



LAW FIRM WORKPLACE SURVEY

Making Workplace Strategy
a Competitive Differentiator
for Law Firms

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A Changing Landscape: Feeling the Heat

It isn't news that margin pressure, automation and technology are disrupting the legal industry. During the past few years, law firms have been deeply impacted by non-traditional entrants. These new players—armed with new business models leveraging technology—have commoditized generic legal services and put legacy players, who continue to operate with overcapacity, high overhead and fixed fee structures on notice.

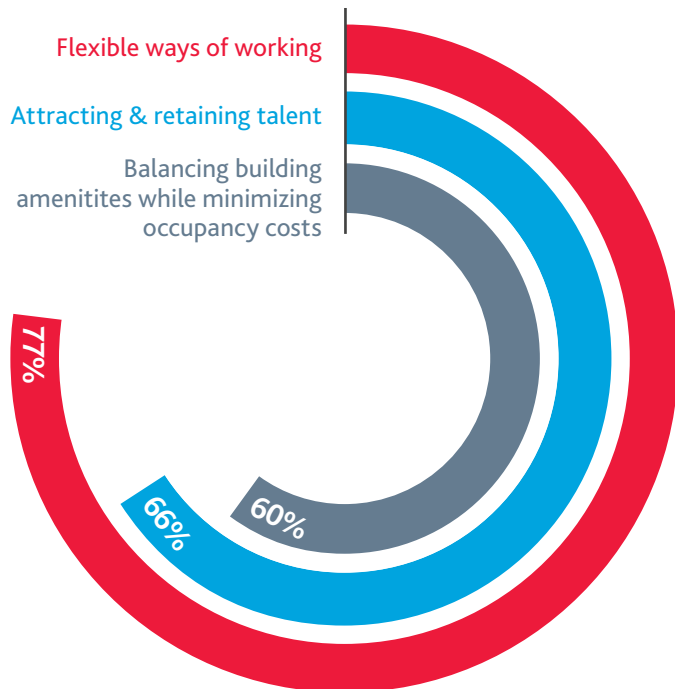
Meanwhile, looking beyond the internal dynamics of the legal trade, the world outside is changing rapidly in terms of how work is conducted, where it is conducted and by whom. In perhaps the first time in history, we will see at least four different generations of the workforce under the same roof, each with a very different set of expectations. For instance, while older generations of executives value the private office, millennials favor working in a highly collaborative and open concept workplace enabled through mobility technology. Today's workforce can and prefers to work from home or while on the road as they visit clients who are more widely dispersed and as mobile as they are.

Are Law Firms Adapting?

But to what extent have law firms adapted their workplace practices to capitalize on trends that have delivered success in many other industries? What unique challenges are they facing in implementing strategies to drive growth? Is the pace of change sufficient to sustain critical momentum and help improve immediate cash flow requirements?

To answer these questions, BDO's Corporate Real Estate Advisory Services (CREAS) practice surveyed executives at the AmLaw350 about their firm's real estate and workplace strategies. The inaugural Law Firm Workplace Survey reveals that law firms remain slow to adapt to critical workplace trends that redefine how work is conducted and profitability is driven. Five key areas of improvement emerged from the findings that point to opportunities for law firms to get up to speed.

Percentage of firms that responded to having Excellent or Very Good enablers for:

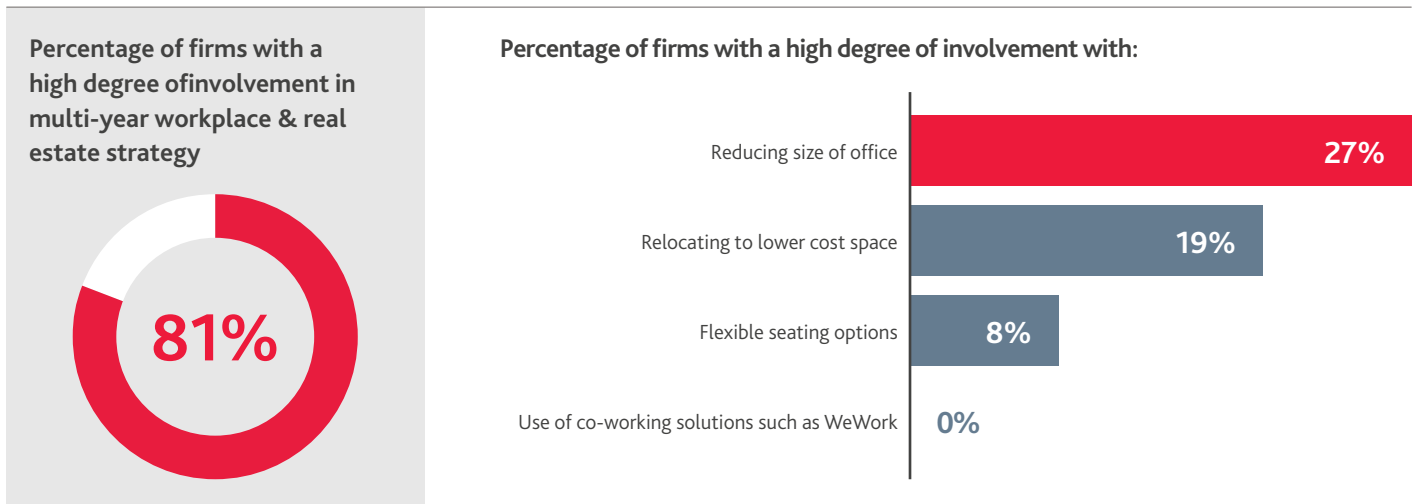


Law firms remain slow to adapt to critical workplace trends that redefine how work is conducted and profitability is driven.



