

# COVID-19: Retooling the Legal Machine





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# Introduction



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This white paper describes how COVID-19 has shocked law firms into confronting long-standing operational inefficiencies. It offers a solution that centers around the need to lubricate the legal machinery and increase staff productivity at all levels. The result will be more robust organizations prepared to negotiate a more challenging economic environment.

The pandemic has threatened the profitability of law firms from two directions. A decline in revenues for many firms due to the general economic environment is combining with an increase in expenses resulting from issues encountered during the sudden migration of staff to home office locations.

The abrupt shift to remote working has heightened the visibility of inefficiencies in workflow and poor accountability in task assignments, formerly hidden by the noise of daily routine. Additionally, underutilization of personnel at all levels, formerly recognized only implicitly, is now becoming a visible dampener of profitability.

The shock of the pandemic has only reinforced an already extant understanding that law firms must become leaner. According to a pre-pandemic Altman Weil survey, 95.1% of law firm respondents said that the need to focus on improved practice efficiency was a permanent rather than a temporary trend. The permanency of the need to reduce support staff was acknowledged by 90.2% of respondents, the replacement of human resources by technology by 81.6% and the commoditization of legal work by 79.1%.<sup>(3)</sup>

The feeling is widespread among many in the legal world that the pandemic has made these needs so urgent as to require immediate action. Lynn Glasser, President of Sandpiper Partners, refers to this in a comment about her firm's post-pandemic survey done for business support services provider Williams Lea:

“Law firms are preparing for the biggest changes in practice since abandoning the yellow pad for the digital age. With 43% of respondents citing that the COVID-19 pandemic will forever alter the way law is practiced and 57% of firms citing they will change their remote working policies by the end of this year, we are seeing seismic changes in behaviors core to law firm operations.”<sup>9</sup>

# Background Issues

The Great Recession of 2008 brought about profound change to the legal industry as law firms were transformed into more businesslike enterprises, focusing on the delivery of legal services to client demands rather than the formal practice of law.

The COVID-19 pandemic is sending the same trend into overdrive. For the first time in modern history, the world is experiencing the merger of global financial and health crises. Law firms must change in fundamental ways to deliver services more efficiently and effectively.

Mark A. Cohen, Chief Executive Officer of Legal Mosaic, describes the challenge in a *Forbes* article:

“The coronavirus will turbocharge legal industry transformation. It will propel law into the digital age and reshape its landscape. The entire legal ecosystem will be affected — consumers, providers, the Academy, and the judicial system.”<sup>1</sup>

Inefficiencies already in place prior to COVID-19, covered over by revenue gains, now demand attention. Eric A. Wangler, President of the North America Division of BigHand, notes that law firms are exhibiting a new sense of urgency:

“Because firms were very profitable and growing remarkably over the last several years, in some cases operational inefficiencies weren’t an area of focus. Now with economic and work from home challenges and everything that goes with them, many firms have taken this time to say, ‘OK. We need to take a hard look at this.’”

The experience at Baker Donelson typifies a shift to overdrive by the industry. For over a decade, the nationwide firm had been discussing the need for a workflow solution to improve task delegation processes and increase the visibility of its legal support services. The COVID-19 pandemic provided the stimulus to act, so the firm instituted its program in the period of a month rather than a year.<sup>7</sup>



# Solution

Law firms have long realized the need to get to the most efficient staff levels, but most have placed the task on the back burner. The operational shock caused by the COVID-19 pandemic has brought the issue to the forefront.

This paper will show that law firms must undertake three take primary initiatives:

- » Modification of staff structures
- » Retooling of back-office operations
- » Reignition of growth

This is not to say that before COVID-19 firms had taken no steps to increase productivity. In an Altman Weil pre-pandemic survey, for example, 38.6% of responding firms had shifted work from lawyers to paraprofessionals. Those steps seemed to have paid off: 75.8% of the firms that had done so reported that the move had resulted in significant improvement in organizational performance. And 68.9% of respondents were now characterizing equity partners as “sufficiently busy,” up a notable 20 percentage points from a survey two years earlier. The figure for associates was 86.1%, up nearly 12 percentage points. Even so, there is plenty of room for improvement: Fully two-thirds of firms had not yet begun, or were only in the early stages of, alternative staffing strategies. And 84.4% said their firms still had chronically underperforming lawyers, a slight increase from a survey taken two years earlier.<sup>3</sup>

Law firms had also been taking steps prior to the pandemic to improve the secretary to lawyer ratio. The pre-pandemic 2020 ALA Compensation and Benefits survey showed the largest and smallest of firms reporting noticeable progress. Those with 200 or more lawyers reported 5.4 attorneys per secretary, up from 4.1 the year before. For firms with fewer than 10 attorneys the figure was 3.1, up from 2.5.<sup>10</sup>

The same survey reported an overall ratio of 3.6 attorneys per secretary for firms of all sizes. While that figure remained unchanged from the previous year’s survey, evidence shows that law firms are set on

improvement. When the pre-pandemic Legal Support Recruitment and Staffing Survey from ALA and BigHand asked about the current ratio of lawyers to secretary, the result was an average of 3.1. Respondents predicted that the number would increase to 5.1 in three years—that represents a 40% reduction in support staff. And more, the report stated that the most proactive firms are aiming to achieve a 10:1 attorney to support staff ratio, yet 17% are still operating on a 1:1 or 2:1 basis.<sup>6</sup>

The pandemic has highlighted the issue for many firms. Eric A. Seeger, Principal at Altman Weil, spoke in an ALA webinar of his personal survey of 27 managing partners taken a few weeks after the pandemic hit:

“Many of them are saying they suspected certain staff members were not as busy as they could and should be. Now they know for sure. Firms are looking at restaffing, both in terms of how many people they need and what kind of people they need.”

