



Navigating the future of finance within the legal sector

The last decade has seen a large amount of change, but what impact is this having on the ever evolving legal sector?

February 2024

Introduction

If you were to describe this decade in one word, it would perhaps be **change**. It began in 2020 with a pandemic that saw changes in the way we work and a readjustment for many of what mattered most in work-life balance.

Today, an ever more fractious world has seen a rise in conflict that has spilt over into the world’s supply chains. For businesses, gradual change has been replaced by dramatic opportunities in the form of Artificial Intelligence (AI).

The benefits gained from a new way of working, the transition to the hybrid model and working remotely have had a positive impact for many. Some companies have adapted well, others not so, and the tug-of-war between workers and employers in the office will continue for some time. Beyond the world of work, the challenge and impact of children deprived of school and social interaction will likely last for years. Other changes in the first three years of this decade have seen the establishment of the OECD/G20 framework on base erosion and profit shifting (BEPS) for large corporations. Global minimum tax regulations are now being implemented and will be rolled out across most of the world’s countries before the end of 2025.

Artificial Intelligence will shape how we work and what we do for the second half of this decade. This will have both positive and negative ramifications for all of us. How companies have adapted to the challenges and opportunities of the last three years and how companies react and adjust for the years ahead is crucial for the future prosperity, and perhaps survival, of many firms.

The legal sector is forecast to be impacted significantly by AI. We have seen the industry impacted by more online and self-service offerings, the challenges of remote working and the changes brought about by the introduction of other technologies in law firms. What happens next for the legal sector has been years in the making. Change is accelerating and the time to act and invest in understanding the future has never been so critical.

CONTENTS



The future of finance in the legal sector

2024 will stand out as a time of significant change and for the legal sector, a huge opportunity.

Law firms that have learned to adapt to the opportunities and challenges since 2020 will need to continue the journey to new ways of working and now, more than before, embrace new technologies to accelerate the change. For law firms struggling to adapt to new working models and new challenges, there exists a step-change opportunity in 2024.

The need to forecast and plan better, the need to understand profitability and the ability to adapt and move quickly, now needs to come to the fore. The finance function within the law firm needs to move from being a supporting and reporting function to becoming a true business partner. Utilising data more effectively will allow the finance function of a law firm to provide value-add insight and help drive strategies that deliver improvements to the business.

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The challenges facing the legal sector today are well known and understood:

People leaving the industry (lawyers as well as support roles)

More self-service and online tools

Remote and hybrid working

The rise of Artificial Intelligence

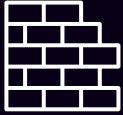
Increased competition as it becomes easier to churn

Gen Z entering the industry

ESG and BEPS Pillar 2

Law firms are now presented with a significant opportunity underpinned by a great ability to forecast and plan better. Forecasting the make up of resources to better serve a client, or win new clients, will require better financial planning. Understanding the true costs and commercial benefits of new clients and how best to support them needs to be driven as a whole, not just by hours billed.

Decisions on whether to invest in people or technology, understanding in detail what good looks like for the business and having a robust and measurable financial strategy built on data and insight that moves the company forward – these will all lead to better, more informed decisions.



Building the finance team of the future

According to BTI Consulting Group¹ their 7 Key Trends Defining Legal pending 2024² survey identified that almost none of the clients they interviewed are seeing an increase in demand for legal services. The LexisNexis GLP Index³ predicts growth to be only 2%.

For 2024 growth is likely to be slow and it therefore becomes ever more important to hold onto existing clients and to have a closer eye on cashflow and collections.

A recent Big Hand survey⁴ noted that:

60%
of law firms expect
to see write offs
increase in 2024

Agile law firms will see 2024 as an opportunity to change their billing models and grow their revenues through new technologies while moving away from purely billable hours.

According to the Law Society Gazette⁵,

85%
of clients want to see a move to flat fees or
alternatives to billable hours.

