

Best Practices

## How to Build the Law Firm of the Future

The onus is on law firm leaders to balance risk and opportunity. How can firms guide through an increasingly perilous landscape rife with opposing hazards to start building the law firm of the future today?

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## What You Need to Know:

- It is more expensive to operate a law firm than ever before, but demand and productivity are declining.
- To compensate and maintain profitability, rates are increasing, but CLOs — under tremendous budgetary pressure — have set reducing outside counsel spend.
- As organizations strive for growth into the future, outsourcing helps to find the balance between risk and opportunity.

In the Greek myth, Scylla and Charybdis were maritime hazards located close enough to each other that avoiding one meant passing too close to the other and falling victim to its dangers. This is not so unlike the increasing number of challenges set before law firm leaders as they try to navigate through what seems to be an increasingly perilous landscape rife with opposing hazards.

It is more expensive to operate a law firm than ever before, but demand and productivity are declining. To compensate and maintain profitability, rates are increasing, but Chief Legal Officers (CLOs) — under tremendous budgetary pressure — have set reducing outside counsel spend, right sizing legal services and cost minimization as top strategic objectives in 2023. See, [2023 ACC CLO Survey](#).

The vast majority (86%) of lawyers prefer working from home (see, [2023 Thomson Reuters State of the Legal Industry Report](#)); almost half of all junior lawyers may leave a firm for a better WFH policy (see, [“Where Does the Legal Profession Go From Here,”](#) ABA (Sept. 2022), but leadership fears of loss of firm culture and disengagement are driving an increase in RTO mandates (see, [“A Huge Concern: Big Law Leaders Grappling with Attorney Disengagement,”](#) The American Lawyer (June 22, 2023). To compensate, firms are now placing an ever-increasing focus on how, where and what their real estate looks like, transforming their office spaces, increasing amenities and luring professionals back in a “flight to quality,” but space utilization still hovers around 50%. See, [Cushman & Wakefield 2023 Bright Insights](#).

And of course, the introduction of generative AI has caused most to wonder if it is the beginning of the end or a new competitive-advantage gold rush — but early mistakes that have resulted in headline-worthy embarrassment and potential sanctions have acted almost as confirmation bias for an industry that is historically resistant to change. Generative AI FOMO (fear of missing out) is almost as pervasive as generative AI FUD (fear uncertainty and doubt).

And while law firms will decide how much risk to take in each given situation, it must also be kept in mind that risk is just opportunity by another name.

This is precisely the onus on leaders: balancing risk and opportunity, how can firms guide through Scylla and Charybdis to start building the law firm of the future today?

## Innovating Operations: People, Place + Technology

Efficient, productive operations are the lifeblood of law firms and the delivery of world class legal services. As we prepare to meet a future that transforms the delivery of legal services, we must begin to reduce the risk of inefficient, inflexible, low skill and high-cost operations that fix firms into a traditional model that is quickly eroding beneath our feet. Flexible, efficient, low cost and high value operations will be the hallmarks required of the law firm of the future to bear the volatility of uncertain, global markets and unprecedented, accelerating change driven by technology.

To put it simply, we must create flexible operations that empowers firms to deliver the right task to the right expertise and resource for the right cost with laser efficiency, and that’s going to require innovating our current equation of people + place + technology.

### People

The current “people” part of the law firm operation abounds with inefficiencies and inflated costs. Salary increases, alongside the impact of wider inflationary pressures, have led to a rapid increase in the cost of support services, squeezing profitability.

But the current structure is not even tenable, and firms are playing a game of ‘beat the clock’ as firms are expecting to lose 58% of their “traditional” legal secretaries in the next five years due to retirement and attrition, and hiring cannot keep up. With insufficient talent in the pipeline, the majority (74%) rate the difficulty of hiring like-for-like replacements at a 7 out of 10 with diminishing possibilities in the future. See, [“Future Proofing Legal Services Delivery with an Efficient Hybrid Support,”](#) BigHand.

In fact, 62% of executives say they are ill-prepared to address the causes and impacts of poor employee retention. This revolving door effect, coupled with new remote working options add new skillset requirements causes organizations to seek and fight for talent in a global market. See, [Deloitte Global Outsourcing Survey 2022](#).

On top of this, the legal support role has simply changed; as ‘tech-savvy’ lawyers plus hybrid operations change the way law firms operate, the skillsets required of support services have also changed radically.

If support services are not improved, firms will continue to waste time and expensive resources, affecting profitability, efficiency, staff morale and ultimately client satisfaction. See, [“Future Proofing Legal Services Delivery,”](#) supra.

## Place

Never before was the idea of “place” in question for law firms. Work happened in the office, period.

Today, as earlier noted, most attorneys (86%) prefer WFH, but the hybrid model has revealed inequities where support staff is more likely to be required to be onsite in the office. See, 2023 Thomson Reuters report, *supra*. It’s not surprising that administrative staff are now more likely to say they are stressed by team or firm culture issues (42% vs. 27%), not having clear processes in place to follow (34% vs. 26%), and a lack of support from leadership (29% vs. 21%). See, “[2023 Midsize Law Firm Priorities Report](#),” Actionstep.

