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INSIGHTS

A New Look At Law Firms

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by Marty Festenstein and Lynn Osborne

When considering the phrase “less is more,” three examples that probably do not leap to mind are Marie Antoinette, Las Vegas and the average Am Law 100 firm. While the first is beyond change and the second doesn’t need to change, law firms have reached a critical juncture. External market pressures on fees have triggered internal pressures on margins. Status quo solutions are no longer enough to allow firms to compete effectively.

Although there are several steps that firms can and should take to address challenges to their competitiveness such as recruitment, debt management, consensus building and expansion plans, the most effective may be tied to one of the top expenses for attorneys – real estate.

Decreasing overhead, reducing operational costs and finding efficiencies in legal service delivery all are factors that can be positively influenced through changes in how much real estate a firm has and how it is used.

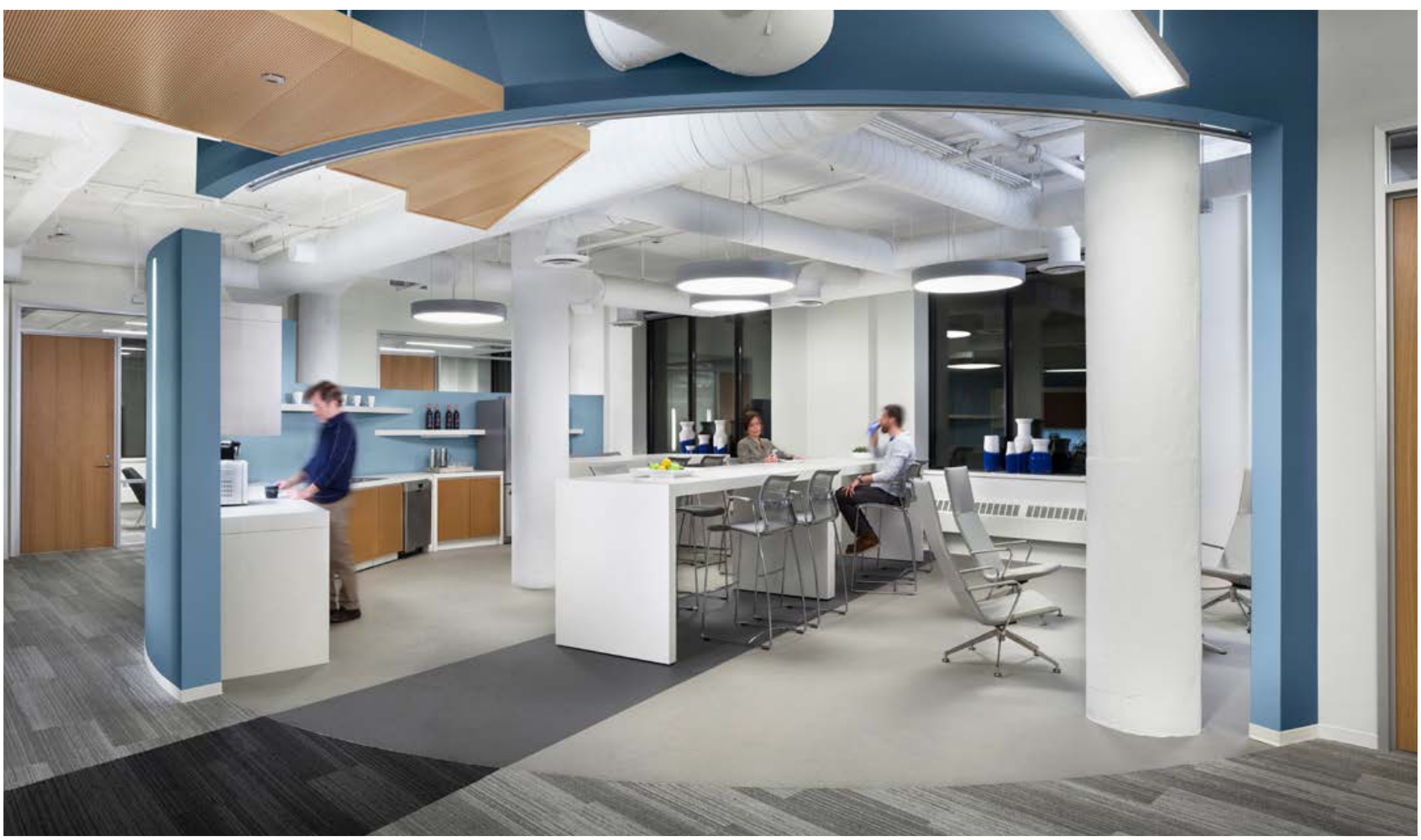
The key to making a “less is more” real estate solution work is to openly and honestly rethink business processes that worked in the past but no longer have a place – or at least not a place among firms that want to become or remain highly successful – in today’s new business reality. Leaders must be willing to tear down whatever silos have been built, whether intentionally or unintentionally, and erase the boundaries that they have placed in their own paths. The ultimate goal is to reduce occupancy to increase competitiveness.

