

CommBank Legal Market Pulse.

November 2021



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Foreword

Welcome to the fourteenth edition of the CommBank Legal Market Pulse, our analysis of the trends shaping Australia's legal industry. This year's results tell a very positive story about how well law firms have adapted in the face of the disruption and uncertainty amid the coronavirus pandemic. Perceptions of business conditions have rebounded from last year's slump to match the all-time high posted in mid-2018. This has been accompanied by a 12.1% growth in profit, which is more than double the growth that firms were predicting a year ago. Central to this success has been the ability of firms to smoothly shift to working remotely and delivering services to clients digitally.

Demand for legal services is elevated and firms are finding it considerably easier than last year to keep staff fully utilised and win new business. While the favourable business conditions are expected to continue over the coming two years, profit growth is expected to moderate as cost pressures re-emerge. This partly reflects the need for firms to spend more on their people and reconnect in person with clients.

Firms are under no illusion that the favourable operating environment will last forever. The responses from leaders of the law firms participating in this year's survey indicate an understanding of the need to continue to invest heavily in technology to drive efficiencies and productivity. This is seen as essential to preserve margins while continuing to add value to their clients. As a result, adoption of technology is eclipsing mergers and acquisitions (M&A) and diversified and non-traditional legal services as a principal enabler of growth.

The research also shows that a major hurdle to firms achieving their growth ambitions is a shortage of quality talent, currently exacerbated by the impact of closed borders. This is resulting in considerable movement in the legal market as firms look to recruit people and even entire teams. Therefore, it is critical that firms focus on ways to support their staff during these stressful and uncertain times, keep them engaged, invest in their development and career progression, and keep them motivated with interesting work.

As clients' expectations rise, so must the quality of legal talent. Deep legal services expertise is no longer enough. To remain relevant to clients and to compete effectively with new business models, firms need to be thinking creatively to solve problems, innovating the ways they deliver services, and constantly seeking efficiencies and process improvements.

We hope you find this year's CommBank Legal Market Pulse Report useful for your firm's strategic planning and benchmarking activities. We look forward to discussing these insights with you and hearing about your experiences in this dynamic industry environment.

Julienne Price

Executive Manager, Professional Services
Commonwealth Bank of Australia

Note about the CommBank Legal Market Pulse Report

The CommBank Legal Market Pulse is an analysis of Australia's legal sector. The report is based on a quantitative study of 55 leaders of law firms, conducted in July 2021 by Beaton Research + Consulting. Participants included 8 top-tier firms, 29 mid-tier firms and 18 'other' firms that are smaller in turnover than the preceding categories. When a 'don't know' response is given, it is excluded from the associated chart. The research segments firms by leading firms and followers based on five criteria used in the report. Leading firms are defined as those with positive or stable financial, workforce and business operations performance. References to leading firms relate to the 30 firms that met all five criteria, and followers to the 25 firms that did not. The five criteria are stable or growing year-on-year profit, maintaining cash flow, managing staff utilisation, adapting to remote work and digital delivery of services, and firms' ability to compete with other firms.

Key insights

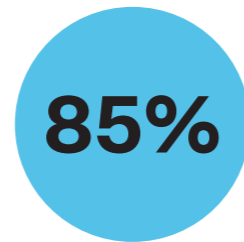
Adaptable firms seek to capitalise on strong conditions

This edition of the CommBank Legal Market Pulse shows that firms are experiencing positive market dynamics and a stronger financial performance than was expected a year ago, particularly among those that have adapted well to changing conditions. However, after a sharp recovery, firms are expecting business conditions to settle and are considering growth strategies to help sustain longer term momentum.



Business conditions retrace record highs

Firms' perceptions of business conditions have bounced back from the pandemic-induced slump to match the all-time high recorded in mid-2018. Firms expect favourable conditions to continue for the next two years.



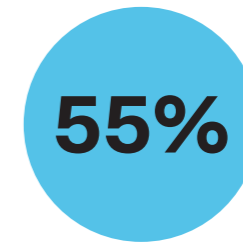
the net percentage* of firms that have a positive perception of business conditions.

*percentage of firms that answered positive minus negative



Some firms are poised to pull ahead

The research characterised leading firms based on their ability to meet five key criteria: profit growth, maintaining cash flow, managing staff utilisation, adapting to remote work, and firms' ability to compete. These firms are better placed to benefit from the ongoing elevated demand for legal services.

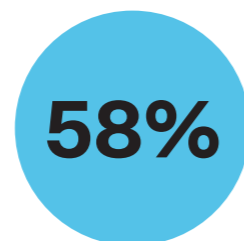


of firms met all five criteria suggesting they are more likely to lead the recovery.



Talent shortages galvanise action

Having sufficient numbers of appropriately senior and qualified staff is central to meeting ongoing client demand. Staff of all levels are in higher demand and firms expect to spend more on salaries, training, development, staff support and amenities.

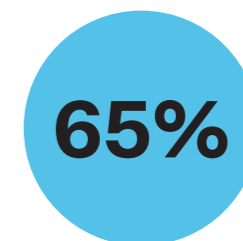


of firms will be focusing on lateral hires from competitor firms as part of their investment and growth strategies.



Positioning for growth

Over the next three years, firms' investment and growth strategies are prioritising marketing and business development, lateral hires from competitor firms and adopting new technology. If well executed, this is likely to provide positive growth momentum even as demand settles.



of firms will be focusing on marketing and business development activities as part of their investment and growth strategies.

Optimism returns as firms adapt

Profits outpace expectations

Business conditions have recovered strongly, with many law firms enjoying double-digit growth in profits and strong demand for their services. Many operational and commercial hurdles have eased as adapting to uncertainty has become embedded in firms' DNA.

Business conditions rebound to record highs

A year ago, firms anticipated that business conditions would not return to pre-pandemic settings until 2022. The recovery from the pandemic-induced slump has actually been much faster and stronger, with perceived business conditions matching the all-time high recorded in mid-2018. The operating landscape is expected by many to remain highly favourable over the coming 12 months before moderating slightly by mid-2023. Top-tier firms are more optimistic than mid-tier and 'other' firms about business conditions in two years' time.

Firms' profit forecasts across the sector for the financial year ended 30 June 2021 also proved to be conservative. Rather than the 5.5% growth in profits firms predicted, the mean growth in reported profit was 12.1%. Growth is expected to ease back to 6.0% in the coming financial year, partly due to the reversal of last year's trend of slowing expenses. Firms expect expenses to rise across the board, with the exception of business travel.

