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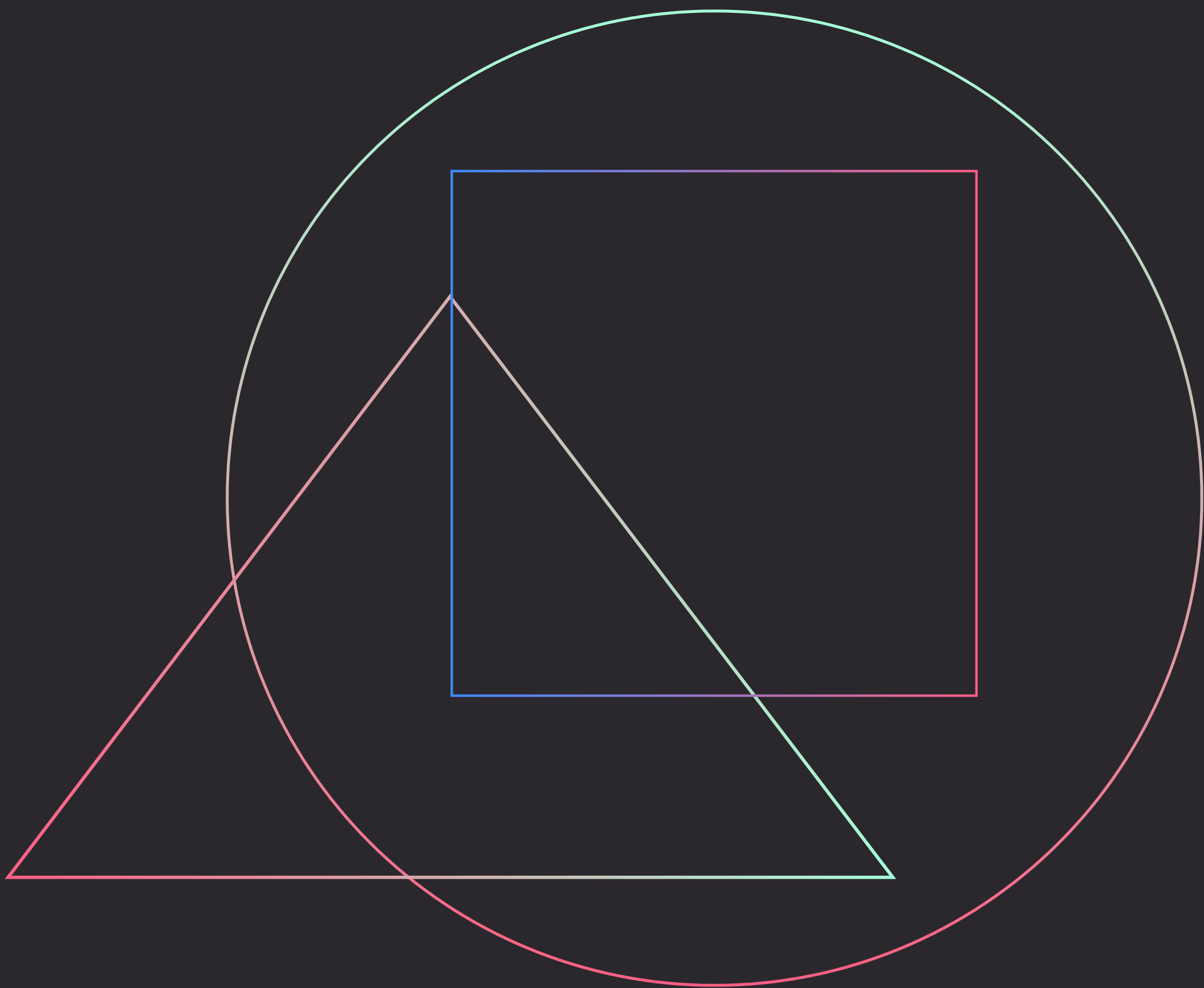


Leadership 3rd Edition

# A Clarion Call for Change

# We help businesses succeed by providing them with innovative and effective solutions.

**Expert Solutions, No Frills.**

We provide pragmatic and effective advice to law firms, corporate legal departments, and companies that are looking to the future.

We guarantee Clarity in Purpose. Precision in Practice.

# In this Issue



# From The Exec Team

Picture your favourite skyline. Chances are, you have a vivid image in your mind, right? Pause for a moment to consider how much that cityscape has transformed over the last 5 years, and then stretch your thoughts back over the past two decades. Now, project forward and imagine the changes the next 20 years might bring.

