



2021 STATE OF SMALL U.S. LAW FIRMS

by
American Bar Association
Association of Legal Administrators
Thomson Reuters

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Smart Strategies for the Forward Thinking Law Firm

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2021

State of U.S.
Small Law Firms

A low-angle shot of a roller coaster car on a yellow track, curving upwards against a clear blue sky. The car is filled with passengers, and the track is supported by a complex yellow metal structure. The overall mood is one of excitement and repetition.

A roller coaster on *repeat*.

That is how some have characterized the overall global economy for much of the past two years.

These same global effects have trickled down to be felt at all levels of the economy, from countries, to states, to communities, to industries. The legal industry has not been immune, although writ large, legal professionals have fared better than members of many other industries. At the end of 2020, large law firms reported impressive results, which have largely persisted into 2021. Now, as we examine the state of US small law firms in 2021, we again are greeted with positive results.

KEY FINDINGS

- Despite many challenges, leaders of small law firms generally view their firms as successful and approach 2022 and beyond with a positive overall outlook
- Small law firms are increasingly concerned about the administrative burden placed on them and the impact that has on their ability to practice law
- Acquiring new client business remains a top concern for many small law firms, continuing a years-long trend and highlighting opportunities for quick gains
- Recent history shows that a concentrated and determined approach to addressing challenges such as not getting paid by clients can result in quick, positive improvement
- While the pandemic will undoubtedly have lasting effects for small law firms, many of the most drastic responses have already started to reverse and firms have largely recovered from the downturn.

In a rather surprising departure from prior findings in this state of US small law firms report, the number one most significant challenge facing small law firms is no longer the challenge of acquiring new client business. Concern over business development did not actually decline, but it nevertheless falls to a very close second spot, topped this year by the challenge posed by spending too much time on administrative tasks.

Frustration on the part of small firm lawyers at the amount of time spent on tasks other than the practice of law has been building for a number of years as time spent on administrative tasks has perpetually been near the top of the list of firm challenges. This year, the proportion of a lawyer's time spent practicing law dipped to a new low at only 56%, down from 60% just a few years ago. The added concern over administrative burden and lack of internal efficiency can easily be seen as a natural outflow of this continued shift away from the type of work lawyers want to be doing (practicing law) and toward the type of work they often view as ancillary to their core competencies (day-to-day firm operations).

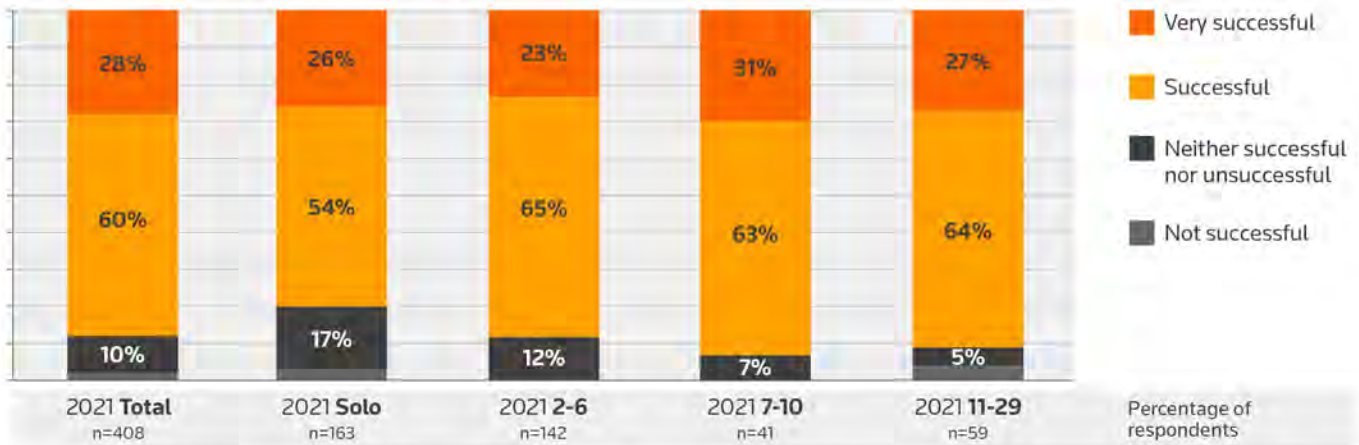
There are also important observations to be made regarding how law firms responded to a key challenge from last year – getting paid by clients. Firms facing that challenge last year understandably wanted to confront it head-on and largely did. This year, concern over getting paid has subsided. In this report, we explore whether the same type of results could be achieved if firms dedicated the same sort of all-hands effort to addressing the challenges from administrative burden and business development.

Acquiring new client business remains a top concern for many small law firms.

2021 SMALL LAW FIRMS SUCCESS AT A GLANCE

Small law firms in the US generally look upon the state of their businesses favorably. Fully 88% of small law firm respondents characterize their firm as either successful or very successful. There are, however, some key differentiators to point out relative to prior years.

Figure 1: **Success characterized**



Based on your above definition, how would you characterize your firm's success?

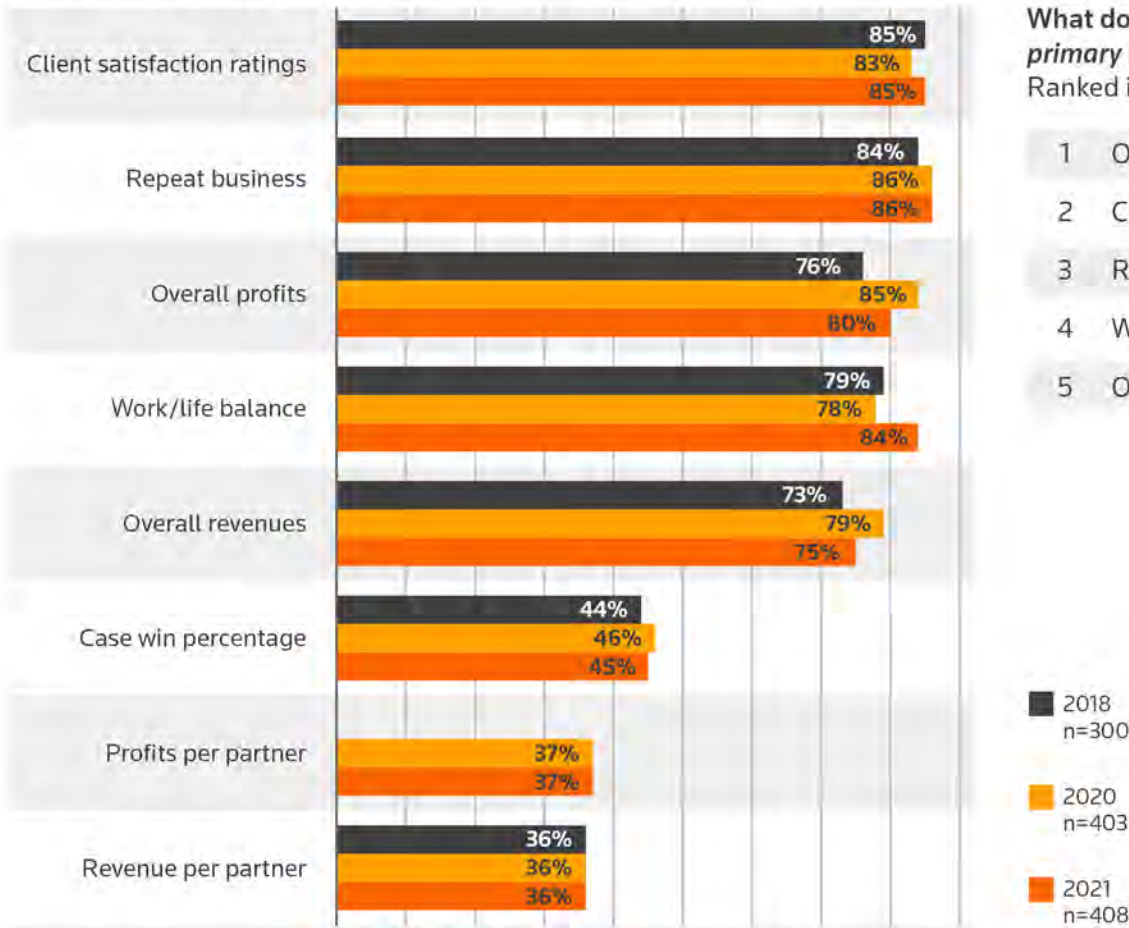
Source: Thomson Reuters 2021

The percentage of firms that identified themselves as neither successful nor unsuccessful double compared to 2020, jumping to 10%. While this may seem alarming at first blush, and it is certainly noteworthy, this represents more of a return to what had been normal in past years. From 2016 through 2018, between 8% and 13% of small law firms categorized themselves as neither successful nor unsuccessful. And while the percentage of these firms has risen this year, the number of firms identifying as successful has remained high.

Understanding that these firms consider themselves successful is just the starting point, of course. How do they measure success? What are they doing to create success?

Figure 2: **Measures of success**

Which factors do lawyers include in their definition of law firm success?



What do lawyers consider the **primary** measure of firm success? Ranked in order of importance

- 1 Overall profits
- 2 Client satisfaction ratings
- 3 Repeat business
- 4 Work/life balance
- 5 Overall revenues

How do you define "success" as it relates to your law firm?
Thinking about the ways your firm defines success, please rank these success measures in order?

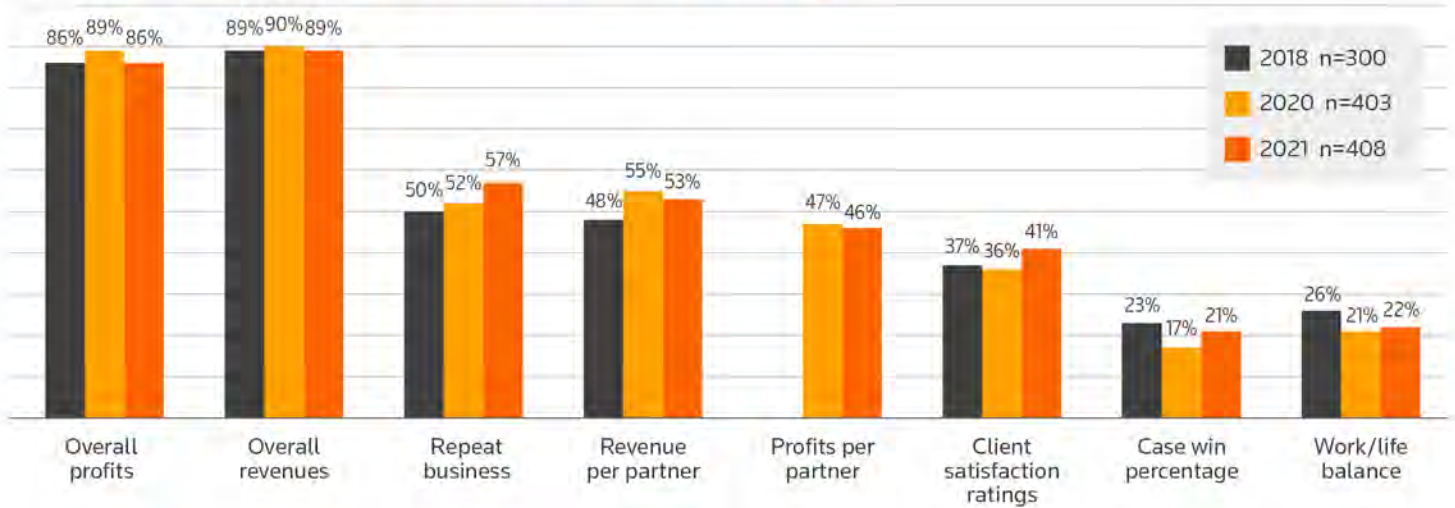
Source: Thomson Reuters 2021

Repeat business was the top measure of success for small law firms in 2021, tied closely not only in terms of percentages but also interrelatedness with client satisfaction ratings, measuring in at 86% and 85% respectively. The two elements understandably connect as unsatisfied clients are unlikely to be a source of repeat business. But as we will see in a bit, perhaps these firms could be doing more to gauge their clients' attitudes.

