

# What Does Change Look Like?

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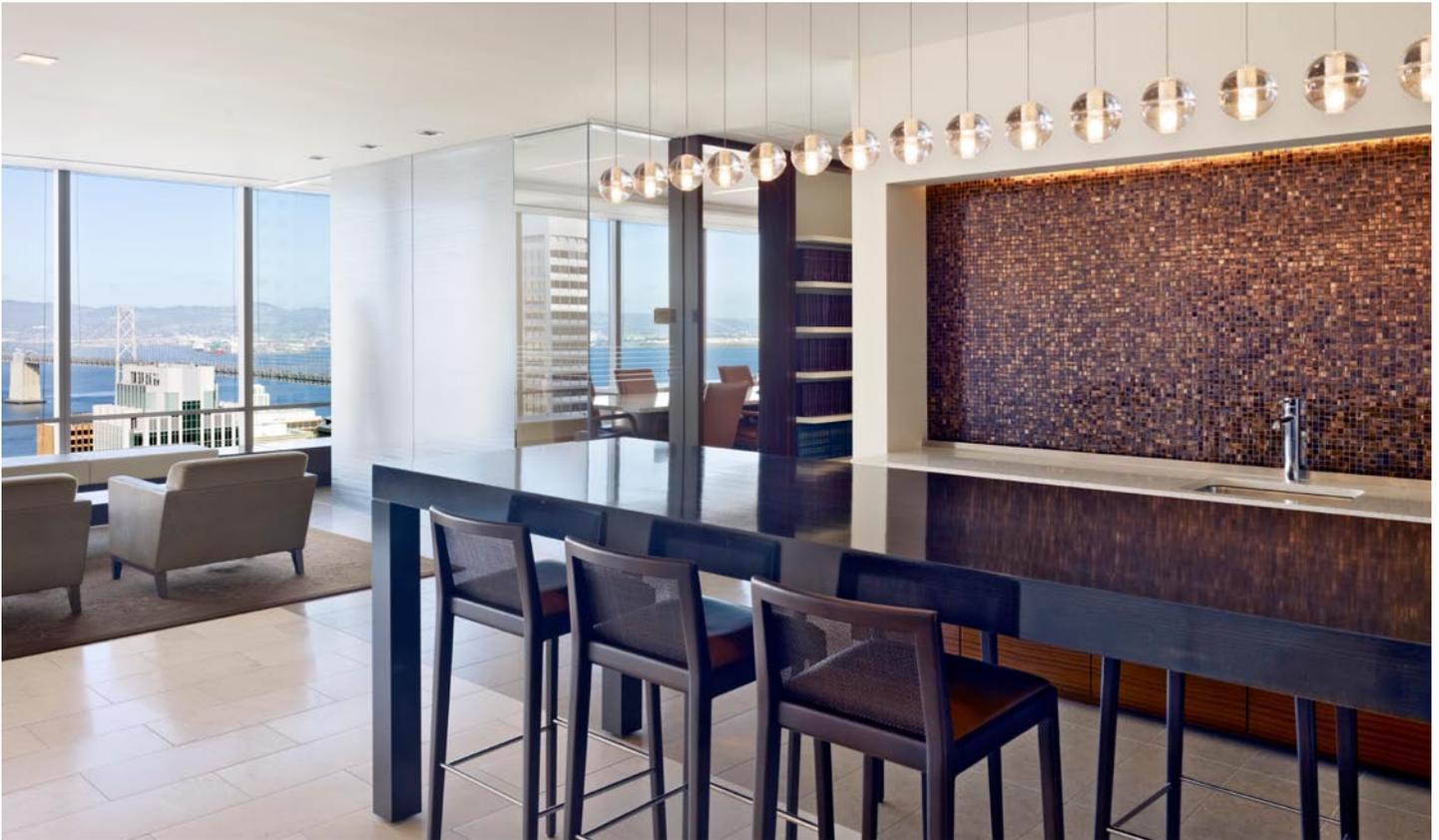
The legal business is changing more rapidly than ever, and your office space will need to be designed to respond to those changes. A recent Hildebrandt survey revealed that more than half of firm leaders of large law firms expect to see significant changes in the pricing models, staffing and management of legal matters over the next three to five years. What will this mean to the design of your office?

