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Episode title: Dynamic law firms show strongest growth among peers — can success be replicated?

Release date: May 11, 2022

Bill Josten: The Thomson Reuters Institute recently released one of my favorite reports that we do every year, and that's the Dynamic Law Firm study. This is a report that we've done for, gosh, I think it's about six years now and it's really one of the more nuanced and insightful reports that we do every year, at least in my personal opinion. And that's not just because I'm involved in producing and writing it every year, but this is a study that we started some years back to try and answer the question of "what is it that makes law firms successful? Why do some law firms really excel and other law firms struggle?" So, when in this report what we look at is we actually look for long term growth. If you're a firm that is crushing, it has been crushing continues to crush it, but isn't necessarily finding a lot in the way of growth that's outstanding, but you're not really going to show up at the top end of the study here. What we're looking for there's what are things that firms can emulate to find better growth? To be able to bring along factors like revenue per lawyer, spark demand, things like that. The factors that we look at in doing this analysis are sort of a matrix of revenue per lawyer, overall firm profit and average firm profit margin and we look at those on a compound annual growth basis, and I'm not going to get too complex into the actual math behind it, but again, we want to see how that growth is happening. We look at those three metrics and then we back our way into everything else. We back our way into rates and demand and hours and even some of the cultural things, some of the qualitative performance factors that are really vital, especially in today's market. And we just look at see what makes these firms different. What sets firms apart and really puts them on a path for success? Back on March 14th, we released the 2022 version of this report and this one was kind of unique because this is the first time where we didn't redefine the population. Normally, every time we do this report we go back and we look three years in the past from whatever time, whatever point in time we're doing the report from. This year we didn't do that. We had a really unique opportunity with this year report to see what did the pandemic due to successful firms. We had a population of firms we defined at the end of 2019 as our dynamic firms. They had found a lot of success in the market prior to the pandemic, but I think everybody in the professional services industry, everybody in the economy writ large can appreciate that the market as it exists today is not the way the market was in December of 2019. So, what we had an opportunity to look at here was there something about these firms that they were set up for success in the old firm model in the way the market existed prior to the pandemic, or was there something about the way they were structured, the strategies they were following that had them set up for a better sense of sustained success and resiliency? If we to redefine the population to the end of 2021, we had the data to do that, but we would have lost that insight over how the pandemic impacted some of these strategies. Were these really viable strategies for long term success? What we found in looking at it was that these firms actually were really well positioned for longer term success. We saw them regress a little bit towards mean or towards average during the initial stages of the pandemic from March through maybe September, but then they rapidly recovered and have actually outpaced the market in essentially every meaningful metric that we could find. Again, we backed our way into all of this, but as we looked at the results our dynamic law firms they led the market in terms of demand in terms of attorney headcount, they were able to find more people they wanted to come work at their firms. They were balancing attorney headcount with demand, which is a tricky thing to do. Oftentimes what we see is attorney headcount outpaces demand growth and productivity suffers as a result. That didn't happen with our dynamic firms. So, we saw some really great results there. We also look at a population that we call our static firms and those are firms that struggle to find growth and struggle to find really a solid footing and what was interesting is even in a market for the last two years in 2020-2021, that for the most part had been really successful for law firms these static firms still continued to struggle. They weren't able to produce the types of demand results that even the average firm in the market was able to find. They grew their work rates or the agreed rates that the client will agree to pay to engage a matter those grew at a faster pace than or, I'm sorry, at a slower pace than even the market average, so we wanted to dig into that a little bit as well. And as we sort of parse these results down, we can do a few conclusions. Number one, big bullet point was that our dynamic firms were to use the vernacular from the report itself, they were investing in the crew rather than the ship. Associate compensation was higher at our dynamic firms. Now part of that is due to the fact that the bulk of the dynamic firm population came from the AmLaw 100, which already has higher associate compensation anyway, but we did see higher associate compensation growth. They're investing a lot in those younger attorneys, but they were also investing in the support staff from a campus from a compensation and a benefit standpoint. So, they were really focusing on building a strong team and a strong support structure. They were minting new partners. Our dynamic firms were growing their equity partnership ranks, replenishing them at a faster pace, whereas our static firms interestingly tended to be minting more non-equity or income partners. This was really kind of interesting finding because it obviously plays into career prospects and the fact that things like profits per equity partner for dynamic firms those aren't being divided by a shrinking denominator, so