What has made them “know for sure,” added Seeger in a later interview, was the heightened visibility into the hours and tasks of remote workers. When staff are working in the office, traditionally the typical methods for assessing how busy they are is by walking past their workstations and looking at them, or by asking them how busy they are, or by asking their lawyers. Those are unreliable methods. When firms sent people home in March, many of them implemented reporting requirements to more accurately assess what people were working on and how busy they were. Those methods have provided more detailed information on who’s doing what and how much of it they’re doing.

Demographics are also pressuring firms to move faster in this area. The pre-pandemic BigHand staffing survey found that firms expect to lose 58% of their secretaries over the next five years due to retirement and attrition. And finding replacements will not be easy: 67% of survey participants believe that recruiting like-for-like secretaries is a key challenge. They recognize a significant business risk in the loss of legacy knowledge, support skills and experience.<sup>6</sup>

The pandemic has also turbocharged the trend toward working from home, as law firms are determined to transform a health necessity into an economic virtue. In a post-pandemic survey sponsored by Integreon, BigHand and ALA, 91% of respondents stated that they believed pandemic-related remote working practices would be “permanent.”<sup>7</sup>

In another post-pandemic survey conducted by Sandpiper Partners for Williams Lea, 57% of respondents plan to change their remote working policies by the end of 2020. While the majority of these firms expect less than half of fee earners and support staff to be working from home, 26% anticipate that as many as 75% of their personnel would be doing so.<sup>8</sup>

Given these numbers, it’s no surprise that virtualization of support services has moved to the front burner. More than half of the Williams Lea survey’s respondents are looking at virtualizing document processing and secretarial support, with IT support getting almost as much consideration.<sup>8</sup>

Personnel, for their part, are eager to cooperate. Another post-pandemic survey of more than 1,000 lawyers, paralegals and legal assistants by Altman Weil found that only 4% of respondents said they want to work full-time in reopened offices; 89% said they want to work at least one day a week at home and 72% said they want to work at least half-time at home.<sup>4</sup>

Improvements in secretary-attorney ratios and lower rents resulting from more remote working arrangements will doubtless help the bottom line. But law firms are also eyeing other cost-cutting efforts.

A survey of law firms taken by Altman Weil after the magnitude of the pandemic had become apparent found a significant rise in cost consciousness. In fact, 42% of respondents were likely to significantly cut overhead costs, up from 25% who made the same statement about a hypothetical recession prior to the pandemic. The portion who said they were likely to increase the firm’s cash reserves rose from 23% to 61%.<sup>3</sup>

At least some of the cost-cutting motivation is coming from the revenue side: The portion of survey

respondents saying they were likely to offer additional rate discounts to clients rose from 28% to 40% after the pandemic.<sup>3</sup>

In the post-pandemic Williams Lea survey, by far the most cited areas for anticipated cost cutting were back office and administrative functions and staffing, cited by 77% and 66% of respondents respectively.<sup>8</sup> This extends a trend already in place: A pre-pandemic survey by BigHand and ALA found that 68% of firms were planning on changing their back-office services structure within the next five years.<sup>7</sup> Such changes often mean moving to team structures, centralizing in lower cost markets, increasing the use of specialized staff and outsourcing more tasks.

And the evidence shows there is plenty of room for improvement. In a pre-pandemic Altman Weil survey, 83.3% of firms that had created a low-cost service center for back-office functions said that it had resulted in significant improvement in performance — yet only 8.4% of responding firms had actually taken the step.<sup>3</sup>

Progress made by firms prior the pandemic is widely varied. In a pre-pandemic survey, over a fifth of respondents had already moved to more centralized teams. Furthermore, 39% anticipated the changes would be achieved within the next five years, and 20% acknowledged the need to do something but have yet to make any changes, and 24% were not planning to make any changes at all.<sup>6</sup>

The shock of COVID-19 should make a difference: 75% of firms in a post-pandemic survey stated the pandemic is accelerating change in back-office structures — and 74% of participants stated they were more willing to change. The participants added that legal services delivery had been broken for a long time and that this is the right time to reengineer the process.<sup>7</sup>

Law firms are more ambivalent about centralization — an oft-cited technique for increasing efficiency. Only 41% of firms in the post-pandemic Williams Lea survey said they were looking at the tactic as a key cost-cutting tool. Of those firms, some 76% cited administrative support as the key target.<sup>8</sup> The results square with a pre-pandemic survey from BigHand, where 21% of respondents had already moved to a centralized team model and 45% have yet to make any changes.<sup>6</sup>