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After almost a decade of steady growth,<sup>1</sup> the last two years have been perhaps the worst in the last half-century for the legal market. Although many would like to forget this recent history, most legal experts agree that this is the beginning of fundamental change in the delivery of legal services. With a more than 10 percent drop in demand for legal services in 2009,<sup>2</sup> there has been mounting pressure by clients to provide discounts, fee caps, and alternative (non-billable, hour-based) pricing.

The result has been a rapid response by most law firms to slash expenses, starting with compensation, which resulted in the deepest cuts in the overall number of attorneys in the last 30 years. The overall lawyer population declined four percent, with the associate ranks being hardest hit (with a reduction of 8.7 percent<sup>3</sup>). Staff and expenses were also not immune to the cost-cutting ax, with the result being that the annual double-digit growth of expenses over the past decade was reversed and resulted in a 5.6 percent decline in 2009.<sup>4</sup>

Although the demand for legal services has improved recently in many practice areas, and there is a general feeling that the market has bottomed out, extreme fee pressure remains. This means that recent aggressive expense management and lower profitability will undoubtedly continue for some time. Far more troubling for the future, however, is decreasing productivity,<sup>5</sup> declining leverage (due to the rise in income partners and decrease in the associate ranks), and declining realization rates.<sup>6</sup> It is becoming increasingly clear that a decade of management focus on growth and expansion will need to be supplemented with a focus on *efficiency* and *effectiveness*.



The attorney lounge at Gibson Dunn's San Francisco offices

New management metrics will be required to address these changes<sup>7</sup> with a shift from the traditional profit per partner, billable hours, leverage and firm rankings toward those that will better address the current issues. Profit per Employee, Client and Employee Satisfaction Ratings, Brand Strength and Return on Human Capital are some suggested by the legal management consultant Hildebrandt.

While some of their suggested metrics address issues beyond what the design of your office can influence, a surprising number land right in the crosshairs. Design is one of the most powerful tools available to you for shaping the culture and values of your firm. Far more than just making efficient use of space, design can also facilitate organizational flexibility, and help your staff to be more effective and productive.

Your space is the physical representation of your brand, and has daily impact on the way employees and clients experience your firm. It also influences recruitment, retention, productivity, and ultimately your firm's ability to achieve its business strategy. According to a recent study,<sup>8</sup> *workplace design*, along with *technology* and *management strategy*, are the three

most important factors in determining white-collar worker performance.

At a time when real productivity is declining in most law firms,<sup>9</sup> and associate satisfaction is at an almost 10-year low,<sup>10</sup> law firms can leverage the design of their office to help combat some of the contributing factors to these trends. The most common complaint cited by associates in the recent AmLaw annual associates survey is a lack of transparency and communication. Not surprisingly, this is also one of the key drivers for all workplace design today.

### **Collaboration**

Communication and transparency are key to developing the trust that is required to enable collaboration. Creating literal transparency is one of the greatest changes in the design of the law firm over the last few years. Ranging from larger sidelights to full glass fronts, with glass from frosted to clear, the introduction of more glass to the attorney office fronts is here to stay. This use of glass brings daylight into the interior of the space, which supports sustainable design, and aids in promoting

collaboration through visual connection. In perhaps the last industry to hold on to private offices (vs. open workspace), creating collaboration is key to supporting the creativity and efficiency necessary to succeed in the new legal landscape.

Gensler's latest survey, the *2010 Legal WPI* (Workplace Performance Index),<sup>11</sup> demonstrates a strong correlation between good workplace design and business performance. Interestingly, employees of the most successful firms spent less time in individual *focused work*, and more time *collaborating*, *learning* and *socializing* than their counterparts in less successful firms. Providing opportunities and spaces for people to interact is important to creating the trust necessary for a collaborative working environment.

Recently, new types of spaces are being created to enhance either planned or chance interactions, incorporating an attorney lounge into the constantly shrinking library, providing interactive café spaces with amenities like cappuccino machines and spot lounges for chance encounters.