The same Big Hand⁶ survey noted that

64%
of law firms want to increase their billing
cadence with almost every law firm now
focusing on profitability margins rather
than just billable hours.

The entire landscape of how law firms focus on profits rather than billable hours now drives the finance function to become a value-add part of any business.

Rather than simply reporting and chasing, the finance function is now tasked with providing revenue projections, forecasting future positions and running multiple and often complex “what if” scenarios.

For all workers, not just Millennials and Gen Z, law firms will need to find solutions that allow for greater remote working and deliver more value while doing so.

“What if our biggest client asks for a 10% reduction?”

“What if we win a new client? Will it be profitable? What is the resource implication?”

“How will we cope with a client wanting flat fees? What should those flat fees be?”

“What if there is a change to interest rates?”

“Which offices are the least profitable and why?”

“What should our leasing strategy for buildings be?”

“Is the brand value of a client worth the cost to serve?”

The changing role of the finance function will require new ways of working. For many, reliance on ever more complex spreadsheets may do for now, but for larger more complex organisations (and for law firms with many partners serving multiple clients), a spreadsheet-driven approach will not deliver the insight needed.

In our recent article [“Excel: Heaven or Hell...”](#)⁷, we identified that **88% of spreadsheets contain errors, and the world of business is filled with the impact of getting it hugely wrong on a spreadsheet.** Law firms can no longer rely on spreadsheets to run an ever more complex business. The reliance on key users paired with a dispersed workforce makes spreadsheet management within the finance function no longer a viable option.

Simply asking the finance team to do more is not easy nor is it sustainable. In 2023 a survey by the ACCA⁸ found that 90% of firms experienced a skills shortage in the finance function and 82% of young finance professionals would leave if forced to work more often in the office, according to CFO Tech⁹.

Today **35% of the workforce are millennials** and according to EY10, by 2025 27% will be Gen Z, therefore the working culture must change. More meaningful work, adding real value, the importance of social values and the environment and a different work-life balance are all in high demand for people born between 1981 and 2012 who will soon make up more than half the workforce.

The finance function of a law firm needs to change and the use of better tools that bring more value to the role and the business must be a key factor. This will enable law firms to attract and retain the best talent while allowing the finance function to deliver more insight and allow better decision-making.

With fewer certified public accountants (CPAs) entering the workforce¹¹ the challenge is to do more, but with fewer people. For all workers, not just Millennials and Gen Z, law firms will need to find solutions that allow for greater remote working and deliver more value while doing so. Adapting processes and ways of working and applying the right use of technology can deliver a greater level of performance for the finance function and deliver greater insight into the business.

⁷BTI Consulting Group, Massachusetts, USA

⁸<https://bticonsulting.com/themadclientist/just-released-7-key-trends-defining-legal-spending-in-2024>

⁹<https://www.lexisnexis.co.uk/insights/glp-index-2024/index.html>

¹⁰<https://www.bighand.com/en-us/resources/news/60-of-firms-expect-write-offs-to-increase-in-2024-bighand-s-latest-research-confirms/>

¹¹<https://www.lawgazette.co.uk/news/firms-moving-away-from-billable-hours/5114967.article>

¹²Big Hand Limited, London, UK

¹³<https://www.vantagepoint.consulting/blog/what-are-the-real-impacts-of-sticking-with-excel>



Artificial Intelligence

Although there are many terms when referring to AI, it is not new. Satnav systems that receive traffic information and reroute you, or search engines, messaging apps and documents you're writing that complete your sentence for you; all have a level of 'intelligence' by design and are completing tasks.

The phrase Large Language Models (LLMs) is not new either and dates back to the 1930s. What has changed is the scale of the LLMs and the ability to process significantly more data far more quickly.

As our understanding of LLMs develops and as companies or industry sectors look to develop their own AI, we will soon see the emergence of Small Language Models (SLMs). This could significantly reduce the investment cost and processing power needed. AI Copilots will allow users of LLMs/SLMs to do more than was previously possible. An AI Copilot, like ChatGPT¹² for example, is a conversational interface that allows the user to access an LLM and drive a decision-making process.