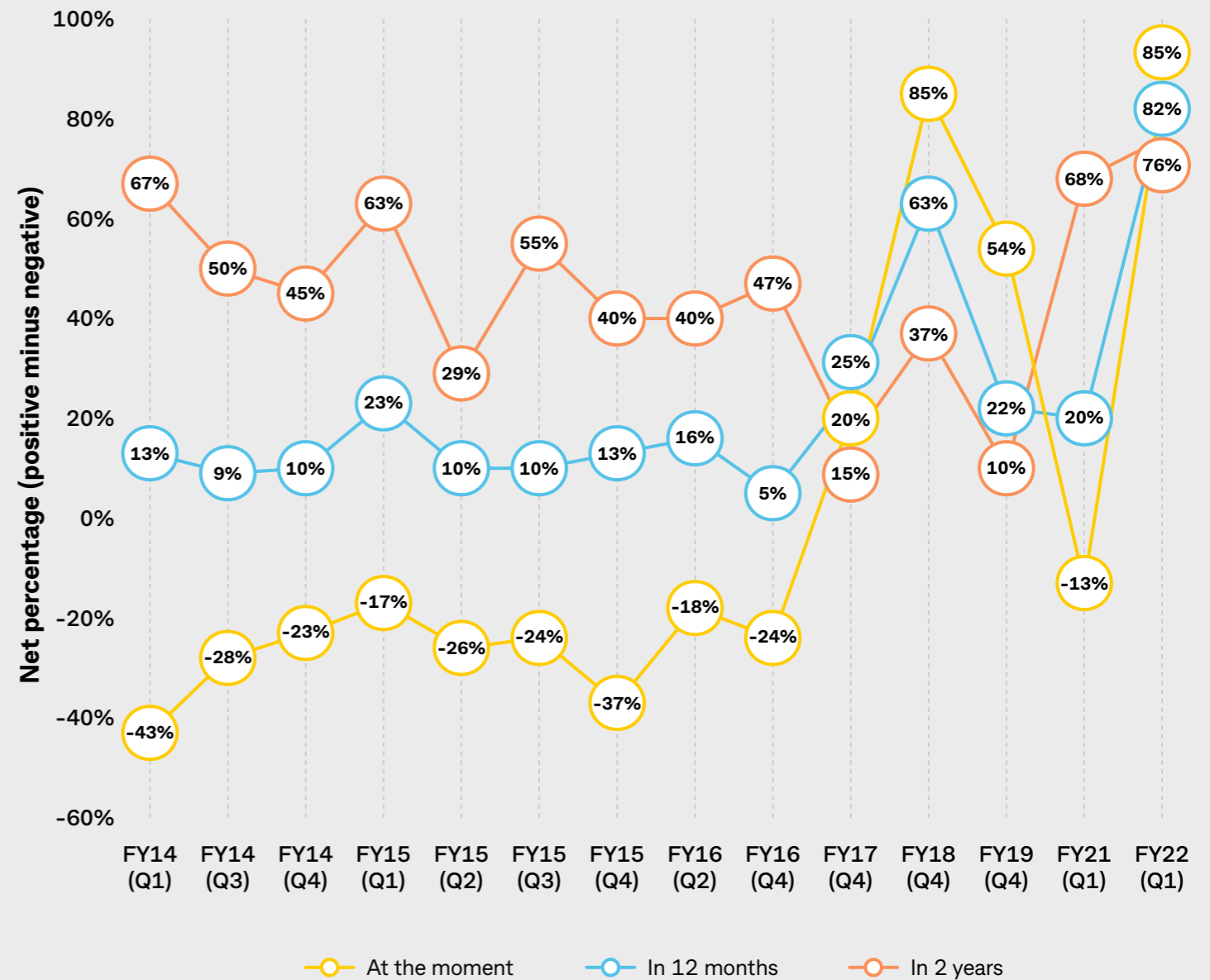
Another contributing factor to the more modest profit outlook is that firms are signalling greater investment to position themselves for growth. As firms compete for a bigger slice of a growing pie, many plan to spend considerably more on client and corporate hospitality and marketing and business development activities. Additionally, in line with the prevailing battle for talent, expenses on staff are expected to increase in a bid to attract, retain and develop the right people. Firms intend to spend more on salaries, training, and development and, to a lesser extent, on occupancy, staff support and amenities.

"Smaller firms were the only group that did not cut back spending on marketing and business development last year. However, top- and mid-tier firms are set to substantially lift investment in this area over the coming year."

Julienne Price
Executive Manager, Professional Services
Commonwealth Bank of Australia

Perception of business conditions over time

Net percentage of firms (proportion of firms who answered positive minus percentage of firms that answered negative)



Leading firms poised to widen the gap

Some firms are benefitting more than others from the high demand for legal services. This year's report views the research from the perspective of the firms leading the rebound and those who are followers as measured by five criteria, including:



Profit

firms that had steady or growing profits during FY21



Cash flow

firms that found maintaining cash flow easy or manageable



Staff utilisation

firms that found keeping staff utilised easy or manageable



Digital agility

firms that found adapting to remote working and digital service delivery easy or manageable



Ability to compete

firms that found it easy or manageable to compete with their peers

This year, 55% of the surveyed firms met all five criteria, up from 38% last year. Firms are finding it easier to fully utilise staff amid elevated levels of work. The ability to work remotely as a firm and deliver services virtually to clients has become the key differentiator between leaders and followers.

Leading firms reported 15.8% profit growth in the financial year, more than double the 7.6% among follower firms. Leading firms are also more optimistic than followers about both current business conditions, and those in a year's time, reflecting that they are better positioned to benefit from the strong demand for services.

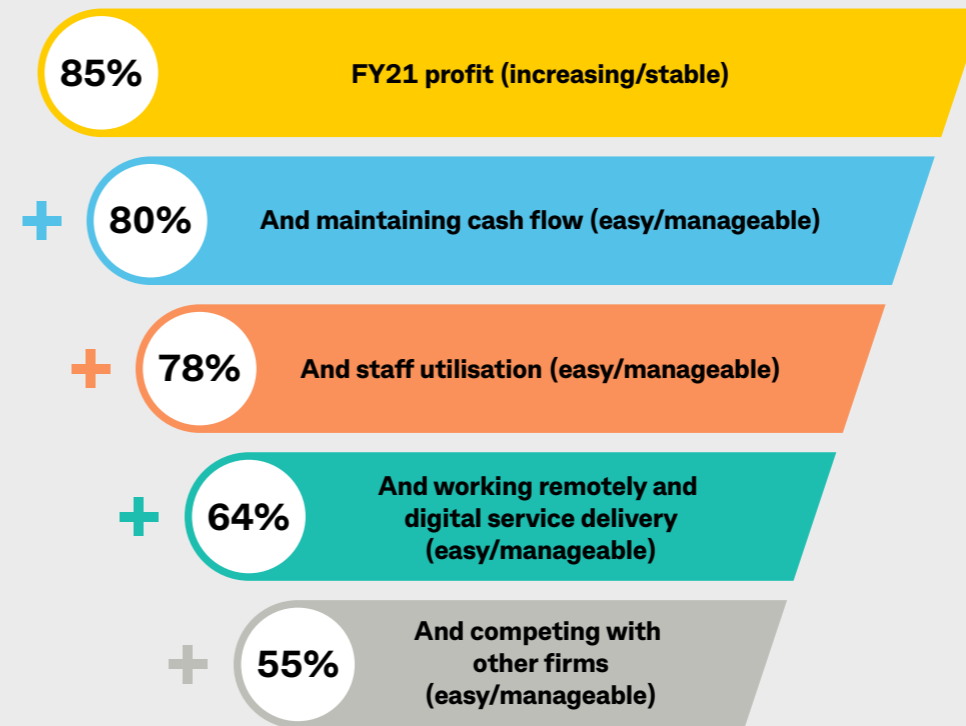
"Around half of the top-tier, mid-tier and 'other' firms surveyed met all five criteria for a leading firm. This suggests the ability to adapt is widespread across the legal industry, regardless of a firm's size."