we're seeing true strong organic growth there. Static firms, on the other hand, their expenses were growing in areas like occupancy, knowledge management, and library technology expenses. These are necessary expenses and a lot of this was an effort to catch up on the part of these static firms. They've been behind in these metrics or in these expense categories for a number of years. And now we see those categories catching up, where on a per lawyer FTE expenditure basis, they're almost back in parity, but just because your tech expenses now are almost in parity doesn't necessarily mean you're standing on the same footing. If you're catching up with technology with a firm that's already had the same tech deployed for three or four years that tech that's had the or that firm that's had the tech deployed is going to have an advantage because they'll have higher adoption, they'll have higher familiarity. So, while we see static firms making these investments and getting caught up now, there's still going to be a bit of a lag there, and that's that idea of again investing in the ship a little bit more in the on the part of some of those static firms. These are necessary investments. I've spoken with a couple of folks about you know why do we see occupancy expenses growing? Well, one of the theories that they have is that static firms are investing more in collaborative workspaces and things like that. Where the dynamic firms have maybe made some of those investments already. And as we see those investments in the crew paying off for dynamic firms, we also saw differences in turnover. Static firms saw higher turnover in both associates and equity partners giving dynamic firms a bit of an advantage in both categories, and that's important and that idea of investing, for example, in collaborative workspaces and really investing in the crew that brought up the second thing that was sort of the main component of findings that we saw in the dynamic firms report, and that was really the cultural component. Dynamic firms expressed a more collaborative attitude. They placed more emphasis on getting to know your colleagues, having good EQ, or as opposed to IQ. Openness to new ideas, recognition that was being offered by attorneys and leadership within the firm, so sort of intangible rewards beyond just compensation and a lack of silos. They felt that the firm was less hierarchical and a little bit easier to have a voice in. Dynamic firm attorneys gave their firms higher marks for support from colleagues and a collaborative culture. They were also more likely to mention collaboration culture as their most liked aspect of their firm, and these are things that our research throughout the Thomson Reuters Institute has shown are really important from a retention and sort of a satisfaction development score perspective with our, with the firms that we work with. Dynamic firms were also more likely to identify having an identified firm ESG offering. They feel more confident proactively discussing it with clients, and that's something that really moves the needle with clients today, we've seen such an emphasis growing on ESG priorities over the last couple of years that when firms can say yes, we understand what that offering is. We understand how to talk to our clients about that. That's a significant thing as well. Dynamic firms were also more likely to have early adopters and innovators with regard to new technology, whereas the static firms or the even the average from the market tended to have a little bit higher of a population towards what you would call like a late adopter, or even a laggard type of a population. So, dynamic firms were getting out in front of legal technology. Dynamic firms were also more likely to use alternative fee arrangements, less likely to use billable hours. We saw almost an eight-percentage point advantage in terms of favorability away from. I guess that's a weird way to phrase it, but 86% of lawyers at the average firm said that hourly rates were their primary billing model. It was only 74% of lawyers at dynamic firms, so we saw a higher degree of willingness to employ things like caps or fixed fees or blended rates. Some of those alternative arrangements that clients really appreciate seeing and that clients have expressed for years a desire to utilize more. So, there's a ton to unpack in this result or in the results of this study. And I could spend a lot of time going through this because it's something that, it's a report I'm really very passionate about, but what I think is even more valuable than hearing just my perspective on this is bringing in someone who's actually dealing with this stuff on a daily basis and talk about the impact that this report has on their thinking and possibly even how they're going to strategize going forward. So, I've invited along a new friend of mine, Randy Staggers, who is the Chief Financial and Administrative officer at Baker Donelson based out of Atlanta. Randy is, as I mentioned, Randy is currently the Chief Financial and Administrative officer at Baker Donelson, which is a general practice law firm of 700 lawyers in 20 offices. Located primarily in the southeastern United States. This is Randy's first law firm experience, but he brings with him more than 30 years of accounting, operations and administrative experience. Randy was a partner with Ernst and Young for most of his career. He was also Senior Vice President of Financial and Administrative services for Highmark and a Partner with Baker Tilly before making this move to Baker Donelson. So, Randy not only has the backing of a fantastic firm, I've had a chance to work with lots of folks from Baker Donelson in the past, so I know the caliber of folks that that Randy gets to work with on a daily basis, but also a wealth of experience outside. So Randy, I think it's a great perspective where you can sort of see not only what are law firms potentially getting right or struggling with in terms of the strategies within the legal industry, but how they compare to, you know, to other industries in which you've worked from a professional services standpoint. So first of all, Randy, welcome. It's great to have you on.