A similar uncertainty was expressed about outsourcing: While 60% in the post-pandemic Williams Lea survey said they were planning to outsource some functions, 38% said there was no such effort in the planning stages.<sup>8</sup> These findings seem to extend those of a pre-pandemic BigHand survey in which 48% of firms already outsource administrative work to third-party teams and 10% of respondents were planning to move more.<sup>6</sup> For those firms in the Williams Lea survey planning some outsourcing, by far the most identified categories were document support and printing, each cited by 69% of firms.<sup>8</sup>

General staff reductions are also on the table: 52% of respondents in the post-pandemic Williams Lea survey said they were reducing their workforce, and 94% of those said they were utilizing furloughs. Only 13% were shifting to part-time schedules or shortened work weeks, in an indication that people retained were already working at peak productivity.<sup>8</sup>

The Altman Weil post-pandemic survey found that 71% of firms were likely to remove remaining underperforming attorneys, up from 60% who made the same statement about a hypothetical recession prior to the pandemic. The portion who said they were likely to more closely align pay with performance rose from 73% to 82%.<sup>3</sup> The data show that staff changes can affect a firm's financial health. In a pre-pandemic Altman Weil survey, 69.5% of respondent firms had reduced underperforming lawyers as a profitability tactic; 86.0% (the highest portion in the survey) said that the move had made a significant difference in profitability. Of the 51.5% that had reduced staff in general, 83.3% said the move had made a significant difference.<sup>3</sup>

Firms were looking at additional cost-cutting measures. In the Williams Lea post-pandemic survey, 65% of respondents were putting capital investments on hold, and 51% were doing the same for office moves or expansions. Hiring freezes were being instituted by 47% of firms, and real estate and related expenses by 40%. Only 12% were instituting attorney reductions.<sup>8</sup>

Law firms can't cut their way to sustainability: Revenue enhancement is also vital. In a post-pandemic survey, the most often-cited critical mission for the last half of 2020 was "sustaining business growth," cited by 87% of respondents.<sup>8</sup>

The evidence shows that law firms were already well on the way toward more businesslike operations and are willing to invest in sales and marketing initiatives. In ALA's 2020 Compensation and Benefits survey, Marketing and Business Development Chiefs received the highest base salary of any position, at \$286,266, Marketing and/or Communications Chiefs were next in line at \$266,493, and Business Development Chiefs received \$238,517.<sup>10</sup>

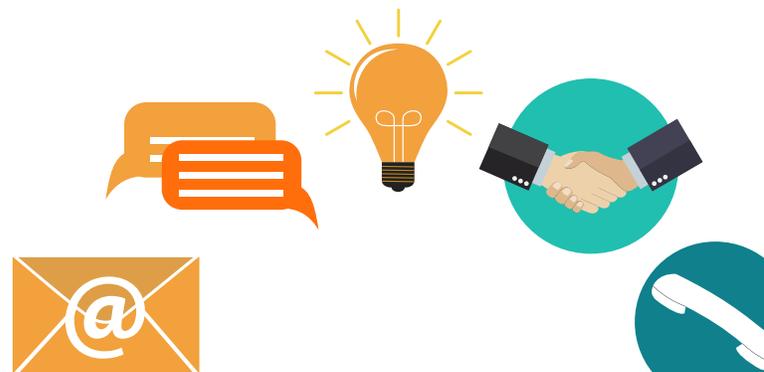
Firms have also shown a willingness to pay more for the right talent. The ALA survey showed that total compensation for associate attorneys continued an upward trend noted the previous year. Summer associates also received a significant pay increase for the second consecutive year: their \$97,114 total compensation (bonuses included) was 16% higher than 2019.

Recruitment bonuses, too, were on the rise, now offered by 62.6% of firms, an increase of more than 12 percentage points over the previous survey. Discretionary bonuses exhibited nearly the same rate of increase, to 85% of firms nationwide.

