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# Are We On The Verge of Revolutionary Change?

“The legal profession is undergoing intense structural and economic pressures. It may be transformed or it may evolve in more moderate steps, but regardless it is changing. The challenge for client/law firm leaders is to help shape and anticipate the future of the profession.”

**Bradford Hildebrandt**  
Chairman, Hildebrandt

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## Introducing Hildebrandt's LawVision™

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### Today's Challenges and a Vision of the Future

A series of classic articles in the *Harvard Business Review* proposed that change in organizations is a combination of evolutionary and revolutionary change. Each period of change begins with evolutionary changes during a period of steady growth and stability, and ends with a revolutionary period of organizational turmoil and change. In each of these revolutionary periods, new organizational practices become the basis for managing the next period of evolutionary growth. While the theory was applied to individual companies, it might be extended to an industry. We believe that the legal industry is likely positioned for revolutionary change as market forces exert pressure on the traditional law firm model.



The changes we anticipate are not so much caused by the recession, but are accelerated by the recession. The industry has been experiencing change for some time, driven by such forces as increasing competition, globalization, competition for talent and technological innovation. The increased pressure on the legal industry from the recession may cause change that might have occurred over 10-15 years to happen over three to five years. This acceleration potentially creates revolutionary change.



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The current economic climate has focused the attention of the legal profession on the structural, economic, and work process models that have dominated law firms for many years. Many firms have begun to experiment with modifications to these models – some minor and some revolutionary – while other firms are actively discussing whether changes to their traditional approaches are needed.

The key question facing many law firm leaders today is whether this experimentation will come to an end once the economy recovers and something approaching “normal” demand growth returns (assuming demand does not continue to decline, at least for traditional law firms), or alternatively, whether we are at the beginning of a period of fundamental structural change that is being accelerated by the recession and that will ultimately profoundly affect the practice of law particularly in medium and larger firms. A recent survey of leaders of the AmLaw 100 firms showed that many of them believe the latter is the case and that the basic law firm model, that has endured with only minor change for at least a generation, will be permanently and irreversibly changed over the next few years.

## Old and New Models



The current economic crisis may well mark a turning point in the trends that gave rise to the growth and expansion model that has driven law firms for the past 10 or 20 years. For starters, there are growing signs that, even after the recession, it's not likely to be “business as usual” in terms of the pricing of legal services. Even before the current downturn, clients were growing increasingly vocal about the escalating costs of legal services, and there was growing “pushback” in the form of demands for discounts, caps, multi-year rate schedules, and the like. Needless to say, the recession has brought all of these concerns into even sharper focus.

Just prior to the onset of the recent economic crisis, the overall cost of legal services in the US had reached a record level, amounting to almost 0.5 percent of the total value of all US-based corporate sales. As such, the cost of legal services came under increased scrutiny not only by general counsels but by CEOs and CFOs as well. One result was the launching of the “Values Challenge” initiative by the Association of Corporate Counsel, a long-term effort designed to help law firms and law departments explore a variety of value-based pricing models, as well as other changes in law firm operations. It seems highly unlikely that this effort will simply fade away when the economy begins to recover.

## The Importance of “Ripple Effects”

Among the consequences of changing the traditional law firm model are the sometimes unexpected and unintended “ripple effects” that such changes can have on a firm's management, operating systems, culture or other fundamental parts of the firm. For example, a shift in a firm's pricing model in which even 30 percent of total revenues are accounted for through non-hourly rate-based pricing practices can result in significant pressures to modify other firm systems. If the billable hour is no longer the way the firm “keeps score” for a significant portion of its work, what does that imply for how lawyers are evaluated and compensated, how work is managed and assigned, how results are measured or how “success” is rewarded. What does it mean for how a firm relates to its clients, or even how it decides what clients it



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should work with? It could also provide a strong incentive to improve efficiencies in the delivery of legal services by shifting the risk (and cost) of inefficiency from the client to the firm. That, in turn, could lead to major changes in the way firms are structured, how many lawyers they employ and in what categories, how they promote and compensate lawyers, how they charge for their services, how they relate to their clients, etc.

Similar ripple effects can result from changes to a firm's talent management model. If, for example, a firm shifts from lockstep compensation for its associates to a performance-based "levels" system (as many firms are now doing), the results are likely to be disappointing unless the firm takes seriously the changes such a shift requires in the training, mentoring, evaluation, and assignment systems for associates. If associates are to be promoted on the basis of their having demonstrated certain competencies, they will understandably look to their firms to provide the training, opportunities, and experiences necessary for them to advance. For this reason and because firm profitability is based on demonstrated added value as associates progress through the levels, performance-based systems require significantly more management by partners or other trained professionals than the lockstep model has.

The depth of our experience at Hildebrandt and the breadth of our practices make us uniquely suited to assist our clients in understanding the ripple effects of changes they are considering. An important part of the LawVision services we provide is to insure that there are no unexpected or unintended consequences of actions that a law firm takes to respond to new market or economic realities.

## Navigating the Unknown

There are, of course, a number of known forces that are driving changes in the traditional law firm business model, for example:

- Growing client frustration with the rapidly escalating cost of legal services;
- Client expectations for more efficient delivery of legal services, including their willingness and ability to disaggregate work on particular matters to achieve such efficiencies;
- Dramatically decreased demand for legal services in certain practice areas (reflecting the current economic downturn);
- Radical restructuring of the financial services sector in ways that impact traditional high-profit client relationships of many law firms;
- Changing regulatory environment for many other industries; and
- Current oversupply of new lawyers that has resulted in many firms laying off professional staff, deferring start dates, and cutting back on summer programs and overall hiring efforts.

