

Law Firm of the Future: The Time is Now



The COVID pandemic has created a state of uncertainty and upheaval across the world. It has shaken the economy and businesses to their very foundations. The legal sector is at a crossroad—a reckoning. The pandemic has laid bare historical ways of work across all that law firms do, client facing and everything that supports it. Unsettling to many, the challenges represent an immense opportunity to advance the future of the industry.

We carefully watched the legal sector as the 2008-09 Great Recession unfolded. The recession portended potential sea change in the industry. What came of it? Some deep thinking and some adjustments and repositioning, with the focus on riding out the stormy weather.

- **A significant restructuring did not occur.** With demand and revenues dramatically down, we foresaw the potential for a significant restructuring of firms and the sector. There were rumblings that there were too many law firms and too many lawyers. Firms broadly cut headcount, a few firms went out of business and there was a spike in merger and acquisition activity. Few firms, however, undertook major resets of their lines of business or target markets, how they were organized, or how they delivered services.
- **Changes in service delivery inched forward.** We foresaw a segmentation of the delivery of legal services and a wave of shared services. The delivery of legal services began to evolve, a long journey still in motion, encompassing alternative legal service providers and legal tech. Though firms centralized some functions and realigned functions and tasks, few implemented shared services centers. Some put support operations in less costly buildings in the same metropolitan area as their headquarters. Outsourcing started to get traction, with the provider ecosystem advancing.
- **Corporate procurement rolled into law departments.** Long considered “special” and distanced from procurement’s influence, law departments began to pare the number of law firms they used and introduce strategic sourcing. They began to change how they engaged and used law firms, both the economic arrangements and the work sent to firms. A wave of insourcing began, with law departments bringing increasing amounts of legal work in house.
- **Law firms’ talent model did not change.** Recruiting at law schools and the volume of LSAT-taking dropped dramatically after the recession, laying bare fundamental cracks in the legal education system and the law firm talent model. Law schools faced days of reckoning, with some changes made and more still required. Law firms largely continued the same model and old ways.

With the recession lessening, revenues and bottom-line recovered: for the Am Law 100, revenues and profit per partner grew by 54% and 44%, respectively, over the last 10 years. Law firms’ continued financial success insulated them from dramatic change imperatives.

In the context of the very nature of law firms, change comes slowly.

Indeed, in the context of the very nature of law firms, change comes slowly.

- **Costly structures and operations.** Cost structures are high and have changed little – organization, workforce, sourcing, facilities, and technology. Work is done in high-cost ways in high-cost locations, with about 50% of attorneys and supporting operations for the [Am Law 200](#) concentrated in the six highest-cost locations in the U.S. At the same time, corporate clients have pressed a mission to get efficient and effective, and they positively perceive service providers that do the same.
- **Cash-based business model.** Because of their simple business model of a partnership that pays out its profit every year, law firms struggle with initiatives that require significant operating expenditures or capital investment. We have seen this with investments required for shared services centers, multi-year research and development, and non-traditional service innovation.
- **Change has long been hard.** The very nature of law firms--partnerships, political organizations, smart people trained to debate things, many big voices, and loyalty to people and the ways of the past—makes change difficult. Layer onto this a longstanding follow-the-herd disposition, where few want to push too far out of the benchmark norm, for fear of upsetting the partnership, clients and potential recruits.

Pressure is coming from all corners of the market – clients, new competition, and other innovative law firms—and opportunities abound.

Innovation was a low priority for firms. Law firms remain behind corporate and professional services in client centricity, digital transformation and service delivery innovation. Not to make light of firms' intellectual horsepower, the complexity of the client issues they address or their deep legal talent base, law firms are not overly complex in their fundamental service delivery and operating models—how it interacts with clients and how the work gets done. One can argue that these have changed little over time, with the pressure to innovate and change largely absent until recent times.