Despite the whirlwind of change, both seen and unseen, you'd confidently affirm it's the same city, evolving and adapting through time.

Yet, when we apply this lens of transformation to our businesses or even to ourselves, our reactions are markedly different, aren't they? There's a sudden urge to grasp tightly onto the familiar, to anchor our futures to our pasts, hoping to navigate the unknown with the maps of yesterday.

But herein lies a paradox. While we celebrate the dynamism and resilience of a city that thrives on change, we often resist applying the same principle of adaptability to our professional endeavours or personal growth. This discrepancy not only highlights a natural human tendency but also underlines a critical misstep in our approach to evolution and progress.

Change is not just inevitable; it is the foundation upon which futures are built. Businesses must embrace this reality to not just survive but to flourish.

Robert Otty

Chief Executive Officer

Jonathan

Chief Strategy Officer

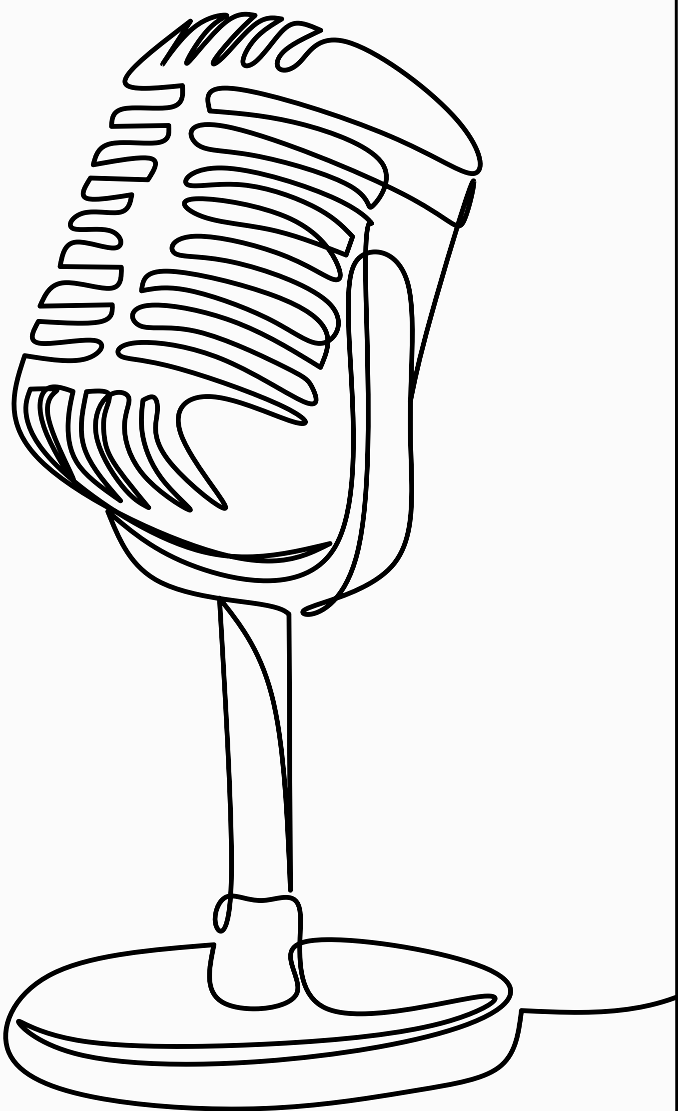
# Quotes of the Month

All quotes taken from the Orellium Future Strategy Podcast

"Branding encompasses how you position your organisation in the market that you operate in, captures what you stand for, how you behave, how you express your organisation in the language that you use...

It's how you message your organisation and what you centre that story around."

**Rebecca Price**



"I think the sensible law firms, the best law firms are now, should be, and are looking at ways in which they can adopt new technologies and challenge themselves, disrupt themselves."

**Peter Martyr**

"A really effective chief marketing officer today...is multi-dimensional.

It's leveraging the data insights and the technology and bringing those insights to the table. They're helping form the strategy."

**Louanne Buckley**

# A Clarion Call for Change

*Don’t become disconnected from your clients and people*

## Executive Summary

*The legal sector is challenged by stagnating demand, relentless technological advances, particularly in Generative AI, and the entry of non-traditional competitors. In this edition we examine the cognitive dissonance within traditional law firms, which, while acknowledging the need for adaptation, remain entrenched in practices and business models centuries old.*

*The persistence of the billable hour, despite client demands for efficiency and value, exemplifies the sector's resistance to change. This dissonance is further highlighted by law firms' expansion of office spaces and the continual chase for short-term revenue through rate increases, lateral hires, and a focus on profit per partner metrics, often at the expense of long-term sustainability and alignment with client needs.*

## Cognitive Dissonance

Are traditional law firms suffering from cognitive dissonance? They recognise logically that demand levels have stagnated, and revenue growth is being driven almost entirely by annual rate increases; and that new non-traditional market entrants and AI, in particular generative AI, are fundamentally transforming the traditional business and billing models.