Randy Staggers: Thank you, glad to be here.

Bill Josten: So, having had a chance to review the report a little bit and just kind of think things through, were you surprised with the finding that even after a couple of record years of growth for the legal industry in 2020-2021, that there were still law firms that struggled to find meaningful growth?

Randy Staggers: Well and you touched on this earlier. I think meaningful growth means different things to different firms. So, as you can see here, in the way you've outlined your dynamic firms, they are investing a lot in lateral recruiting and investing in associate comp and attracting a lot of things, but you know you can have meaningful growth as a particular firm designs it, but it doesn't necessarily mean top line revenue growth. You might be focusing on you want to get more into your core profitable practices or the things where you add the most value to your clients. And if you focus on those and build those, you can actually have, you know, revenue per lawyer and earnings per equity partner go up significantly, but you don't at the top line growth. So, it all kind of depends a little bit on what is meaningful to you as a firm. And I think you'll see a lot of that across and, you know, the other thing that you have is there's cultural differences as you acknowledge as well that some firms are pretty content with what they're doing and not necessarily anything the matter with that, I think we all look at it, and you know, on the surface everybody says, well, sure, I'd rather be dynamic, but when you look at the culture of the firms that you have in there, if you've got a lot of people who are very comfortable providing good service to their clients and where they are, and you know, they're raising rates according with, you know, inflation and the rest of the economy, et cetera they're not going to stand out as dynamic firms, but they themselves might still consider themselves as having meaningful growth because maybe they're providing, you know, better, higher value results for their clients.

Bill Josten: That's a great point. I think it is, that's something that's hard to capture in in any sort of a data perspective, right? Is the result that you're delivering for your client. That's a real hard intangible to try and capture, so that is a really great measure of you know success or growth. That would be something really interesting to try and figure out how to incorporate into a future version of this, and maybe trying to do something more from the voice of the client, perhaps? So, I'll put you on the spot here a little bit, Randy, if you were leading a static law firm today and obviously in in doing these results, everything about this is blind. I have no idea whether your firm participates in the program that we use to develop this report, or if they do, how they're classified. So, this is all very much hypothetical, but hypothetically will give you a magic wand here and make you the leader of just kind of an average static law firm. Looking at the results from the report and thinking about it through the lens that you have from across the professional services spectrum, what do you think would be the starting point that you would focus on to try and spark growth within that hypothetical static firm?

Randy Staggers: Yeah, so assuming as the firm, you understand what growth means to you as I kind of touched on before, because growth might be defined in revenue per lawyer or earnings versus top line, but I think some of the things that I would focus on in any event would contribute to it, is first of all, how can you do more for your clients? And that's the real growth and that means what is your firm really good at and where you get your highest brand recognition? Then you want to kind of double down on that, you know, where do you differentiate compared to your competitors where you have better results and you can prove that or have better knowledge, and you're heavily invested in particular areas. I think we're going to see everybody kind of move into focusing on those higher value niches where you can get a higher rate for your work or a higher, you know if it's a fixed fee or cap arrangement, it ends up being kind of the same at the end of the day, you know, where do you get more profitability and more profitability comes from providing a higher value service to your clients, right? If you're providing more of a, you know, of a run of the mill service that anybody out there can do, you're not going to recoup that in higher rates and higher revenue per lawyers, etc. but if you're providing something truly unique and valuable, that's where it's naturally going to fall out. So the first thing I would do is identify those areas for your firm and then start to double down on those and start to expand the market and your skill sets to deliver those and capitalizing.

Bill Josten: So, it seems like something that's going to be, it's fairly, I guess, dependent for lack of a better word on good collaboration with our marketing and business development team as well. You've got to know what that strength is and really lean into it in in terms of how you message that out to your clients as a differentiator.

Randy Staggers: Yeah, I think it, you're right it does and that plays an important role, but I mean you also have to be better at it. It can't be just the marketing, right? it has to be something that that you can stand behind and prove, because if you just go out and market that I'm better at this than my firms you're going to get caught and that you really have to make sure that that that's where you're going. You know, back to your kind of growth questions the other things too, what does growth mean to you again to a lot of, you know, you can grow in kind of two ways. You can grow client growth, which is more work for your existing clients or attracting new clients. Or you can grow through your lateral, you know, your lateral campaigns if you will as well, and trying to recruit more lawyers and assuming that they will bring the work with them that they do. And those aren't all right for anybody. I think you have to get the right balance if you're a static firm looking to spark more growth around which one of those is going to work for you and you know there's opportunities and risks in both of those categories, but to your point about marketing, either way, marketing can absolutely play a very key role in taking what you really have and making it more brand aware.