Julienne Price

Executive Manager, Professional Services
Commonwealth Bank of Australia

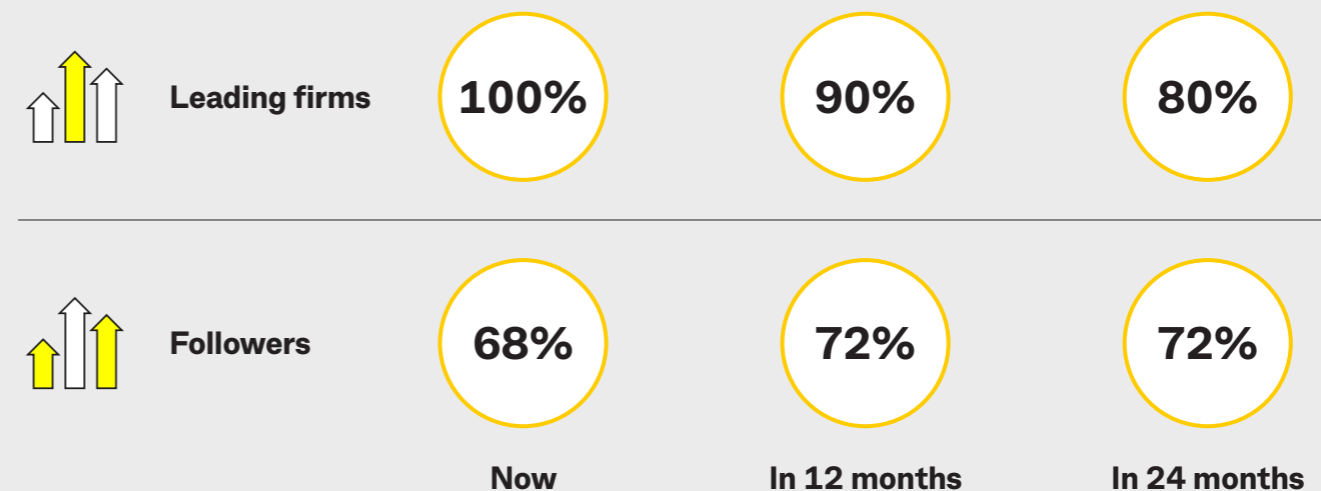
Indicators of firms' performance during the pandemic

Proportion of all firms that achieved positive measures on all five criteria



Perceptions of business conditions among firms

Proportion of firms who answered positive minus those that answered negative



Adapting becomes business as usual

Law firms are finding several areas of business operations easier than last year, as adapting to disruption and operating in the face of uncertainty becomes embedded in their DNA. This is particularly true of leading firms that are finding all operational and market-led aspects significantly more manageable than followers.

While business forecasting and planning remains the major operational challenge for all firms, it has become substantially easier. Some firms have moved from annual budgets to quarterly forecasts, and others now plan at the practice group level rather than whole-of-firm. Firms are consulting more with major clients and experts in key industries to validate the accuracy of forecasts for individual markets. They are also making greater use of data and have increased business analytical skills and complementary software.

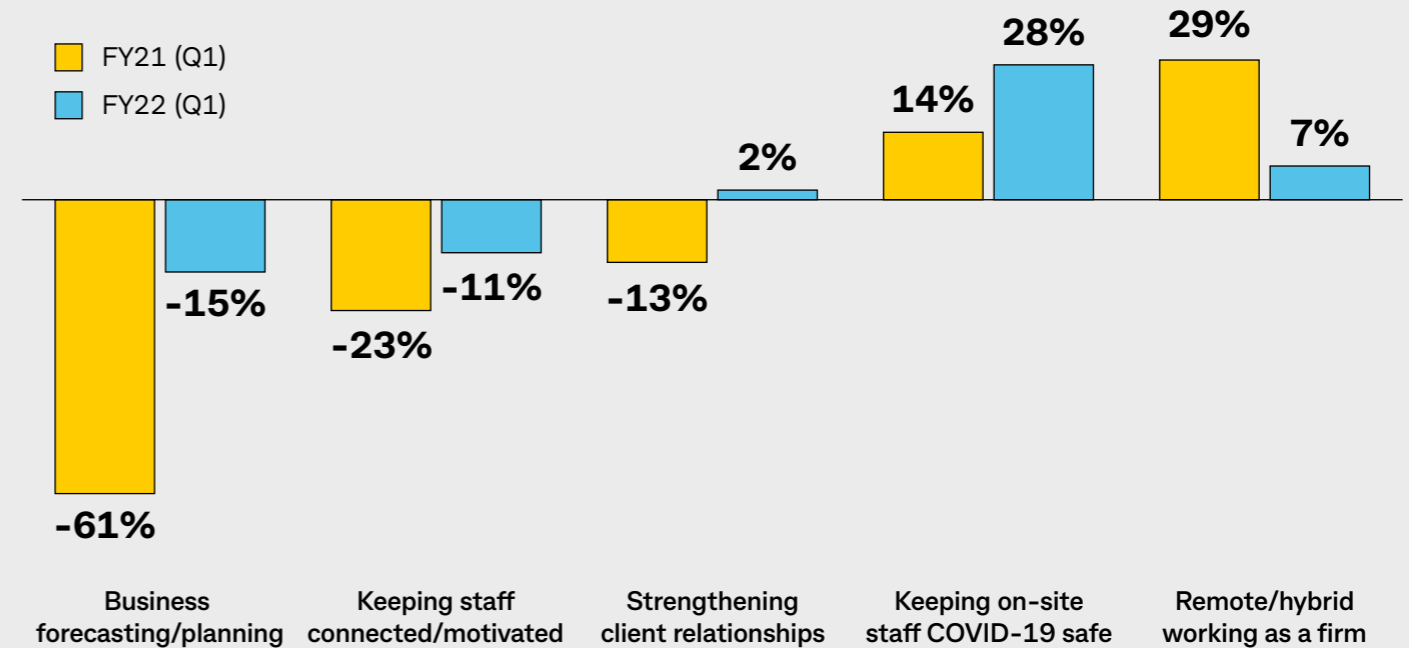
However, two critical elements of operating during the pandemic – working remotely as a firm and delivering services to clients digitally – have become less easy. This could indicate fatigue with prolonged periods of digital-only interchanges and a lack of face-to-face interactions. ‘Other’ firms, in particular, are finding delivering services digitally less manageable.

Reflecting the high demand for legal services, many elements of business conditions are also perceived to be more positive. These include keeping staff fully utilised, winning new business, negotiating prices with clients and collecting invoices. Again, leading firms generally report more positive business conditions than followers.

However, as mentioned earlier, it is becoming more difficult for firms to control expenses. More critically, finding and retaining quality staff have emerged as the biggest challenges for all firms.

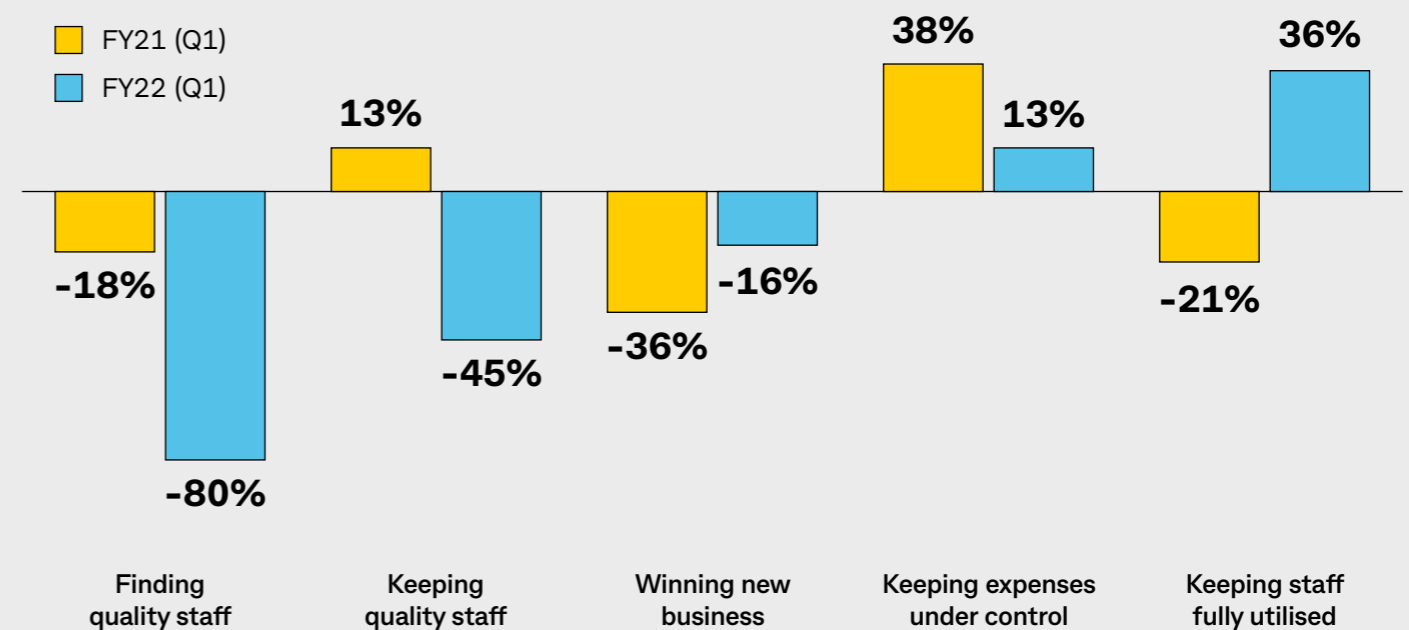
Perceptions of business operations in specific areas

