Midsize Firms Report: Six Months into COVID-19

By Eric A. Seeger

During late July and August, Altman Weil spoke with the managing partners and COOs of 30 US law firms of 30 to 350 lawyers regarding financial performance and outlook, office closings and re-openings, compensation and staffing adjustments, practice area trends, summer programs, pandemic-related opportunities and major concerns going forward. While much has been written about the pandemic's effect on the "Big Law" segment of the market, we wanted to check in with mid-sized firms around the country.

Here's what we learned:

Financial Performance

Nearly every firm we spoke with enjoyed a solid financial performance in 2019 and began this year with a strong pipeline of work. Firms raised their rates fairly aggressively and have successfully realized the rate increases. Although clients have not generally been pushing back on rates or slow-paying the bills, firms are worried that collections may lag now that the wave of PPP money has flowed through the client organizations. Managing partners expressed a great deal of uncertainty about how quickly they can expect to collect accounts receivable during the final months of the year. They worry that the traditional year-end collections push may not generate the usual haul.

Not surprisingly, most firms reported a slowdown in total billable hours worked during the April to July period. However, almost every firm was doing better through July than they had projected back in March and April. Even the six firms whose hours or revenue were down 10% to 20% compared to 2019 said they expected to be okay this year because expenses are so low and because of the influx of federal PPP money. Some were planning to prepay expenses and carry cash into next year to reduce the risk of a down year in 2021. Five firms were on pace to outperform last year, unaffected by the pandemic.

Expenses

Every firm focused on expense reduction in March/April in all the ways we would expect to see during an economic downturn: pay cuts, staffing cuts, reduced draws, deferred distributions and bonuses, deferred hiring, suspended 401(k) contributions and the like. The Paycheck Protection Program worked as planned by saving jobs at the time, although firms are looking at staffing adjustments now. Not all firms in this sample implemented pay cuts and furloughs, but most did. Most of those firms have since restored pay in full or in part. Equity partners have been asked to defer compensation to make others whole while the year plays out. Four firms reported that partner compensation had been reduced temporarily by as much as 20% to 35%.

Expenses are way down in every firm, with spending sharply reduced on travel and entertainment, CLE and conferences, sponsorships, business development and other categories. One managing partner spoke for the rest: “We froze everything we could—no travel, no conferences, no client visits.” Another said, “We are being very cautious with cash and projecting very conservatively. We’re concerned we’re not through this yet.”

PPP Loans

Every firm we spoke with had applied for and received a PPP loan. A few of those firms will have to pay back some or most of their loan because, as it turns out, they didn’t really need the money, but everybody took the money for the liquidity. Law firms had advantages over other types of businesses during the application period because lawyers were more comfortable navigating the ambiguities of the process and had capable staff on hand to dedicate to it. Moreover, law firms’ expenses are clearly dominated by payroll and rent, which the PPP funds were intended to cover.

One managing partner was concerned about the optics of accepting federal money. Most took a more pragmatic view: “We were advising all of our clients to apply for the PPP and they naturally expected that we would do the same.”

“The PPP was instrumental in getting us through this psychologically,” said one managing partner. He continued, “But for the PPP loan, we would have had layoffs out of the gate.” Another agreed, “If not for the PPP, we would have made adjustments to staffing and pay.” A third said, “We got a PPP loan and made people whole.”

One large firm leader said, “We may end up with more cash at year end than we know what to do with,” due to a huge infusion of federal money. Three firms said in hindsight, they didn’t need the money.

Staffing

Some firms took advantage of the difficult economic climate to get rid of chronically underperforming attorneys, underutilized staff and problem individuals, while being careful not to jeopardize their PPP standing. Some jobs could not be handled remotely or became unnecessary as the offices emptied. Presently firms of all sizes are looking at further staffing cuts and restructuring. The work-from-home scenario made many firms aware that they were overstaffed, but that they lacked sufficient transparency into what their staff were doing to assess exactly how overstaffed. Special projects to answer that question are underway in some firms.

The traditional model of situating a partner's secretary right outside their door is dead or dying in many firms, a casualty of the pandemic. Firms are looking to reconfigure their office space to create service pods—if on-site administrative support is even needed at all.

Office Closings and Reopenings

One firm took advantage of the unusual commercial real estate market to extend its lease at highly favorable terms. Most firms are rethinking and recalculating their space needs going forward. In a June survey conducted for a large, multi-office law firm, Altman Weil found that most everybody was enjoying working at home and preferred to continue working remotely at least part time when their firm fully reopened, with two exceptions: business generators who need to delegate, train, communicate and collaborate with others throughout the day, and new hires who need to figure out where they work and learn how to do the job. Those themes were repeated during these interviews with mid-sized firms.

In late July, we observed a rapid shift away from reopening plans, as firms suddenly realized that COVID anxieties and shutdowns would persist into next calendar year. Several firms said they didn't expect work life to be "back to normal" until mid-2021.

