crisis with employees re-evaluating their required income to sustain their lifestyle. This is a clear threat to firms' growth strategies.

Relocating (15.5%): this factor is often beyond the firm's control and poses a greater threat to firms that operate solely in one geographic area.

Lack of progression (13.2%): this response is particularly noteworthy, especially considering that a key strategy for firms in the next 12 months is succession planning. It raises the question of whether these individuals are being adequately informed and mentored about their potential future roles within the firm. Additionally, this may be connected to the diminishing interest in progressing to partner level. If staff see no other advancement opportunities besides becoming a partner, they may seek new challenges and opportunities at other firms.

Additional benefits elsewhere (8.5%): this is linked to the pressure of offering a competitive salary and benefits.

Workload (7.0%): this poses a significant risk for firms whose primary strategy is growth, especially given that recruitment is a key threat. If retention efforts do not keep pace, the additional workload generated by the new business will inevitably impact on the current staff, potentially leading to burnout and a descending spiral.

People

Other reasons include retiring partners, underperforming staff, and a change in culture.

Additionally, the rise of flexible and hybrid working arrangements has influenced employee retention. Reports indicate that since COVID-19, around 88% of law firms have adopted some kind of flexible working policy, allowing employees to work from home and adjust from the traditional nine to five working hours.

This shift has become standard practice across most firms, including mid-sized firms, and employees may look for firms that provide greater flexibility if their current employer does not meet their needs. This is particularly relevant now, as some firms are tightening their policies by restricting the number of days staff can work from home.

Our survey revealed that most firms (83.8%) report increased or comparable levels of productivity under their hybrid working policies. However, this improvement has come at the expense of office culture, with 30.9% indicating that it has worsened, outweighing the 29.4% of firms that saw an improvement.

The primary threats to firm culture include challenges in building relationships, as well as difficulties for junior staff members who may miss valuable training and development opportunities while working in isolation.

Law Society partner, Access Legal, stated in its March 2024 article *Five challenges facing the legal sector in 2024* that, whilst working from home has many benefits "being at home, often alone, means some people lose that sense of community, which makes working collaboratively with colleagues more difficult."

People

Managing trainees presents additional challenges; some firms noted that while more experienced staff are allowed to take full advantage of flexible working, some trainees or those in support roles are expected to be office-based. Although this approach helps address some training challenges, it risks making the firm less attractive to potential recruits.

One noteworthy observation from the survey is that the hybrid working policy appears to have highlighted a differentiation between employees hired before and those new to the workplace after COVID-19.

This indicates that new hires may now expect flexible working arrangements, which could threaten retention if the firm's policies do not meet these expectations. Consequently, hybrid working could be seen as a necessary recruitment and retention tool.

Additionally, it is noted that some individuals prefer to work in the office more than the policy requires which may put increasing pressure on the physical working environment.

MHA expert opinion: Our view is that a sensible approach to hybrid working should be a mid-sized law firm's policy. Whilst being flexible to employee's needs, it should be up to management to decide what days staff are expected to be in the office, so that Mondays and Fridays at home are not considered the norm.

Financials

We reviewed a variety of different financial information about firms, including turnover, net profit, charge out rates, borrowings and lock up to identify trends across the industry.