Net percentage of firms (proportion of firms who answered easy minus percentage of firms that answered challenging)



Perceptions of business conditions in specific areas

Net percentage of firms (proportion of firms who answered easy minus percentage of firms that answered challenging)



Case study: CB Legal

Adapting becomes business as usual



Since being admitted as a solicitor in 2010, Cassandra Banks' career has been on an upwards trajectory. She joined Susan Green Legal Practice in Coffs Harbour in 2013 and succeeded Susan Green as Principal in 2018. In May 2021, Cassandra incorporated the firm and rebranded it as CB Legal. Employing two lawyers and support staff, the firm specialises in Family Law, Wills and Estates, Care and Protection, Criminal Law, and Guardianship and Financial Management.

Adapting to digital change

As the research found, law firms adapted well to working remotely and delivering services digitally, and CB Legal is no exception. Cassandra says that family law is always busy, and she often travels hours for court appearances. She therefore welcomes the recent widespread acceptance of video court appearances.

An advocate for technology, Cassandra loves the convenience of her digital notebook and the firm's cloud-based legal software. "It centralises everything. It does all we need to do from storing electronic files to searching for precedents and managing accounts," says Cassandra.

However, at a time of elevated demand for their services, including conveyancing amid the state's property boom, she is mindful that the team is too busy to ensure they are optimally using the software. Nor is there time to research other technologies that would further streamline their work.

Connectivity is key

Another reason why Cassandra embraces technology is that it greatly improves access to services and resources. She says this is one of the biggest challenges regional firms face compared to their metropolitan peers. Being located on New South Wales' Mid North Coast, Cassandra must sometimes travel as far as Sydney, 530 kilometres away, to access what they need.

Where the regional areas are similar to metropolitan firms is that neither are immune to the current talent shortages. "Recruitment in regional areas is really hard, whether it be legal or support," says Cassandra. Given the stage of her career and frequent travel, Cassandra needs experienced and dependable staff who can hit the ground running.

Developing talent

In response to the scarcity of talent and to retain her people, Cassandra is focused on cultivating the skills and capabilities of the existing team. This is in line with the research finding that most firms use mentoring or internal learning and development to engage, retain and develop staff.

Much of Cassandra's management time is spent on informal and formal staff catch-ups and feedback sessions, "listening to staff and taking action". Believing it is important to constantly learn and share it with each other, Cassandra also ensures there is always budget allocation for staff training.

Cassandra's own efforts have helped her "legal and personal development training enormously". Since 2013 she has held the positions of President and Co-President of the Clarence River and Coffs Harbour Regional Law Society. In late October, Cassandra stood for re-election for a third term as a Councillor (Director) of the Law Society of New South Wales and is currently the Junior Vice President. Cassandra says these additional roles will help build CB Legal's reputation and engender trust in the young team.

Next generation brand building

Like many firms surveyed in the research, Cassandra is focused on driving marketing and business development activities. CB Legal uses social media and marketing to expand its client base and build the profiles of her team of under-35s among locals.

Activities include daily social media postings, a website with a colourful family tree logo, and distributing "edgy" brochures into community centres "to get the word out there", says Cassandra. "The former owner didn't need to focus on these activities, but I am younger and need to forge my own brand."

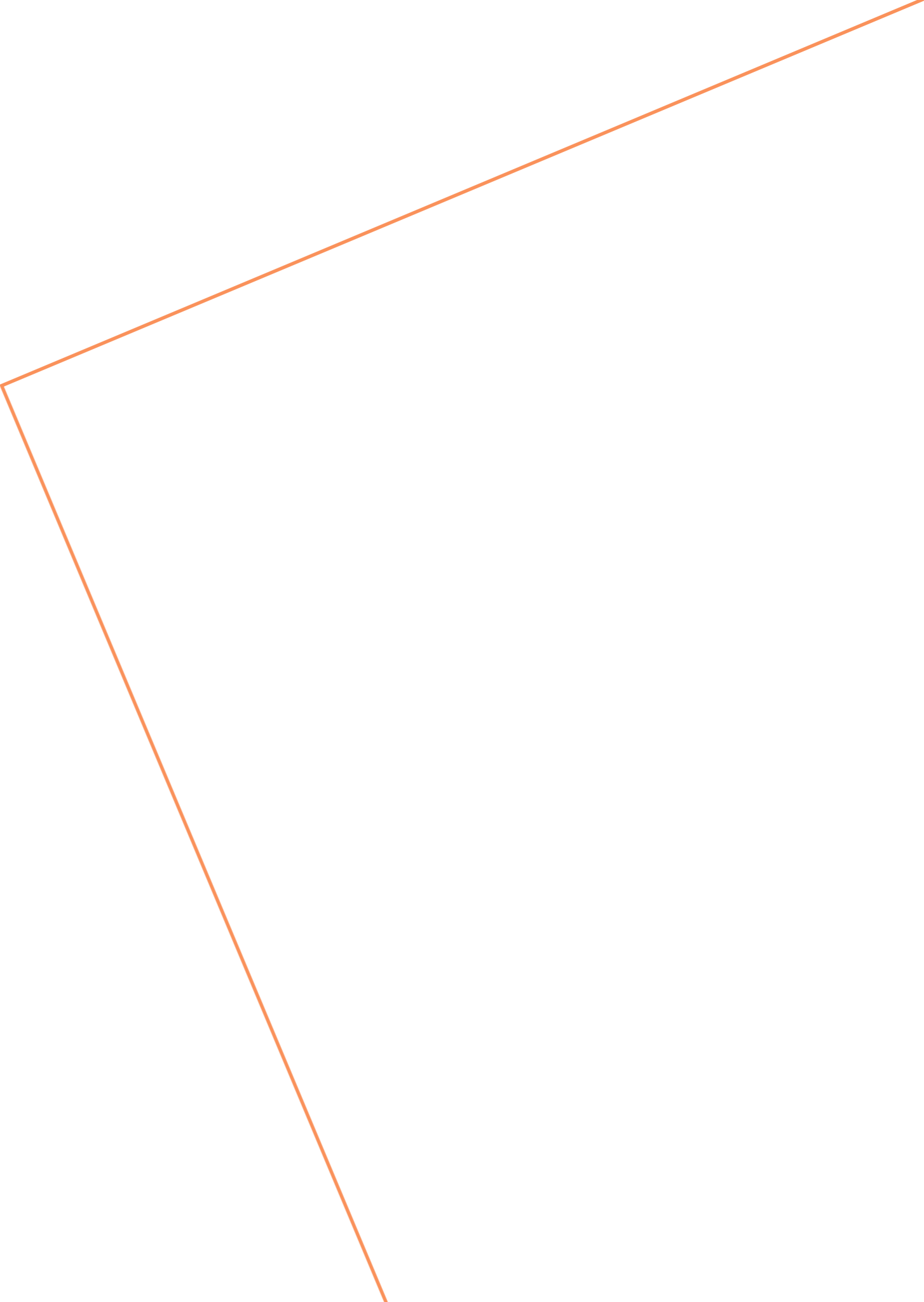
She says a big issue for time-poor lawyers is "finding affordable and reputable business development opportunities. To take us to the next level, I will have to invest time and money."