With this goal in mind and an understanding that after decades of success and respect for the nation’s top law firms the choice to reduce occupancy and some of the traditional perks that go along with it will be a daunting challenge for many in the legal profession, there are three clear directions to look that provide clues for how to move forward:

Look outside the firm

Look inside the firm

Look at what’s coming next



Looking Outside

Often when it is suggested that law firms look to other industries and professions as the source for applicable workplace trends and management strategies, the argument is that "law firms are different" and most solutions simply do not or will not translate. To a certain extent, this is true. However, it also is true for almost every industry. Each is unique or different in some context. One theme that is consistent for all when reducing occupancy to increase competitiveness is changing the size and ratio of individual space to collaborative, shared and multipurpose space. While it cannot be generalized that other industries have consistent, collective interpretations of "collaborative space" and methods to successfully utilize it, the fact is that law firm occupancy metrics are two to three times the square footage per employee when compared to other industries including technology, finance, insurance and creative/media.

What are these industries doing differently? Studies show that assigned space is highly under-utilized at least half the time. Regardless of what tradition or existing cultures dictate, companies have determined that this is an unacceptable waste stream that has to be eliminated. When combined with the workplace trend for increased collaboration, it creates a very interesting and attractive opportunity to reconsider the space devoted to "concentration" for individual work in private offices and open plan work stations.

In a traditional office build-out, as much as two-thirds, or approximately 70 percent, of the space is allocated to individuals. That leaves one-third, or approximately 30 percent, for shared support space including collaboration and community settings. This 70/30 ratio is becoming obsolete as it cannot support new ways of working among a highly mobile workforce whose internal mobility within buildings, floors or even offices is having a greater impact than external mobility beyond company premises. The new ratio that is emerging is approaching 50/50.

Collaborative environments in the legal workplace must be achieved in the context of supporting and servicing clients. Options that should be considered for additional multi-use space include project or practice group specific use, continuing education and other training activities, client seminars, events or even donated and rented use by the local community. Ideally these spaces will remain flexible to support multiple requirements and easily reconfigure with little capital investment to respond to growth, unforeseen needs and the changing demand for legal services.

As companies in "client" industries continue to evolve, it is reasonable to expect that many will want to see their own workplace values and culture reflected in the firms with whom they choose to partner. For law firms, a reduction to between 550 to 600 square feet for attorney or lower would be considered a successful and reasonable comparison, and by all current indications, one that either will be or already has been achieved by innovative firms.

As we continue to look to other companies outside the legal industry, another commonality at the most innovative is that it is often difficult to tell who is who due to the fact that any ranking of staff is downplayed. If law firms can adopt and adapt this trend, it will actually provide another benefit in addition to contributing to the goal of reducing occupancy – it will help with recruitment and retention efforts for the younger generation of attorneys and paraprofessionals.

Looking Inside

To be fair, the blurring of the lines of space hierarchy is not a new concept for law firms although implementation has been slow and the jury has yet to reach a verdict on whether their function will allow the benefits of occupancy reduction to be fully realized. One highly provocative space for an Am Law 100 firm that will be completed in the second quarter of 2014 and includes universal interior offices/workstations and no specific spaces for secretaries, paralegals and managers will offer valuable benchmarking data. This implementation was driven by a changing business model with substantial adjustments to the secretary to attorney ratio, the utilization of more paraprofessionals, the evolution of the secretary position to a more utilized firm resource and the need to change legal team locations easily within the standardized internal floor plate.

Regardless of the outcome of this specific, groundbreaking planning approach driven by service delivery, the legal community is clearly moving toward a more open-plan workstation environment that, if utilized correctly, will ultimately benefit competitiveness. It is reasonable to expect that equity partners at most Am Law 100 firms will still be in a physical office, although the size and location will be a cultural issue determined by each firm. This also may apply to income partners, although not at the more progressive firms. Beyond these two positions we soon will begin seeing more attorneys in an open plan environment. Younger generation attorneys will find this to be a fairly acceptable solution since they will know that it is a more typical scenario for their peers in other industries. They also may be the first to correlate this "flattening" or leveling of space allocation policies with clients' demands for more flat rate billing structures or service delivery options. Regardless, equity partners will begin to embrace this option as a key solution to dramatically reduce square footage, keeping the bottom line low and profits high.

Another expectation among the younger generation of attorneys that will benefit from the open plan and also contribute to competitiveness through improved retention is mentoring. These future partners feel that heavily demised, isolating environments limit their access and exposure while open, flexible spaces allow for associates to be clustered together to gain from case-by-case mentoring with partners as well as more direct, better peer-to-peer mentoring.

The open plan also allows for the intermingling of practice groups in order to grow market share.