### Flexibility

To paraphrase an ancient Greek philosopher, "The only constant is change." Secretarial ratios, partner/associate ratios, paralegal ratios, the need for work/case rooms, the use of paper or library books—you name it... seemingly everything seems to be in flux. Planning for change is important in order to maintain efficiency. One of the keys to this is designing your space to be as flexible as possible. Because the majority of the change has occurred in support space, we are creating adaptable zones with furniture and demountable partitions that will allow for more economical changes within this band of space.

Examples include those at Foley & Lardner in Chicago to create paralegal suites, and at Sidley and Clifford Chance, they have clustered some secretaries into secretarial service centers serving only associates and providing better service, while maintaining ratios of up to 10:1.

Creating **multi-use** and **shared spaces** is another way to ensure better flexibility and efficiency. Sliding walls can open a large conference room with reception to double its size for large gatherings. A library that is also a lounge, or internal conference rooms that can double as case/war rooms, help to ensure that if one use no longer becomes necessary, the construction of something new is no longer necessary. Flexibility is all about an efficient use of resources.



O'Melveny & Myers' community hub in its San Francisco offices



Gibson Dunn's conference room and conference reception in San Francisco



Reception area in Gibson Dunn's San Francisco offices

## Efficiency

The drive toward efficiency has resulted in many law firms being willing to consider planning interior associate offices. Previously, most firms felt that every attorney had to be located on the perimeter, which then *de facto* sets the planning efficiency of the floor. Over the years, we have found that the functions that were experiencing the most change were those located on the interior of the floor: secretarial ratios, paralegal counts, records, library. With the majority of these getting smaller, substantial improvements in efficiency can be obtained by locating first- through third-year associate offices on the interior.

For most law firms, the creation of multiple office size standards leads to operational inefficiency when leverage changes. There are too many partner or associate offices, and they are not flexible enough to change one into the other. Gensler has experimented with a universal-sized office, and this idea has received limited traction, primarily in second-tier markets.

Generally, standardizing anything leads toward greater efficiency in design, ordering, and administration. This, of course, has to be balanced with specific needs. Law firms vary greatly in their acceptance of this concept. For some, secretarial stations have such specific needs that they must be built-in; for others, a furniture-based secretarial solution works just fine. Again, law firms are unique in this aspect. No other business in corporate America would build custom furniture (except perhaps in the executive suites) for their administrative staff. Perhaps because of the economy, most law firm offices that we have designed in the last few years have used furniture-based systems for both their first cost and long-term flexibility.

In some instances, greater efficiency can be obtained by looking at spaces in more flexible ways. For example, using a partner-sized office for several **contract attorneys**, associates, or paralegals could allow temporary use of a multi-use space in a variety of ways. **Shared offices** are efficient, and preferred by people over any other type of space except an individual private office.

## Technology

After *people, technology and space* are a law firm's greatest expenditures, averaging roughly six to eight percent of gross income each. With this level of expenditure, most law firms have invested in a pretty robust technology infrastructure. They have succeeded in creating an excellent tool for individual work, and in managing communications flawlessly.

In the future, law firms will be investing to leverage technology as a tool for collaboration, to support a more mobile culture, and to create more transparent, real-time communication. Systems are now being prototyped that will help to reduce the need for people to do cumbersome research or document review. Taken to the extreme, the impact will be to turn the typical pyramid organization with lots of young associates or contract lawyers at the bottom into more of a diamond shape with fewer people at the top and bottom, and a very flat organization in the middle.

With the concept of cloud computing (putting your servers offsite, accessible from anywhere, as if on a cloud) becoming more prevalent, the need to build expensive space for a computer room (with changing needs) every time you move is no longer necessary. Running more sophisticated systems, and supporting more software solutions, however, will probably drive up the need for IT support, although many of them will not have to be law firm employees.

On a purely visual basis, the reduction in cost for flat screen monitors has resulted in them being able to be put into almost