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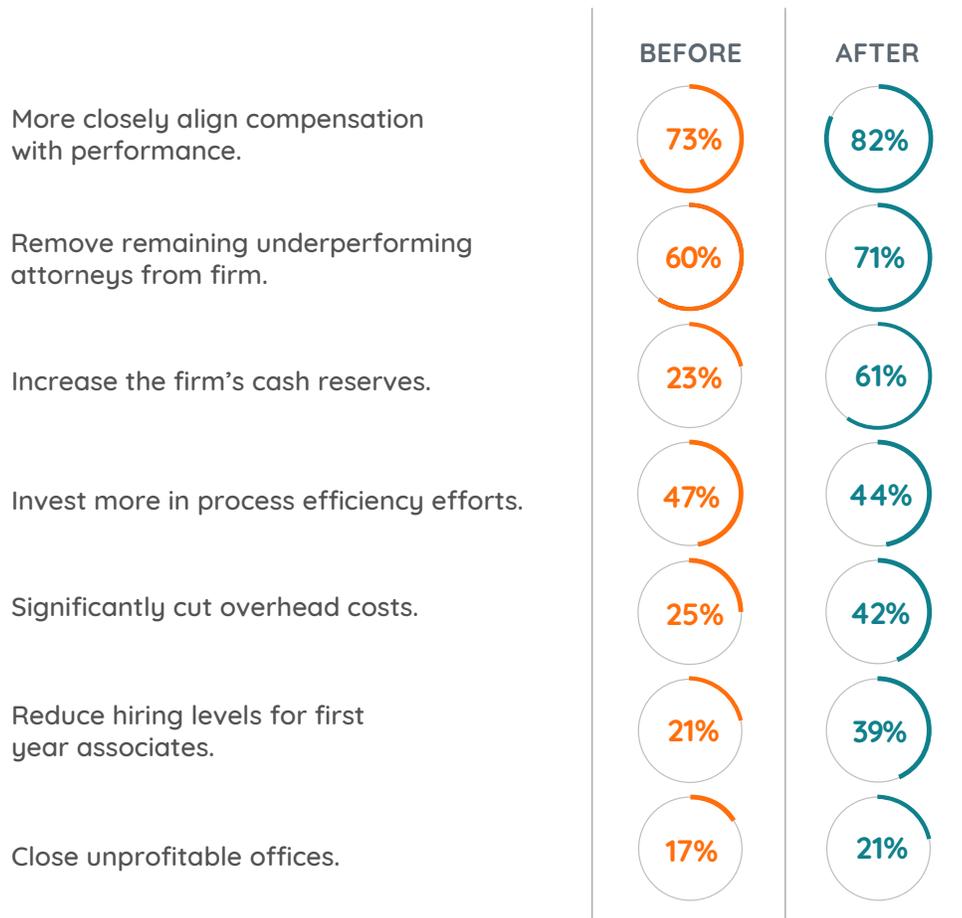
## Conclusion

The COVID-19 pandemic has brought a sudden sense of urgency to the reform of legal industry inefficiencies that had long been acknowledged but largely unaddressed. Law firms must take steps to rationalize staff structures, re-engineer back-office operations, and improve the flow of work and the efficiency of task assignments. Successful initiatives will allow firms to profitably transform their operations from the practice of law to the delivery of legal services tailored to client needs.



## Likelihoods of Utilizing Recession Tactics Before and After COVID-19

% of Firms “Definitely” or “Likely” to Pursue a Recession Tactic



When asked about the likelihood of using specific recession-fighting tactics, law firm responses before the pandemic were in many cases far different from responses to the same questions after the harsh reality of the pandemic had been experienced.

**Source:** “Law Firms in Transition: 2020.” Survey, Altman Weil.

## Post-Pandemic Relocations of Personnel to Remote Locations

### % of Fee Earners Working Remotely



### % of Administrative/Support Staff Working Remotely



### % of Fee Earners That Will Work Remotely by the End of 2020



### % of Administrative/Support Staff That Will Work Remotely by the End of 2020



COVID-19 caused a dramatic relocation of law firm personnel to remote work locations as well as an increase in expectations for the future of the practice.

**Source:** "Law Firms: Unprecedented Business Upheaval and Paradigm Shifts." Survey report. Williams Lea and Sandpiper Partners. 2020.

## Biggest Challenges to Working Remotely

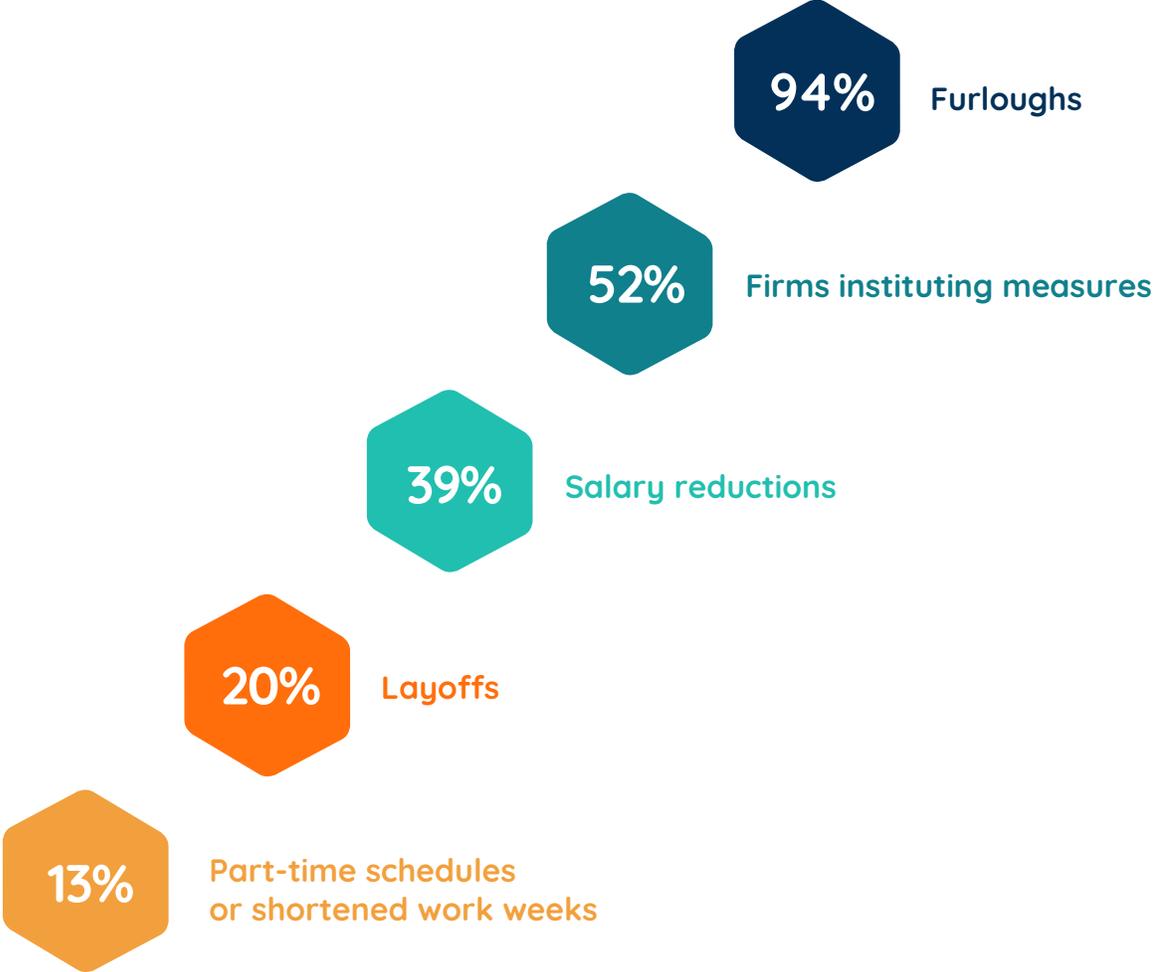
% of Respondents Reporting Each Challenge