**IN 2023 THOMSON REUTERS¹³
ACQUIRED CASETEXT¹⁴ FOR:**

\$650m

Their product, CoCounsel, is promoted as the "AI legal assistant" and provides a range of services such as simple document review, production and research. The bet for Thomson Reuters is that this is just the start.

⁸<https://jobs.accaglobal.com/article/uk-2023-finance-recruitment-outlook-skills-shortage-pushes-up-salaries/>

⁹<https://cfotech.co.uk/story/young-uk-finance-professionals-under-stress-consider-leaving-industry>

¹⁰https://www.ey.com/en_gl/banking-capital-markets/how-banking-on-gen-z-talent-will-make-or-break-the-future-of-banking

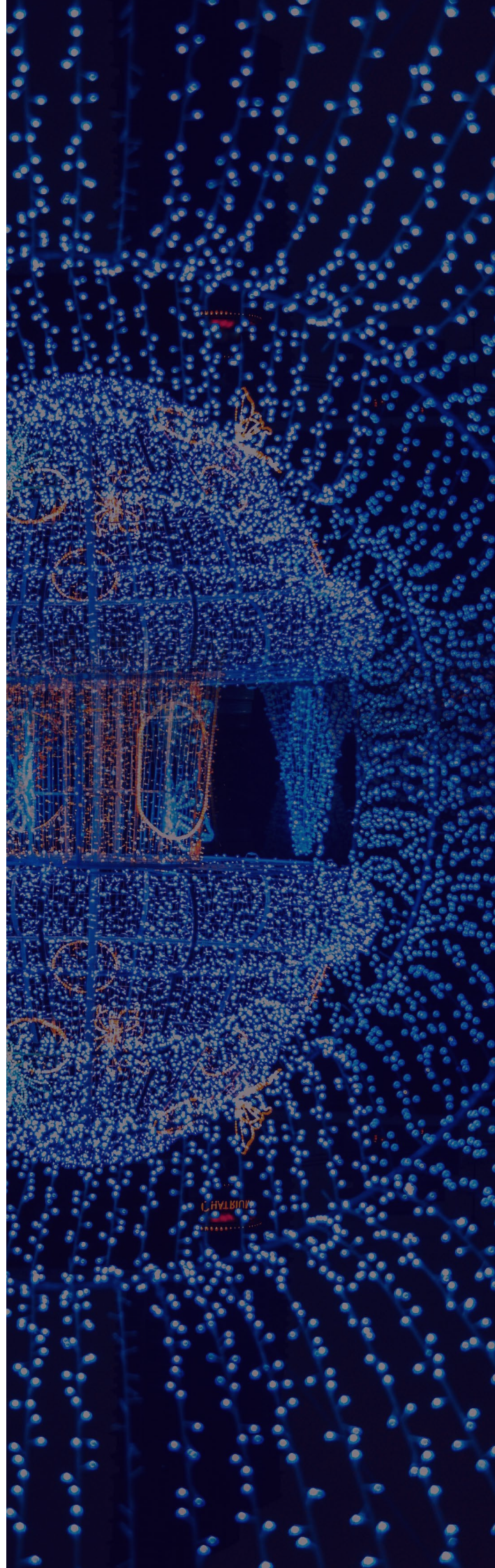
¹¹<https://www.shrm.org/topics-tools/news/all-things-work/cpa-shortage>

¹²<https://chat.openai.com/>

¹³Thomson Reuters, Toronto, Canada

¹⁴<https://casetext.com/>

¹⁵<https://sloanreview.mit.edu/article/the-working-limitations-of-large-language-models/>



Artificial Intelligence and the use of Language Models will present an opportunity for many industries and sectors with varying degrees. Journalism and the legal sector particularly are seen as being impacted the most. However, according to MIT Sloan¹⁵

LLMs learn only to verbally simulate elementary logical rules but do not possess the skills to chain them together for producing and verifying complex conclusions. Moreover, LLMs are prone to error accumulation in multistep logical reasoning because the model's fundamentally probabilistic nature means that every step has a nonzero chance of error.