Bill Josten: Yeah, it sounds like either way from what you're talking about the first step is a really honest assessment of where you are. Kind of a SWOT analysis, your strengths, your weaknesses, your opportunities, your threats, a really honest assessment of what those are so that you have an idea of what you can lean into and where you maybe need to plug some holes.

Randy Staggers: Absolutely, yes. You have to know where you are in order to have a plan to go where you want to be. You need to, you know, where you are and then you need to figure out what does it, what does the future look like if you look out four or five years? Where it uses good words of leaning in? Where are you leaning in where you want to be? And that's not the same for everybody. So, the important thing for each of these firms is, I think to be true to themselves and realistic with what their capabilities are and go after what they can to get to where they want to be because it's not the same for everybody.

Bill Josten: That's a great point, so let's keep that hypothetical magic wand in your hand, but we're going to change your role a little bit. Your firm is no longer your hypothetical firm is no longer a static firm. It's a dynamic firm and you're leading this dynamic firm. What would be something that the numbers might not show it in the report or just sort of in general market sentiment, but what would be something that you would be concerned about, sort of a nascent or potential problem that you'd want to guard against to protect that spot as a as a leading firm?

Randy Staggers: Good point, I think it'll be really interesting to see how this doubling down on associate comp plays out for these dynamic firms? I think all the firms have done something there, static and dynamic, but the dynamic firms are investing more in the associate comp, but maybe that's the key word there. Will that investment really pay off down the road or not? If you're recruiting people because you know you're paying them 10 or 15% higher than what they can get across the street, and you're a dynamic firm and you come in and your expectations of that associate's performance are much higher than they can meet or you burn them out, or you know where is that going to lead you two or three years from now? Do those associates you're investing in now end up being your top performing equity partners in 5-6 ten years? Or do you turn around and burn them out? and I think it would be really interesting to see where that goes.

Bill Josten: You know, even outside the context of the dynamic and static firms, I think that's a great point, Randy, that we are seeing just a ton of money flying at associates these days, and obviously the AmLaw 100 and that the top echelon of the AmLaw 100 is leading a lot of that, but sitting in my chair as an industry analyst, I hear ripples of that, you know, down even to 30-40-50 lawyer shops in smaller markets, you know, Savannah and Carlsbad and other places that are not major legal markets and yet they're feeling pressure from this. I was interviewed by the Australian Financial Review about how New York trends in associate compensation are impacting firms in Sydney. I mean, this is this is having a global impact, but I think you're right, there's a concern there that, you know, a lot of these associates are getting paid a lot of money, but maybe the expectation is only, I've heard as little as 24 to 28 months in terms of their actual tenure at these firms. I spoke with a firm in Savannah not too long ago as a matter of fact, that they just lost a major M&A associate to a New York firm and they said, well, we don't know how we make up for that, but we're actually kind of counting on this guy being back within the next couple years because we think the New York firms just going to burn him out so we get him back with a lot more experience without having had to pay that type of salary for him to get it. So, I think that that's a real potential problem.

Randy Staggers: Yeah, I agree, and I think it's being exacerbated by what we learned in the pandemic about remote work and to your point, it's easier for a New York law firm now to hire somebody in Savannah than it certainly would have been in 2019 because we've learned how to do that. Now, what I question, and I don't know, it's just a question, is how sustainable is that? So, if you continue to be remote in in your example Savannah to a New York firm, do you ever get into the culture of that firm? Do you ever really get to know the clients? And maybe you do, I'm not sure. I think we'll have to see how that plays out, but there's a potential that you feel like you're on an island and you're just being fed work and expected to turn hours around, but does that really mean that it's an investment for you to provide, you know, additional client value and build your career by building relationships with clients and becoming a trusted advisor to them and bringing in and collaborating with the rest of your firm, etc. when you're sitting in Savannah by yourself? Maybe it can be done, but I think that'll be interesting to watch how that plays out.

Bill Josten: And that's a question that has come up, I don't know how many times, especially over the course of the last two years, innumerable times in the conversations I've had how do you build culture in a remote environment? And I think especially this leads to the next question I had on a list anyway, but talking about the importance of the cultural component in the results that we saw with these dynamic firms. Were you at all surprised at how different and important the cultural aspects were at dynamic firms than even just average firms market?