	Fee earners	Administrative/ Support staff
 Collaboration/teams	63%	42%
 Productivity	58%	66%
 Security	37%	17%
 Tools to do work	30%	63%
 Client service levels	27%	13%
 Bandwidth	19%	35%
 Tech support	3%	5%

Fee earners and support staffs experience stark differences in work challenges when working remotely.

**Source:** “Law Firms: Unprecedented Business Upheaval and Paradigm Shifts.” Survey report. Williams Lea and Sandpiper Partners. 2020.

# Firms Instituting Reductions in Workforce Measures for Support Staff

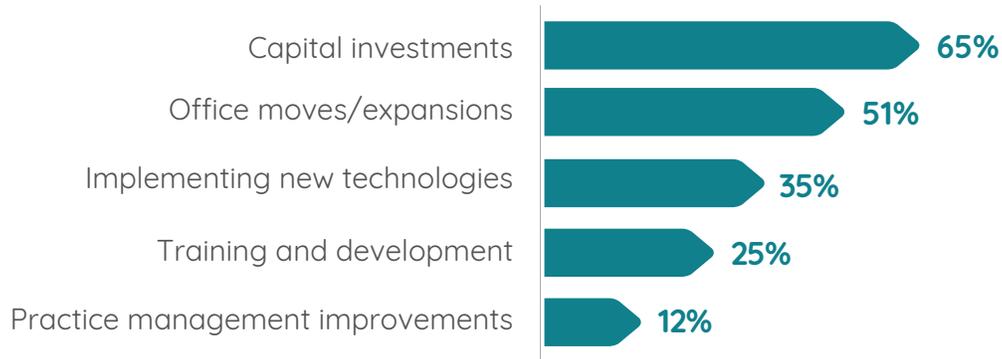


Firms instituted a number of workforce measures in response to the pandemic.

**Source:** "Law Firms: Unprecedented Business Upheaval and Paradigm Shifts." Survey report. Williams Lea and Sandpiper Partners. 2020.

## Back-Office Projects on Hold

### % Reporting Putting Holds on Each Entry



Law firms put many back office projects on hold due to the pandemic.