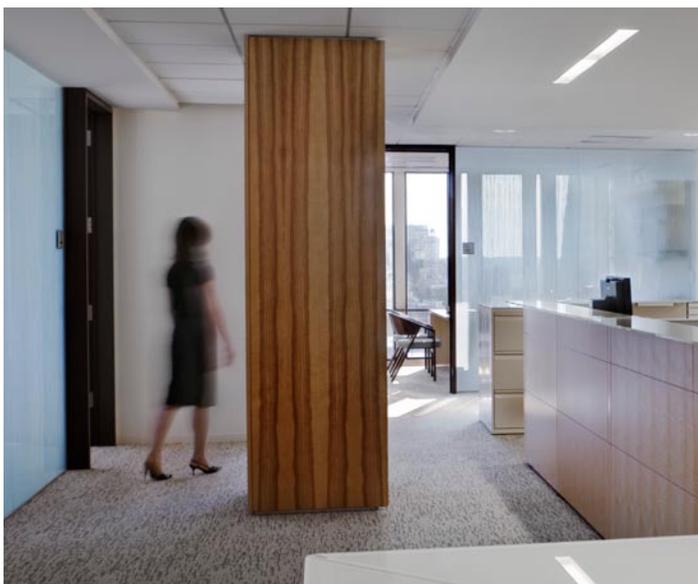
O'Melveny & Myers' San Francisco conference room and reception area

any space that a law firm desires. It is now commonplace to design (or retrofit) even very large screens into almost every conference room. Telepresence rooms (very fancy real-time, multi-screen video conferencing that actually works) are taking hold across corporate America, and most law firms with many locations are beginning to incorporate them as well. The quality is remarkable, and while having come down substantially in price, they are still quite expensive to install and operate. Firms are making these investments, however, because they are trying to leverage their most precious asset, their people.

## Culture and Brand

Focusing on your people and your culture is going to be critical to maintain a successful firm in the future. *How* you make your clients and employees feel special and supported is an important part of your brand. While brand strategy consultants have raised the quality of external messaging, such as websites, brochures and posters, that image must now be aligned with the physical space, where people, technology and processes come together. The office is where your brand promise becomes a reality.

Today a growing number of law firms are exploring what it means to be green, and it can be difficult to separate the reality from the hype. Getting beyond the hype, however, will show that there is real value to being green that extends beyond the initial feelings of having done something that "feels good." Sustainable practices can improve the quality of life of your employees, increase productivity, and help to attract and retain young lawyers. They can also improve the bottom line, helping to save money as well as the planet.



Attorney corridor at O'Melveny & Myers' San Francisco offices

## The Future

As the science fiction writer William Gibson said, “The Future is here; it is just not evenly distributed.” In the last two years, professional services firms have experienced great economic change, propelling them to reassess their strategies and allocation of resources. They also have responded to this change in vastly different ways. While some have been slow to change, others have embraced the changes that other types of businesses have come to regard as “the new normal.” Collaboration, flexibility, and technology-enabled efficiency—these concepts are helping firms use their physical space to respond to the new pressures and re-invent the delivery of professional services.

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- <sup>1</sup> 2001–2007 legal services demand grew at approximately 4%/year according to Citi Private Bank’s Law Firm Group’s Full Year 2009 Flash Report.
- <sup>2</sup> The BTI Consulting Group, *BTI Practices Forecast 2010: Survey of Corporate Legal Spending* (2009).
- <sup>3</sup> L. Jones, “So Long, Farewell,” *National Law Journal*, Nov. 9, 2009.
- <sup>4</sup> Hildebrandt Baker Robbins/Citi Private Bank 2010 Client Advisory.
- <sup>5</sup> There was actually negative growth in productivity, even during 2001–2007, according to Citi Private Bank’s Law Watch statistics.
- <sup>6</sup> Citi Law Watch reports a steady decline in realization even proceeding the downturn (2001–2007), reflecting increasing client demands for discounts and resistance to full billing-rate arrangements.
- <sup>7</sup> Hildebrandt Baker Robbins/Citi Private Bank 2010 Client Advisory, Chart 11: Current and Possible Future Performance Metrics.
- <sup>8</sup> Tom Davenport, Babson College.
- <sup>9</sup> Citi Private Bank Law Watch statistics, the compound annual growth rate (“CAGR”) for law firm productivity during the 2001–2007 period was –1%. This was based on a survey of 193 firms, including 87 *AmLaw 100* firms and 52 additional participants.
- <sup>10</sup> *American Lawyer* 2010 Associate Survey.
- <sup>11</sup> Gensler, 2010 Legal WPI (Workplace Performance Index) is a web-based survey of more than 1,000 legal employees. It measures factors that contribute to employee engagement. It demonstrates a correlation between workplace design and business performance.