They understand the need to adapt to these realities, but they are also deeply rooted in traditional models that are seen to have guaranteed profitability in the past. To resolve this dissonance, firms justify their reliance on traditional methods by emphasising the value of human judgement, the current regulatory landscape, and the perceived limitations of technology in handling complex legal matters. This justification allows them to maintain their existing practices while trying to hold off the inevitable changes that are facing the industry.

While the world has seen radical technological transformations – disrupting industries from retail to transportation, introducing efficiencies, and shifting business models towards more value and outcome-based pricing – the legal sector remains largely an outlier. It has clung to its conventional and traditional commercial and business model. Despite technological advances that offer potential for more efficient service delivery, the fundamental model of charging by the hour persists - prioritising time spent over value delivered.

Many firms will argue that the billable hour model is now less prevalent; that more work is done on a “fixed fee” basis, and that “alternative fee arrangements” are increasingly the norm. However, the distinction between fixed fees and alternative fee arrangements, and traditional billable hours lies primarily in the client's perception of certainty and predictability in cost, rather than in a fundamental change in how law firms value and sell their services. At the core of both models is the billable hour as the foundational commercial unit. Even when offering fixed fees or alternative fee arrangements, most law firms typically calculate these fees based on an estimate of the number of hours required to complete a given mandate.

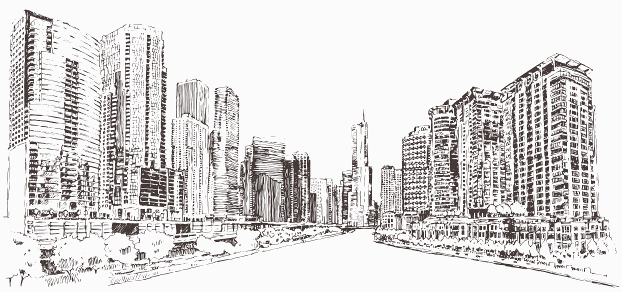
We see a rapidly approaching challenge for law firms as the billable hour, the commercial unit that the business model is built on, and funded by, is increasingly threatened. In some practice areas will become completely inappropriate as a unit of measurement.

Essentially, the difference is in the billing model's presentation and client-facing strategy, not in the underlying economics of how firms value their work. This approach allows firms to maintain their traditional commercial unit of measurement while ostensibly adapting to market demands for greater financial certainty and transparency.

The underlying law firm business model is not easily or quickly changed or restructured. The larger the firm, the more difficult it is. The business model includes all the elements of a traditional law firm: a rental portfolio, a number of lawyers, from partners to trainees, and a professional support function needed to support those lawyers. While approaches vary across jurisdictions, even in 2024, many law firms still expect certain minimum standards when it comes to "prestige location", office size and "white glove" support services for their partners. 42% of the Am Law 200 increased their office space in 2023. In an environment of stagnating demand, rapid technological advances and increasing competition including from multiple new market entrants, this would seem, on the face of it, to be counter intuitive.

### The Emperor and his new clothes - are we wrong to raise a note of warning?

After all, firms continue to post impressive, even record, year-on-year profit per partner increases. Individual profit shares of $15m and more are increasingly becoming the North Star. As fast as a firm "A" tries to climb the profit ladder, so competitor firm "B", or a group of firms, accelerates away again. This simply adds to the pressure on firm "A's" management to deliver short-term improvements. And so, it goes on. And barring a few exceptions, the narrative surrounding improved performance is almost always about "revenue, revenue, revenue". Almost, it seems, to the exclusion of all else. And however carefully described, this invariably means either more billable hours or, as is increasingly the case, higher rates per billable hour.



Given the pressure on management teams to deliver short-term, if not immediate, returns, there is very little meaningful discussion about different ways to deliver profit to partners - whether by way of different commercial models, diversified business portfolios, or the adoption of technology. These are seen to either take too long ("after my term") or cost too much ("dilute profit this year"). Revenue, on the other hand, is something all lawyers know. There is something reassuring about it. Lawyers are, from day one, moulded to measure their self-worth, and compensation, by reference to hours and revenue. A management team, usually made up of similarly moulded lawyers, is unlikely to be criticised for saying "it is all about revenue," since what usually comes next is "and profit follows revenue." The sense one gets is that most firms are keen to assure their clients, partners, and people there is "nothing to see here," and "our increasing profits per partner show that we are right."