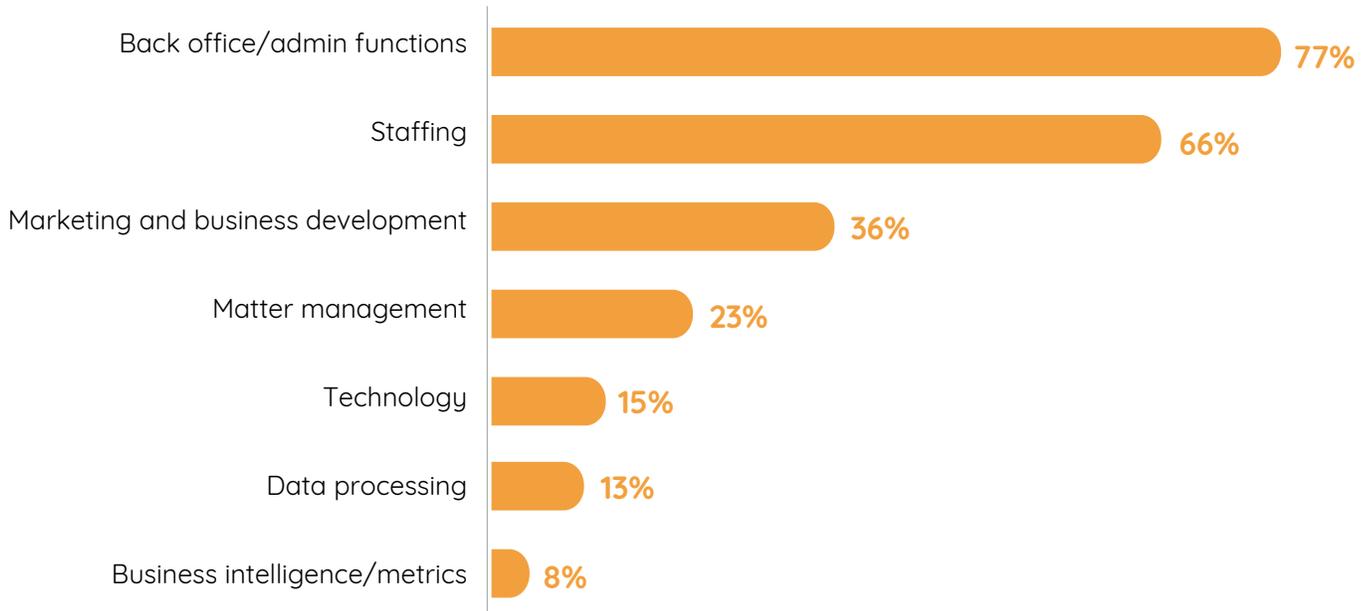
**Source:** “Law Firms: Unprecedented Business Upheaval and Paradigm Shifts.” Survey report. Williams Lea and Sandpiper Partners. 2020.

## Other Cost-Cutting Areas of Focus



**Source:** “Law Firms: Unprecedented Business Upheaval and Paradigm Shifts.” Survey report. Williams Lea and Sandpiper Partners. 2020.

## Key Targets for Cost Cutting

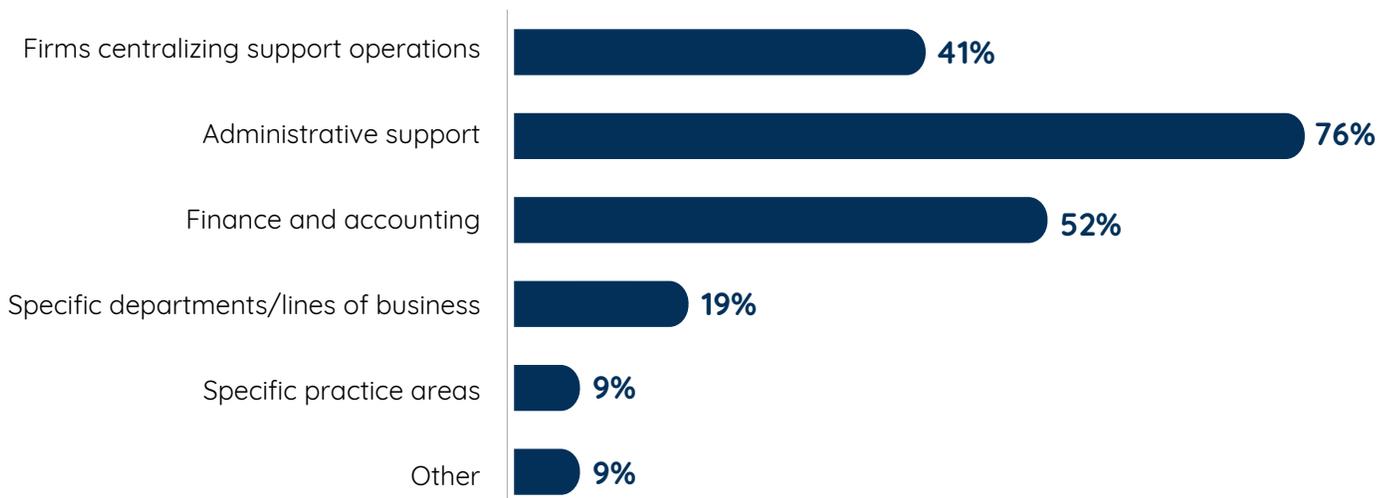


Law firms are looking to cut costs in back office and staffing more than any other categories.

**Source:** “Law Firms: Unprecedented Business Upheaval and Paradigm Shifts.” Survey report. Williams Lea and Sandpiper Partners. 2020.

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## Support Operations Firms Are Planning to Centralize



Law firms are looking to centralize administrative support tasks and finance and accounting duties more than other categories.

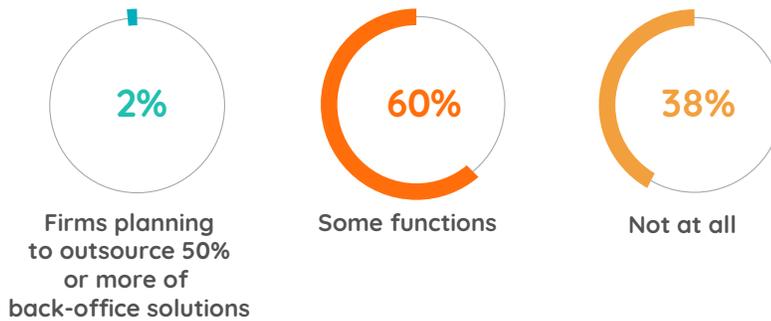
**Source:** “Law Firms: Unprecedented Business Upheaval and Paradigm Shifts.” Survey report. Williams Lea and Sandpiper Partners. 2020.