Another success measure worthy of particular attention is the sudden jump in work/life balance. Some 84% of respondents stated that work/life balance was part of how they measure success, the highest percentage ever reported for this measure. In fact, it was the fourth most common selection as the primary measure of success for the firm. This jump is likely due to the new realities in ways of working discovered during the pandemic. Research conducted by Thomson Reuters has found that lawyers from across the industry have reacted positively to many of the new ways of working from the past 18 months, in many cases seeking to work fewer hours, travel less, have more remote working flexibility, and have greater autonomy in setting working hours. The rise in a desire for work/life balance among small firm lawyers is likely a product of the same changing attitudes.

In terms of primary measures of success, while work/life balance scored high, the top measures remain overall firm profits, client satisfaction ratings, and repeat business.

Figure 3: **Which metrics are small law firms tracking?**



Do you track any of the following metrics within your firm?

Source: Thomson Reuters 2021

Large numbers of small law firms report tracking their firm’s overall revenues and profits. Given that overall profits is the primary measure of success for many firms, this is entirely appropriate; and indeed, all firms should be tracking these metrics as basic performance indicators.

A majority of law firm respondents also report tracking revenue per partner, though not profits per partner, as well as repeat business. However, the 57% who report tracking repeat business seems a bit incongruent with the fact that repeat business was identified as the third most common primary measure of success. Indeed, it could be that every firm that stated repeated business was their primary measure of success also reported tracking it as a metric. But one cannot help but wonder if everyone who says they value repeat business actually does a robust job of tracking it.

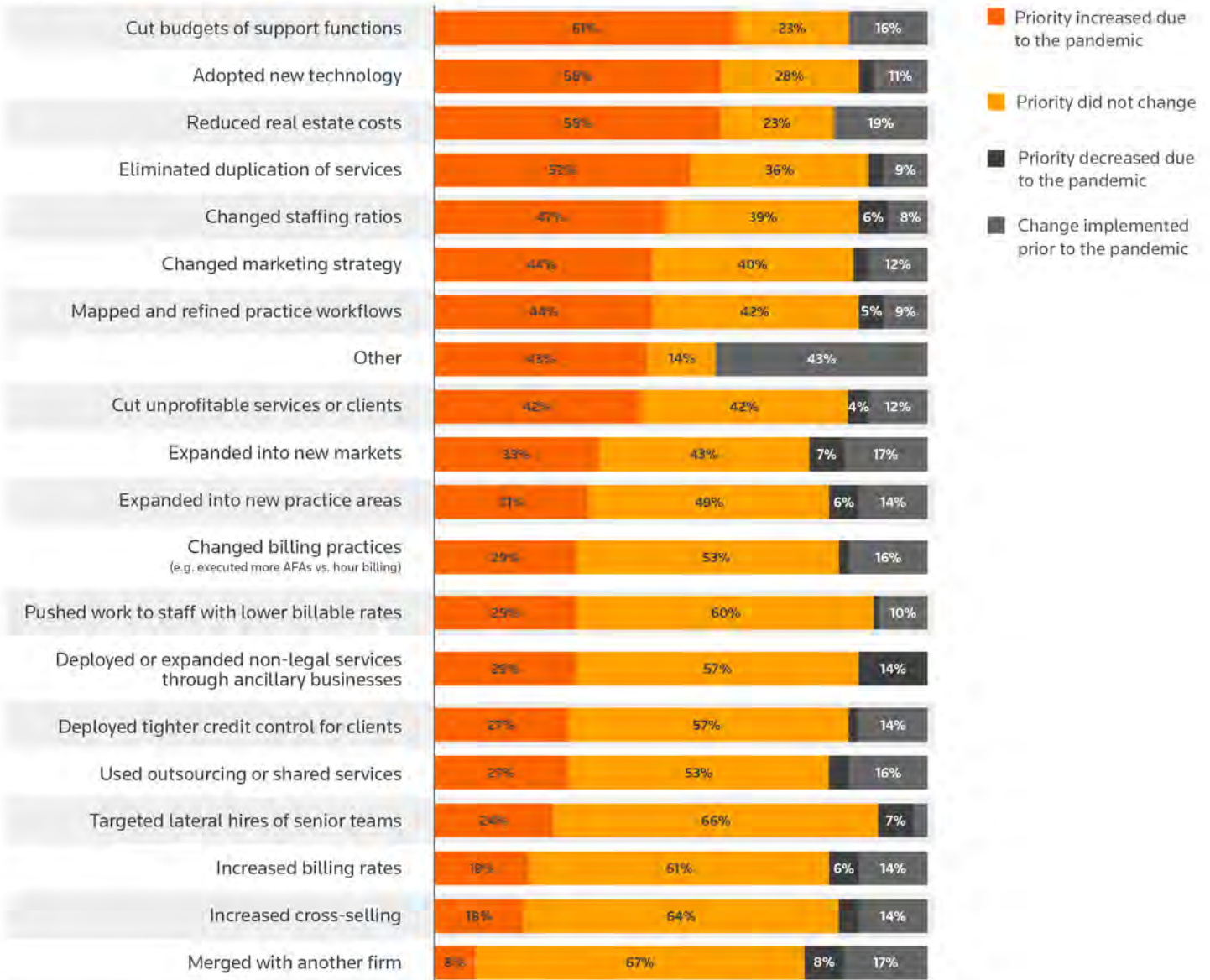
The same could be said for client satisfaction ratings. Here there appears to be a clear departure between those who say they value such ratings and those who report actively tracking them. As mentioned previously, 85% of respondents report that client satisfaction ratings factor into how their firm defines success. Yet only 41% report tracking satisfaction ratings as a metric. Granted, this is a 5 percentage point improvement since the 2020 version of this study, but the wide gap remains noticeable.

One additional note on metric tracking, while firms of all sizes stated work/life balance was a part of how they defined success in 2021, solo law firms were more likely to report tracking balance as a metric than any other group of law firms surveyed.

THE EFFECTS OF 2020

The events of 2020 obviously triggered a massive amount of change in the legal industry and the world at large. The lasting effects of those changes remain to be seen, but it is interesting to look at the scope of how law firms reacted to what 2020 threw at them.

Figure 4: Firm changes due to the pandemic

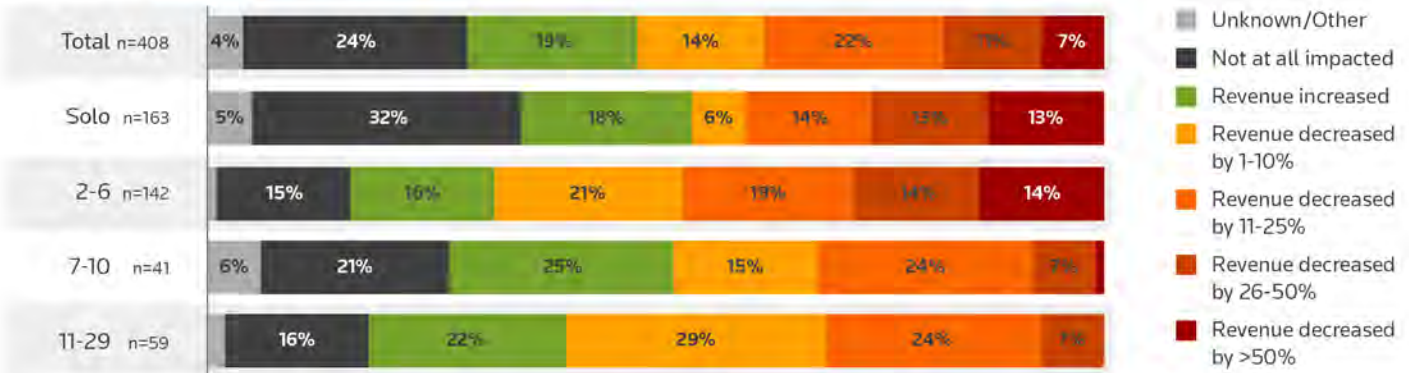


How did the onset of the pandemic affect the priority your firm placed on these changes?

Source: Thomson Reuters 2021

A large number of law firm priorities were accelerated as a result of the events of 2020. More than half of respondents said that the pandemic increased the priority they placed on cutting budgets, reducing real estate costs, adopting new technologies, and eliminating duplicate services. Many also increased the priority they placed on changing their staffing ratios, mapping workflows, and how they market themselves.

Figure 5: COVID-19 impact on revenue

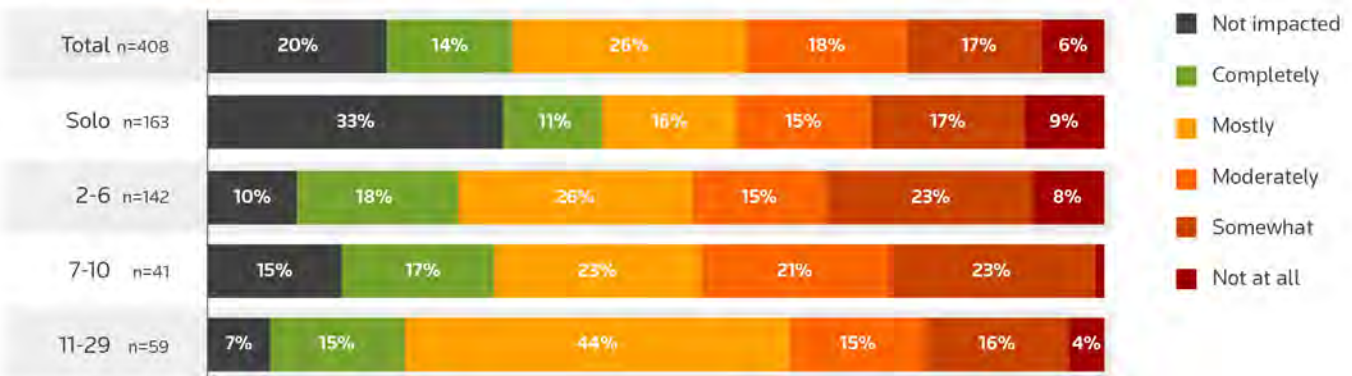


Based on revenue, how much would you say your firm was impacted by COVID-19?

Source: Thomson Reuters 2021

While 19% of small firms report increasing their revenues in 2020, 54% report revenue decreases, with 18% seeing revenues drop by more than 25%. Looking at today, the amount of recovery taking place for small law firms varies greatly.

Figure 6: How small law firms have recovered from COVID-19



How much would you say your firm has recovered from the impacts of COVID-19?

Source: Thomson Reuters 2021

Looking at the actual operational changes necessitated by the pandemic, a few of those changes seem destined to continue while others seem more temporary.