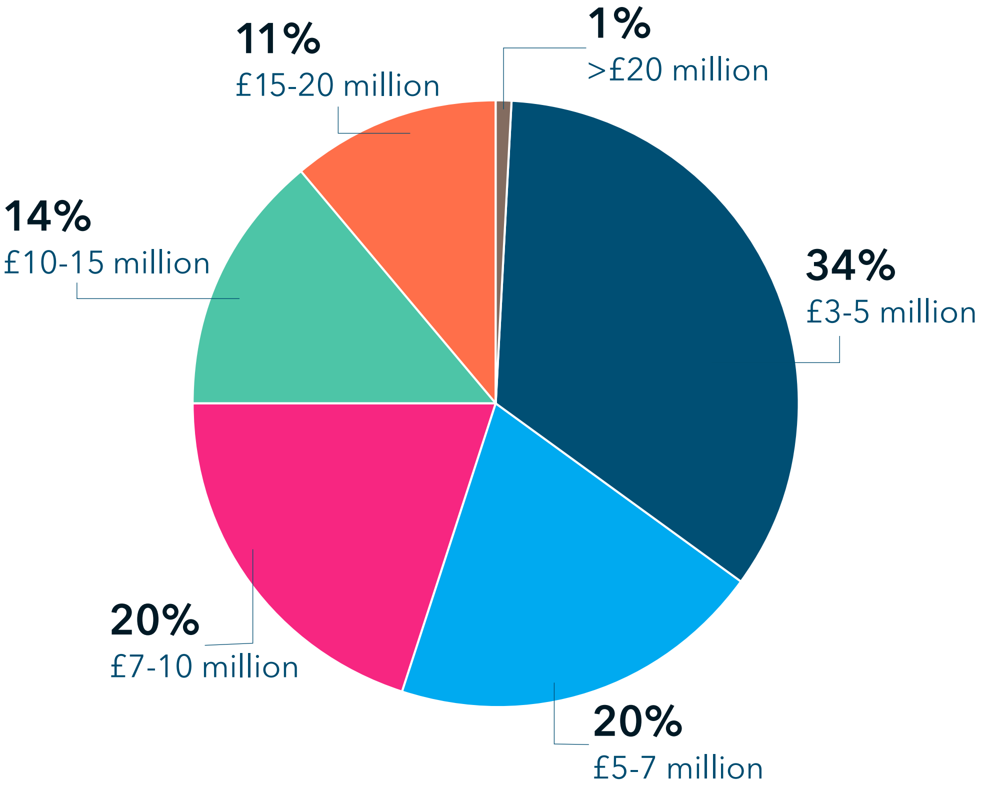
The firms surveyed for financial information fell into the turnover categories shown in the following chart on the right.

As noted, the data presented in this financial section primarily represents firms generating turnover between £3-£20 million, in line with the scale of regional and national law firms that were the target sample.

For these firms, we analysed turnover trends by comparing the latest financial year to the previous one to determine whether revenue was on an upward or downward trajectory. Unsurprisingly, 69.2% of firms reported an increase in overall turnover compared to the previous financial year. Amongst the firms who reported growth in turnover, 42.2% experienced an increase of more than 10% in revenue.

This may be attributable to higher pricing to align with increased employee costs and charge out rates. For example, the impact of the changes to employers' national insurance is expected to be passed on to clients in the future.

Percent (%) of firms in the sample by turnover bands:



Financials

Another reason would be firms focusing on niche markets which command better fees.

18.5% of firms reported that revenue stayed the same as the previous year, whilst 12.3% of firms experienced a decline in turnover. This decline could be linked to recruitment challenges which is consistent with other findings in the report. It could involve the loss of key fee earners, who play a crucial role in driving the performance and growth of law firms. Factors such as the cost-of-living crisis may impact fee quotes for private client work, while the rise in business costs (PI premiums and employers' national insurance) may affect fee quotes for corporate clients.

Net profit is derived from turnover less cost of sales and operating expenses. For some firms, this is seen as a key performance indicator for measuring and evaluating performance. 85% of firms reported achieving net profit in the latest financial year of up to £4 million, which aligns with the typical turnover range of £3 million to £15 million as noted earlier in the report.

Percent (%) of firms in the sample by Net Profit bands:

Net profit	% of firms
<£2 million	47.7%
£2 - £4m	36.9%
£4 - £6m	9.2%
£6 - £8m	4.6%
>£8 million	1.5%

Financials

Firms have identified some key strategies they intend to implement to improve net profits going forward:

Reducing expenses: this was the most popular answer for firms who are looking to increase net profits by identifying efficiencies to reduce expenses and overheads. However, as highlighted earlier in the report, managing rising expenses such as the increase in employer's national insurance and PI premiums presents a challenge to this. Firms looking to invest in their people, infrastructure and premises will also come at a cost to firms, although these investments may lead to savings in the future.

Recruitment: firms identified that the key to improving net profit was to recruit more staff, in particular fee earners who can contribute to turnover which will positively impact on the bottom line. One firm noted plans to recruit a non-lawyer specifically for strategic planning.