Finally, LLMs cannot always outline the "chain of thought" that led to a conclusion, making it difficult for humans to determine whether or where an error occurred.

What is clear is that AI/LLMs can undertake a lot of work and remove mundane tasks such as research, drafting documents and document review. It may provide a more thorough output but will still need to be checked and could serve best with helping to manage peaks of demand.

Whatever the short-term benefits, AI will still need to be carefully managed, and its output curated. According to Stanford University¹⁶ when AI is used for legal case analyses, error rates can be as high as 88%. We have a long way to go for sure, but AI is going to transform the law firm in both the core work and the support functions that help drive the business.

Unchecked, as we have seen recently when a New York judge fined lawyers for a violation of its rules¹⁷, AI and LLMs cannot be relied on alone. That does not mean they are valueless, but they do require manual intervention and careful management. For other functions, AI can do a lot of the heavy lifting when it comes to building complex models, such as in the finance function. The chart below from a recent VantagePoint survey¹⁸, featured in Times Newspaper¹⁹ publication Raconteur²⁰, asked respondents to assess where they see AI adding the most value to their role in finance.

Error rates can
be as high as

88%

¹⁵<https://hai.stanford.edu/news/hallucinating-law-legal-mistakes-large-language-models-are-pervasive>

¹⁷<https://www.legaldive.com/news/chatgpt-lawyer-fake-cases-lawyer-uses-chatgpt-sanctions-generative-ai/653925/>

¹⁸<https://www.vantagepoint.consulting/download/raconteur-dec-2023>

¹⁹<https://www.thetimes.co.uk/>

²⁰<https://www.raconteur.net/>

²¹<https://www.litify.com/resources/2023-litify-state-of-ai-in-legal-industry-report>

Recognising the contribution AI can make to the legal sector means it should be a billable item for any firm; for self-service functions and online tools, AI will deliver huge gains. Any growth for the legal sector in 2024 may be challenged further by the move to online and self-service and the move away from manual effort in favour of AI.

According to Litifiy’s State of AI 2023 report²¹,

62%

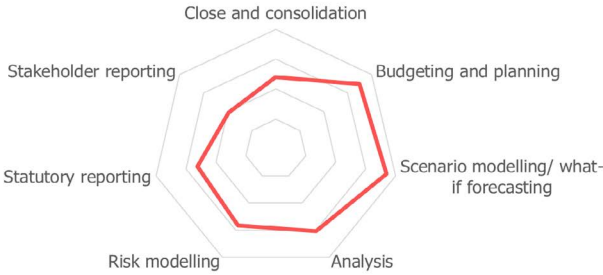
of legal professionals do not currently use AI - of those who do,

95%

of them already see it as a time-saving tool.