Cassandra exudes confidence in the firm's future, saying, "you can kick big city goals from the country." As her positions in the Law Society attest, "you can do it from anywhere. That's my motto."

Positioning for growth

Strategies to combat talent shortages

Firms are chasing a more significant share of the growing market for legal services. With a focus on growth momentum, they are shifting their strategies and prioritising people to meet demand, and developing a broader range of capabilities that can drive better client outcomes.



Investing in sustainable growth

As firms seek to capitalise on the ongoing strength in client demand, the majority are prioritising their investment and growth strategies on marketing and business development, lateral hires and adopting new technologies. Top-tier firms are twice as likely as 'other' firms to be planning lateral hires. They are also more likely to have a focus on cross-selling and up-selling strategies.

Compared with followers, leading firms are placing relatively more emphasis on mergers and acquisition (M&A), marketing and business development, and graduate intake. In contrast, followers are more likely to pursue growth through cross- and up-selling strategies, boutique/niche practices, building their referral networks, and diversified and non-traditional legal services.

However, the research finds that the trend to grow diversified and non-traditional legal services as a growth avenue has largely run its course. A third of all firms surveyed do not intend to diversify their services any further. Some firms do expect the proportion of revenue they derive this way will continue to grow, predominantly from internal organic growth.

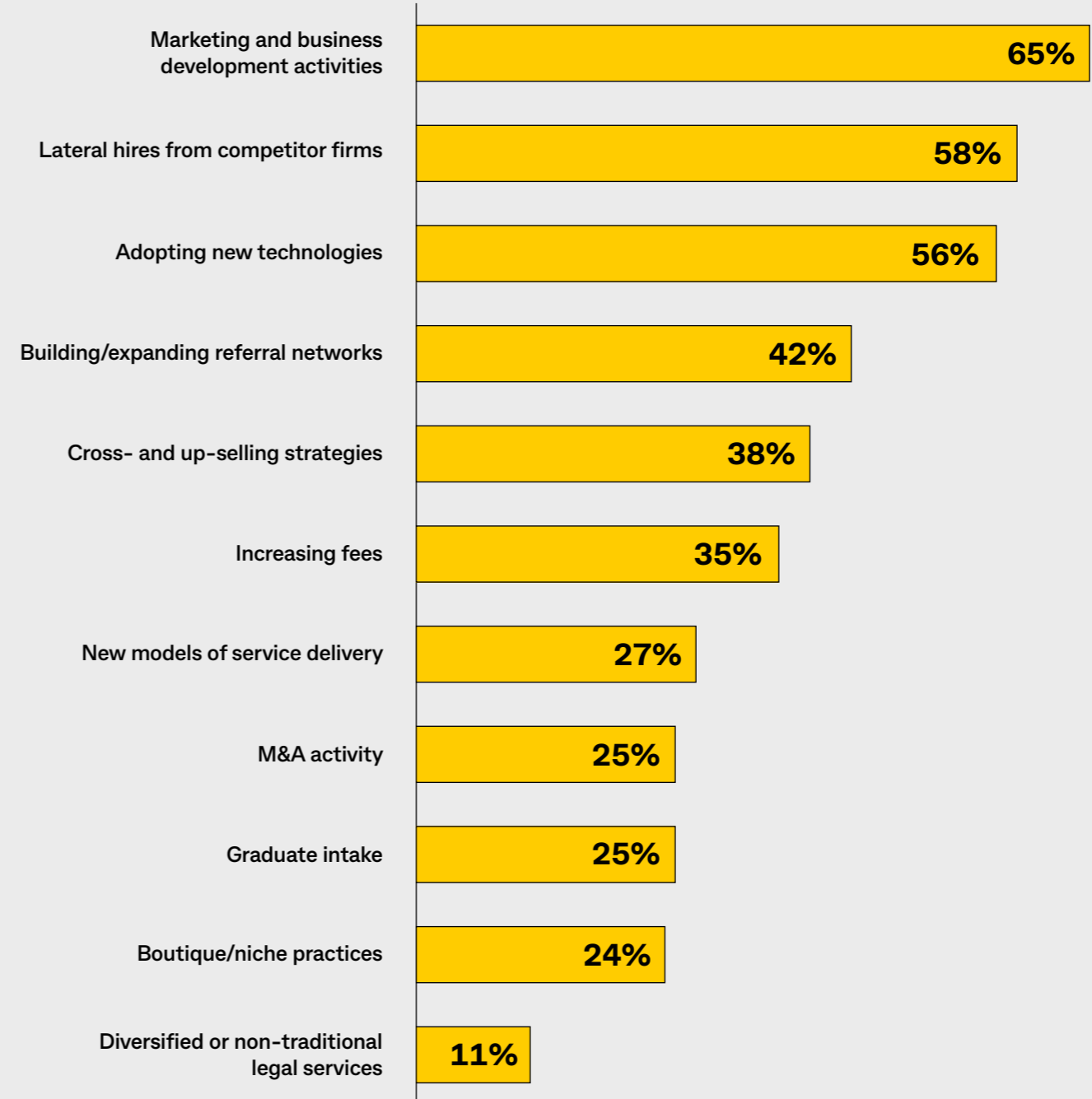
Of note, 26% of leading firms already derive at least 7.5% of their revenue from diversified or non-traditional legal services. That compares with just 4% of followers and helps explain the focus among follower firms to bridge this gap.

The traditional legal service lines - corporate advisory, disputes resolution, construction and infrastructure, and property - remain the focus areas of practice growth.

Again, differences in focus exist between leading firms and followers. Leading firms are more likely to be growing their banking and finance and insolvency and restructuring practices. Followers are concentrating more in the areas of energy, competition law, environmental, social and governance (ESG), and intellectual property.

Top growth strategies for the next three years

Proportion of firms pursuing investment and growth strategies



Meeting the increasing demand for talent

Central to meeting ongoing client demand is having sufficiently senior and skilled staff. As discussed earlier, finding and retaining quality talent has become one of the industry's most significant challenges as the pandemic keeps borders closed and as lateral hiring becomes a core growth strategy.

Staff at all levels are in higher demand than two years ago, particularly senior associates and junior lawyers. Fixed share or salaried partners are also much more sought after, as are shared services staff. Mid-tier and 'other' firms are more likely to be recruiting for fixed share or salaried partners and junior lawyers than top-tier firms.