Pricing: this includes reviewing, what some firms consider, unfavourable pricing agreements with customers such as: fixed fee arrangements, discounts, and legal aid work where firms may be caught out if projects take longer than anticipated, under fixed arrangements. Firms also highlighted the importance of looking for opportunities within their current client base by identifying cross-selling opportunities. This aligns with firms' strategies to enter niche markets within the sector where specialised knowledge can command higher fees.

Billing process: firms recognised the need for a more efficient and accurate time recording system, indicating that work-in-progress could be understated in some firms. This impacts turnover because clients could be undercharged for the work rendered. By tracking time accurately, this can also identify 'problem clients' where firms may be incurring a loss, providing an opportunity for firms to exit or requote the services with those clients. Finally, some firms identified that they would be reviewing billing behaviours given the direct impact on revenue. This may include looking at interim billing instead of waiting until the end of the matter, which, for some cases, could extend beyond 12 months.

IT and Technology: another factor was investing in IT and technology to improve efficiency within firms. This includes investing in specialised systems like case management or billing software, as well as upgrading existing systems to ensure they operate at full capacity. This aligns with new opportunities arising from IT-assisted programmes and the potential use of AI.

Productivity: firms recognise that more productive staff, recording more chargeable time, leads to higher turnover and profits. This may be the reason firms are investing in their staff, particularly through training and development, as well as in IT systems.

Financials

Other strategies firms are implementing to improve profits include streamlining procedures, marketing, growth, investing in credit control and revising charge out rates.

Charge out rates are the hourly rate billed to clients and calculated to cover direct costs/ expenses and overheads critical for revenue generation and profit margins. When examining average charge out rates for partners or directors, the most common rate fell between £201 and £300 per hour, as noted by 42.7% of firms. 77.9% of firms charge between £201 and £400 per hour for partner and director time.

Charge-out rates vary depending on several factors, such as geographic location, with London typically commanding higher rates than other regions. Additionally, firms operating in specialised or niche markets can often justify higher rates.

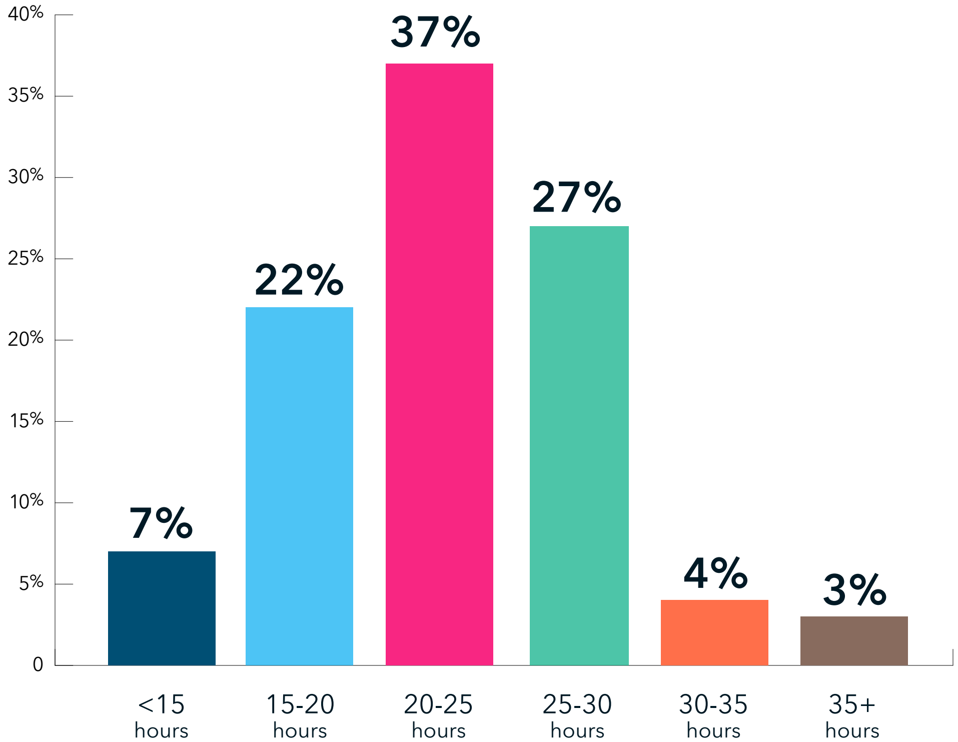
MHA expert opinion: For firms looking to enter niche markets, revisiting charge out rates to align with specialised services could be advantageous and aid in meeting growth targets.

