



Looking Ahead: Where Do We Go From Here?

Law firm leaders are currently focused on business resilience measures – making the business decisions that will help the firm get through the trough of the pandemic and the resulting impact on the economy, as well as initiating planning for a safe return to the office environment. While these immediate issues are critical and pressing, leaders would be well served to start thinking now about the medium- and longer-term impact that the current situation will have on the legal industry and on their firms.

While it is possible that we will be back to ‘normal’ later this year, that ‘normal’ will likely look different than in the past. A disruptive event creates the opportunity to rethink traditional approaches. As demonstrated by the 2008 downturn, firms that take advantage of the opportunity to make changes in a crisis-driven environment are more likely to succeed long-term. In this Insight we have identified high priority areas where leaders would do well to focus. We will be writing more on several of these in coming Insights.

Setting Strategic Priorities

It is time to dust off the firm’s strategic plan. Even plans completed within the last year are going to be out of date for the current environment. What aspects of the plan still ring true? What needs to be amended? What are the client-facing initiatives where you can make an impact and get a quick return on investment? What are the initiatives that require lawyer time that is normally in short supply? While some firms may feel like this isn’t the time to be investing in the future, many have lawyers and staff with extra time available. Putting that time to good use will pay off in the long run.

For example, the firm might invest in a new industry initiative, particularly one that is likely to see an uptick because of the crisis. An industry where the firm has existing expertise but may not have organized around it before can create opportunities to build relationships with clients.

We also see some firms continuing to pursue growth opportunities, either via laterals or mergers. There will be opportunities to add high quality talent for those firms who are able to continue to make strategic investments, but it will require more leadership and fortitude than a year ago. Having clear priorities around growth will help frame opportunities that arise.

Reinforcing Client Relationships

Firms are generally doing a good job of focusing on client needs during this time. Much of the focus should be on current clients, as clients are most likely to turn to their trusted counsel during a period of uncertainty rather than seek new relationships. Given the financial impact of the shutdown on many sectors of the economy, clients are likely to have increased sensitivity around legal fees. Working with your important clients to develop fee arrangements which respond to their needs should be a top priority for firms. While we are still not predicting the death of the billable hour, there is an opportunity to think creatively about how to staff and price legal work so that it meets both client and firm objectives.

Connecting with clients remotely will likely be the norm for some time to come. As with most things, there will not be a one size fits all approach so having a menu of options to choose from will be important. This may include webinars, custom programs, regular update sessions, hotlines, and apps.

As time goes on, connecting with potential new clients must also be a priority, and demonstrating experience and expertise will be more important than ever before in a virtual environment. Spending time writing, speaking and demonstrating areas of clear specialty will help attract new work.

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Advance of Flexible Work Arrangements

One clear outcome of the great remote work experiment is a realization that remote working can be productive and effective for many. Many firms were already allowing limited remote work before the pandemic. While some lawyers and staff will be excited to return to the office, others will prefer to continue with remote working. Firms that embrace elements of remote and flexible work will improve attraction and retention of talent, particularly among working parents.

How will you incorporate remote work into your firm? Will it be encouraged or just tolerated? It is important to be clear about what the policies will be, what the expectations will be, and what home office support might be provided. It is also important to think about how the firm will effectively blend teams comprised of some members working remotely and other members working in the office.

Rethinking Operational Support and Office Requirements

On a related point, this remote working experiment has shown that expensive offices may not be critical to providing legal services. For law firms, rent and related occupancy costs are the largest expense category outside of people. A number of firms are already considering ways to reduce their physical office footprint, particularly in light of the relatively successful move to a remote working environment. While existing leases may prevent immediate reductions in office space, over the longer term, there is potential to reduce overall space commitments, increase hoteling space, and potentially use less expensive space out of the downtown core. To the extent that future public health crises may require another extended period of remote work, reducing the commitment to expensive space may be prudent.

Firms are also beginning to rethink the size and shape of the business support required for the firm. This has come into focus as firms look at how their support teams are currently being utilized. Remote working has advanced the use of technology and the ability of lawyers to be more self-sufficient. Many firms will need fewer legal administrative assistants. It is also clear that those assistants can provide support without being located directly outside someone's office door, which can advance the concept of administrative support pools or teams. It may also be time for more firms to move support teams out of expensive space, as some large firms have done, or to outsource elements of administrative functions outside providers. Ultimately as firms move to a new normal, they need to identify where they require more support, where they require less, and reshape the team accordingly.

Preparing for Partner Compensation Season

While it is difficult to predict what full 2020 results will look like, we expect that the profits available to distribute to partners will be down for many firms. This will undoubtedly create pressure on law firm leaders to determine how to make compensation decisions in a year of uneven and disrupted performance. Some areas of practice and industry focus continue to see ample workflow and client demand for services; however, others are experiencing a material decline. Some geographic markets are also experiencing a greater decline in production than others. Will a shortfall in profitability be shared proportionally among the partners across offices and service lines? Will the highest paid partners bear a higher share? Will it be based on individual contributions for the year? In addition, a number of firms set compensation prospectively at the beginning of the year. For partners experiencing a more significant drop off in production and revenue, will a mid-year adjustment be necessary? Thinking now about how compensation will be handled, and communicating that to partners, can help manage expectations and get in front of potential tensions which may arise from profitability pressure.

Affirming Core Values

Finally, now is a time to think about your firm's core values. What guided your decisions during this crisis? How did your lawyers and staff respond? Is there anything you would have done differently? What was truly important?

While firms have had to make some tough decisions in recent months it has been different than the actions taken in the last downturn. While some of the differences tie to the nature of the downturn, we are observing a general shift in the thinking of firms and their clients. In 2008, the actions were principally focused on preserving partner profits. Today many firms are making decisions that recognize the broader responsibility of the firm as an institution. Thus far, firms have been cautious with layoffs, have recognized the need to provide health care benefits during a health care crisis, and partners are bearing the brunt of the compensation reductions. While it might seem a small shift to staff being asked to 'share the pain', it is a meaningful difference from a decade ago.

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Core values in law firms have evolved as their clients focus on broader social initiatives including sustainability, diversity, and well-being. Over the coming months it will be helpful to refine or reaffirm your core values, communicate those across the firm, and use them to guide your strategy and decision making.

In the last downturn many were convinced we would see a revolution in the legal industry. Much like predictions of the demise of the midsize firm, or end of the billable hour, that did not happen. But the last decade has been one of significant change for firms. As we move forward think of it not as a revolution, but as an acceleration of evolution, and prepare accordingly,

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