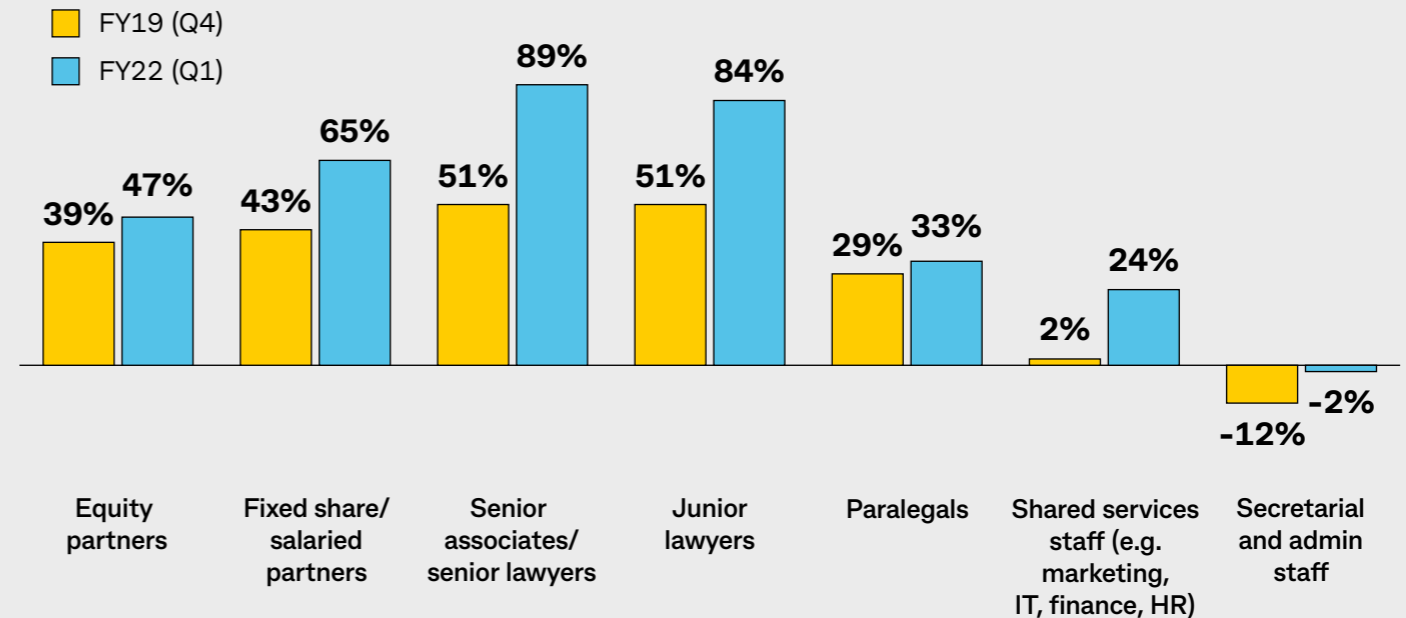
Against this backdrop of staff shortages, at least 75% of firms are using flexible working arrangements, mentoring, mental well-being support, internal learning and development, or pro bono programs to engage, retain and develop talent. Leading firms are also more likely to offer fitness programs while followers favour cash or other incentives for meeting KPIs. In general, top-tier firms provide a broader range of initiatives than mid-tier and 'other' firms.

Lawyers and other staff with marketing, business development and client relationship management skills are in high demand, given this area has become a central focus of firms' investment and growth strategies. Firms are also looking beyond traditional legal services expertise, with most firms seeking staff with leadership and management skills and the ability to collaborate and think creatively. Also high on the list are communication and 'soft' skills, along with expertise in business operations, process improvement and project management. Taken together, these speak to the need among firms to deliver better client experiences and provide creative, value-adding solutions while lifting efficiencies.

The research suggests that leading firms already have many of these skills and capabilities and follower firms are more urgently trying to acquire them.

Expected change in staffing among firms

Net percentage of firms (proportion of firms who answered increasing minus percentage of firms that answered decreasing)



Top engagement, retention, and development strategies

Percentage of firms that are implementing strategies



Mergers and Acquisitions expected to lift in the medium term

Diversified and non-traditional legal services and mergers and acquisitions (M&A) activity are eclipsed by marketing and business development and adoption of new technologies as firms' favoured growth avenues.

The research finds that M&A activity features in the growth strategies of just 25% of the firms surveyed and that 55% do not envisage being active in this area over the coming two years. Nevertheless, 40% of firms, including 46% of leading firms, expect M&A activity to pick up over the next 12 months. More than 60% anticipate an increase in two years' time.

Among the firms planning to be active in this area over the next two years, the dominant driving factor is to grow capability/staff. This is yet another manifestation of the war for talent as firms position themselves for growth and is most evident among mid-tier firms. In contrast, 'other' firms are looking to merge with another similar-sized firm, acquire another firm for geographic expansion, or join a federated network or alliance.

One key difference between leading firms and followers stands out. One-fifth of the followers group are seeking to merge with another similar-sized firm, but this is not part of the growth strategy of any leading firms.

"Rather than looking to grow capabilities and staff through M&A activity or lateral hiring, a greater focus is perhaps needed on training and developing existing staff. Being at the forefront of new technologies will help to attract and retain quality talent, as well as enhance firms' competitiveness against new business models."

Julienne Price
Executive Manager, Professional Services
Commonwealth Bank of Australia

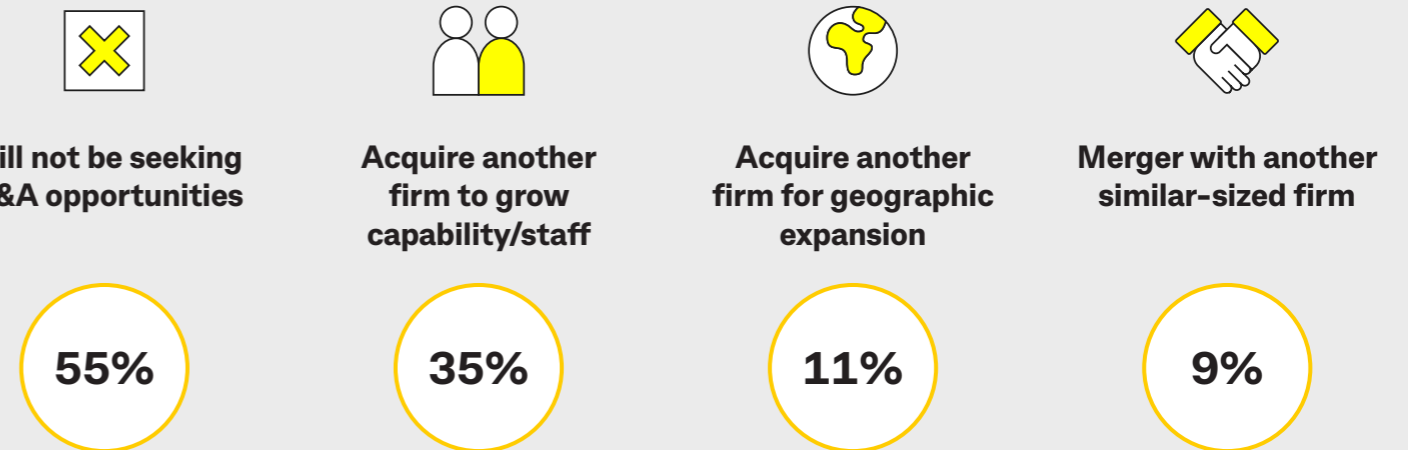
Expectations for M&A activity

Net percentage of firms (proportion of firms who answered increasing minus percentage of firms that answered decreasing)



M&A opportunities sought

Percentage of firms that are implementing strategies



Case study: PD Law

Sustainable growth strategies



PD Law is a trailblazer for positive change in the legal industry, being prepared to do things differently to achieve better outcomes, and adopting technology that transforms how lawyers work and deliver legal services. The firm also has a novel talent recruitment strategy. PD Law's 20 lawyers and support staff work across its three offices in the Whitsundays' regional townships. Instead of being limited to finding quality staff to work in their head office, if there is talent in another town, they'll open there.

Pivoting quickly

Six years after its establishment in 2002, PD Law's niche business of servicing the property development sector was significantly impacted by the global financial crisis. Rather than close down, joint owners Stuart Bell and Melinda Cox expanded into other practice areas hiring more people. Then, when the pandemic hit and the Whitsundays risked disproportionate damage as borders closed to tourists, they opened an office in Bowen, with a well-established agricultural sector.

PD Law was also among those firms that found the transition to remote work easy. Stuart Bell, Director and Principal Lawyer at PD Law, says, "we were already set up as a paperless office with terminal server-based systems". However, the entire team missed the firm's vibrant culture, and within three months, the staff heeded the call to return to the office. Market demand recovered three months later and has been buoyant since.

Pursuing automation

The 2021 research shows that investment in technology is one of the top three growth strategies firms are currently pursuing. Stuart is particularly passionate about technology that can help the firm deliver legal services differently and changing lawyers' work practices. "My strong push is for automation. Repetitive work is labour-intensive and unnecessarily expensive, so there has to be a smarter way," Stuart says.

However, time and costs are barriers to Stuart's ambitions for automation because leading technology solutions are not always readily accessible. "We must either invest heavily in developing innovative automation solutions in-house or otherwise wait for them to become more mainstream," Stuart says.