A new crop of firm leadership—managing partners, practice leaders, and COOs and their teams—is bringing broader experience and practices, and a wave of big picture thinking. Firms have added innovation leader roles, are embracing new and innovative technologies, and are considering new offerings and alternative delivery models. Pressure is coming from all corners of the market—clients, new competition, and other innovative law firms—and opportunities abound.

The COVID pandemic portends widespread and fundamental changes to the economy, how businesses operate, and the ways people do their work and carry on lives. Change is occurring at light speed on multiple fronts. It is exacerbating issues that existed before COVID across industries and companies. Whole sectors of the economy have been battered while others are realizing positive impacts. How that will affect the business of law and each law firm will be a function of:

- Areas of practice specialization (e.g., restructuring, employment, liability, regulatory)
- Nature of the firm (e.g., economic sector focus, specialization, size, geographic reach, leadership model)
- Level of efforts underway (e.g., service delivery model, client programs, digitization, remote work)

Fearing significant negative economic impacts, law firms initially girded for the worst from COVID. As third quarter numbers come in, revenues have only dropped slightly across the sector and profit margins are artificially high, with travel and office related expenses low for the lockdown. There will be pressure on how to maintain strong margins when the pandemic recedes. And those firms that were not well positioned before COVID will more starkly face the future.

COVID is serving as an accelerant to change for law firms. We hear this loudly in our conversations with clients, across our HBR industry forums, and in the industry monitoring that we do. It centers on how firms have been operating remotely with their clients and in getting the work done—and how their employees live and work. In our October roundtable for law firm leaders, *improving the effectiveness of services*, *repositioning for the labor force of the future* and *changing the firm's culture or organization* were among the top five drivers for their workplace strategy. This has been a sea change for a sector that was adamant that everyone must be in the office.

COVID is serving as an accelerant to change for law firms.

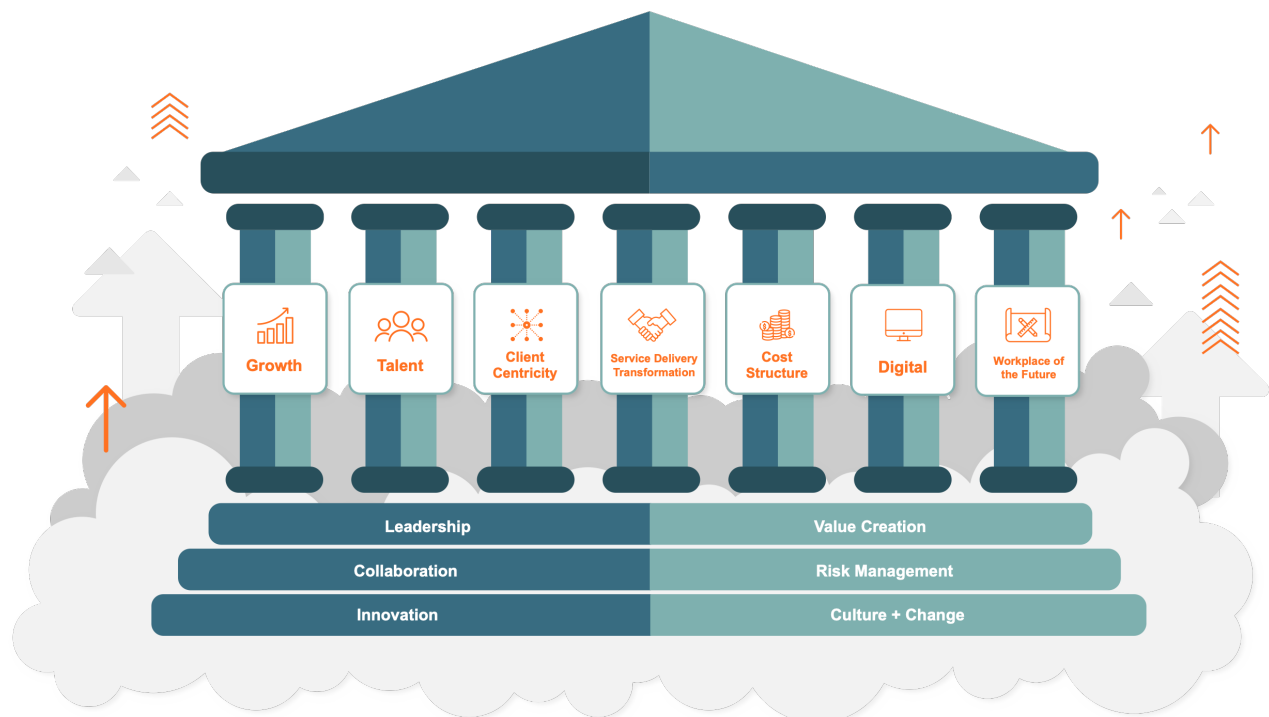
A bright lightbulb went on, the glowing spotlight of a new reality. Realizing the new, permanently altered reality of remote work, firms are grasping both the necessity and the considerable opportunity at hand. They are advancing initiatives that had previously been rejected, shelved, or edging along—encompassing ways of work, talent, culture, service delivery, client engagement, and digital enablement.