Figure 7: **How likely are COVID-19 operational changes to continue after the pandemic?**

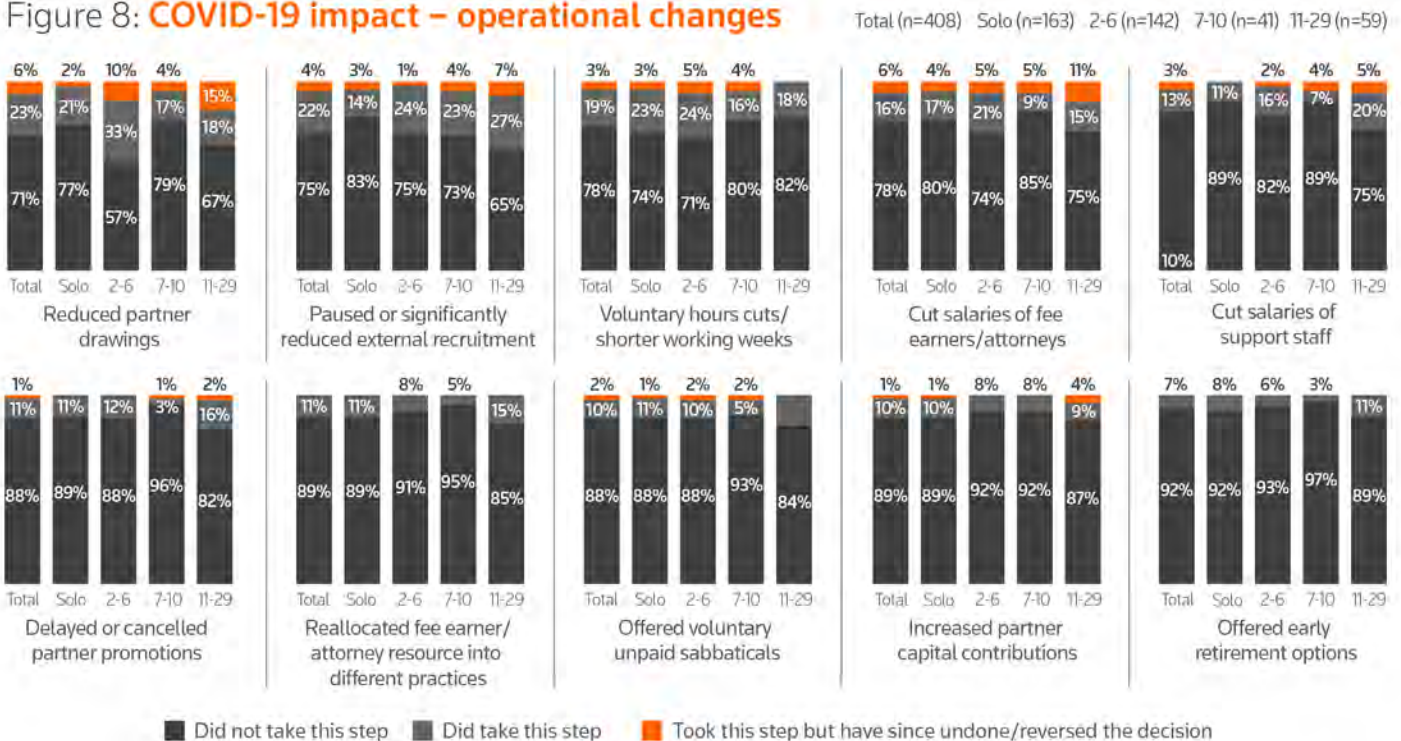
	Total n=408	Solo n=163	2-6 n=142	7-10 n=41	11-29 n=59
Virtual client meetings	74%	70%	77%	79%	85%
Virtual hearings	68%	54%	62%	79%	78%
Remote working	66%	50%	68%	84%	75%
Increased investment in non-Legal Specific Technology/Software	25%	18%	28%	36%	27%
Cleaning protocols	22%	14%	16%	31%	29%
Increased investment in Legal Specific Technology/Software	20%	14%	18%	29%	24%
Reduced spend in real estate	19%	18%	28%	15%	27%
Reduced support staff headcount	11%	4%	13%	15%	13%
Reduced attorney headcount	5%	1%	4%	4%	5%
Other	1%	2%	0%	0%	0%
Nothing, things will return to pre-COVID levels	8%	14%	6%	4%	4%

What changes to your firm's operations that were necessitated by COVID-19 do you think your firm will continue post COVID-19?

The majority of respondents expect virtual client meeting and hearings and remote working to continue into the future. Other measure like reductions in support staff and attorney headcount seem less likely to persist.

In fact, we can get quite an interesting picture by exploring how firms approached different response measures and whether they have reversed course.

Figure 8: **COVID-19 impact – operational changes**

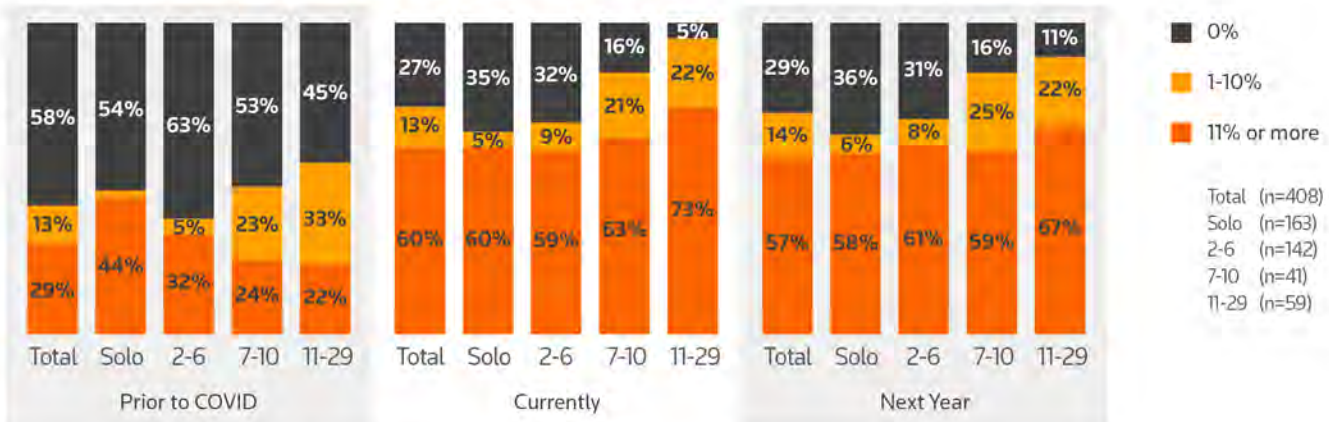


Please indicate which steps, if any, your firm is currently taking (or has taken before now) as a direct result of the impact of the pandemic on your operations.

Source: Thomson Reuters 2021

We can quickly see that the majority of firms did not take any of the rather drastic measures listed. For many others, while they may have taken some of these steps initially, they have since reversed course, indicating that many aspects of law firm operations and staffing are unlikely to feel dramatic long-term effects from 2020.

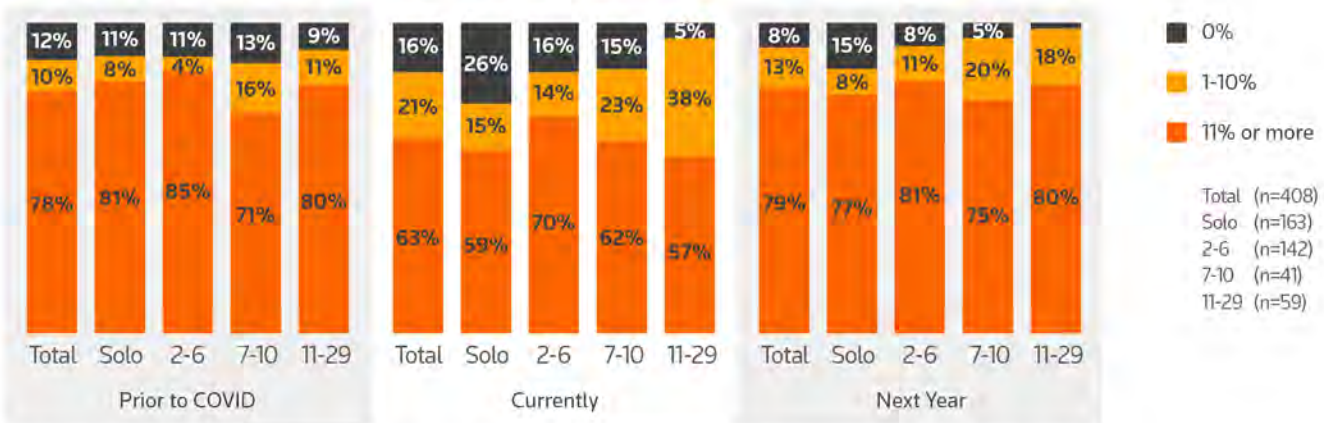
Figure 9: COVID-19 impact on remote work



Approximately what percentage of your attorneys are working remotely at your firm?

Source: Thomson Reuters 2021

Figure 10: COVID-19 impact on client meetings



What percentage of your firm's initial meetings with potential clients are being conducted in person?

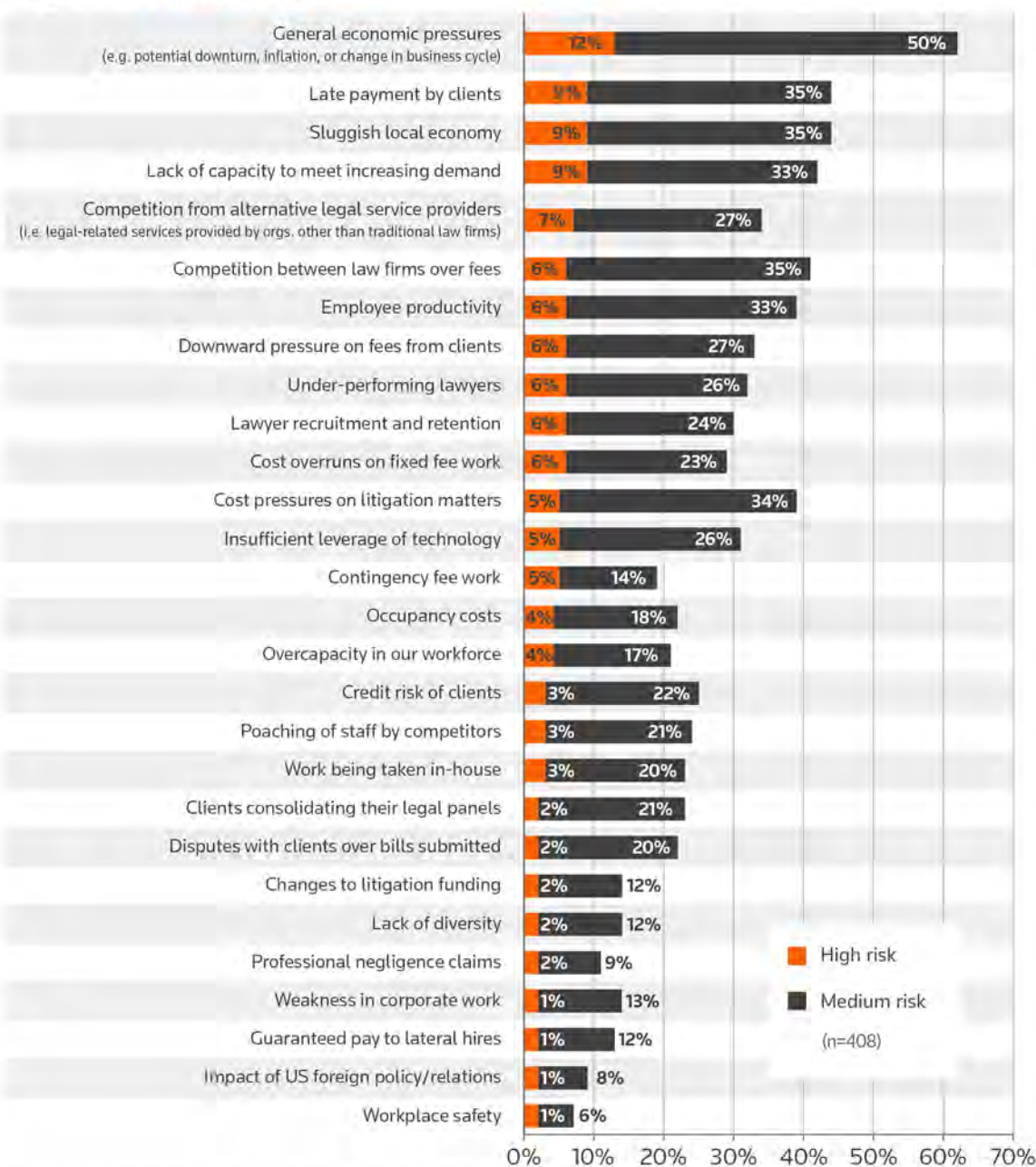
Source: Thomson Reuters 2021

Perhaps the most likely long-term impact relates to remote working, with similar percentages of firms expecting their attorneys to continue working remotely into next year. Client meetings, on the other hand, are expected to shift back toward a higher percentage being in-person meetings.

