

It's Three Weeks into Decade Two. Do You Know Where Your Firm Is?

By [Joseph B. Altonji](#) on October 4, 2018

We're just three weeks into the second decade since the crash of Lehman and the end of life as we once knew it in the legal industry.... Oh, wait. Was that too dramatic? Maybe so, at least in retrospect, but there is no question that much has changed since then. Though, probably not enough and not nearly as much as everyone once thought would happen.

A little over a decade ago, Lehman Brothers collapsed, the final straw that broke the economy's back and sent the world – and the legal industry – into the greatest downturn since the great depression of the 30's. For the first few months of that period, we all focused on survival. How could we possibly cut costs enough to offset the instantaneous and across-the-board drop in demand that had occurred? Cancelled retreats and scaled back holiday parties were just the beginning. A few months later, thousands of associate positions were terminated in one day.

Some things have clearly changed since then. We've now reached the point where today's young partners have *no* personal recollection of "the good old days" of the legal profession, (and the youngest lawyers who have any *partner level* recollection of how things worked prior to the recession are now almost twenty years out of school, in their mid-40's, and starting to move into leadership positions.) Today's newest partners do remember the angst that accompanied their post-law school job search. Some of them were among those whose start dates were pushed back, or their offers rescinded. Or they still had a year or two of school left and worried whether they would ever have an opportunity to work as a lawyer and retire those law school debts. Some of their cohort didn't. Some of today's senior associates went to law school primarily because their job prospects in other industries were, at the time, bleak. Hopefully they would become good lawyers despite their indifferent starts, but do these lawyers, deep down, look at their current roles more as a job than a calling, or a lifetime commitment? Clearly many do.

Short-term survival efforts were just the beginning of much needed change in the industry, and the years since 2008 have seen a fundamental, and permanent, shift in the *economic and structural backdrop* to the industry, if not to the business models themselves. What has changed? Well, we could obviously cite a wide range of small and large changes to the business *operations*, ranging from technological advances to increasing use of AFA's, or moderation in billing rates or growth in LPM efforts, but these changes are more refinements to what the industry previously looked like than fundamental changes. Much of today's typical law firm still looks a lot like its counterpart of a decade ago.

If you boil it all down, what has *fundamentally* changed? On the one hand, we would answer "not enough." But on the other hand, the basic *orientation* of firms has undergone some real and positive change which may lay the groundwork for even more significant change over the coming years. Perhaps the most significant change has been the emergence of an awareness that the client's voice is, or at least should be, paramount in any determination of "value." Although the economic balance of power currently seems to be shifting back to the middle, between suppliers (firms) and buyers (clients) after a sudden dramatic shift from the sellers to the buyers, we are unlikely ever to go back to a place where the clients' voice is secondary, much less non-existent. And that fundamental shift will continue to put steady pressure on the industry.

Another fundamental shift has been the universal recognition that costs matter. As obvious as this seems, it wasn't

always the case in this industry. Most law firms and their leaders were solely focused on revenue, leaving the cost side to the “non-lawyers” to manage with modest oversight. Yes, they were charged with keeping costs under control as best as possible – within the constraint of making sure the lawyers, or at least the partners, essentially had everything they thought they wanted. No more. Every cost is carefully scrutinized for its contribution to value, and firms clearly recognize that cost is a primary component of their value equation for the clients. Related to this is that the cost of critical technology, at least basis an absolute, if not marginal, is increasing rapidly. Contrary to what most law firm leaders (and consultants) believed a couple of decades ago, there are (today) economies of scale in the legal industry.

A final fundamental shift can be viewed as generational – or as simply the passing of time. As noted earlier, we are approaching the point where the baby-boomer generation (and even some Gen-Y’s) will step out of leadership and out of their firms, passing the baton to younger lawyers. Much has been said about the “Millennials”, and we won’t rehash that here, but there is a difference in approach to career and work amongst that generation. And, as noted earlier, that generation had no experience with the “good old days” of the legal world but rather grew up in a time where clients exercised tremendous control on value discussions and expected to be partners with their law firms. How will this play out over the *next* two decades? Hard to say but it is likely that there will be far more movement between clients and firms, and far more collaborative approaches to the real challenge for the profession: continuously driving value.

We’re a decade in to the “new world.” Do you know where your firm stands today? Are you focused on remaking your business? Or on holding on to the firm’s past? Does your firm’s strategy contemplate fundamental redesign of its historical business models? Or do you assume those as an implicit constraint on your strategy? Will the second decade since life as we knew it came to an end see a more complete change in the way firms operate? Or will we see more gradual, incremental change advanced by technology, but more restrained than perhaps could be hoped. Only time will tell.