## Plans for Outsourcing in the Next Six Months

### % of Firms Planning to Outsource

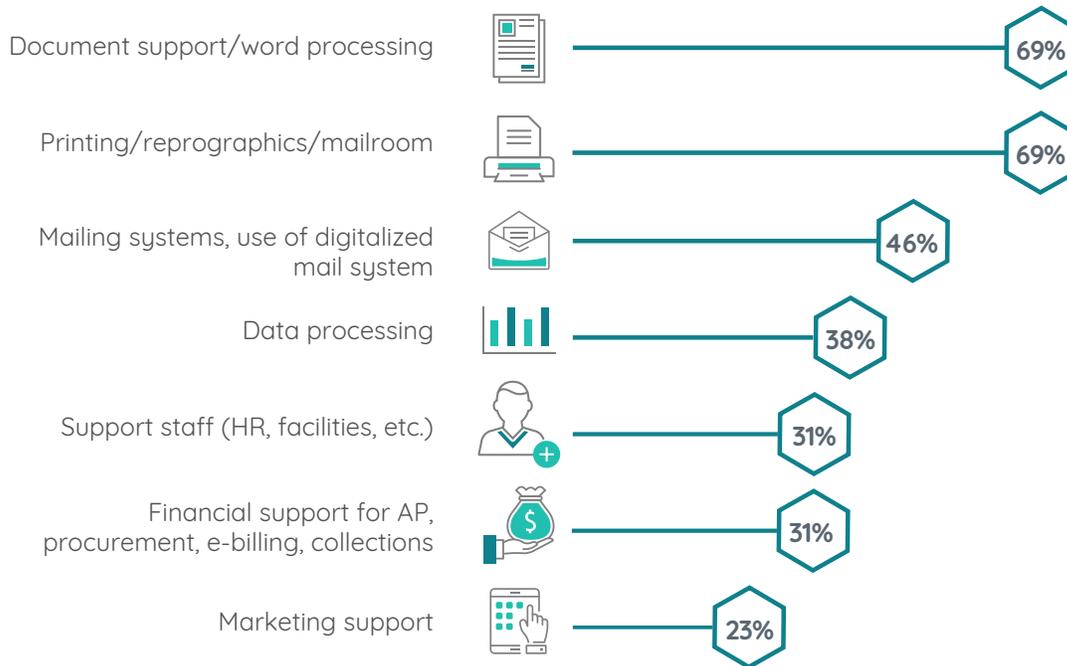


### Firms Planning to Outsource



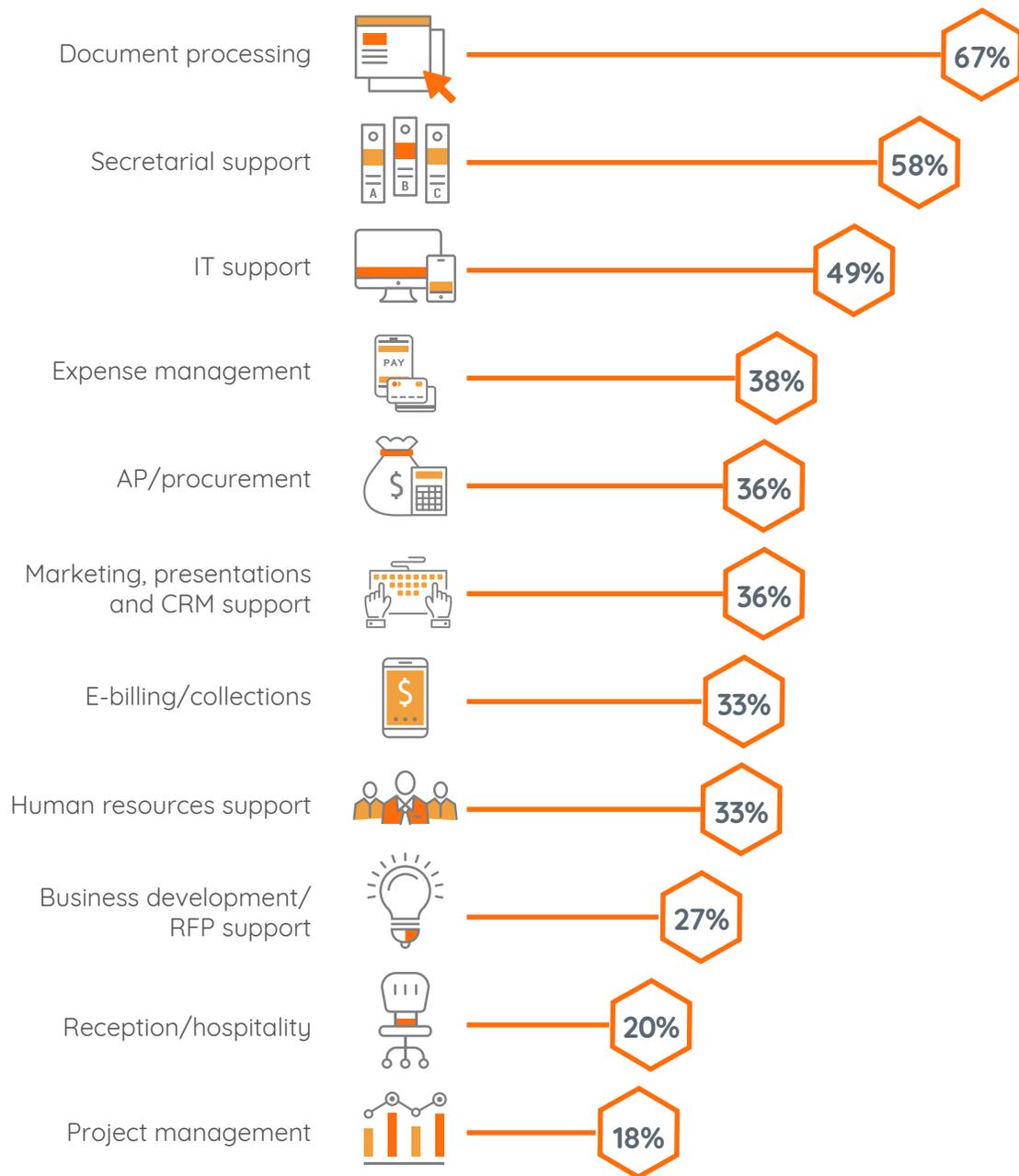
**Source:** “Law Firms: Unprecedented Business Upheaval and Paradigm Shifts.” Survey report. Williams Lea and Sandpiper Partners. 2020.