But what if there really is something to see here, and what if they are not right? What if there is an uncomfortable truth lurking beneath the increasingly thin veneer. Just as the Emperor was, in fact, wearing no clothes, what if the insistence on maintaining the billable hour as the only commercial unit of valuation, in the face of technological innovation and new competitive dynamics, is equally baseless.

**"...the skeptical litigator may be well suited for adversarial encounters, but this same litigator will maintain the skeptical stance in partnership meetings, while mentoring younger lawyers, or in heading up a committee..."**

In a recent Law.com article, recruiter Matthew Bersani correctly commented: *"Firms are struggling with having full transparency of compensation when market dynamics are ahead of what many firms are willing to accept culturally."* In the example of compensation, many firms are looking to create black-box compensation models that allow them to pay undisclosed bonuses or otherwise reward lateral hires or retain key partners in a way that does not disrupt the existing compensation model. If one of the foundational elements of a partnership is trust, then diminishing the amount of transparency around such a substantive issue as compensation seems to be an odd way to go (and is a separate topic all of its own), but law firm Managing Partners and management teams know that they have to do something to acquire more revenue (laterals) and defend revenue (retention).

Since most firms are not ready to adapt to the new market dynamics, whether culturally or otherwise, some new tactical strategy is required - in this instance undisclosed bonuses or excusable loans. And once one firm applies this tactic, others feel forced to follow, or risk falling behind in the ongoing struggle for revenue. While these tactical approaches, have their merits, they serve more as short-term remedies rather than addressing the root causes of systemic challenges within the sector.

There is also a risk that as these short-term, tactical approaches become "normalised," they exacerbate volatility and instability within the sector. They undermine the ethos of trust and loyalty within partnerships and increasingly suggest to clients that partners care more for their pay cheque and status among their peers than their clients. These tactical strategies also mean that management teams spend too much time monitoring the risks of their partners being poached, than they do looking at systemic problems, real opportunities, and client needs.

Sustainable solutions, on the other hand, require a deeper examination and restructuring of the underlying issues to ensure long-term stability and growth. It is the sustainable solutions that will give confidence to partners and clients – ironically helping to protect the firm against the risks created by the short-term, purely tactical approach so readily adopted by less strategic competitors.

While specific to compensation, the idea that "market dynamics are ahead of what many firms are willing to accept culturally," applies to almost every element of the traditional commercial model. Many law firm partners are unwilling or unable to accept that market dynamics have moved ahead of them and that the traditional ways of practicing are changing or have changed already. This apparent inability to see the changes is no doubt caused by a combination of factors: hubris; scepticism; leadership; hope that the change will avoid them; trust in the protection afforded by regulation; arrogance; cynicism; short-termism; poor or conflicted external advice; and inertia. All are powerful barriers to change.

**To pick out a few:**

**Hubris:**

In the traditional law firm, it is not just the hubris of management that is dangerous. Things are complicated by the partnership model in which the hubris of each partner influences, either directly or indirectly, the way the firm views the future, the investments it is prepared to make, the risks it is prepared to accept, and the pace at which it is prepared to move.

Kodak failed, not because of technology, but because of hubris. It failed to adapt to the digital revolution despite having invented the first digital camera in 1975. This was due to a fear of cannibalising its profitable film business. The company's leadership believed that its dominance in the film market would continue indefinitely and underestimated the potential of digital technology and its pace of adoption. This hubris led to strategic decisions that focused on protecting the status quo rather than innovating for the future. So, it was not the technology itself that led to Kodak's downfall, but the company's inability to adapt to the changing landscape due to a misplaced confidence in their established business model.

Replace Kodak with "Generic Law Firm" and the warning is sobering: "Generic Law Firm" failed, not because of technology, but because of hubris. It failed to adapt to the revolution in legal tech despite having access to pioneering AI tools early on. This was largely due to a fear of cannibalising its profitable billable hour model. The firm's leadership and partners believed that its strength in traditional legal practice would continue indefinitely and underestimated the potential of legal technology and the pace of its adoption. This hubris led to strategic decisions that focused on protecting the status quo rather than innovating for the future. So, it was not the technology itself that led to Generic Law Firm's downfall, but the firm's inability to adapt to the changing landscape due to a misplaced confidence in their established business model.