SMALL LAW FIRMS REMAIN GUARDED YET BULLISH

Leaders in small law firms see a large number of areas of potential risks to their firm's profitability. However, relatively few leaders see any of these risks as particularly significant. The most concerning area relates to general economic pressures, which was identified by 12% of respondents as high risk. Another 50% of respondents said that economic pressures posed a medium risk. While several other types of risk were identified by a large number of respondents as medium risks, no other risk type saw double-digit responses as being high risk.

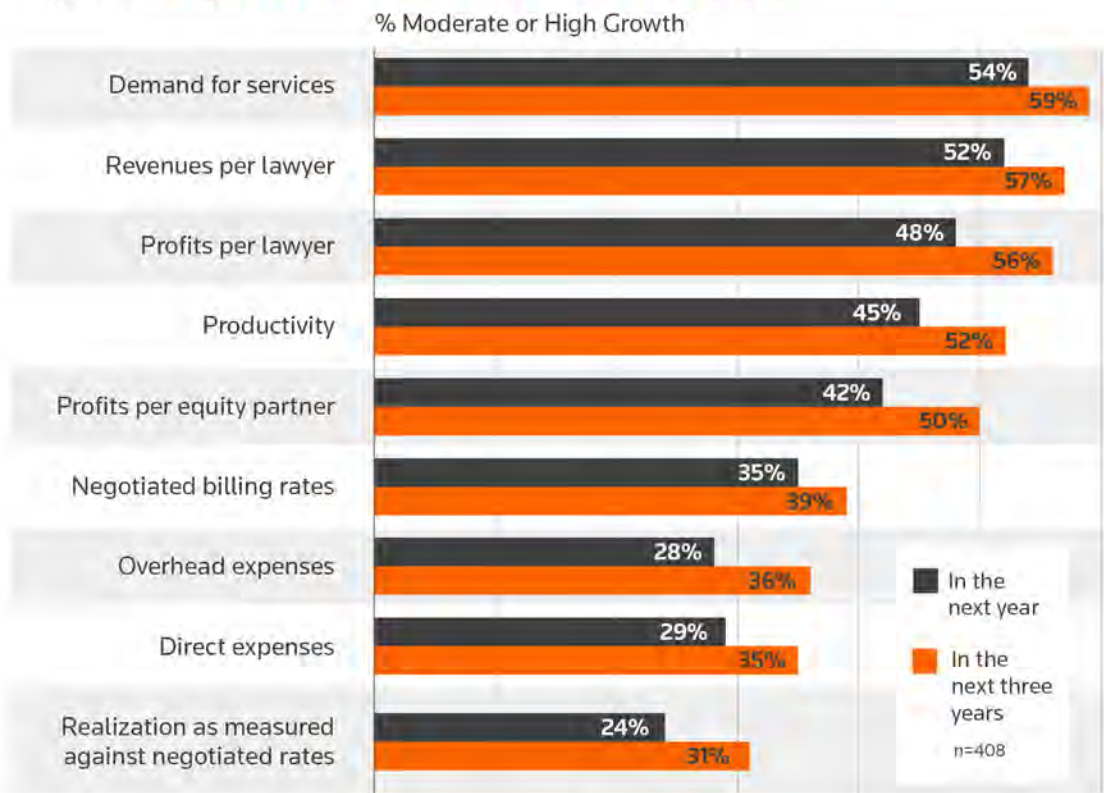
Figure 11: Profitability risks



To what extent do you think the following factors are risks to the profitability of your law firm?

Source: Thomson Reuters 2021

Figure 12: **Expected change in financial indicators**



What change do you expect to see in the following financial performance indicators for your firm over the next [year/three years]?

Source: Thomson Reuters 2021

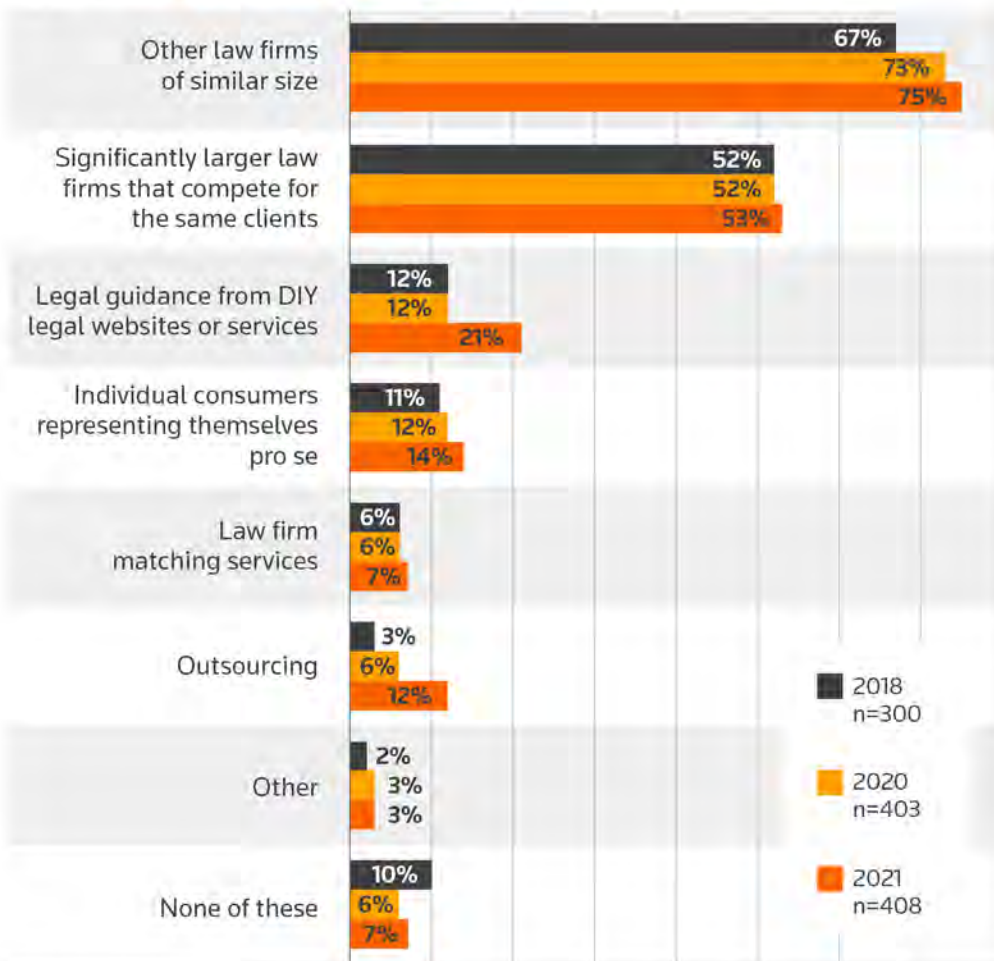
The bullish attitude of small law firm leaders is perhaps best exemplified in the findings that large numbers of respondents saw the potential for moderate to high growth in many firm financial indicators not just in the next year but over the next three years as well. A majority of respondents expect both short- and long-term growth in demand for services, and also anticipate a rise in revenues per lawyer and profits per lawyer. Some 52% of respondents expect to see moderate to high growth in lawyer productivity over the next three years.

We also take note that many expect to see overhead expenses experience moderate to high growth in the next one (29%) to three (35%) years. While this could certainly impact firm profitability and is something firms must be sure is managed, such increases should not be unexpected given the performance of overhead expenses in the past two years. Due to the pandemic, law firm expenses such as marketing and business development and office management expenditures, as well as staffing costs in some cases, saw large declines in law firms of all sizes. It would only be natural that these categories would recover as the market itself continues to stabilize and law firms continue to move toward return-to-office practices and some semblance of “normal.” Runaway overhead expense growth would be concerning and detrimental for law firms, but over the course of the past decade, firms have become quite adept at managing expense growth and targeting overhead expense growth toward areas of meaningful and valuable investment, and there is no reason to think such practices will not continue.

THE MARKET REMAINS CHALLENGING

The US legal market is largely considered a “mature market” – most new business to one law firm is business lost by another law firm. This may be less true with those small law firms who deal primarily with individual consumers of legal services as opposed to business clients, yet for both categories of small firms, the competitiveness of the market cannot be overstated.

Figure 13: **Sources of Competition**



From which of the following do you experience the most competition in the market?

Source: Thomson Reuters 2021

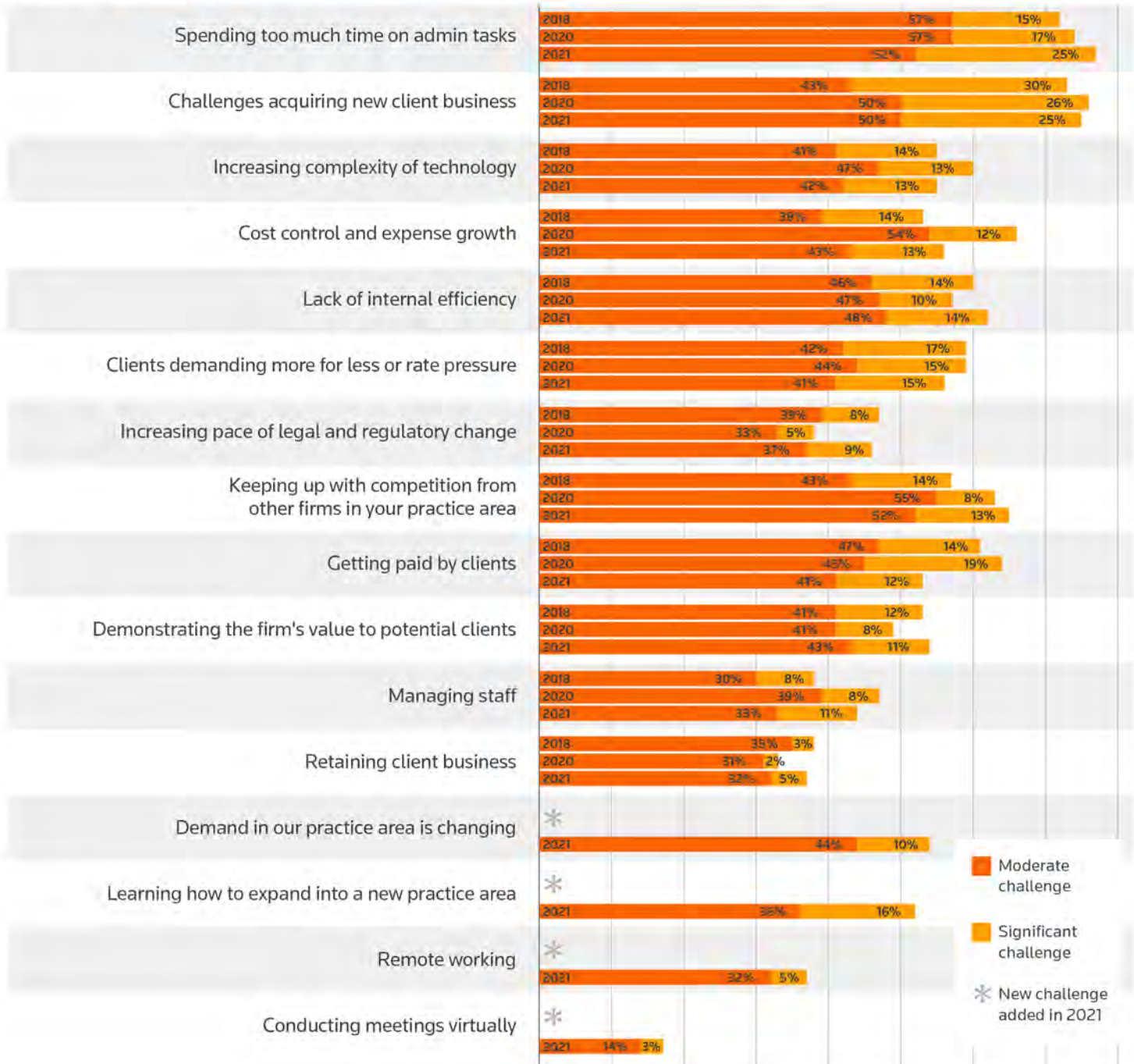
In each of the past three years this survey has been conducted, an increasing percentage of respondents have reported competition from other law firms of similar size. At the same time, a majority report competing for clients with significantly larger law firms, a daunting challenge when one considers the more robust marketing apparatus within many larger firms.