Chargeout rates impact staffing, particularly as recruitment has already been highlighted as a potential barrier to growth. This could add pressure to keep rates lower, especially if partners or directors need to step in on chargeable work due to staff shortages. The pressure is even greater with fixed-fee arrangements, where the total fee is set in advance, regardless of the actual time and resources invested in the project.

Financials

For chargeable hours, the most common range among firms in the latest financial year was 20 to 25 hours per week, accounting for 36.8% of responses. Other practices reported the average weekly chargeable hours shown in the chart below.

Percent (%) of firms in the sample in chargeable hour ranges:



For a typical 40-hour week, the average fee earner is achieving 50% to 63% chargeable time, which may be considered low. The Law Society's Leadership and Management Section Financial Benchmarking Survey 2023, showed chargeable hours for small and mid-sized law firms at 841 hours and based on 1,100 hours per year would result in 76.5% of time being chargeable. This may indicate fee earners are either working on non-chargeable tasks or not recording time to improve recoverability and reduce lock-up.

MHA expert opinion: This could represent a missed opportunity. Increasing chargeable hours allows for more fee discussions with clients, ultimately boosting turnover and supporting firms' growth strategies.

Financials

External borrowing typically involves bank loans, which businesses may use for working capital, investments, or covering expenses, such as PI, to protect short-term cash flow. During the COVID-19 pandemic, some law firms capitalised on government-backed loans to support their operations.

The majority of those surveyed, accounting for 70.8%, have external borrowing of less than £500,000. Only 7.7% of respondents have reported external borrowing of over £1 million. Given the fluctuation in the Bank of England base rate, external loans could become less appealing for firms who are seeking to accurately project future cashflows, albeit the Bank of England rate is expected to decline or plateau at a steady rate going forward.

External borrowing is expected to rise as firms plan for growth over the next 12 months, with investments in people, IT, and property. For partnerships, additional cash flow requirements may need to be considered with income tax liabilities increasing, following HMRC's tax basis period reform.

Lock up refers to the period between a firm providing legal services and receiving payment for those services. Lower lock up days are more desirable as working capital is not tied up in work-in-progress (WIP) or accounts receivables.

Interestingly, some firms that completed the survey did not understand the term 'lock up.' This presents a potential risk for firms in terms of cashflow management. If lock up days were to increase from 30 to 60 days, it would take 30 days longer to convert this time into cash. With cash tied up in WIP or debtors for an extended period, firms may experience more of a financial strain to pay liabilities as they fall due.

Given the importance of lock-up in the management of law firms, we examined how different entities plan to improve this over the next 12 months.

The most common strategies identified were:

Billing patterns: similar to strategies aimed at improving net profits, firms have recognised that interim billing is a key approach to reducing lock-up days. Many firms are now asking clients to pay monies on account or, in some cases, pay the full amount upfront as mandated by revised terms in client care letters. This may depend on the type of service carried out and such arrangement might work better for a conveyancing matter where fees and timeline is easier to calculate rather than a litigation case. Other changes include introducing a centralised billing system, to give firms greater control over billing and streamlining the billing process.

Debt collection: firms with more effective credit control functions are able to collect monies more efficiently, thereby improving lock up. Firms have identified that tighter and more streamlined credit control departments are desired. Interestingly, an increasing number of firms are exploring IT-assisted programmes to automate some of these processes.

IT: following on from above, firms are exploring automated systems to streamline the billing process. This includes automatically sending bills out to clients, issuing payment reminders, and helping to chase overdue debts.

Staff training: given that some firms were unfamiliar with the concept of lock-up, it is likely the same could apply to many employees working within a law firm. Training has therefore been identified as a key strategy to ensure people have this understanding and can be on board with related goals set by the firm. Fee earners were highlighted as the main group of people that would benefit from such training. One suggestion to get people more invested was to link this training to pay and rewards.

