

10th Anniversary edition of Smith & Williamson's

Annual Survey of Law Firms in Ireland

Optimism returns as we head to a new normal

2021/2022



Survey methodology

Our national survey was carried out online and through telephone research in September and October 2021. 113 law firms in Ireland took part in the survey this year. The survey seeks to review current attitudes and enquire about key issues and market sentiment in the legal sector. Typical respondents are managing partners or a senior partner.

Total number of firms surveyed: 113

Survey in numbers

Top 20 firms 15

Mid-tier firms 62

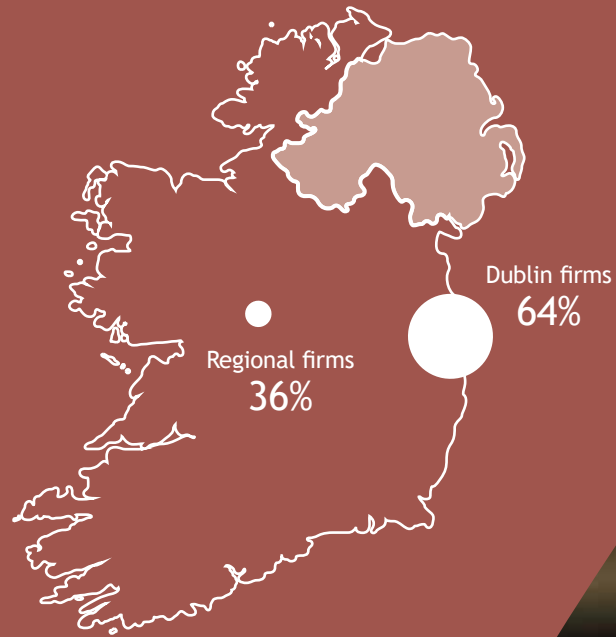
Small firms 36

Interviewees

Managing Partner 73%

Senior Partner 11%

Functional Head 12%



By necessity, this briefing can only provide a short overview and it is essential to seek professional advice before applying the contents of this survey and report. No responsibility can be taken for any loss arising from action taken or refrained from on the basis of this publication.



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Smith & Williamson Ireland

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Foreword



10 Year Anniversary of the Survey of Law Firms in Ireland

Little did we know when we started this project back in 2012, in the period following the financial crash of 2008, that we would be writing our 10th edition as we emerge from a one in 100-year event – the global COVID-19 pandemic.

Much has changed over the 10-year period and as we look back. We can say that despite the financial crisis, new regulatory frameworks, Brexit, no Brexit, Brexit again and a global pandemic, we find law firms in Ireland well placed to survive and thrive. The profession has grown and the Top 30 firms have come through a period of scaling, increased specialisation and the arrival of UK and International firms through acquisition, lateral hiring and green field set ups.

The profession has time and again demonstrated its ability to weather major events and unforeseen disruption. The insights in this report reveal the challenges and opportunities for the legal sector as we move out of the global pandemic to a world of work hardly imagined before 2020. The pandemic brought challenges for every firm operating in professional practice and this continued through most of 2021. Our 10th annual survey reveals that legal firms have adapted, and in 2021 are looking forward with increased confidence.

Smith & Williamson's commitment to the Irish market as a top 10 accounting, tax and financial services firm remains steadfast. I'm delighted to lead our professional practices team, which has been working closely over the last 12 months with many legal practices as they plan for their future. We have also recently worked on and delivered a report on "The Future Way We Work" with the Young Members Committee of the Law Society of Ireland.

Smith & Williamson Ireland continues its role as European Hub for the Tilney Smith & Williamson Group enabling our firm to build on a sixty plus year heritage in Ireland.

Our professional practices team provides specialist accounting, tax, advisory, mergers and acquisition and succession planning services to Irish legal firms and professionals. The annual Smith & Williamson Survey of Law Firms In Ireland is a core part of our commitment to the legal sector in Ireland. We aim to build understanding and facilitate best practice.

The survey delivers key insights into the sector's outlook and attitudes, performance and opportunities, talent and reward. I want to thank the partners and contributors who gave generously of their time to participate in the survey. I also thank Amárach Research for its independent work in conducting the research on our behalf. ■

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"The annual Smith & Williamson Survey of Law Firms in Ireland is a core part of our commitment to the legal sector in Ireland."



Executive summary

Optimism returns as we head to a new normal

2 021 has seen the return of some optimism and confidence in the sector and the start of the transition to a new normal.

The COVID-19 pandemic has driven employees out of offices to work from home. The return to the workplace is a chance to create a new more effective operating model that works for businesses and people navigating a world of increasing uncertainty, but as it stands there is a disconnect between how employers and their employees see the future.

Business leaders have had to navigate a difficult and disruptive year with renewed lockdowns and surges in Covid cases.

The one constant throughout this turbulent time is the need to learn, adapt and change. The COVID-19 crisis and subsequent move to hybrid working models accelerated the need for interpersonal and empathy skills, alongside effective leadership and project management.