Legal DIY services and clients opting to proceed pro se are also significant sources of competition, particularly for solo practitioners: 32% of solo lawyers report competition from DIY services, while another 24% report competition from pro se clients.

Additionally, there was a notable jump in firms reporting competition from outsourcing this year, serving perhaps as evidence of the further unbundling of legal services with portions being distributed among various service providers to optimize cost savings rather than having one firm with handling an entire matter.

The challenges for small law firms are not limited to competition, though.

Figure 14: **Small Law Firm Challenges**



Please indicate the degree to which the following issues are a challenge for your firm.

Source: Thomson Reuters 2021

Of initial note, “spending too much time on administrative tasks” experienced a noticeable uptick in the number of respondents rating it as a significant challenge. This year’s survey finds it on even footing with the perennial top significant challenge of acquiring new client business. When coupled with respondents who categorized admin tasks as a moderate challenge, inefficient administrative workflows took over the top spot for small law firm challenges.

This challenge was felt even more acutely in smaller firms. Nearly one-third of firms with 6 or fewer lawyers said spending too much time on administrative tasks posed a significant challenge. This is understandable given that the smaller a law firm is, the less likely it is to have staff dedicated to the administrative side of the firm’s business, and the more likely those responsibilities are to fall on the partners.

Also noteworthy is the drop in the number of firms that report a challenge getting paid by clients. After a jump in 2020, it was more likely that firms would choose to address the problem of not getting paid than any other firm challenge. This is quite understandable, given the fact that law firms are cash-intensive businesses. However, it also provides an interesting example of the kind of results firms can experience when they focus their efforts on addressing a problem.



THE PROBLEM OF NOT GETTING PAID AND MANAGING REVENUE

In the 2020 *State of US Small Law Firms* report, 64% of respondents reported getting paid by clients posed at least a moderate challenge. At the same time, 43% reported that not only did they have a plan to address this problem, they'd already implemented changes to address the issue. In contrast, 76% of respondents reported at least a moderate challenge acquiring new client business, but only 29% reported having implemented changes to address it.

Fast forward to this year, acquiring new client business remains at least a moderate challenge for 75% of respondents, statistically indistinguishable from last year.

Getting paid by clients, however, now poses a moderate challenge to 41% of respondents, a 4 percentage point decline, and a significant challenge to 12% of respondents, a drop of an additional 7 percentage points.

It is difficult to avoid the inference that the additional focus last year on not only making a plan but actually implementing changes netted positive results for firms. While it is true that the subsidence of at least most of the major economic impacts of the pandemic may have also factored into less pressure on law firms with regard to their clients paying them, that does not negate the fact that a large number of firms chose to take proactive steps to address a problem, and those steps would have had an impact in results.

So what steps did firms take?

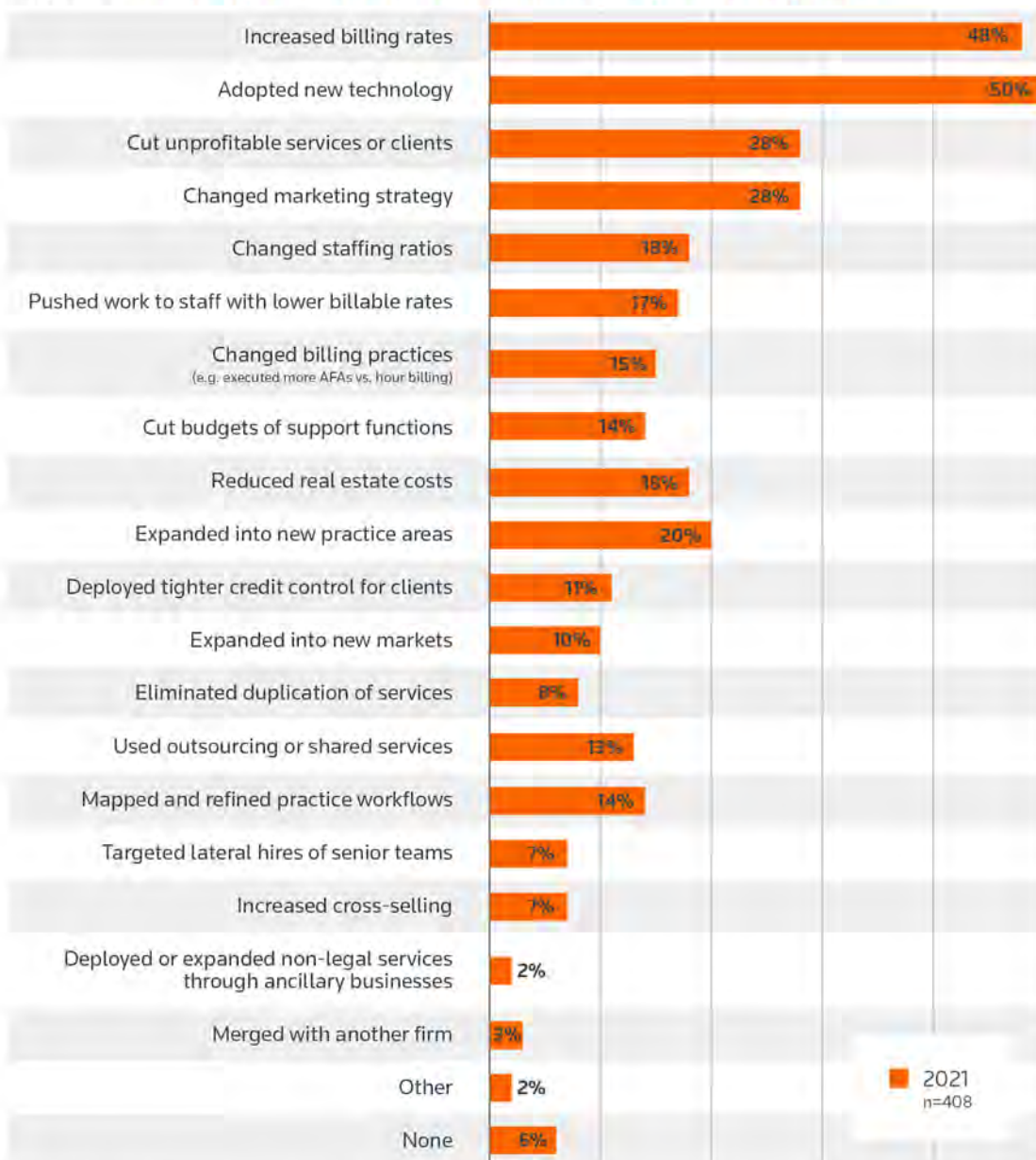
Respondents were asked an open-ended question about changes they had implemented or planned to implement to address the getting-paid challenges facing their firms. Among the most common responses:

- Increase and monitor billing rates
- Increase retainers
- Improve or increase payment collection
- Begin accepting debit or credit cards
- Begin accepting ACH payments

Each of these steps directly addresses the problem of not getting paid by clients by either improving transparency and accountability for billing or making the firm easier to do business with.

Coincidentally, some of these steps might also serve to address the top challenge in 2021 of spending too much time on administrative tasks as making it easier for clients to pay their bills means less time the lawyers must spend attempting to collect unpaid invoices.

Respondents were also asked about other changes made in the past two years and given a list of choices.

Figure 15: **Changes made to law firm in the past two years**

Which, if any, of the following changes has your firm made in the past year?

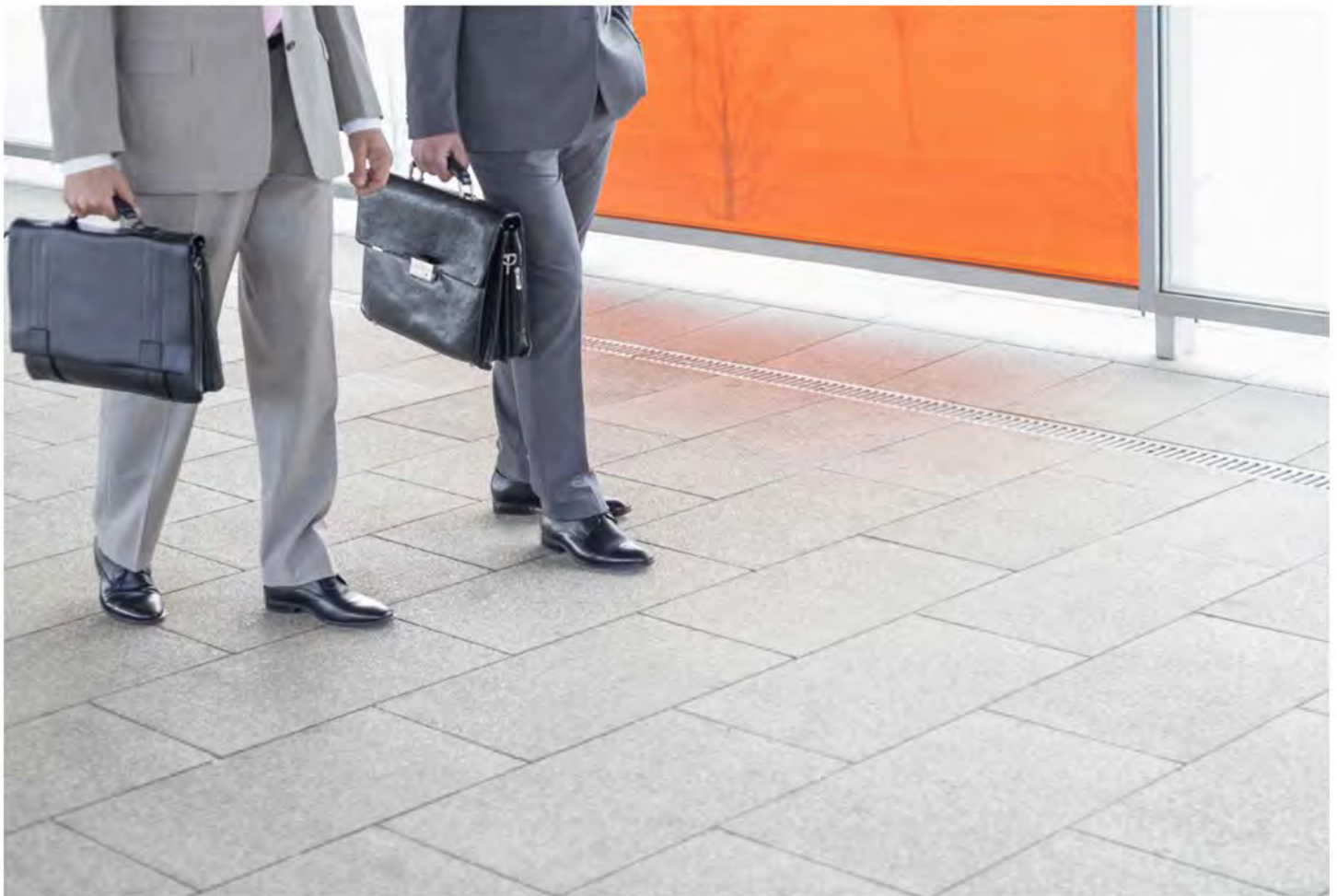
Source: Thomson Reuters 2021

Many of these relate directly to revenue management, including

- 48% increasing billing rates
- 28% cutting unprofitable services
- 17% pushing work to staff with lower billable rates
- 15% changing billing practices
- 11% deploying tighter credit controls to clients

Clearly, many small law firms have been focusing on their revenue management through a variety of means even before the pandemic hit.

This is not to suggest that lawyers did not take steps to improve their business development over the past year. Indeed, many lawyers reported increasing their emphasis on marketing and networking, improving client communication, updating websites, increasing social media presence, changing marketing strategy, etc. However, the fact remains that more lawyers voiced a proactive approach to address the problem of not getting paid, and it appears to have had a positive effect.