Responsibility: who is responsible for managing lock-up within a firm? One consensus among firms is that more responsibility should be taken by every department, and this should be a collective effort across the firm. One suggestion is for better and more regular collaboration between fee earners and the finance teams. In some firms, specific individuals were designated to lead these efforts, known as 'lock-up champions'.

Technology

As highlighted elsewhere in this report, technology presents an opportunity for firms to drive efficiency.

However, it also poses a threat to firms who are not up to date with internal and external technological advances. When firms were asked if they were planning any significant IT software and hardware changes in the next 12 months, responses were evenly split, with 50% planning a significant update.

MHA expert opinion: It is worth noting the potential disruption that a new system can bring during the implementation and testing phase, which may deter some firms from making a full switch. For a period, there may be two systems being operated concurrently.

This suggests that some firms may focus on upgrading existing systems, while others are considering a complete change.

Among firms undertaking significant IT updates, many firms (82.4%) are funding this through retained profits. Only 14.7% will be using external borrowing which aligns with the fact that most firms reported less than £500k in external borrowing in the last 12 months. Using surplus cash is viewed as the most efficient way to invest, likely influenced by current interest rates. The final 2.9% of those surveyed will be using a mix of retained profits and grants.

The implementation of AI and its potential impact on law firms remains a key topic of discussion. However, only 25.0% of firms surveyed are currently using AI within their business, indicating that many firms are uncertain about applying this to their work. Among the 75.0% which are not yet incorporating AI, a third have no intentions of looking at this within the next 12 months.

For those firms looking to use AI in the next 12 months, we wanted to understand how they intend to integrate it into their work. **Suggestions included:**

Co-pilot functions: popular platforms serve a similar role to a personal assistant.

Marketing: this was a popular tool to develop content for firms.

Admin tasks: firms are exploring which manual processes could be automated to improve efficiencies, as these tasks reduce time available for fee-earning activities. Key documents noted which AI programmes could assist with include lease reviews and drafting report titles. There is a risk of AI replacing certain support staff, though it might aid recruitment pressures.

Technology

Overall, most firms noted that further guidance was needed in this area. The suggestions above largely relate to automated systems rather than true AI, raising questions about the depth of understanding many have regarding AI technology.

One interesting response from the survey was “developing an AI solution for a client helpline”. Whilst this could ease the workload of support and legal teams, it raises questions about the impact on client satisfaction. Would clients receive faster answers to simple inquiries, or would it lead to frustration over the inability to communicate with a real person?

The overarching opinion on AI’s impact in the legal sector over the next 12 months is that it remains unpredictable. Firms are approaching it with caution, as the benefits and drawbacks are not fully understood. Many prefer to wait for more evidence before investing in an AI system and do not see any significant change in the short term, noting that automation will have a bigger impact than AI.

Some firms predict a significant impact, noting the following strengths and weaknesses:

1. Creates opportunities for enhanced process efficiency which can be linked to profitability.
2. Threatens the training and development of trainees.
3. Could potentially lead to redundancies for administrative roles.
4. Could create a stronger expectation from clients to deliver faster work.

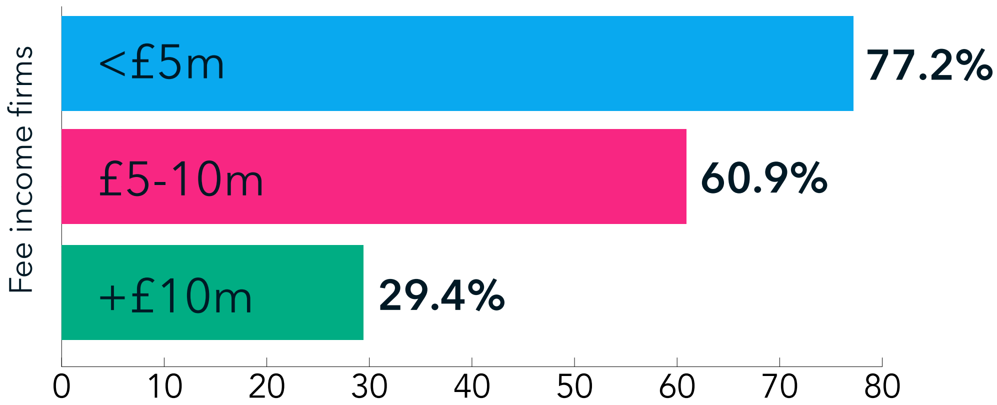
One notable comment was ‘those who embrace will benefit,’ reflecting the direction of travel for law firms who are moving away from traditional, manual approaches.