Two tickets to growth

According to the research, marketing and business development are even higher up the growth agenda among law firms. Stuart says that for PD Law, social media marketing was a "leap of faith", but the results are irrefutable. "There is almost a direct correlation between our digital marketing spend and the telephone ringing. It's not so much a direct expense as it is a lever to manage."

He places even greater emphasis on attracting quality talent to ensure continued growth, which the research identified as firms' biggest challenge emerging from the pandemic. Stuart describes the legal industry as highly skilled with a long gestation period to get people to the point where they add value.

Combined with the fact that it is "almost impossible" to attract talent to regional areas, "our strategy is hiring 100% of the time whether we need them or not." They could be moving from metro centres for a sea-change or "globe-trotting" lawyers from overseas with the "grit" to obtain a Queensland practising certificate.

Rethinking service delivery

Stuart laments lost knowledge as lawyers leave the firm, retire or transfer. As a result, every day, in every town, "people are reinventing the law wheel", he says. "We need a better way to preserve and distribute personal expertise and experience".

Currently, people pay fees for pages of legal advice, but it is a "grudge purchase" and not always easily digestible. PD Law is intent on ending this by delivering its services in a more engaging, user-friendly way, in easily understood language and accessible at people's convenience. "If tailored legal advice was provided more through digital media for example, clients might more readily absorb it than by traditional means," Stuart says. This speaks to Stuart's quest to use technology to "repackage, rethink and reinvigorate" service delivery.

Complementing this technological capability for the firm are lawyers who go beyond applying the law. "We look for people who hear what the problem is and also think about issues that aren't purely legal ones." This aligns with the finding that firms are increasingly looking for legal talent with creative thinking and communication skills.



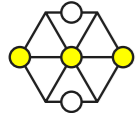
Viewpoints

Responses from firms about what lies ahead

Firms continue to navigate a range of emerging opportunities and threats as they adapt to both changing operational imperatives and client expectations.

Opportunities

Leaders of law firms understand the opportunities that technology brings. It makes new business and service delivery models possible and enables automation and greater utilisation of data. This makes technology critical to remain relevant and add value, and to clients and attract quality talent. Firms also see potential in developing new service lines, along with building capacity to provide specialist advice and to bring global insights to multi-jurisdictional assignments.



Technology

“Law firms that blend tech and processes will gain unassailable competitive advantages. The retirement of an older generation of practitioners who under-utilise technology will create significant opportunities here.”

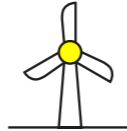
CEO/Managing Partner,
'Other' firm

“Digitisation of legal services and new delivery methods such as subscription platforms are both the biggest threat and opportunity.”

CEO/Managing Partner,
Mid-tier firm

“Firms that respond best to the threats of globalisation and technology will perform well and grow. Having a strategy in relation to technology is important, as is experimenting with automation.”

CEO/Managing Partner,
Mid-tier firm



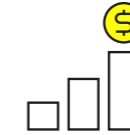
Emerging service areas

“Climate change and an ESG focus are great opportunities for law firms to demonstrate their value and be in the driving seat of change.”

CEO/Managing Partner,
Top-tier firm

“Transitioning away from traditional law firm thinking/practices. Diversifying the skill set of lawyers. Using data to provide value to clients.”

CEO/Managing Partner,
Mid-tier firm



Financial strength

“The opportunity to consolidate. Some firms are outperforming at present. They need to take advantage of financial strength and consolidate the market in key practice areas.”

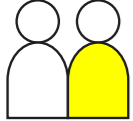
CEO/Managing Partner,
Top-tier firm

“Firms able to keep expenses as a percentage of revenue low will attract and retain partners.”

CEO/Managing Partner,
Mid-tier firm

Challenges

The battle for talent ranks high on the list of challenges for law firms. However, failure to adapt and innovate business and service delivery models also features prominently as leaders of law firms flag the prospect of technology commoditising certain areas of work, as well as ongoing pressure on fees and margins. Additionally, they are mindful of globalisation and clients' growing expectations around the quality of advice and specialisation.



Attracting and retaining talent

“Attracting and retaining high quality talent is very challenging. There is a growing tension between the desire of lawyers to achieve a satisfactory work/life balance and demands for higher remuneration. There is more focus on providing an inclusive and safe working environment.”

CEO/Managing Partner,
Top-tier firm

“Restrictions in recruiting staff from overseas are forcing the larger firms to pull from smaller firms and driving up wage costs. Excessive staff movement. I don't see it getting any easier over the next three to five years.”

Co-founding Partner,
'Other' firm



Failing to adapt

“Failure to innovate. Firms not adapting delivery models and embracing opportunities provided by legal tech will fall behind over time.”

CEO/Managing Partner,
Top-tier firm

“There will continue to be price pressure and firms will need to innovate in how they articulate and deliver value to their clients.”

Head of Business Development,
Top-tier firm



Outdated business models

“The traditional equity structure of partnerships limits investment in new tech or ways to innovate delivery of services. New tech is a significant investment. Firms that get their equity structure set up correctly will naturally have a higher propensity to make the investment.”

CEO/Managing Partner,
Mid-tier firm

“As we know, the law firm funding model can come under significant pressure in a relatively short space of time as we saw with some firms last year. This continues to be a major threat for many firms that do not have alternative options. The pandemic will cause clients, firms and individuals to evaluate what is important to them, resulting in significant disruption and opportunity.”

CEO/Managing Partner,
'Other' firm

Case study: Herbert Smith Freehills

Investing in technology



Rebecca Maslen-Stannage is Chair and Senior Partner at Herbert Smith Freehills (HSF). She has been a partner of the firm for more than 20 years and was appointed Chair of its Global Council in May 2021. She also continues to advise clients on Mergers and Acquisitions and Equity Capital Markets transactions from Sydney.

Staying connected

Like many of the leaders surveyed for the research, Rebecca was “surprised and delighted” by how well team members adapted to suddenly having to work remotely. They were “really good at communicating with each other and caring for one another”, she says. Staff were equally conscious of staying connected with clients, both on a professional and social level.

Rebecca says, “the pandemic taught us that flexible and remote working is actually consistent with delivering great service”. HSF’s new permanent Agile 60 initiative expects staff to be in the office 60% of the time to facilitate collaboration while providing flexibility around how staff work the remainder of the time.

While HSF had video conference call facilities before the pandemic, many teams had never used them until the pandemic drove awareness and led to a switch from regular teleconferences. “Within a month, we saw it as completely normal,” says Rebecca. “It was amazing how quickly we adapted.”

Continuous learning

Rebecca attributes HSF’s adaptability to it attracting “exceptionally strong legal and business services talent”. According to Rebecca, HSF’s people are highly motivated to learn, continually adapt and stretch themselves.

During the lockdown, HSF sought guidance from the NeuroLeadership Institute on adapting its formal leadership programs and on-the-job training to ensure challenges and insights continued to be shared.

Further supporting adaptability is HSF’s Digital Law Group. Established in November 2019, it upskills staff to provide the advice that clients need as the business environment undergoes digital transformation. “There is a lot of secondment of staff which provides a huge body of internal experience,” says Rebecca. “This ensures we stay at the forefront of developments in technology and that this knowledge is shared with the broader team.”

Growth pillars

Technology is integral to HSF’s growth plans. These include expansion in the Asia-Pacific region, which is expected to generate 60% of global economic growth by 2030, and strengthening its presence in Europe, the Middle East and Africa.

HSF also devotes investment and resources into areas it foresees will become increasingly important to clients. These include ESG, risk and regulation. Rebecca says that while these fields can be complicated, HSF seeks to simplify things for clients and “help streamline execution in a very complex world”.