For the most part, firms are choosing to accommodate employees who strongly prefer to remain at home. A few firms have encouraged all employees to return to the office because working collaboratively is core to their culture and values and a benefit to clients. One managing partner bluntly stated, "There is a stay-at-home option for our staff, but not one that includes compensation."

Several law firm leaders said it has been harder to reopen than it was to close. The shift to working from home went well everywhere in terms of getting people productive in their home workspaces. One firm ordered new laptops for their legal assistants that took three months to arrive, but most firms were able to fix or work around their technological glitches fairly quickly. The IT department rose to the occasion in firm after firm, earning high praise from firm leadership.

Firms said they are working on remote work policies, new HR policies and standardizing hardware and software for easier IT support.

The Boomer generation has had an awakening of sorts, now realizing that one does not have to be in the office to be productive. We heard story after story of senior partners who railed against telecommuting for years, only to find that they like it themselves, the work gets done, and they intend to continue working at home as much as possible. Three managing partners said they were highly skeptical that hoteling arrangements will be a feasible alternative for attorneys.

Other Observations

A few law firm leaders noted that they were managing their partners' expectations about year-end profitability and compensation due to continued uncertainties. One mentioned that he was surprised to see partners taking their regular August vacations.

Some practice areas have been quite busy across most or all firms, including trusts and estates, tax, employment and healthcare. Business counseling related to government stimulus was highly active in the spring. School law practices have been busy advising on ever-changing CDC, state and local guidance.

Commercial real estate work dried up in most firms. Transactional work was generally down, with some exceptions. Litigation was mixed, depending on jurisdiction and the functionality of the court systems. Some firms are setting up media centers in their conference rooms for depositions and the like. A number of firms said they had geared up for an onslaught of bankruptcy work that so far has failed to materialize—except in Texas, where all firms are busy with new bankruptcies. Many businesses are simply closing their doors, rather than going through the bankruptcy process. Intellectual property work was up in some firms, down in others as some large, innovative companies put all patent applications on hold for months.

Most firms went forward with their summer programs but many of them reduced the length of the program by two weeks or more. With summer clerks working remotely, it was harder than normal to evaluate the law students and some firms admitted it wasn't a great experience for the students. One managing partner said, "It was a disaster. Our summer associate was invisible—I saw her once."

Business development has been tough due to travel restrictions and the lack of face-to-face meetings. However, clients do not seem to be inclined to switch firms at this time. Considering the general stability of client relationships and work flow, one has to wonder whether the ROI on all that travel time and entertainment expense has been worth it.

Opportunities and Concerns

By far, cultural issues were the biggest concern expressed by law firm leaders. Recruiting, onboarding, training and professional development are unsettled questions at this time. Firms are wondering what will serve as organizational glue if people are not seeing each other and cultivating personal relationships that bind them to the firm.

Combine the lack of social connectedness with the irritation of paying for office space that is not being used, and some managing partners are worried about losing lawyers to lower overhead firms or to virtual firms that promise 70% of revenue or more to the originator. One firm had already lost partners to such a firm.

COVID-19 has presented opportunities as well as threats. Several law firm leaders said they have been able to make faster decisions and implement changes that would have encountered resistance and delays under normal circumstances. Several firms reported that they have improved core functions like time entry and billing, with one firm improving its monthly billing cycle by five days.

Most firms relaxed or shut down their lateral hiring efforts in the spring, except to pursue specific hiring needs that had been defined prior to the pandemic. A few of the financially prospering firms were aggressively recruiting laterals and groups. At least three were pursuing a major merger and others were open to the possibility.

What's Next

It's time to start looking forward and outward again. Six months into the COVID economy, most firms remain inwardly focused on processes, technology, cash flow and compensation—and that should not stop. Firms should make use of the current window to improve systems, policies and workflows wherever possible. While that work continues, it's also time to get strategic, planning for profitable growth (higher returns on the owners' investments) and improved competitiveness.

Our experience coming out of the last recession is that firms that got back into the market for talent earlier than other firms, that grew while other firms were hunkered down, found that their efforts paid off handsomely.

We are encouraging firms to get very serious about profitability analysis so they can make wise business investment decisions and dump or retool unproductive assets.

As for answers to the cultural questions, we encourage firms to find solutions in the context of the new normal, not to try to make the questions go away by reverting to the old.

Overall, the law firm leaders in our survey were upbeat and optimistic about the future, despite obvious concerns about the pace of economic recovery. Although we began with the premise that mid-sized firms might be having a significantly different experience in the pandemic economy, we learned that for the most part they are closely tracking their larger counterparts.

Firms have demonstrated high levels of resilience, vitality, determination and cohesiveness despite being physically distanced. Law firm leaders deserve a lot of credit for stewarding their firms through a truly difficult time.

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