**Scepticism and fear:**

We have previously commented on the dangers posed by lawyers' inherent risk aversion and scepticism. These make embracing any form of fundamental or rapid change challenging. As Dr Larry Richards comments - "In other words, the skeptical litigator may be well suited for adversarial encounters, but this same litigator will maintain the skeptical stance in partnership meetings, while mentoring younger lawyers, or in heading up a committee, despite the fact that these situations may all be performed more effectively in a climate of trust, acceptance and collaboration." - Altman Weil, August 2002.

In an environment in which you have been moulded from day one to focus largely on what you produce as an individual, and to value your individual contribution and expertise above all else, it is hardly surprising that your inherent scepticism will only be heightened when it is suggested that your way of doing things may no longer be appropriate and that elements of your expertise may now be delivered by a machine, at a fraction of the cost and in a fraction of the time. The challenge to accept the proposed change is only made harder when you realise that not all your partners are impacted in the same way. Denial and delay are very human reactions to the perceived threat – even more so when you are inherently and trained to be sceptical.

**Leadership**:

Now, more than ever, clear, strategic, forward-thinking, articulate, and trusted leadership is required. We would add "selfless" to this list of attributes, since more than ever, the interests of the firm and its clients must supersede those of the individual, if the firm is to succeed and prosper into the future.

Leadership should not only articulate a clear view of the future but also communicate the necessity of the changes in a manner that is pragmatic, effective, and non-threatening. Leaders must demonstrate an understanding of the concerns held by not only their partners, but of all their stakeholders, addressing these fears directly and with empathy, while also highlighting the opportunities that the changes bring. The message must, however, be clear - adaptation is not an option but a necessity for sustainability and growth.

> **"Firms are struggling with having full transparency of compensation when market dynamics are ahead of what many firms are willing to accept culturally."**

Many law firms face a challenge due to the traditional incentive structures for leaders. Typically, leaders are incentivised to boost annual profits. They often serve terms of 3-5 years. These factors naturally foster short-term thinking; as long as leaders can deliver immediate profits, deeper, structural changes—those that might reduce profits in the short term but are crucial for long-term sustainability—are often postponed. Such delays, especially in an environment being rapidly reshaped by non-traditional competitors and GenAI, can be deadly.

A key part of effective leadership is recognising and addressing this inherent conflict between short-term profit goals and the need for long-term success and sustainability. Leaders should acknowledge when the firm's traditional incentive structures might hinder necessary change.

Moreover, leaders must assess their own suitability for steering the firm through these transformative times. If a leader realises, they might not be the best fit for navigating the firm towards a successful future in this "new normal," acknowledging this and proposing a change in leadership is a profound, but necessary, act of responsible stewardship.

## The Protection of Regulation

The “new normal” for law firms is primarily driven by technology and new market entrants, many of whom are technology companies. These entities are offering services that directly compete with traditional legal tasks. And yet, a common refrain we hear among lawyers is that their work is "protected" due to the regulatory framework that defines the practice of law as a service that can only be provided by licensed individuals.

This view completely overlooks a clear shift in the marketplace. New competitors are creatively circumventing these regulatory protections by offering services that do not technically constitute legal advice as defined by law. Furthermore, the reality is that if clients—whether individuals or corporations—are willing to seek such assistance from non-lawyers, they will do so, as they already are.

The advent of Gen AI and LLMs has only accelerated this trend, with these technologies capable of generating draft agreements or providing guidance on various issues, further blurring the lines of what constitutes the traditional practice of law.

The critical mistake for lawyers and law firms would be to overly rely on regulatory protections as a safeguard against these shifts. Such a stance ignores the broader implications of technological advancement and changing client expectations. Clients increasingly value convenience, cost-effectiveness, and speed - benefits often offered by these new technological solutions.

The true bulwark against erosion of traditional law firm revenue streams is not regulation but their ability defend their existing dominance by evolving, integrating new technologies, and meet changing client demands in innovative ways. Failure to do so is likely to render them obsolete.

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# Navigating the Intersections of Business Strategy and Geopolitical Ambitions

**Professor Tazeeb Rajwani**: Professor at University of Surrey • Author • Keynote Speaker • Editor-in-Chief • Consultant

Global business strategy necessitates a nuanced understanding of how organisations navigate socio-political forces in oil rich countries. The Kingdom of Saudi Arabia's Vision 2030 and the accompanying Programme HQ edict exemplify the intricate balance between strategic business goals and the extensive geopolitical and regulatory landscape that companies must navigate, especially when these directives, and broader environments, diverge significantly from their domestic operational norms. This piece aims to dissect these initiatives, providing a timely lens through which firms can navigate similar geopolitical intricacies.