The velocity of change is generating new forms of financial and operational risk as companies grapple with inflation, capacity constraints, and supply-chain disruptions.

The COVID-19 pandemic has changed attitudes to office work.



Outlook

In last year's survey most firms (73%) viewed the outlook for 2021

with some trepidation predicting a deterioration for the sector. It is pleasing to report however that most firms have seen an improvement for the sector over the last twelve months (43%) and 31% seeing no change. Most firms (63%) are also anticipating an improvement in the outlook for the sector in 2022.

Last year the economy was viewed as a key issue for the legal sector with concerns as to how the country could continue to afford the necessary but expensive Covid supports put in place by the Irish Government. This year has seen a significant reduction in firms (from 94% of firms to 35% of firms) expressing concerns about the economy with data better than expected. Instead, recruitment and retention of staff is the key concern, identified by all top 20 firms and 70% of all firms in Dublin.

Maintaining profitability continues to be a key concern for the sector as identified by almost one in two of all firms. Cyber-risk is an increasing concern for one in three firms in the sector and almost one in two regional practises in the last year.



Firm performance

Almost half of all respondent firms

reported an improved outlook for their firms over the last twelve months (47%) or that things remained the same (43%). This was a significant improvement on the 49% of firms that had stated they had suffered a deterioration in the last twelve months reported in our 2020 survey. Most firms now look forward to an improved outlook for their firms over the next twelve months (61%). Covid continues to impact negatively on the legal sector, according to 72% of all firms.

Most firms continue to report that Covid has impacted negatively on their turnover, with 67% of all firms reporting turnover levels below pre-Covid levels and 58% reporting profits are still below pre-Covid levels.

On a more positive note, 39% of all firms (53% of top 20 firms) reported an increase in their turnover over the last 12 months and 37% of all firms (53% of top 20 firms) reported an increase in their profits over the last 12 months. More than half of all firms that reported increases in revenues were showing increases in excess of 10%.

“39% of all firms (53% of top 20 firms) reported an increase in their turnover over the last 12 month.”

“Confidence has not returned to the levels seen over the pre-pandemic years, but there are signs of recovery.”



People, pay and reward

Attracting and retaining talented

professionals has re-emerged as a significant challenge for the top 20 firms and most firms based in Dublin. The pandemic had a significant impact on pay, with many firms implementing pay cuts. We asked firms that had imposed wage reductions in 2020 whether they had subsequently reinstated pay. Only 3% of firms overall report they have not reinstated wage cuts implemented in 2020.

This year only 3% of firms (0% of top 20 firms) reported salary cuts compared to 34% of firms (60% of top 20) that implemented salary cuts in 2020.

Firms have started to expand staff numbers once again over the last 12 months. Confidence has not returned to the levels seen over the pre-pandemic years, but there are signs of recovery with 35% of firms growing staff numbers over the last 12 months as against 22% of firms in 2020.

This year has seen a return to pay increases being awarded in almost half of all firms, while most of the remainder kept pay at the same levels. Most top 20 firms (80%) reported increases in pay awards. The levels of pay increase amounted to more than 6% in 57% of all firms where they paid and increase.

As economies reopen many companies plan to combine remote work with time in the office to get the best mix of productivity and collaboration. However, with employees feeling anxious and burned out, getting the balance right is critical. After a year of the COVID-19 pandemic people are re-examining and re-evaluating their work lives.

Most top 20 firms are preparing to facilitate remote working going forward. Approximately one in three regional firms and one in five smaller Dublin firms state that they are unlikely to do so. We note that there has been an increasing focus by law firms on the well-being of their staff as reported in this year's survey with 50% of all firms seeing the need to invest more in the well-being of their staff (80% of top 20 firms).



Mergers and acquisitions

There continues to be a consistent

but low level of merger and acquisition discussions taking place in the Irish marketplace. Only one in five firms said they had initiated an approach to other firms with a view to a merger or acquisition in the last twelve months, while 34% of firms had received an approach. Most of these approaches were from local firms. Our own sense of the market is that there has been a significant uptick in this activity since mid 2021, as people reassess their priorities post-Covid.

More firms continue to adopt the LLP structure with 340 firms now having received approval from the Regulator including many top 20 firms.

Most top 20 Firms continue to use lateral hires as part of their growth strategies.



Technology

The May 2021 attack on

Ireland's public

healthcare systems made it clear that no company is safe from Cyber-threat. There has been widespread media reporting on the increase in Cyber-attacks. Agile working has given rise to significant concern among employers, including law firms, as they have seen themselves as targets of increased activity. There have been reported incidences of attacks on transfers of monies from client accounts in law firms, causing financial loss to firms. Increased training and testing of staff have become vital tools in the battle with cyber criminals operating on a global basis.

Cyber-risk is now seen as one of the biggest challenges facing firms over the next three years, as reported by 27 % of all firms (up from 7% in 2020). Most top 20 firms (60%) are reporting cyber-attacks on their systems in 2021. It is noteworthy that 62% of smaller firms in Dublin and 74% of regional firms are not reporting any such activity.