Premises

The key property related change in recent history has been the impact of COVID-19 on flexible working which has been a clear factor in the amount of space required and the layout of the office environment.

Our survey indicated the most common working patterns (on average), representing 71.9% of participants was three to four days per week. The least common responses were one to two days per week at 9.4% and five days per week at 18.7%.

When we consider a breakdown by size of firm there is a clear change in policy as firms increase in size as shown below:
Percentage of firms where team attends office either four or five days per week.



Across our sample population we noted 17.7% of firms are back to working five days a week in the office. We have received anecdotal feedback from property agents of a trend in the professional services market for firms that moved offices in 2020 to 2022 as having already reached capacity in their new space due to the emerging nature of flexible working.

Hybrid working practices will certainly continue to develop in the coming years as it seems unlikely that we have yet reached a natural resting equilibrium. This clearly makes long-term property strategy a difficult aspect of business planning.

Firms have shared with us their future plans in relation to premises.

Expansion is clearly a common theme, with 80.0% looking to open a new office or expand their space in a new or existing location, in line with firms' strategies to cultivate growth and perhaps the gradual return to the office post-COVID-19. Approximately 14.3% of firms indicated plans to close an existing office or reduce their current office space, likely driven by rising business costs and efforts to identify inefficiencies and cut expenses.

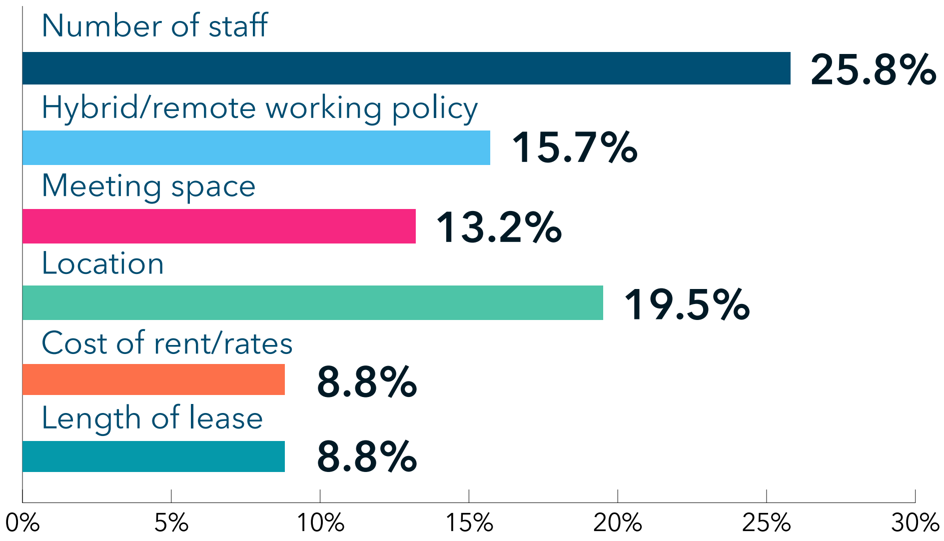
Premises

An interesting property trend is the number of firms with fee income under £10 million that are planning to open a new office to expand their geographic reach within the next 12 months – clearly demonstrating ambition to grow. From the respondents, over 17% of such firms suggested this was their plan. If this number were extrapolated across the total number of similar sized law firms across the country, then there are going to be lots of competitive pressures in play.

Firms with revenues over £10 million showed little intent to grow in this way. We expect this is because for such firms a merger is a quicker route for establishment into a new territory. Most of these firms were planning to remain in their current location but some indicated a planned refurbishment.

Only 3% of firms indicated a planned reduction in space over the next 12 months which aligns with the other drivers noted elsewhere in this report.