### Vision 2030: A Paradigm Shift

At the heart of Saudi Arabia's economic transformation lies Vision 2030, a strategic framework aimed at diversifying the kingdom's oil-dependent economy. Through the introduction of initiatives such as new residency programmes, Vision 2030 seeks to catalyse foreign investment, signalling a desire to pivot towards a more diversified and sustainable economic trajectory. The initiative is strategically designed, in part, to counteract the expanding clout of regional competitors, notably Dubai's International Finance Centre, which boasts a distinct offshore banking sector governed by its bespoke regulatory framework. However, the undercurrents of geopolitical and regulatory challenges inherent in these reforms reflect the kingdom's unique global stance, necessitating a cautious interpretation of their broader implications.

## The Programme HQ Edict: Strategic Reorientation or Geopolitical Strongarming?

The Programme HQ edict mandates multinational corporations to establish regional headquarters – of a minimum headcount of 15 – within Saudi Arabia's capital city of Riyadh to remain viable for lucrative government contracts, a move that has elicited a spectrum of responses. While over 350 corporations, including conglomerates such as PepsiCo and Boeing, have aligned with this directive, a palpable hesitancy among financial institutions underscores concerns regarding regulatory implications and the kingdom's financial ecosystem. This policy, perceived by some as geopolitical strongarming, underscores the critical stakes for firms navigating this and other similar mandates, amidst threats of exclusion from lucrative government contracts.

## Navigating Geopolitical Risks

The exigencies of Saudi Arabia's Vision 2030 extend beyond mere business considerations, delving into the realms of regulatory, cultural, and political intricacies. The lack of a specific regulatory entity, as seen in Dubai's International Finance Centre with its unique regulatory domain, heightens these challenges, highlighting the need for companies to adopt a carefully crafted approach towards navigating these unique regulatory frameworks, the inherent cultural nuances of disparate regions, and geopolitical intricacies present in those markets defined by distinct institutional paradigms.

## Saudi Arabia's Ascendant Geopolitical Influence

Saudi Arabia's drive to redefine its economic identity beyond the traditional reliance on oil, positioning itself as a pivotal regional centre, underscores its attempts to leverage its burgeoning role in international politics and economics. This ambition, coupled with the readiness of corporations to comply, reflects convincing support for this ambition. The strategic shift proposed by the Saudi leadership not only encapsulates the challenges inherent in navigating the intricate balance of geopolitical tensions and alliances, with profound implications for global business strategies, particularly for professional service firms – who face distinct challenges due to the RHQ regulations being tailored predominantly for companies dealing in goods, thereby marginalising those in the service sector.

## If you build it, will they come?

The differential responses to the implementation of Vision 2030 and the Programme HQ edict, from compliance to caution among multinational banks, offer invaluable insights into the delicate equilibrium between leveraging market opportunities and managing non-market risks within Saudi Arabia's evolving business and regulatory landscape.

For professional service firms considering entry into the Saudi market or similar contexts characterized by distinct socio-political factors. The essentials of Vision 2030 and the Programme HQ mandate highlight the critical need for an in-depth understanding of the geopolitical landscape. A considered balance of flexibility, rigorous risk assessment, and an informed perspective on geopolitical context is paramount. Firms must judiciously weigh the enticing opportunities against the unique challenges posed by the political and regulatory frameworks of those jurisdictions in which they have a presence, ensuring that engagement is both strategic and sustainable.

*A Professor of International Business & Strategy at the University of Surrey, Tazeeb has an extensive background that includes senior management at KPMG Corporate Finance and academic positions at the University of Essex and Cranfield School of Management. His work focuses on competitive and non-market strategies, with notable publications in leading journals and recognition for his research on corporate political activities. Rajwani has served in various visiting faculty roles globally and advises multinational corporations, contributing significantly to the field of strategic management. His professional accolades include awards for research excellence and contributions to teaching.*

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## External and "Expert" Advice

The legal sector functions as a large economic ecosystem, supporting a diverse array of stakeholders beyond the immediate boundaries of law firms and legal service providers. This ecosystem includes technology companies innovating in legal tech, consultants and advisors offering strategic guidance, and real estate brokers catering to the physical space needs of law practices, among others.

Each of these stakeholders represents a vested interest within this ecosystem, drawing sustenance from the legal industry's ongoing operations and evolution. It is imperative for law firm leaders to recognise this interdependence and the potential influences these stakeholders and vested interests can exert on their decision-making processes and strategic directions.

Navigating this ecosystem effectively during a time of rapid change and disruption requires a careful and discerning approach to partnership and advice, ensuring that external inputs align with the firm's long-term vision and market positioning.