Randy Staggers: Well, no. I wouldn't say I'm really surprised. And I guess it's a little bit of the of the chicken or the egg that I don't completely know the answer to, right? Are the dynamic firms driving that culture through implementation kind of techniques or are the people that are oriented with that culture naturally more attracted to the kind of dynamic firms, and there's probably a little bit of both going on there. But no, I'm not surprised that that the dynamic firms have a more collaborative and get to know your colleague because they have to perform the way that they do.

Bill Josten: So, I'll put you maybe on the spot here a little bit, Randy, do you have any thoughts on how to create a more cohesive culture? You know, we're not in necessarily in an environment where everybody is going to be remote for the foreseeable future anymore. We're talking a lot about return to office, a lot of firms are already there, but we're also talking a lot about hybrid work. So, that brings up questions about equitable distribution of work and how do you do mentorship and career progression and all that, but thinking of this cultural component, do you have any suggestions around how to create and obviously it's not going to be a silver bullet, right? But how, how could a firm create or what are some things a firm should consider when looking to create a more cohesive culture in a remote environment? Do you have a tip or two?

Randy Staggers: Well, maybe. I think we're all still kind of learning through how to do that. I think to me the key is intentionality, where in the past the culture might have happened naturally because you were in the office more every day and you were traveling to see clients as much. And while we are returning, I think everybody kind of coming back in some sort of a hybrid method. And I think I'm also seeing a change where client were depositions, et cetera is still going to be a lot more remote than it used to be. So, I don't know that we're ever going to go back to that, and I don't think that that's necessarily all bad, but you know, intentionality, like one of the things we're doing is in each office we have two days a month that we're really encouraging everybody to get to the office for that day, right? So, because if everybody is on two and three day work schedules and there's people you just never do see, we really want to pull a couple of days a month and say we'd like to have everybody here at that day, and you know we'll have group launches, or, you know meetings and try to do it, but to try and make sure we force kind of those face to face connections at least a few times.

Bill Josten: Yeah, well, that's a great thought. I like that idea. And I think the intentionality is a great keyword for it. You know, being very obviously the tactics are going to vary from firm to firm and group to group, but as long as there's an intentional focus behind it, that makes a lot of sense. So, looking at the report I I've, I've sort of guided you through a few things that I was particularly interested to get your thoughts on, but I'd also love to know just having had a chance to read it and react to it. What was your biggest take away from the report? What really stood out to you for better or for worse?

Randy Staggers: That's a really good question. I think probably the biggest thing that just stood out was probably this culture that you talked about we just talked about was probably the biggest thing that the fact that these dynamic firms are so far ahead in getting to know your colleagues was a little bit surprising because you think of the more static firms sometimes as firms where they might be, for lack of a better word, kind of more hunkered down in their office, but therefore you would get to know people, etc. But the fact that these dynamic firms are so far ahead culturally in this survey was a little bit surprising to me because you think of the dynamic as you know their rate, that they're aggressive on their rates or aggressive on selling new work, they're aggressive on and that wouldn't all necessarily lead to this. But on the other hand, as I say that you know the collaboration does not surprise me because that is a key to driving more growth in sales and you need to trust your, you need to trust your colleagues and collaborate with them and take them be willing to take them to your clients and open up new avenues etc. So, kind of both sides of the in that cultural component in the dynamic world.

Bill Josten: And is there anything that you would like to see us potentially explore more in depth in future installments? I mean, we obviously we do this almost every year and we keep the format the same in terms of how do we select the firms, but is there a different angle that you'd like to see us take? Or is there something that we haven't looked at before you think boy, if they were to look at XY or Z, that would be really great.

Randy Staggers: Well, we talked about it earlier and I don't know how you do this, but I do think it would be interesting if we could kind of overlay two concepts into this work. One would be measurement of the client value and, you know, for instance, a lot of firms do that by, you know, just doing direct interviews with their clients and trying to get a feel for it. So, it you have to kind of have that sort of interaction, but client value and then brand awareness because I think those are very much related, but being a dynamic firm, I think also means that you need to be building a better brand in the marketplace. And how do how do those two dimensions line up with the characteristics that you guys have picked out here, I think would be interesting.

Bill Josten: Well, since I wasn't able to take the magic wand back from me before I asked that question, I guess that's something we'll have to dig into since the magic wand has said that that's where we should go. Randy Saggars, Chief Financial and Administrative officer for Baker Donelson, thank you so much for your time. I know this is kind of an impromptu chat, but really insightful to me and really enjoyable. Thank you so much.

Randy Staggers: Sure, glad to help.

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