We also asked respondents about the drivers behind their property plans as shown in the chart below:



The fact that only 25% of respondents are driven by headcount indicates that flexible working is absorbing a reasonable amount of growth, rather than relying on simply increased square footage.

It appears surprising that meeting space is a driver for 13% of firms when the reliance on video calling would suggest that less would be required. Again, this may be an early indicator of a small trend back to pre-Covid ways of working.

Environmental, social and governance (ESG) considerations

This survey generated a very wide variety of responses in relation to firms' attitudes towards, and progress with ESG issues.

The most common theme arising is the high levels of awareness of EDI (equality, diversity, and inclusion). It seems that the regional and national law firms are very aware of these issues and adopting appropriate policies (there were a small number of less progressive views expressed).

A popular comment was that training is provided to people in relation to EDI and unconscious bias. We also noted that responses in this respect were often longer than in other categories and demonstrated pride in the firms' achievements.

In relation to environmental matters, it appears that there is also some momentum in the profession with a surprisingly large minority of firms reporting considerable progress in this area.

Actions identified included:

1. Existing ESG policies are already in place
2. New ESG policies will be developed within the next 12 months
3. Ongoing staff training
4. Ongoing monitoring and establishing ESG plans, often referring to the use of external consultants
5. Achieving or working towards B Corp status
6. Moving to a paperless office
7. Establishment of committees to consider ESG or features thereof
8. Lexcel accreditation including reviews of ESG measures

Environmental, social and governance (ESG) considerations

A surprising feature of the results was the number of below £10 million fee income firms that have a well-defined plan in place relating to ESG. The reason we find this surprising is that there is clearly a cost involved in the use of external consultants, lost time, changes to the physical working environment and so on.

Responses indicate that ESG actions are now considered more important in the recruitment process, and we suspect that, over time, there is a risk to the reputation of firms that get left behind.

One comment that caught our attention is shown right, as a stand-out approach. This response stood out from the others as it exceeds the actions taken by other firms included in the survey.

Respondents also noted certain barriers to implementing ESG policies such as the financial cost of doing so, the nature of their offices being difficult to make compliant and so on.

Whilst most firms said that they are on a journey in relation to ESG, it is interesting to note that there is momentum and that there are many examples of firms making tangible changes to their ways of operating rather than the 'best intentions' of the recent past.

"[ESG is] at the heart of everything we do. We have commissioned an environmental impact report and are actively working towards reducing carbon emissions further. This year we are developing our pro bono strategy and have set up a charity funded by the LLP's profits to channel resources to deserving projects. We report on this to all staff through our business planning and reviewing process.

"We are committed to embedding EDI in all our policies and decision-making. Our apprenticeship programme actively promotes social mobility. We have active staff groups which focus on LGBTQ+ and ethnic, religious and cultural heritage issues. Our gender balance in the workforce generally and at partnership level favours women over men. We have a good track record of employing people with disabilities. I am very proud of the work we are doing in this field."

Conclusion

The results of this survey have produced some interesting insights into how a range of mid-sized firms view the strategic landscape in 2025.

For the last couple of years, the aftermath of the COVID-19 pandemic and financial consequences have meant that business strategy had not been controlled but imposed on firms.

In 2025, this appears to be changing. Legal firms are now controlling their strategy and focus - of which growth seems to be the primary objective.

However, like all strategic goals, such aims do not go in a straight line but are a series of events and overcoming barriers to achieve the overall objectives.

Growth is not only measured in the financial statistics which form part of this report but in the wider ethical responsibilities and technological advances which a mid-tier law firm must also embrace. ESG is now not seen as an aspiration but a necessity for a legal practice in 2025. In addition, the rapid development of AI means that professional practices are in danger of being left behind if they do not consider the implications to their operational processes.

What this report has shown however, is that people are the core to achieving and maintaining a successful law firm, and retention of skilled staff is crucial to gaining a competitive advantage. As always, cash is critical and tighter controls over debt collection could make all the difference in making sure businesses have adequate liquidity.

With a volatile political and economic backdrop, there is much uncertainty as to what 2025 may bring, but by strategic planning and greater efficiency, law firms may find their objectives much more achievable than before.

Conclusion

Paths to growth

Obstacles to achieving growth

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