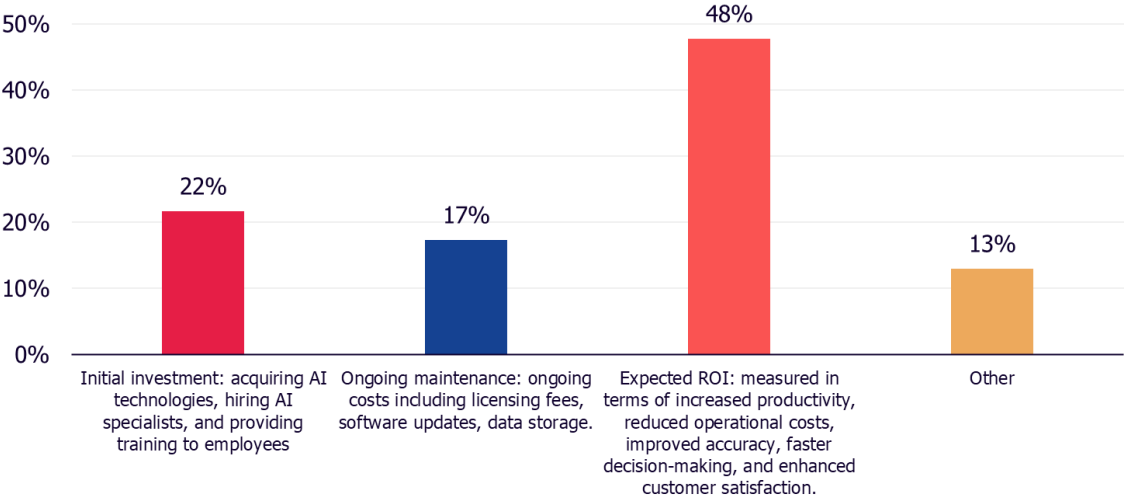
The legal sector may be slow to adopt but the opportunities are clear.

Which of the following would you consider delegating to AI in the next two years?



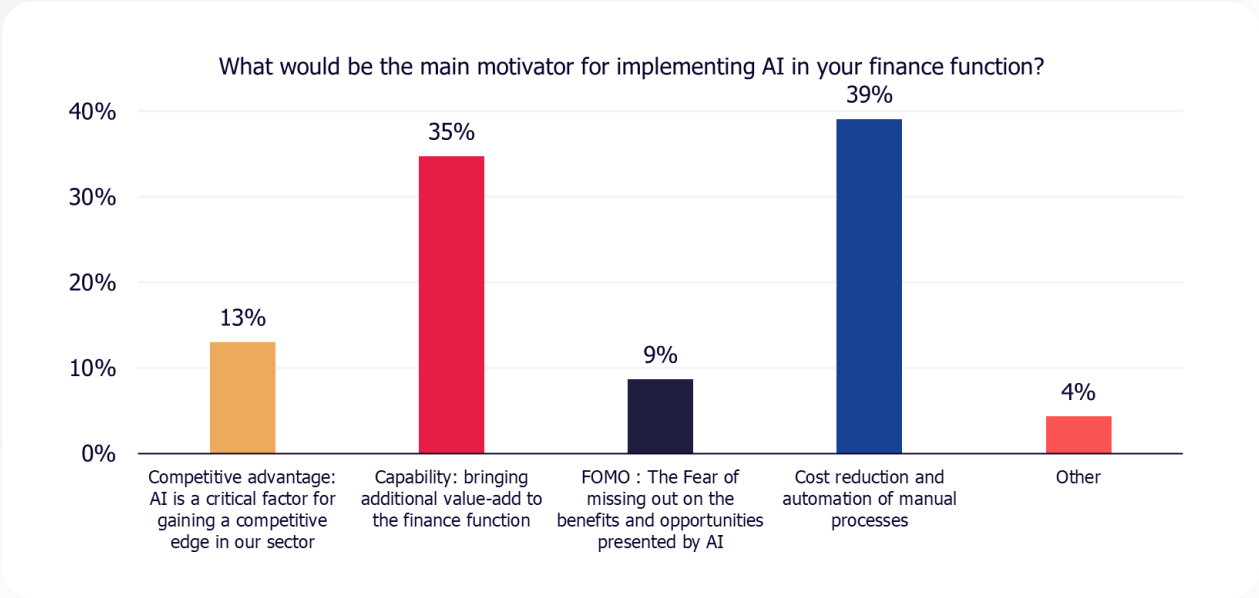
Within any law firm, the savings in time and manpower through AI research should benefit the client but the costs of running an AI system should also be passed onto the client. For the finance function within a law firm, there is now a requirement to understand the investment case for AI and key decisions will need to be made on whether to use public AI, outsourced AI or build in-house.