This practice floor for an Am Law 100 firm is built around a flexible planning solution. Key components of the interior zone are interchangeable and reconfigurable due to minimizing the number of office and workstation standards typical of a law firm workplace.

While this has historically been taboo at most firms, trends show that the increased drive for competitiveness and flexible space options may influence opinions at the leadership level. The most successful implementations will keep case rooms, work rooms and paralegals for each area of practice centralized as a "home base."

Looking Ahead

An economic sea change over the last four years has highlighted a need for flexibility within the legal workplace, yet many firms have not made the connection between reducing occupancy and increasing competitiveness. Operational efficiency and productivity are going to be more aggressively assessed and reduced in order to control expenses and maintain profits. New standards will be set and a "new normal" will continue to be defined.

A recent Legal Benchmark Survey completed by a large real estate advisory firm examined current business, financial and operational drivers that are influencing real estate decision making and may become the norm in the next 10 years. Many of the issues discussed in this paper were covered and reinforced in the results of this survey but are reiterated in the list below to emphasize their inevitability.

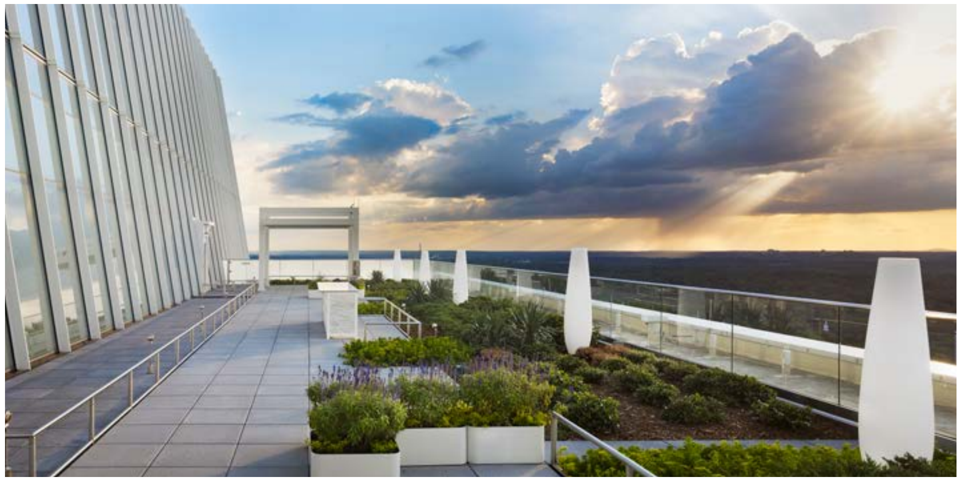
The number of standards per attorney will reduce

Universal offices for every attorney will be more prevalent

Interior offices for attorneys will exist (only 12 percent of the survey community are doing it now)

Shared offices for associates at the window wall will exist (only 2 percent of the survey community are doing it now)

Timekeeper to Support ratios currently averaging 3.5:1 will continue to rise to 4-4.5:1 and within the next 10 years will reach 6-7:1.



More than one-third of respondents expect to implement a hoteling/share office approach within the next 10 years

More than two-thirds of respondents expect to achieve a paperless work environment in the next 10 years (partners in litigation firms will be slowest to react)

More utilization of contract lawyers and outsourcing requires less square footage

Multi-purpose rooms, conference centers and training rooms will be used to support business synergies both within and outside the firm

Occupancy as a percentage of a firms' overall revenue will reduce from the current 9-10 percent to 5-6 percent

Some of the points outlined above may cause legal traditionalists' heads to spin. However, those that are truly interested in increasing competitiveness will recognize that reducing occupancy is one of the clearest and most direct paths to getting there. With their highest paying clients among the corporate giants who have already embraced the ideals of real estate reduction, portfolio optimization and flexible work environments to create efficiencies, increase performance and contribute to employee heath, wellbeing and satisfaction, the days of being able to claim "not at our firm" have clearly passed.

The next few years will continue to be game changing times in the legal industry with reinvention, reinvigoration and renewal. Like many movements of change, it has started with smaller revolutionaries, including daring, progressive firms at the Am Law 200 level, and is working its way up. While it is still difficult to say with any certainty how far reaching the change will be, the movement is undeniable. The only difference between the leaders and the laggards is an ability and willingness to embrace it. We even may see a new crop of "leading firms" no longer ranked by size but rather by a more meaningful metric of profit per attorney measured against occupancy cost as a percentage of a firm's total operating expenses.

Move over, Am Law 100...

Marty Festenstein and Lynn Osborne serve as the co-leaders of NELSON's Legal Workplace practice area. Together they lead a national team of experts who have strategically planned and designed more than 12 million SF of law firm space. Lynn and Marty lecture regularly across the country on the trends that are shaping "the law firm of the future." For additional information, contact them at mfestenstein@nelsononline.com and losborne@nelsononline.com.