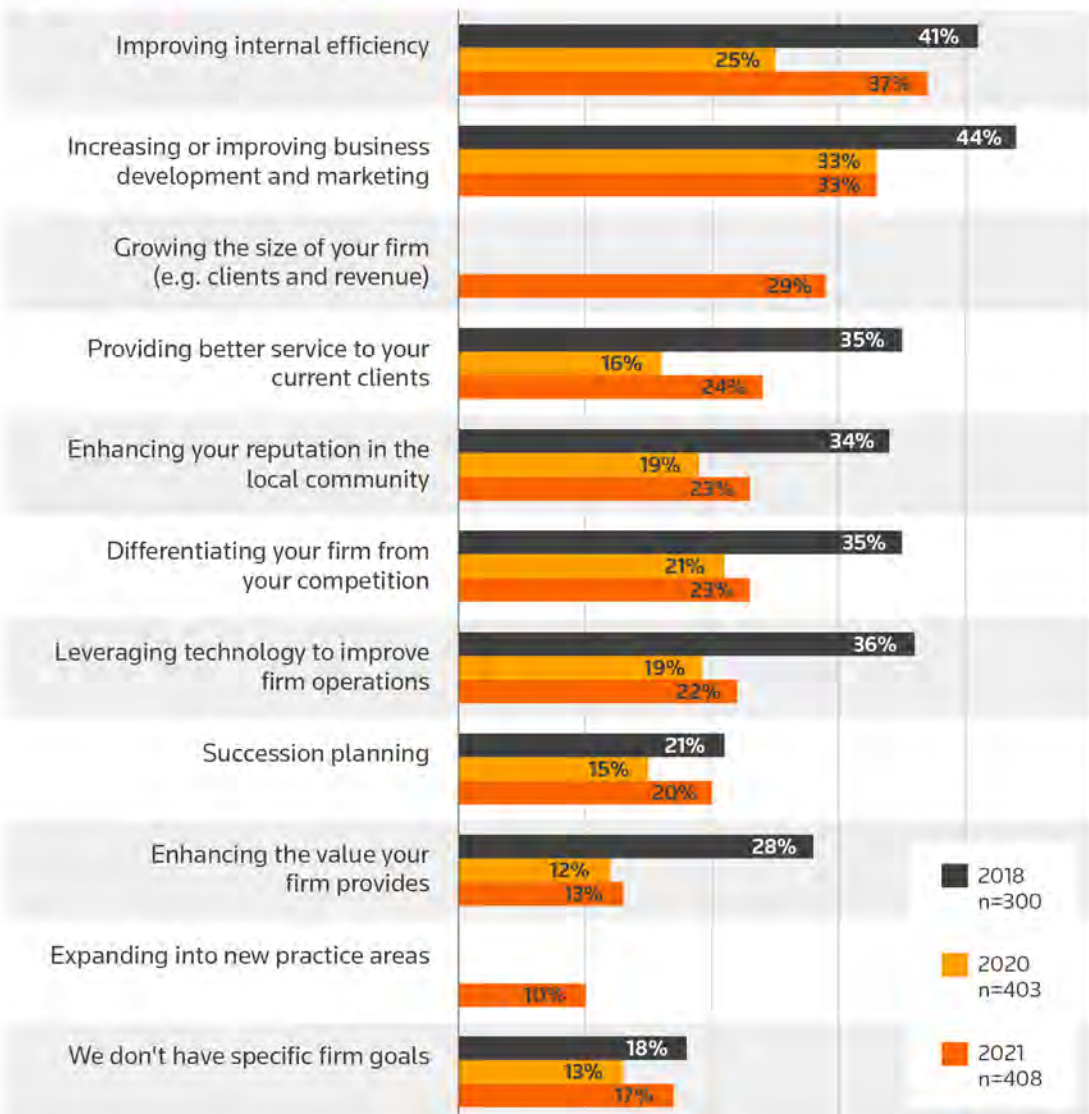


GOALS AND PRIORITIES GOING FORWARD

This small case study in addressing collecting client payments opens up new avenues of possibilities for small firms heading into 2022 and beyond.

Nearly half of responding small law firms report that they have not yet determined how to address the problem of spending too much time on administrative tasks. Another 40% say they have no plan to improve client acquisition.

Figure 16: **Goals and priorities**



What are the top three goals / priorities that you have for your firm?

Source: Thomson Reuters 2021

Improving internal efficiency (i.e., improving how administrative tasks get done) and improving business development are the top two goal/priorities for small law firms this year. This is encouraging, but once again, we note an imbalance between the number who say these tasks pose a challenge to their firms and those who say they are either planning to do something about them or who are focusing on them as top priorities.

The emphasis placed on getting paid last year shows that firms can create positive results when they focus their energies. Perhaps a similar focus on internal operations or business development could yield similarly positive results?

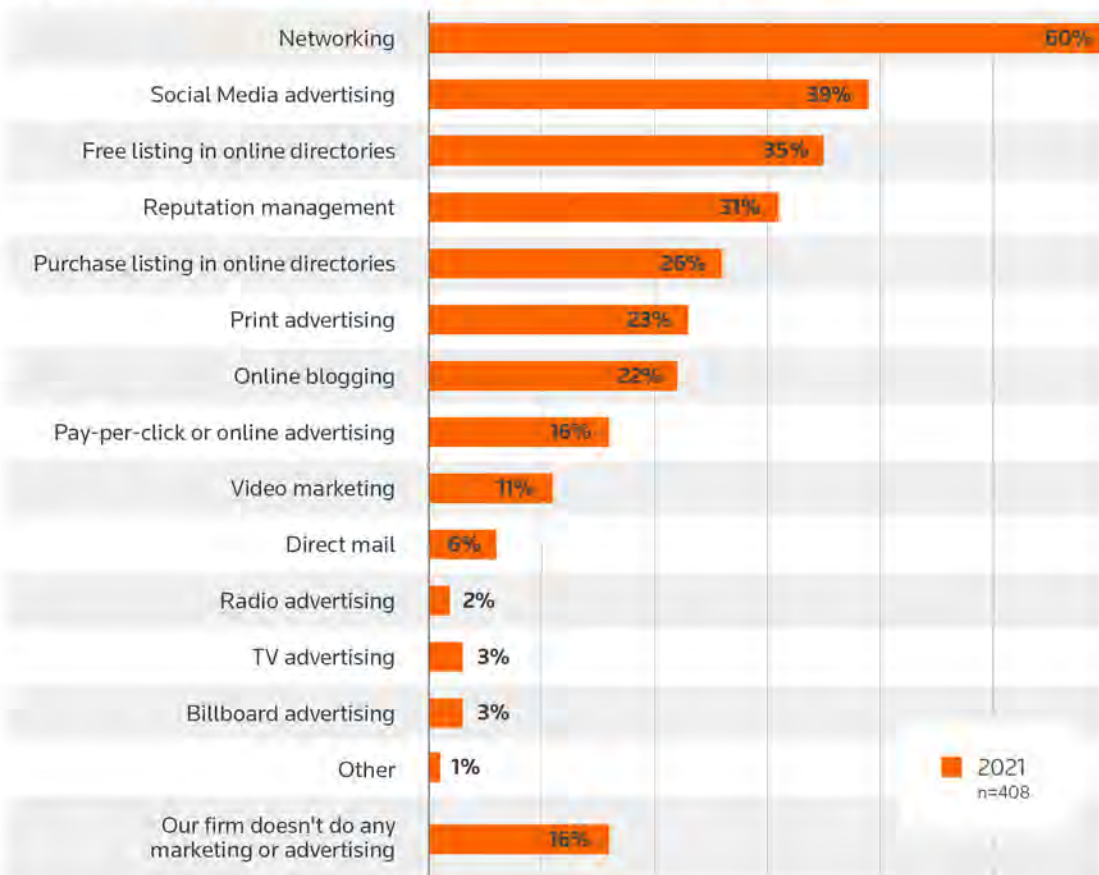
Improving business development

Nearly 30% of respondents report planning to increase their business development investments in the next year. On average, 42% of small law firms report that 2% or less of their total expenditures are dedicated to marketing and business development, including 8% of respondents who report spending nothing on marketing. Another 37% of respondents report that marketing accounts for between 3% and 10% of their total firm expenditures. Nearly 40% of respondents say their marketing expenses are likely to increase over the next three years.

But simply increasing the amount of money spent isn't necessarily going to address the challenge of acquiring new clients.

To begin to understand what types of meaningful improvements can be made, it is a good idea to start with an understanding of what types of marketing tactics and strategies firms are using today.

Figure 17: **Types of marketing and advertising utilized**



Which of the following types of marketing and advertising does your firm utilize?

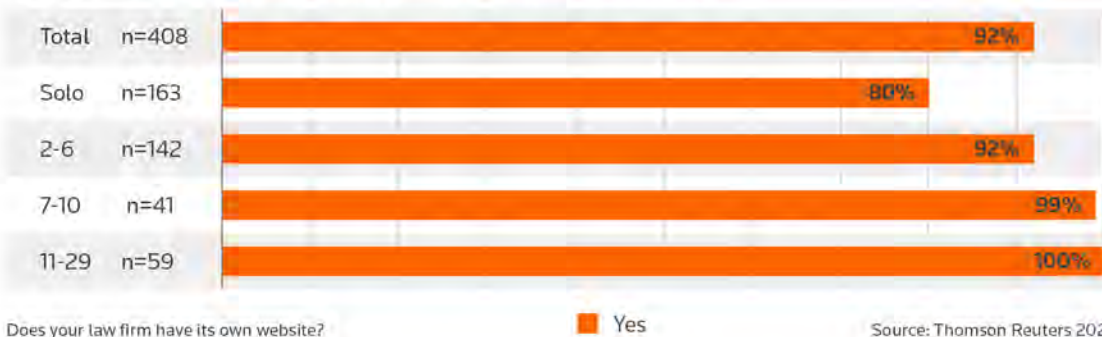
Source: Thomson Reuters 2021

By far, most firms are attempting to leverage networking as a way to build business. A strong network and the appurtenant referral potential have long been mainstays for lawyers. However, today's lawyers must exercise a degree of caution in their reliance on these networks. Referring back to Figure 13, other firms of similar size — those with which lawyers are likely to network — were cited as the single largest source of competition for small law firms. And according to the findings in Figure 24 below, 31% of small firms probably or definitely will expand into new practice areas in the next year. The lawyers relied on for today's referrals may be tomorrow's competition.

Social media advertising, reputation management, and purchasing online directory listings are also popular marketing tactics today. And law firm websites are nearly ubiquitous. Given the increases seen in online traffic since the onset of the pandemic, it is unsurprising and quite appropriate that digital marketing tactics are gaining traction.

Figure 18: **Firms with websites**

Larger firms are more likely than solo firms to have their own websites.