Firms cannot continue on this trajectory of requiring only support staff in the office, but most managers report not having the tools to track utilization and bandwidth, leaving managers unable to know how to manage further complicates matters.

65% of law firms are now expected to reduce their space needs which comes as no surprise when most firms hover around 50% occupancy on their busiest days – Tuesdays, Wednesdays and Thursdays – and significantly lower to non-existent on Mondays and Fridays. With the average law firm spending 10.5% of 2022 gross annual revenue on real estate, reducing this overhead expense is of significant concern and opportunity to most law firm leaders. See, Cushman & Wakefield, *supra*.

Could changes to real estate help support changes to attorney and support staff strategies?

## Technology

Firms know they are in a time of unprecedented innovation with the introduction of generative AI.

McKinsey reports that 60% of all occupations have at least 30% technically automatable activities within the role to strengthen it, and that these organizations will be 23 times more likely to acquire customers, 6% more likely to retain customers, and 19-times more likely to be profitable. See, “[A Future that Works](#),” McKinsey & Company.

This is a value proposition that is exceedingly difficult to ignore – especially when combined with the expensive and at times painful war for talent. But who is the right expert to guide firms through this technological landscape?

It’s no surprise that next-generation technology skill shortages like AI were cited by executives as a top external challenge. The competition in the talent market is a critical roadblock for organizations attempting to acquire skills to support new and critical capabilities organically.

Consequently, organizations are turning to service providers to overcome existing challenges related to skills and services. See, Deloitte Global Outsourcing Survey 2022, *supra*.

## Reducing Risk and Maximizing Opportunities with Outsourcing

Rate increases are not a long-term strategy nor a path to building the law firm of the future. Law firms need a strategy that helps to reduce risk while maximizing opportunities on the horizon.

As organizations strive for growth into the future, outsourcing helps to find that balance between risk and opportunity, between cost and access to new skills and capabilities, curating innovation, and incorporating new remote working norms that work for all of the firm’s professionals.

With outsourcing, organizations can leverage an entire service provider ecosystem to provide critical solutions that are agile and integrated.

On a basic level, outsourcing helps firms reduce risk by shifting it from the firm to a third-party provider across vital operational aspects: financial risk as law firms typically can significantly reduce costs, permanent headcount risk as markets go up or down, recruiting risk as talent shortages are forecast to continue are just some of the primary risk reductions, while increasing the opportunity presented by expertise.

Consider as an example administrative support. As described, this service area is plagued by increasing costs, recruitment issues, turnover and changing skillsets. Here, a risk reduction strategy is for firms to quickly augment internal teams with targeted, elevated skillsets at a lower cost. Outsourcing offers the benefit of enabling this headcount flexibility to scale up and down without risk of layoffs and the incumbent burden this places on human resources professionals. Recruiting, training and retention risks are shifted to the outsourcing provider; for the firm, institutional knowledge is preserved and operations can experiment with outsourcing in strategic areas without buying the whole ranch.

In some cases, outsourcing can take this a step further and help firms reduce real estate risk by providing offsite or offshore support centers. It may be counterintuitive to think that attorney support could be improved by moving support centers offsite or offshore or that the stress of administrative professionals may be alleviated, but a global approach to outsourcing can ensure a “follow the sun model of service delivery” that onsite services simply cannot match – and at a lower cost – all while providing improved career trajectory for admin professionals.

This strategy highlights an overall shift in attitudes toward outsourcing, where the business driver for outsourcing is no longer primarily about cost.

Today, while cutting costs ranks within the top four primary drivers for engaging outsourcing providers, it is overshadowed by access to new capabilities, business and operating model shifts, and keeping up with technology. See, Deloitte Global Outsourcing Survey 2022, supra.

Which brings us to AI. According to recent PwC analysis, global GDP will be up to 14% higher in 2030 as a result of the accelerating developments in AI – the equivalent of an additional \$15.7 trillion. See, [“Sizing the prize: What’s the real value of AI for your business and how can you capitalise?”](#) PwC.

The economic impact of AI will be driven by:

1. Productivity gains from businesses automating processes (including use of robots and autonomous vehicles).
2. Productivity gains from businesses augmenting their existing labor force with AI technologies (assisted and augmented intelligence).
3. Increased consumer demand resulting from the availability of personalized and/or higher-quality AI-enhanced products and services.

AI is a game changer with unprecedented value potential up for grabs. Where technology is not the expertise of a law firm, augmenting the firm’s internal expertise with AI leadership or an outsourcing partner with a dedicated innovation and technology group can help the firm navigate the risks and opportunities AI brings.

## Conclusion

As organizations strive for growth into the future, outsourcing helps to find the balance between risk and opportunity, between cost and access to new skills and capabilities, curating innovation, and incorporating new remote working norms. While outsourcing itself may feel to some firms like its own “Scylla and Charybdis,” taking an augmentation approach today to help inject expertise, talent and technology strategically into operations can be the right building block to build the law firm of the future that is more flexible, more adaptable and cost-efficient.

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