## Where does the traditional model create risks, and what can be done to avoid or mitigate these risks?

### Failing to Align with Clients

Law firms, with their traditional focus on revenue and profit, are at risk of becoming disconnected from the evolving needs of their clients. Many of these clients are actively reinventing themselves. The 27th edition of the PWC Global CEO Survey highlights a stark reality - 45% of CEOs doubt their company's viability over the next decade without significant change, pointing to technology and other global megatrends as areas requiring urgent attention. Furthermore, 60% of CEOs see Gen AI as a key to unlocking efficiency benefits.

In contrast, many law firms are leaning more into their conventional practices, emphasising billable hours and lateral hires. This approach seems to be increasingly misaligned with the forward-looking expectations of CEOs. There is a growing disconnect, especially as some firms view the commercial benefits of Gen AI and technology advancements as a means to enhance their own profitability rather than passing on efficiencies and cost savings to their clients. This stance is particularly jarring when CEOs are prioritising cost reduction and efficiency to secure their businesses' future.

Furthermore, the practice of publicising law firm profits and partner earnings as a mark of success appears increasingly out of touch. In times when clients are facing significant pressures and striving for efficiency, flaunting financial success can seem tone-deaf. Law firms should remember that their achievements are closely tied to the business they receive from their clients. Celebrating financial gains without acknowledging the role clients play, or appearing indifferent to the economic challenges clients face, can come across as lacking commercial sensitivity and understanding.

To remain aligned with and relevant to their clients, firms need to adapt their service delivery models. Embracing technology to drive efficiencies, rethinking pricing strategies to reflect the value delivered, and maintaining a humble acknowledgment of the client's central role in their success are crucial steps in this direction. This alignment not only ensures that firms stay in step with the evolving business landscape but also strengthens their relationships with clients, reinforcing and defending their position as indispensable commercial partners.

### The Depreciation of the Commercial Unit of Measurement

Technology, especially Generative AI and legal tech, is reducing the billable value of many tasks. This challenges the traditional revenue model, making revenue projections based on billable hours unreliable and quickly threatening financial stability.
Firms must recognise and quickly adapt to this shift by reshaping their business models to thrive in a technology-driven market.

### Facing Agile Competitors

New, agile competitors are leveraging technology to introduce innovative business models that focus on client outcomes rather than billable hours. Law firms need to reassess their offerings, invest in technology, and adopt flexible, value-driven pricing models to remain competitive.

## The Rise of Gen Y and Gen Z

The emergence of Gen Y and Gen Z as significant demographic forces within both law firms and client organisations presents a challenge to the traditional law firm model. Notably, their disinterest in the conventional pathways to success within law firms, coupled with their preference for digital consumption of services, signals a very real shift in the legal market landscape.

For Gen Y and Gen Z, the traditional law firm's commercial model, predicated on billing by the hour and delivering services primarily through human labour, appears outdated. These generations are more inclined to embrace Law as a Service (LAAS) and other digital-first approaches, reflecting a broader trend towards online, on-demand services across all aspects of their lives. This shift in consumer behaviour among the upcoming generations of both lawyers and clients poses a significant risk to law firms adhering to traditional models.

Law firms must undertake a dual approach - integrating technology into their service delivery and re-evaluating their commercial models. They should harness the power of technology not only to streamline operations but also to create innovative service delivery methods that resonate with younger generations. This includes the use of AI for routine tasks, offering digital platforms for client interaction, and developing online services that provide legal solutions efficiently and effectively. Simultaneously they need to explore alternative pricing structures that emphasise value over time spent. These could include subscription models, or outcome-based pricing, which align more closely with the preferences of Gen Y and Gen Z.

> **“45% of CEOs doubt their company's viability over the next decade without significant change, pointing to technology and other global megatrends as areas requiring urgent attention”**

Understanding and anticipating the needs of younger decision-makers within client organisations is crucial. This means offering legal services that are not only high-quality but also accessible, transparent, and aligned with the ethical and social values important to these generations. Law firms and partners should pay careful attention to the fact that these generations increasingly view the public boasting about compensation and prestigious rankings, such as Chambers ratings, by law firm partners as distasteful and off-putting. To these younger generations, such displays of professional success are seen as less relevant and can even act as a deterrent to working with otherwise highly regarded legal professionals and firms.

