



The New Law Firm Model

By Tony Williams, Principal, Jomati Consultants LLP

In the last nine months law firms have grappled with the consequences of the COVID-19 pandemic. Offices were closed, transport was disrupted and most economies experienced unprecedented falls in GDP. On the basis of the old adage that necessity is the mother of invention, law firms have embraced home working and found the results surprisingly effective. Instead of in person meetings, firms have used Zoom or Microsoft Teams or similar services not just for internal meetings, but also for client meetings, seminars, mediations and some court hearings.

Until an effective vaccine or treatment is universally available it is difficult to be sure as to the long-term implications of our recent experience on the way in which law firms operate. However, it does appear that our experience in 2020 has accelerated a range of trends that were previously emerging, albeit slowly, in the legal sector and induced a level of innovation and experimentation far higher than we have seen before.

We are likely to see changes in the following areas:

Working Practices

Many lawyers have been able to work very effectively at home although in the compact living conditions of Hong Kong it has not been without challenges. This will cause lawyers and their firms to reconsider whether it is necessary or desirable for lawyers and other staff to be in the office for the entire working week. Employers may feel compelled to offer flexible working arrangements in order to attract and motivate their staff. However, law is a service-based profession. We, within reason,

have to deliver our services where and when the clients want them delivered. Although clients may not care whether their work is done in the firm's office or at the lawyer's home, they do care whether their lawyer is contactable and that they can meet with them (virtually or in person) when necessary. Lawyers are now used to clients calling them at any time of the day and social messaging them at any time. If the client relationship is to be maintained, contacting the lawyer must be easy and seamless.

Additionally, clients will expect the range of experience within a firm to be available to them when appropriate. As a result, flexible working must not result in lawyers working in silos. They will need to interact with their colleagues to ensure that the client gets the best advice.

The need to interact with colleagues to work as teams on client matters, develop and mentor younger lawyers and to maintain the culture and camaraderie in a firm is likely to necessitate a reasonable level of regular attendance in the office. In this regard it is interesting that both Linklaters and Herbert Smith Freehills are developing longer term flexible working arrangements which would potentially permit their lawyers to work up to two days a week from home.

So flexible working will probably become the norm in many firms but is likely, for most firms, to be an evolutionary rather than revolutionary change.

Premises

Office costs for law firms are usually the second highest cost

after salaries. Prior to the pandemic some firms had adopted team space rather than cellular offices and were looking at the more flexible use of their office space. Recent experience should enable firms to move further and faster in re-examining and re-configuring their office space. Many organisations use flexible workspace providers such as WeWork where they pay for their office space on a fee per desk basis as and when the space is used. Many lawyers perceive their own office, surrounded by their physical files and papers, as a security blanket and indication of their standing. But during the pandemic incoming paperwork was scanned and efiles became the norm (and was already the case in many firms). Given that occupying audits often show that a lawyer is only in his or her office for about 50 to 60% of their time (the rest being with clients, in meetings, on business trips or on vacation), a level of change was emerging but will now accelerate.

Firms may find their landlords increasingly more flexible as to the lease terms that they are prepared to negotiate. Flexible space providers may be worth considering for some firms as a way of transforming a significant fixed cost into a variable cost which reflects new work patterns. Firms will need to re-examine the premises that they currently have, the true cost of such premises (rental, fit out, maintenance, taxes, cleaning etc), their own working patterns (for both lawyers and other staff), the behaviours that they wish to encourage (team working collegiality, training and mentoring etc) and the expectations of their lawyers and other staff. It will be necessary to experiment with new office layouts, but there are now ample examples of new layouts in law firms and other professional service firms.

The COVID-19 pandemic gives a real opportunity and necessity to conduct such a review and to implement change before we revert to the pre COVID-19 normal. For some firms, they may have longer term lease arrangements which may limit the short-term savings, but given that Hong Kong office leases tend to be relatively short, planning and experimentation should begin now.

Support Roles

The COVID-19 pandemic has also required firms to consider the support roles that they need and how they are resourced. Secretaries and secretarial ratios to lawyers are an immediate matter for review. Lawyers working remotely have learnt to undertake many roles previously undertaken by their secretaries. It needs to be considered whether this is a cost-effective use of a lawyer's time, but clearly the secretarial role will change. Some firms will reduce the number of secretaries they use but increase the skills and roles of those retained to be much more in the nature of team co-ordinators, billing co-ordinators or other roles. Firms are also re-examining the IT support that they need given the wider adoption of cloud technology, increased working from home and the continued risks to client confidentiality and arising from cyber security issues.

Again, the support roles required in the firm may require a root and branch review. So too may how these roles are performed. For example, smaller firms rather than employing a human

resources manager may decide to retain a freelance human resources consultant on a part time or as needed basis. There is now a larger pool of competent professionals prepared to work on a consultancy or part time basis and these may give smaller and medium sized firms an opportunity to access high quality professionals at a manageable cost.

Virtual Firms

Although most law firms will re-examine their business model and, as mentioned above, many aspects of the law from operating model will change, most firms will still be recognisable compared to their pre COVID-19 state. However, a range of lawyers who have spent most of 2020 working from home will reconsider if they wish to continue working in a law firm. This may spur a significant increase in individual lawyers deciding to establish themselves as sole practitioners or to join umbrella type virtual law firms which manage a range of back office functions (such as compliance, professional indemnity insurance, billing, accounting etc). In the UK a range of virtual law firm models have developed including Keystone Law which is listed on the AIM part of the Stock Exchange (although in a Hong Kong context such firms would need to be owned and controlled by lawyers). These virtual firms are regulated by the SRA (Solicitors Regulation Authority) and have similarities with barristers chambers in that, in return for a percentage of the lawyers fee income, they manage a range of regulatory, financial and administrative issues leaving the lawyer free to focus on getting and serving his or her clients. They often contain a range of lawyers from different practice areas and at different levels of experience so, if appropriate, the lawyers can work together to provide wider services than those available from a sole practitioner. The advantage of this structure for the individual lawyer is that they get to keep typically between 70 and 80% of their fee income whereas in a traditional law firm the profit margin is typically in the 25 to 35% range. As a result, the lawyer can charge lower fees to the client and yet still achieve a higher level of income. While some clients will want the comfort of using an established law firm with a significant reputation and physical presence, other clients may be attracted by lower legal fees, enhanced personal attention from their lawyer and a "modern" approach to legal practice.

It remains to be seen how significant virtual law firms will become and the level of competition they will produce but, if successful, they may provide law firms an additional incentive to re-examine their structure.

The COVID-19 pandemic has had a major impact on the global economy. Generally, law as a sector appears to have weathered the storm reasonably well. Working from home has generally been successful and while firms may have experienced a loss of income they have also rigorously reigned in their costs. However, firms need to embrace the adage "never waste a crisis". There are real opportunities to revise the law firm business model to provide more acceptable working arrangements for staff, enhanced service delivery to clients and credible levels of profitability for the partners. ■