What are the potential financial considerations of implementing AI in terms of initial investment, ongoing maintenance and expected ROI?



Once established, the finance department will need to find a way to measure and bill the use of AI. As clients become less in favour of billable hours this will also be the case with billable AI hours, instead, the nature of the questions and the complexity of the research will have to dictate the fee.

The overwhelming view of all VantagePoint survey respondents was that AI will bring cost savings and greater capability to the finance function. Technology in any form, whether the plough or the computer, has advanced the world of work. For 2024 the opportunities through AI are potentially unparalleled.



The changing face of regulations

New regulations bring with them new opportunities but for some, they also bring new challenges. The legal sector is no different when it comes to their in-house requirements and the opportunities that exist beyond. For 2024 the biggest changes we are seeing for businesses are around ESG and, for larger businesses BEPS Pillar 2. Both present opportunities for law firms as well as work to be done.

Since 2015 the number of ESG-related lawsuits has more than doubled. As ESG becomes ever more important, new regulations and standards come into force and existing ones are made tougher, this presents a new growth area for law firms.

For the law firm itself, ESG requires companies to be accountable across all three areas – Environmental, Social and Governance. One would hope the last of these three is already in good standing. The real challenge however is likely to be in the area where law firms are representing clients that have an environmental impact. The E of ESG typically allows for Scope 1, 2 & 3 emissions as defined in the Green House Gas Protocol of 2001. Some law firms are now pushing for Scope 4 emissions. Rather than turning away clients who may have a detrimental effect on the law firm's own ESG emissions, it should be encouraged to work with new clients to help lower their emissions. For law firms to capture data, measure and report on ESG, it will require a system to receive the data from multiple sources, from all clients in disparate forms and formats and turn it into meaningful output. Undertaking such a task is not best done without some investment in technology to gather, formulate and present the data.

A good ESG report will help attract not only the best employees but also drive client attraction while boosting the reputation of the law firm. Some companies, such as Mills & Reeve, are already building specialist ESG practices. For BEPS Pillar 2, any law firm with a turnover of over €750m operating in multiple jurisdictions will be required to pay a 15% minimum tax.

As it stands currently some countries have not adopted the principle and many have yet to put the requirement into law. However, it will be a requirement and could affect law firms' clients, as well as some law firms themselves.

While large corporations often rely on specialist tax advisors, these are very much focused on the regulations required and less so on the capture of data in a way that can be formulated into a single standard for global minimum tax management and payment. Law firms may need the help of technology to gather, manage and present the data in the format required by each jurisdiction.

Overall, while regulations are bringing about new requirements and new technologies are offering benefits, what is clear is that from 2024 the impact of these changes on the legal sector will be more significant than at any point in recent memory.

According to Wolters Kluwer,

63%
of law firms wish to increase
their use of technology to
support their legal work.

So, the only question is – what percentage of law firms are willing to increase their use of technology to better understand what is going on in the business?

²²<https://climate-laws.org/>

²³<https://ghgprotocol.org/sites/default/files/standards/ghg-protocol-revised.pdf>

²⁴<https://www.wri.org/insights/do-we-need-standard-calculate-avoided-emissions>

²⁵<https://www.mills-reeve.com/services/environmental-social-and-governance>

¹<https://www.wolterskluwer.com/en-gb/know/future-ready-lawyer-2022>

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Also hear from Adil Rehman from VantagePoint and Jay Sahota, the Masala Mentor, on the first practical steps you can take to stay ahead of the changes happening within your industry.

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About VantagePoint

VantagePoint is a global technology and advisory consultancy empowering organisations to unlock the value of finance by unifying their people, processes and systems.

With a strong emphasis on detail, VantagePoint's mission is to educate, inspire and enable business leaders to become champions of technology and transformation. The company is dedicated to delivering tangible value to its partners, linking every action back to business strategy. VantagePoint's aim is to be the company that businesses aspire to work with when going through a finance technology change.