

Small law firms face numerous challenges, but maintain a positive outlook, says new report

By Thomson Reuters Institute November 4, 2021

A new Thomson Reuters Institute report shows that while small law firms seemed to have ridden out the pandemic crisis well, some challenges still remain. Small law firms have largely recovered from the impacts of the COVID-19 pandemic and are looking forward to building on the future, according to the report released today by the Thomson Reuters Institute. However, that does not mean that the effects of the last 18 months are not still being felt.

The time that small law firms lawyers say they spend practicing law has dropped to a new low, the report shows, with lawyers reporting that they spend an average of only 56% of their time practicing law, compared to 60% just a few years ago. Much of this continued erosion is due to the increased workload involved in managing the administrative business of their law firms and trying to recruit new client business. Indeed, administrative burdens and client acquisition were the top two challenges small firm lawyers say they're facing.

Despite continuing and growing challenges for small firm lawyers, an overwhelming 88% of survey respondents in the report say they currently consider their firms to be either successful or very successful. And firms also are optimistic about the prospects for continued growth, with a majority of lawyers saying they expect increased demand for legal services, and growing revenues and profits over both the next year and the next three years.

Perhaps this sense of optimism and general feeling of success is causing some small firm lawyers to delay implementing solutions to long-recognized problems. Nearly 80% of firms report they have not yet determined how to address the problem of spending too much time on administrative tasks. Only slightly more firms have implemented a plan to address their business development challenges.

This year's report also shows the emergence of some possible new trends and factors that did not weigh as heavily prior to the pandemic. For example, responding lawyers say they are increasingly looking at work-life balance as a measure of success, with 84% — the highest percentage ever reported — now saying work-life balance is part of how they rate their success. Our research also has found that lawyers across firms of all sizes have reacted positively to many of the new ways of working that came about over the past 18 months and now desire greater flexibility in remote working options and in setting their own working hours.

Previous editions of the *State of US Small Law Firms* report discussed how small law firms were largely failing to take action to address major challenges, such as acquiring new clients or reducing administrative burdens. However, small firms did respond swiftly to one of last year's top concerns — getting paid by clients. It is unsurprising that small firm lawyers would have jumped to address this perceived problem, given the constant importance of maintaining cashflow for law firms that became particularly dire during the depths of the pandemic. After many firms took steps — such as accepting new methods of payment — those concerns have been significantly reduced this year. The report then raises the logical question of “whether the same type of results could be achieved if firms dedicated the same sort of all-hands effort” to addressing their administrative burden and business development challenges.

Small law firms continue to occupy perhaps the most dynamic sphere of the legal market today, as they are much more dependent on individual consumers than are their larger firm counterparts, and therefore more susceptible to the economic winds sweeping Main Street at any one time. While concern over the threat posed by general economic conditions has largely abated since last year, the report shows that small law firms are still being buffeted in many directions by varying forces.

Hopefully, this report on the current market conditions for U.S. small law firms can provide some strategic direction for those firms looking to confront the challenges that may jeopardize their future profitability and success.