## Services Firms Are Reviewing for Outsourcing



**Source:** “Law Firms: Unprecedented Business Upheaval and Paradigm Shifts.” Survey report. Williams Lea and Sandpiper Partners. 2020.

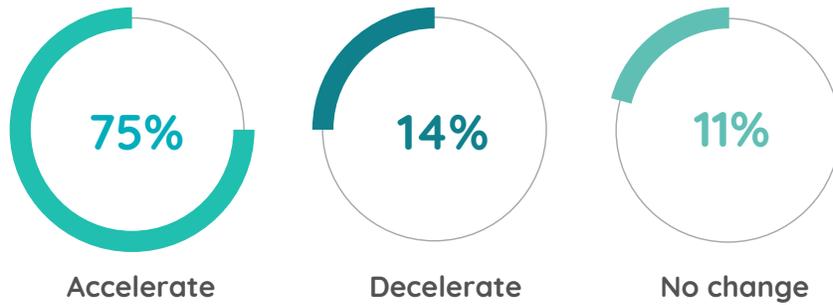
## Support Functions Firms Are Considering Virtualizing



**Source:** “Law Firms: Unprecedented Business Upheaval and Paradigm Shifts.” Survey report. Williams Lea and Sandpiper Partners. 2020.

## COVID-19's Effect on Back-Office Changes

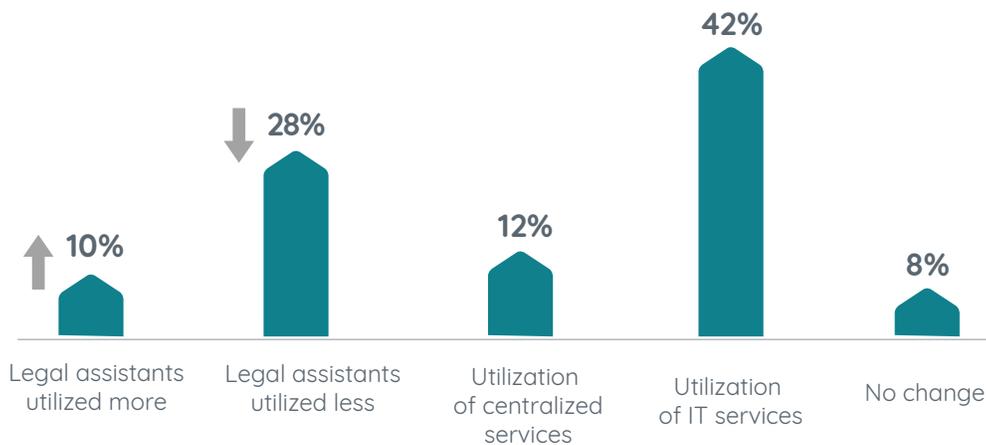
% of Firms Assessing COVID-19's Anticipated Effect on Plans to Change Back-office Services Structure



*Source: "Law Firms: Unprecedented Business Upheaval and Paradigm Shifts." Survey report. Williams Lea and Sandpiper Partners. 2020.*

## Expected Post-Pandemic Changes in Working Practices

% of Responding Firms Answering in the Affirmative



Law firms responded to the question: "Which working practices have changed and will likely remain altered even as return to work is encouraged?"

*Source: "COVID-19 Has Changed Law Firm Operations and Management Dramatically. What Happens Now?" Report. Integreon. 2020.*

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