HBR is launching an initiative, *Law Firm of the Future*, that examines what the future will bring and will necessitate—the big issues that law firms will face, how they will be structured and must operate, and the initiatives that they must undertake to be successful. We will draw on experience and best practices across the legal sector, from the combination of HBR's expertise, law firm and law department leadership, and other thought leaders in the industry, as well as the path of other professional services. We will highlight those that are at the forefront of innovation.

The *Law Firm of the Future* is built on seven essential pillars, critical to positioning the firm in the marketplace and with its people, for sustained success in the context of the new realities of the market:

- Growth
- Talent
- Client Centricity
- Service Delivery Transformation
- Cost Structure
- Digital Transformation
- Workplace of the Future

LAW FIRM OF THE FUTURE



These pillars are supported by the foundations that enable the success of all that the firm does:

- Leadership
- Collaboration
- Innovation
- Value Creation
- Risk Management
- Culture and Change

Our *Law Firm of the Future* initiative will begin with two market-pressing pillars:

- **Workplace of the Future.** Every organization is grappling with the pandemic challenges of where and how work is best done. From initial concerns with health and safety to questions regarding the return to office, organizations are now realizing that some degree of remote work is here for future, with broad and lasting impacts across such issues as firm culture, learning and development, employee retention and real estate strategy.
- **Service Delivery Transformation.** Remote working has also led organizations to reconsider why, what, how, who and where work is done. Delivery options include work by remote employees, in reconfigured offices, in centralized delivery centers and by third-party partners. At the forefront are alternative legal service provision and the reimagined provision of administrative support, including the role of legal administrative assistants.

Realizing the new, permanently altered reality of remote work, firms are grasping both the necessity and the considerable opportunity at hand.

The audience is you, the leadership of your law firm. The upside is immense—to your relationships with your clients and the work that you do with them, your talent model and workforce, your culture, and your cost structure. The downside of inaction is significant—from the economy, with your clients, and from your competition advancing around you.

Your clients will be following this—and you.

Connect With Our Experts

To learn more about the *Law Firm of the Future*, please contact:



Mark Klender
Managing Director

C 415.279.8189
E MKlender@hbrconsulting.com



Matthew L. Sunderman
President, Advisory

O 312.578.0812
C 847.975.2340
E MSunderman@hbrconsulting.com



Lauren Chung
Managing Director

C 732.331.6484
E LChung@hbrconsulting.com



HBR Consulting (HBR) delivers advisory, managed services and software solutions that increase productivity and profitability, while mitigating risk for law firms, law departments and corporations. As trusted advisors with deep industry experience, clients partner with HBR to achieve significant, sustainable results.