There are also, however, trends and potentially disruptive changes on the horizon that we may not yet fully understand or even perceive that could have significant impacts on the legal profession. While these trends are, by definition, more difficult to ascertain, they could include shifts in political or social environments (e.g., further developments in tort reform or financial standardization); more aggressive intrusions into the legal market by other types of service providers (e.g., outsourcing companies or other professional service firms); changes in the regulatory systems governing lawyers (e.g., the allowance of non-lawyer ownership of law firms in the UK, Australia, Spain, and elsewhere); evolutions in technology that drive further commoditization of certain kinds of legal work; etc.



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## Hildebrandt Thought Leadership

A key aspect of Hildebrandt's LawVision initiative is a series of research projects to evaluate the changing dynamics of the legal industry by systematically assessing the impact of emerging business models on law firms and legal departments. Hildebrandt is assembling teams of industry thought leaders to focus on broad areas of potential change, including:

- 1) **Firm Economics** – such as cost structure models, capital and financing approaches, and performance metrics.
- 2) **Structure** – such as new ownership models, changing models for lawyer compensation, and management structures.
- 3) **Talent** – including firms using broader categories of permanent and non-permanent lawyers, more expanded use of non-lawyer professionals, use of outsourcing and off shoring, adoption of performance or competency-based advancement models, and overall changes in recruitment and hiring practices.
- 4) **Service Delivery** – including mapping and re-thinking of legal work processes, re-location of certain functions to lower cost locations, changes in staffing patterns for certain kinds of work, different methods of collaborating with client teams, and use of outsourcing and off shoring; and
- 5) **Pricing** – including innovative project pricing approaches, methods for tracking and evaluating costs, and criteria to be applied in successful models.
- 6) **Technology** – including the use of technology to support process change, not just process speed.
- 7) **Culture** – including the changing nature of internal relationships with potentially fewer “traditional” path associates or between lawyers and “non-lawyers”, the role of lawyers vis-à-vis their clients, and the impact of routinization or disaggregation of work.

Working in collaboration with the Georgetown University Center for the Study of the Legal Profession, Hildebrandt is also engaging academics from top law schools and universities to participate in world-class research studies on the changing profession. One of our early successful collaborations was our sponsorship of the innovative FutureFirm conference at Indiana University in April 2009 where law firm leaders, in-house counsel, and law students worked in teams to compete in a contest to devise new business models for law firms in light of a changing economic environment. Hildebrandt's LawVision research team will continue to pursue creative ways of appraising the ongoing shifts in the legal industry.

With Hildebrandt's experience of over 30 years of working with law firms and law departments, we are well equipped to help our clients navigate the future – both known and unknown. Through our extensive research efforts, our research partnerships with the Citi Private Bank and other organizations, our linkages with sister companies including Baker Robbins, and our use of unique research and analytical tools (such as Hildebrandt Peer Monitor), Hildebrandt assists clients in identifying and tracking trends that are likely to impact the legal market in general as well as specific firms. With over 60 consultants worldwide specializing in the legal industry, Hildebrandt is a true thought leader.



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## Hildebrandt LawVision Services

Within our LawVision services, Hildebrandt has actively worked with clients on a variety of initiatives to modify existing firm structural and operational models. Our work has included projects related to:

### ***Strategy and Positioning***

- Working with firms to fundamentally reevaluate their business strategies in light of the potential for fundamental and disruptive change, and implementing resultant strategic transformation initiatives;
- Helping firms understand the current and future trends and develop their strategies to succeed in the increasingly segmented market for legal services;
- Conducting scenario planning sessions for law firm management or retreats for all partners on possible future paths for their firm; and
- Guiding firms in capitalizing upon opportunities in a more global and technologically driven market for legal services.

### ***Change Management***

- “Ripple Effect” assessments and preparation to minimize change obstacles;
- Leadership development and change management to drive and achieve buy-in to the structural and operational changes required under new models.
- Assisting leadership in cultural assessment for change-readiness, and working with leaders to prepare their firms for change.

### ***Talent Management***

- Creation of new talent management systems, including “locked-step to levels” transitions for associates, as well as changes in evaluation and compensation systems;
- Modifications to compensation systems to incentivize and measure behaviors needed under changed pricing, staffing or other delivery models; and
- Teaching firms how to develop and manage increasingly complex staffing models for the delivery of legal services.
- Working with firms to adjust partnership and ownership models (including poorly implemented two-tier structures) to achieve better long term performance and increased accountability.



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### ***Pricing and New Models of Delivery and Operations***

- Pricing and financial management, including the development of alternative (*i.e.*, non-billable hour-based) pricing models and the metrics to measure performance under them;
- Development of systems to support shift in pricing models, and integration of systems and tools with practice management structures;
- Development of additional and alternative compensation metrics and evaluation standards to support alternative pricing mechanisms;
- Working with firms on their client interface/client management processes and approach to help build cooperative relationships supportive of new pricing models;
- Design of new staffing models to align the delivery of legal services with client perceptions of value;

### ***Process Evaluation and Redesign***

- Evaluation and redesign of legal work processes to reduce cost and better align cost with client value and firm profitability objectives.
- Development of new staffing structures, outsourcing strategies and other disaggregation approaches.
- Creation of project management structures and processes to better support new structures, and integration with practice management and compensation systems.

### ***Overhead Assessment and Redesign Efforts***

- Administrative work process redesign to reduce overhead and operating costs;
- Cultural change initiatives to support radical support structure changes (e.g. radical changes in administrative support ratios; departures from traditional office design and utilization concepts; etc.)
- Sourcing review and analysis for purchased services and products; and
- Overall administrative restructuring, outsourcing and redesign.

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For further information about Hildebrandt's LawVision services, Contact:

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