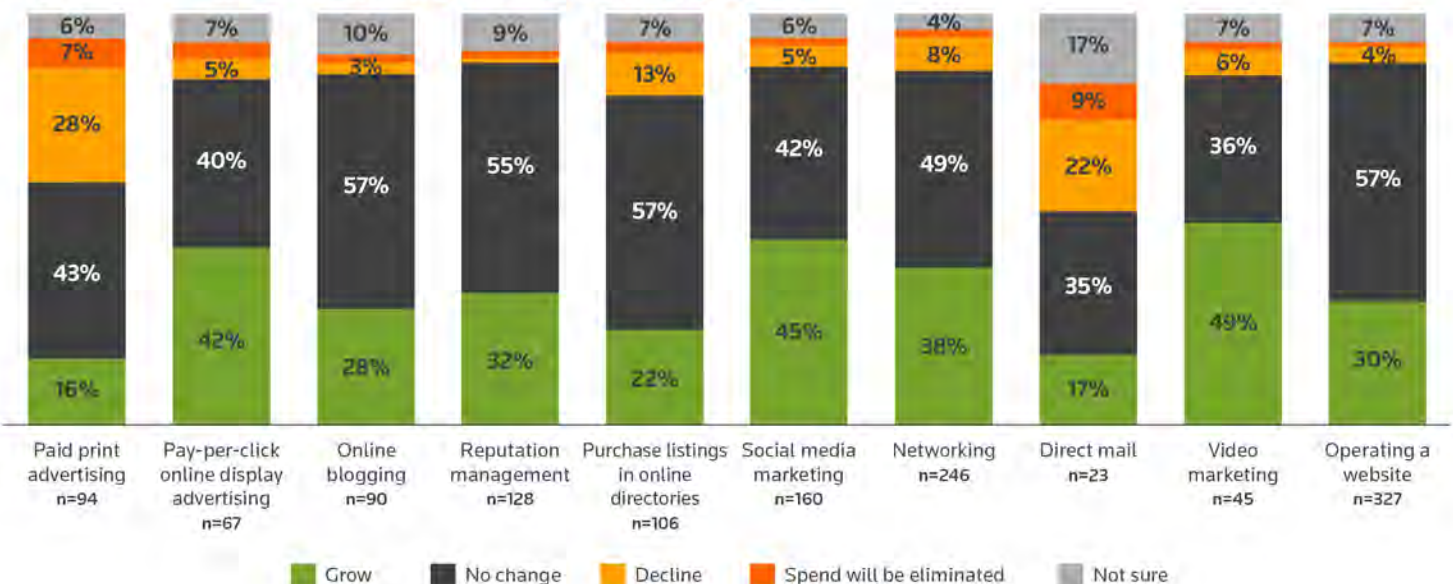
Does your law firm have its own website?

Yes

Source: Thomson Reuters 2021

As firms look to increase their marketing investment, those new dollars are likely to be directed in a number of different areas.

Figure 19: **Plan for marketing and advertising spend**



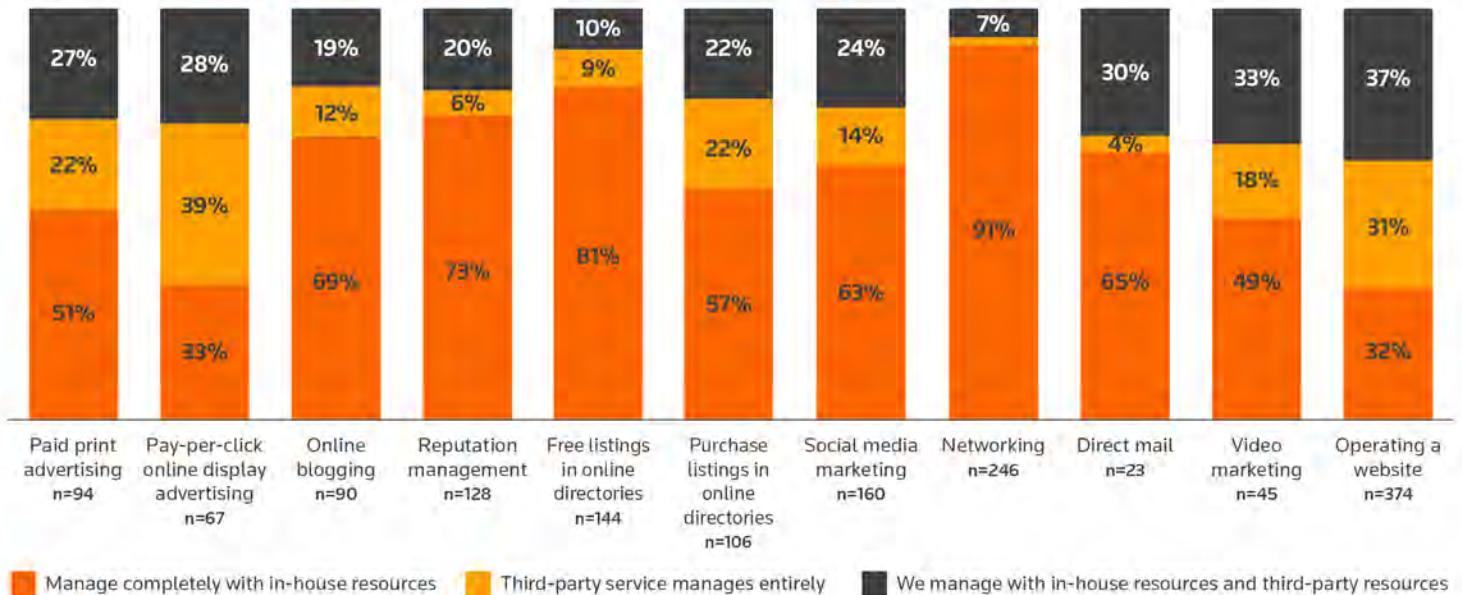
How do you expect your spend on the following marketing and advertising activities to change over the next 3 years?

Source: Thomson Reuters 2021

Most respondents plan to increase their spend for video marketing, social media marketing, and pay-per-click advertising, although networking, reputation management, and websites were popular choices as well.

Firms also recognize that some of these tactics may require some outside help.

Figure 20: **Management of marketing and advertising**



How does your firm manage each of the following types of marketing and advertising that it utilizes?
 Answer base: those who report conducting marketing/advertising activities.

Source: Thomson Reuters 2021

Certain tactics such as networking and free directory listings are natural choices to manage in-house. Other options such as pay-per-click advertising, video marketing, and website operation, the majority of firms rightly recognize as areas where outside help is warranted.

For a few other tactics, though, perhaps more firms would do well to consider at least collaborating with a third-party. Tactics such as reputation management and social media marketing are brimming with subtle nuance, and are heavily influenced by the seemingly endless changes in how social networks and search engines weight and prioritize information. The same is true of blogging, where search engine optimization plays a vital role in visibility and engagement. Each of these tactics also carries with it an additional administrative burden, adding to the concern already felt by a large number of firms over how much time they spend managing their firm as opposed to practicing law.

Indeed, respondents recognize that tactics like reputation management, operating their website, pay-per-click ads, social media marketing, and video marketing a vitally important. All the more reason to ensure, then, that the firm is leveraging every tool at its disposal to ensure the best possible results. As we will explore more fully later, many firms have an impulse to want to keep work in-house, but this may not be the optimal allocation of firm resources and staff time, particularly for tasks that lie beyond the firm's core competencies.

Improving internal operations

It does not appear, at least as yet, that firms have the same focus on improving their internal operational efficiency to the same degree as their billing and revenue management.

Revisiting the changes small firms have implemented, many reported utilizing more technology, which can help improve operational efficiency. But much of this adoption was related to enabling remote work as opposed to back-office functions. Some 19% responded that they had implemented changes to work smarter or more efficiently and hold their staff accountable for productivity. But this is still out of balance with the number who report challenges with internal efficiency.

It is true that very few firms report any intent to reduce their investment in support staff, non-legal-specific technology, or legal-specific technology, but only 20% expect to increase their investment in any of these areas. This begs a question of how firms plan to improve efficiency without changing their staffing or technology. Indeed, 44% of respondent admit they don't yet have a plan on how to address the fact they spend too much time on administrative work.

Even among those firms who do plan to increase their tech investments, the findings of this report also raise a question as to what types of technology these firms plan to invest in.

Client intake tools and client portals were the most commonly selected items that firms plan to implement in the coming year, followed closely by electronic signatures. Yet each of these was selected by 6% of respondents or less.

Some of these technologies are already in place at a number of small law firms, though in most cases, far less than a majority of firms report using them.

Figure 21: **Technology systems**



Which of the following technology systems does your firm use? Do you have plans to implement any of the following technology systems within the next 12 months?

Source: Thomson Reuters 2021

Indeed, a number of technology systems that could help to improve firm operational efficiency such as document management, conflict checking, matter management, eBilling, document automation, and matter budgeting have been adopted by less than half of small law firms with very few planning to implement them in the coming year.

Thus, optimizing the amount of time spent on administrative tasks should be of vital importance to small law firms.

Figure 22: **Time allotment** Mean summary



What percentage of your time do you spend doing the following activities?

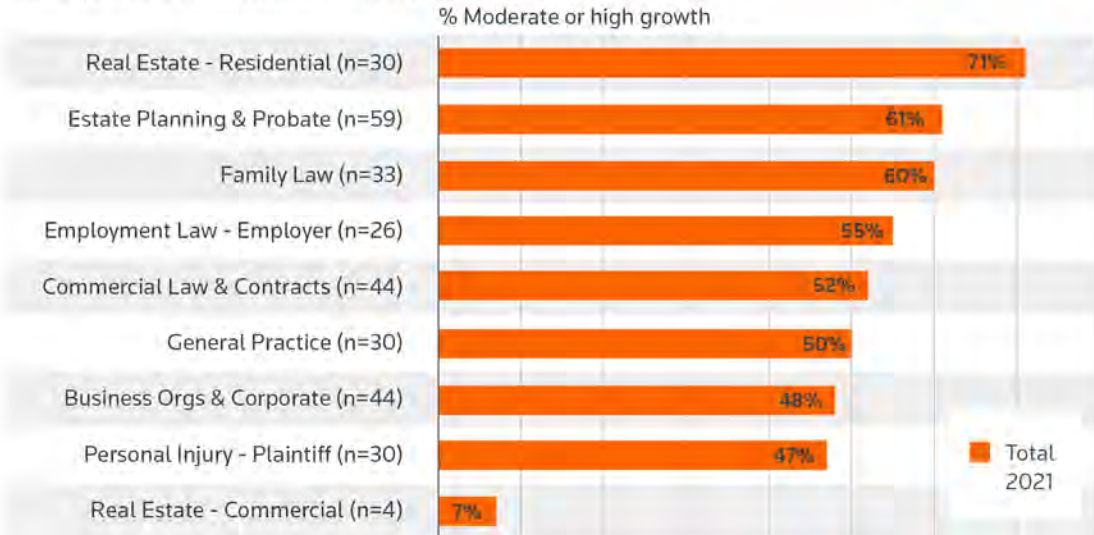
Source: Thomson Reuters 2021

Small law firm lawyers today report spending only about 56% of their time practicing law. This is down from 60% just a few years ago. And this is critical because practicing law is the part of the lawyer's day for which a client is willing to pay them.

Yet, small law firm lawyers are bullish on the outlook for their practices.

Figure 23: **Practice areas expected to grow in the next year**

Residential real estate and estate planning & probate are the top two practice areas that respondents indicated would see growth in the next year.



Over the next year, to what extent do you expect the following areas of legal work to grow or contract in terms of billings for your firm?