Continuing drive for efficiency

HSF is excited by the potential and opportunity of digital transformation. Rebecca says that technology enables the organisation to deliver services more efficiently and impacts its clients directly. For example, through data usage and legal automation. HSF’s Digital Law Group is doing “amazing work” on smart contracts and other developments to help clients run their processes more efficiently.

Rebecca expects technology adoption and investment to continue apace, partly because of its efficiency and cost saving benefits. Rebecca says that even video conferencing adds significant value by eliminating travel time between meetings.

“Technology is changing so much around us, so you have to keep up with it to stay in touch with the business world,” says Rebecca. “It is also evolving the way we work, so that is a huge driver.”

The culture element

HSF capitalises on its diverse and inclusive workforce by encouraging team members, even the youngest, to share their ideas. “If you combine the legal talent with the culture of bringing diverse perspectives, that is a solution,” says Rebecca.

In line with the research finding that law firms increasingly seek a broader range of skills, HSF offers considerable formal training spanning legal topics, business development, leadership, delegation, managing a team and beyond. Rebecca says, “by combining that staff training with the confidence to offer their own perspectives, it is amazing the ideas that come up.”

Conclusion

Law firms have not missed a beat despite the disruption caused by the coronavirus pandemic. They have embraced technology that enabled them to work remotely, and deliver services to clients virtually to capitalise on the elevated demand for their services. This backdrop, together with an ability to quickly adapt to the new working environment, has resulted in firms finding many elements of their business operations and conditions more manageable than a year ago. In this environment, firms recorded mean profit growth of 12.1% in the last financial year. However, profit growth is expected to moderate in the current financial year as expenses rise and firms continue to invest in people and technology to position themselves for growth.

Over the next three years, investment and growth strategies focus predominantly on marketing and business development activities, adoption of new technology, and lateral hiring from competitor firms. This latter strategy is one manifestation of the intensifying battle for talent at a time of strong demand for legal services and closed borders. It has also resulted in firms indicating they will be spending more on salaries, training and development, and staff support and amenities over the next 12 months.

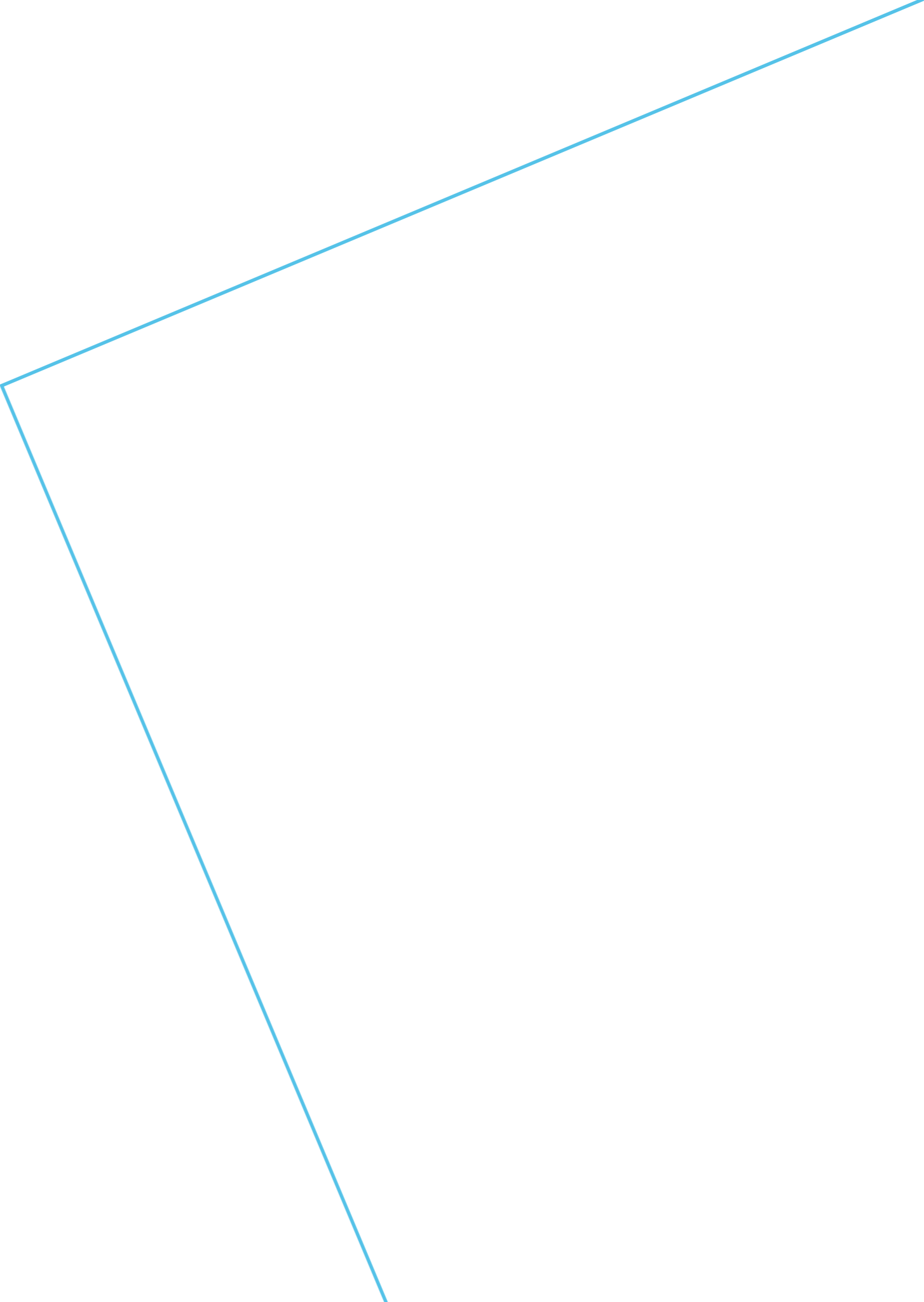
Firms are positioning themselves to deliver the best client experience and value-add solutions in the most efficient way. To keep pace with client expectations, firms are looking for a broader range of skills and capabilities in their people. The ability to collaborate and think creatively, project management, leadership and management expertise, communication and 'soft' skills, and business operations and process improvement capabilities will continue to be in growing demand.



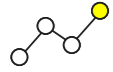
Firm metrics

Operational performance and perspectives

These data points may help you compare your firm's perceptions, performance and strategic outlook with industry averages.



Insights dashboard (all firms)



Top investment and growth strategies for next three years

Proportion of all firms

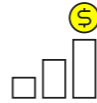
	July 2021
Marketing and business development activities	65%
Lateral hires from competitor firms	58%
Adopting new technologies	56%
Building/expanding referral networks	42%
Cross- and up-selling strategies	38%



Top operational challenges

Net percentage of all firms (Proportion of firms that answered easy minus the proportion of firms that answered challenging)

	July 2021
Business forecasting/planning	-15%
Keeping staff connected/motivated	-11%
Strengthening relationships with clients	-2%
Maintaining staff productivity	6%
Keeping on-site staff COVID-safe	28%



Mean profit growth

Proportion of all firms

FY2021 (actual)	FY2022 (forecast)
12.1%	6%



Top expenses for next 12 months

Net percentage of all firms (Proportion of firms that answered increasing minus the proportion of firms that answered decreasing)

	July 2021
Staff salaries	87%
Professional indemnity insurance	76%
IT and cybersecurity	71%
Staff support and amenities	64%
Training and development	62%
Marketing and business development	62%



Top business challenges

Net percentage of all firms (Proportion of firms that answered easy minus the proportion of firms that answered challenging)

	July 2021
Finding quality staff	-80%
Keeping quality staff	-45%
Negotiating price with clients	-18%
Winning new business	-16%
Competing with other firms	-9%



Service line growth in the next 12-18 months

Proportion of all firms

	July 2021
Corporate advisory	49%
Disputes resolution	45%
Construction & infrastructure	42%
Property	35%
Employment, health & safety	31%

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