The majority of firms responded positively and proactively to agile working (73% and 93% of top 20), providing laptops or PC's to their teams. Screens and computer accessories were provided by more than half of firms. Overall top 20 firms provided more resources to their teams. 28% of regional firms did not provide any equipment. A minority of firms provided additional internet capacity to staff working from home.

Our work with the Law Society of Ireland of "The Future Way We Work" survey indicates that 82% of respondents were satisfied their employer had put in place the technology and tools required for remote working, with those working in large organisations more likely to have seen this (92%) than those in small firms (70%). Additionally, 90% of respondents indicated that they have adapted successfully to the technologies required to work remotely.



COVID-19 pandemic

The impact of Covid on the legal sector has continued to be largely negative over the last 12 months, as reported by 72% of all firms (94% in 2020), though it has had less of an impact than feared. This negative impact is diminishing and should reduce over the next 12 months with 41% of firms expecting a significant or moderately negative impact and 42% of firms expecting no impact for the next 12 months.

Most firms continue to report that Covid has impacted negatively on their turnover: 67% of all firms report turnover levels still below pre-Covid levels and 58% report profits below pre-Covid levels.

A reduced but still significant number of law firms have continued to use Covid related government support during 2021:

- 48% of all firms continued to use the Government's wage subsidy schemes (regional firms 54%) down from 70% in 2020.

- 29% of firms used tax warehousing and deferral of tax payments, down from 43% in 2020.
- More than one in three regional firms (36%) have stated that staff continued to use the pandemic unemployment payment in the last year, down from 50% in 2020.
- Regional law firms are more likely to have used government restart supports (28%) compared to Dublin law firms, albeit the number of regional firms using these supports is significantly down from 63% in 2020.

There has been a noticeable reduction in the number of top 20 firms using government support this year (47%) down from 60% in 2020.

There has been a continued reduction of partner drawings in 42% of firms. The deferral of pay reviews and appraisals continues to be widely used, while 36% of all firms continued to reduce their discretionary overhead spend (53% of top 20 firms). Those seeing a long term reduction in office space has reduced from 37% of all firms in 2020 to 19% of all firms in 2021. ■

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Survey highlights



Outlook

- Sector confidence has returned
 - More than 2 in 5 reported an improved outlook over the last twelve months (1 in 3 regional firms, 2 in 3 of the top 20)
 - 1 in 3 regional firms saw the outlook deteriorating in the last 12 months
 - 2 in 3 firms see an improved outlook for the next twelve months (1 in 2 regional firms, 9 in 10 of the top 20)
- Top challenges for the sector
 - All firms – maintaining profitability
 - Top 20 – recruitment and retention of talent
 - Smaller Dublin firms – pressure on fees
- 1 in 3 see Cyber-risk as a key issue (1 in 2 regional firms)



Firm performance

- Some recovery in firm performance
 - 39% experienced revenues recovering and increase in the last twelve months
 - 37% experienced profits recovering and increase in the last twelve months
- Continued challenges for some firms
 - 29% experienced revenues decrease (2 in 3 in 2020)
 - 25% experienced profits decreasing last year (53% in 2020)
- For 2 in 3 turnover and profits are still below pre-Covid levels
- Levels of WIP and debtor Lock up have returned to more normal levels



People, pay and reward

- Most firms reinstated any Covid related salary cuts to pre-Covid levels
- 1 in 2 firms increased pay levels during 2021 (80% of the top 20)
- 1 in 3 firms increased staff numbers (23% reduced staff number)
- Top 5 firms grew solicitor numbers by 8%, the rest of the top 20 reduced numbers overall
- The “new normal” working arrangements are a key issue with most firms becoming more flexible
- There is a disconnect between how employers and employees see the workplace in the future



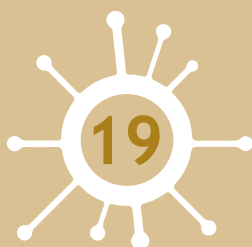
Mergers and acquisitions

- Continued low level of M&A activity in the last 12 months
- Succession looms large for smaller firms with equity partners seeking opportunities to access their capital
- Top 20 firms continue to see lateral hiring as their best opportunity for growth
- 1 in 3 top 20 firms see M&A as a potential strategy for future growth
- Significant uptake in LLP structure including top 20 firms



Technology

- 2 in 3 top 20 firms reported cyber-attacks with no significant impact
- 1 in 20 firms surveyed reported significant impacts from cyber-attacks
- Cybersecurity, is the top IT investment priority for 3 in 4 firms (100% of the top 20)



COVID-19 pandemic

- The Covid pandemic continues to adversely impact law firms.
 - Nearly 1 in 2 firms continued to avail of government supports in 2021
 - 29% of all respondent firms availed of tax warehousing/deferral of tax payments (43% in 2020)
 - 40% of top 20 firms availed of government supports in the last year down from 63% reported in 2020
 - More than 1 in 3 regional firms continued to avail of PUP