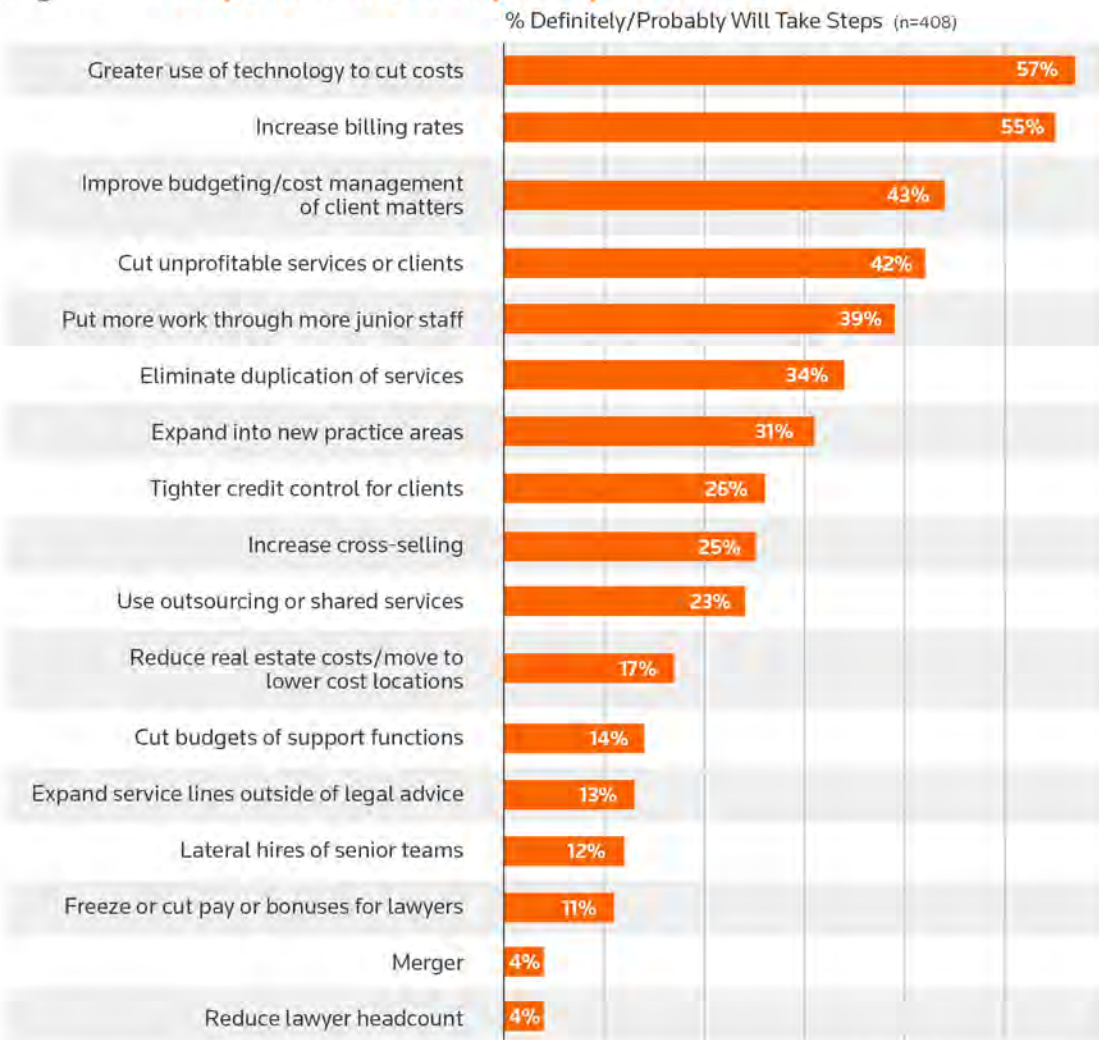
Answer base: those that practice in that area.

Source: Thomson Reuters 2021

Respondents expect to see moderate or high growth in residential real estate, estate planning, family law, and employment law among others in the coming year. But their ability to capitalize on this growth potential could be hampered by the fact that they have less time to spend on actually practicing law. There are only so many working hours in a year. The more of those hours devoted to administrative work, the fewer that can be devoted to legal representation. At some point, unless efficiencies are found, something will necessarily suffer, either the lawyer's capacity to take in new work, their ability to manage their firm, or perhaps worst of all, the quality of their work.

There are positive signs, though.

Figure 24: **Steps for firms to improve performance**



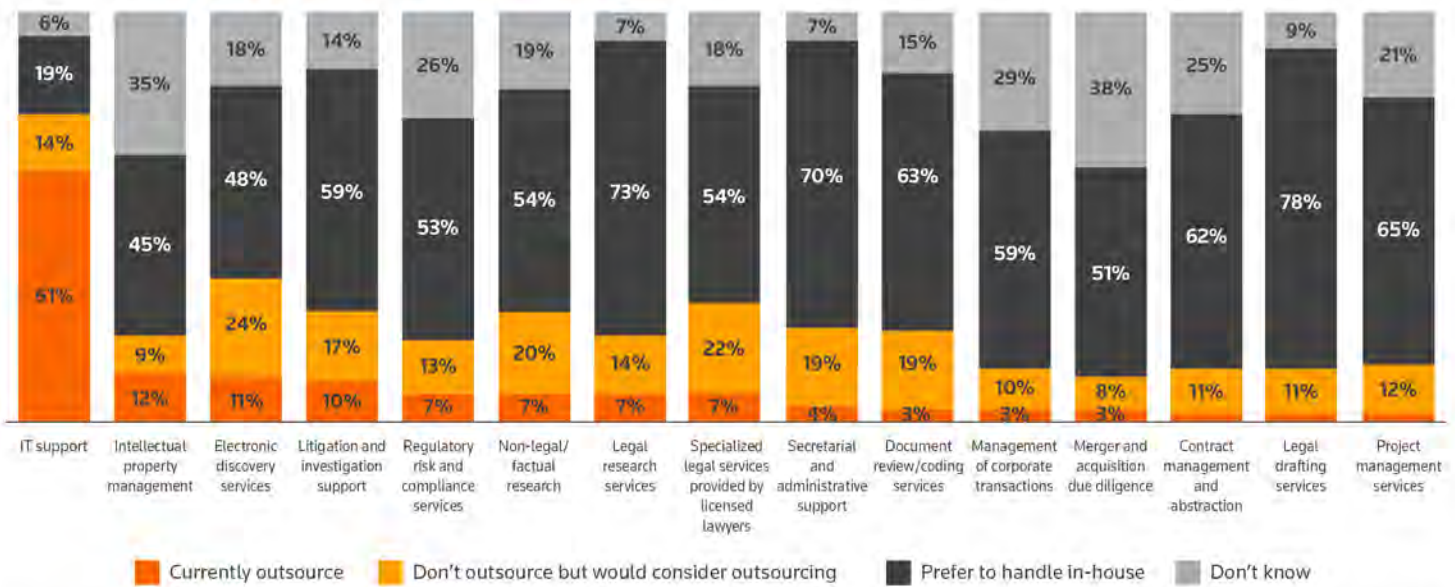
Over the next year, how likely are you to take the following steps in order to improve your firm's performance?

Source: Thomson Reuters 2021

Respondents report a large number of items that they plan to improve upon in the coming year. Chief among these is an intent to use technology to a greater extent to cut costs. This can also help achieve the goal of improving internal efficiency. Many also plan to improve budget/cost management of client matters. Firms considering these kinds of moves should consider the types of technology they plan to adopt and how that technology will be implemented. As previously discussed, relatively few firms currently use technology to manage matter budgets, and even fewer plan to implement such tech any time soon. Those that do make the needed investments and successfully adopt the technology will likely find themselves at a competitive advantage and more likely to succeed in their stated goals for improvement.

Many firms are also considering how to best leverage their workforce in terms of which tasks should remain in-house and which can be outsourced. Given the level of concern expressed by many firms over the burden of administrative tasks, this seems like an important conversation. While 23% of small law firms say they are willing to use outsourced services, when examined more closely it becomes apparent that the types of services they are willing to outsource comprise a narrow list.

Figure 25: **Outsource vs. in-house functions**



How do you expect your spend on the following marketing and advertising activities to change over the next 3 years?

Source: Thomson Reuters 2021

Only a handful of services crack the mark of 25% of respondents who are willing to consider outsourcing, including electronic discovery, litigation and investigation support, factual research, and specialized legal services provided by licensed lawyers. IT support is the only area where a majority of small firms are outsourcing. This is likely because IT management lies beyond the core competencies of many small law firms, and understandably so.

But what of some of the other tasks firms are more likely to prefer to handle in-house? Some tasks such as legal research and legal drafting are at the core of the practice of law and well within a firm's core competencies. But is the same true for document review, administrative support, and electronic discovery among others? Firms looking to ease their administrative burden could begin by conducting an honest examination of which tasks they currently handle fall within the core functions of the law firm or result in profitable lines of business. Those tasks which do not contribute to profits and are not core to the firm's capabilities are ripe for outsourcing.

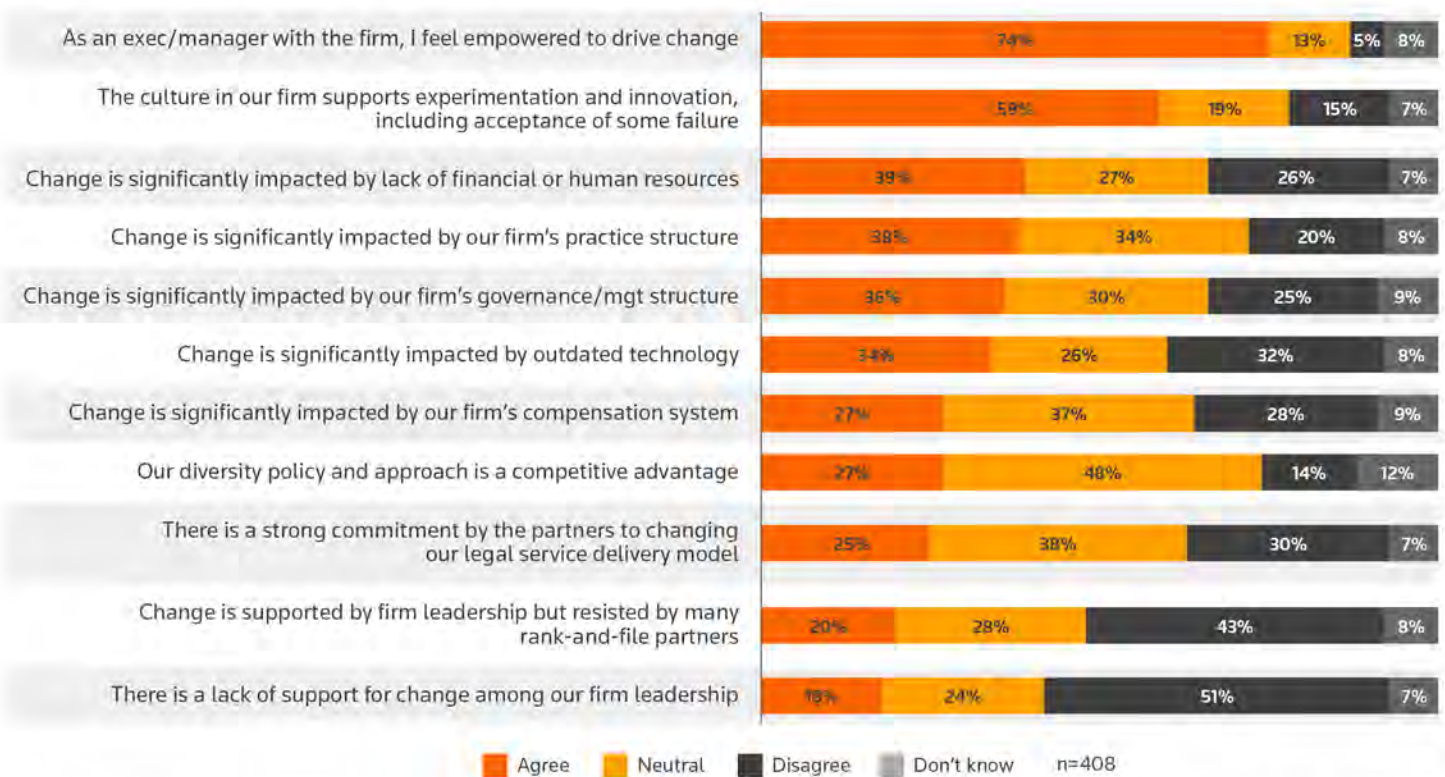
MOVING FORWARD

Any reevaluation of business priorities will necessarily involve a substantial degree of change. Indeed, the past two years have been defined perhaps most acutely by change. But driving meaningful change within a law firm requires buy-in and support from the firm's leadership.

In an encouraging note on which to end this report, respondents to the study indicate that their firms are creating environments that support change and empower those pushing for it.

Figure 26: Firm culture and change management

Nearly three-quarters of respondents agree that they feel empowered to drive change at their firm.



To what extent do you agree or disagree with the following statements related to your firm's culture and approach to managing change?

Source: Thomson Reuters 2021

Nearly three-quarters of respondents agree with the idea that they feel empowered to drive change within the firm. This may be a bit easier within smaller firms than larger ones, as the people tasked with driving operational change within the firm are also the partners in charge of the firm as a whole. But this fact alone is no guarantee of openness to change.

Equally encouraging, though, are the results showing 59% of respondents report their firms support experimentation and innovation, and 51% disagree with the statement that there is a lack of support for change.

All of these are encouraging signs that today's small law firms will be well positioned to drive changes to their marketing and operational practices, among others, as they determine the most productive path forward for their firms.



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