## Rising Operational Costs

Despite market changes, many law firms face static or rising operational costs. Firms should critically evaluate their expenses and identify optimisation opportunities to align with their strategic goals. The idea that rate increases are likely to continue to cushion a rising cost base is misplaced. Office space, with Inflation linked annual rental escalations over periods of 10-20 years, needs to be very conservatively assessed. The sector should not continue to be an outlier when it comes to things like “status-based office size”.

## The Shift in Lawyer Roles

The increasing integration of technology in legal processes demands a reassessment of roles within law firms. Despite assurances and protestations to the contrary by many consultants, tech providers and law firm leaders, not every lawyer and partner will be able to transition their practice towards higher-value, strategic work. Some will find their niche as 'service providers,' focusing more on tasks that support those who will excel in strategic and high-value areas.

This emerging distinction between strategic-focused lawyers and service-oriented lawyers is not a drawback but a natural evolution of the profession in response to technological advancements. Recognising this shift is critical. To pretend that all lawyers can or should evolve in the same direction not only misleads the sector but also risks flawed decisions regarding commercial strategies and organisational design.

As technology takes over routine tasks, firms should be honest about the changing nature of legal work, supporting lawyers in adapting to roles that may become more supportive than strategic.

### Redefining Performance Metrics

The traditional emphasis on billable hours is increasingly misaligned with value-based service delivery. Firms must update their reward systems to reflect efficiency, client satisfaction, different partner roles and contribution, and innovation. This means setting new performance indicators that reward behaviour aligned with these goals.

The answer is not to rely on short-term tactical solutions such as those previously mentioned, but rather to focus on educating partners and communicating clearly why changes to the compensation system are required - and then providing partners with the functional and emotional support they will need to transition to a new model.

### Mergers - A Cautionary Approach

Mergers, often seen as a solution to revenue challenges, can distract from the need for sustainable change. Firms should first evaluate whether a merger addresses the core issues they face, prioritising the development of a strong, adaptable culture. Focusing purely on revenue and hoping to avoid the hard changes that are required to future-proof the business is not strategic. On the other hand, mergers that prioritise a response to the challenges and opportunities of the new normal may well deliver needed scale and investment.

### Talent and Client Relationship Impacts

Failing to adapt to the evolving legal landscape risks losing talent and eroding client trust. Modern, efficient, and client-focused practices will attract both top talent and discerning clients.

### Conclusion

The traditional law firm model is under pressure to evolve. The sectors slow response to technological advancements, changing market dynamics, and shifting generational expectations presents a risk not just to individual firms' viability but to the profession's relevance. To bridge this gap, firms must embrace technological integration, adapt their service delivery and commercial models to prioritise value over time spent, and foster a culture attuned to the expectations of Gen Y and Gen Z—both as employees and as clients. Recognising and addressing the misalignment between firm incentives and client expectations is crucial. As law firms navigate this transformation, leadership that is strategic, forward-thinking, and adaptable will be key to ensuring that they not only survive but thrive in the new legal landscape. True innovation and sustainability will come from those willing to challenge the status quo, reassess the value they deliver, and realign their practices to meet the future head-on.

# SIDEBAR

## Babies, Bombs, and Qubits

As the world continues to advance at an incredible rate, we tend to narrow our focus - just to try keep pace. Unfortunately, change is often haphazard and sporadic, emerging from disparate areas from all directions. This month, we're watching 'Babies, Bombs, and Qubits' - diverse areas with emerging trends that promise significant impacts on business and society. Our focus on these key developments aims to broaden our understanding of how they might shape the future.

1

Microsoft and Quantinuum have successfully moved beyond the noisy intermediate-scale quantum (NISQ) era to achieve Level 2 Resilient quantum computing. Their rigorous testing of 14,000 experiments resulted in the development of the most reliable logical qubits to date, with an error rate 800 times better than physical qubits, marking a significant milestone in quantum computing's evolution.

2

Israel has demonstrated a significant leap in military technology by deploying AI tools, including Lavender - a tool developed for their current war against Hamas - demonstrating a notable leap in what can be considered to be efficient data fusion, decision-making, and operation of combat systems. This example of AI's integration into active conflict zones hints at the broader potential for AI applications to evolve from specialised military uses to more widespread, everyday utility.

3

The world is bracing for an unprecedented demographic shift toward natural population decline. By 2100, global population growth is expected to nearly halt, with only 26 countries still projected to be experiencing growth, in part due to due to falling fertility rates. Africa remains an outlier, projected to see substantial increases, while regions like Europe and Latin America face declines. These changes, influenced by factors including advancements in women's rights and migration trends, signal a transformative period ahead for global society, economies, and the global order and are likely to significantly ramp up the investment of AI to counter the downward trend.

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