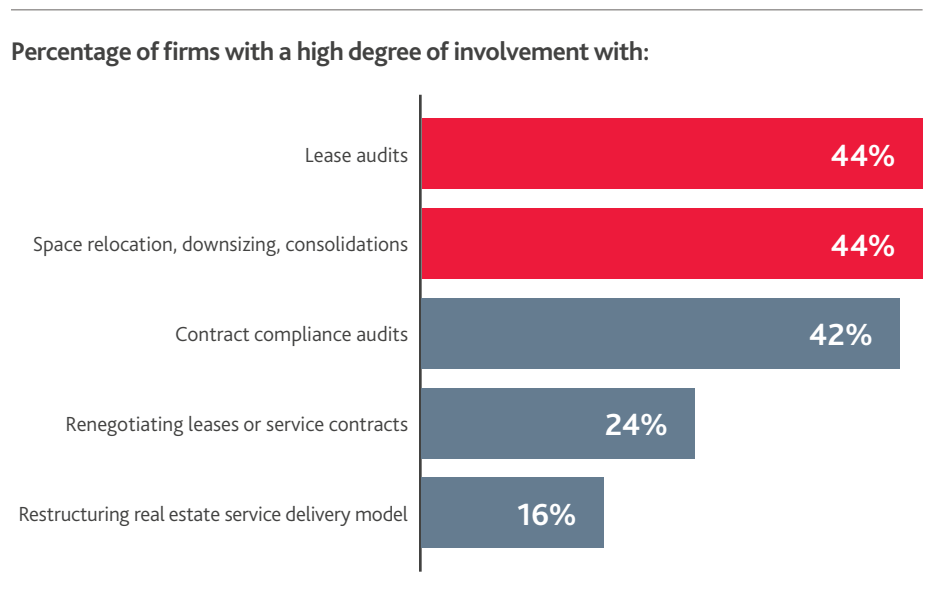
1. PRIORITIZE WORKPLACE INNOVATION

Despite proof of innovative workplace solutions and concepts delivering cost efficiencies, law firms have significantly lagged in embracing changes to the modern workplace and managing real estate assets. Our survey shows that only 8 percent of firms have adopted flexible seating options. Meanwhile, no respondents said their firms were highly involved in the use of co-working or third space solutions, such as WeWork, which mitigate the financial risk of holding on to fixed term leases.



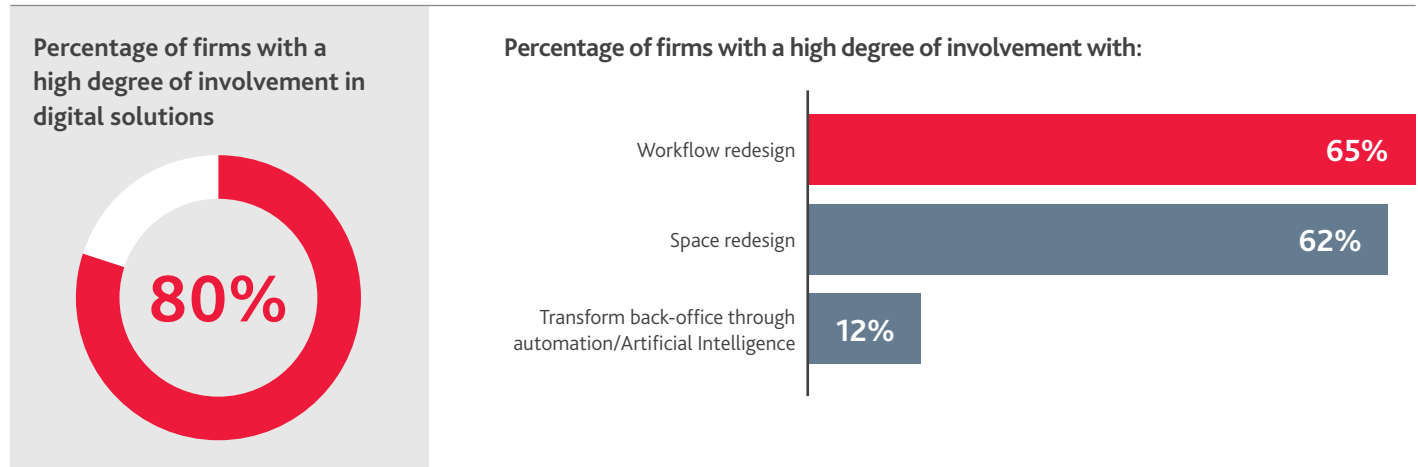
2. DON'T LEAVE MONEY ON THE TABLE

There are several relatively straightforward tactics that law firms can execute that yield short- and long-term occupancy cost savings. For example, the benefits of lease and vendor or service provider audits are known and have the potential to reduce the baseline real estate and facility costs by 10 to 15 percent. Surprisingly, the majority of law firms surveyed have not capitalized on such practices, leaving easy money on the table that could otherwise be redirected to fund workplace solutions or other priorities. Our results found that less than 50 percent of surveyed firms have a high degree of involvement with tactical activities such as lease and vendor audits, lease renegotiations or space consolidations.



3. PUSH THE BOUNDARY FOR GAINS

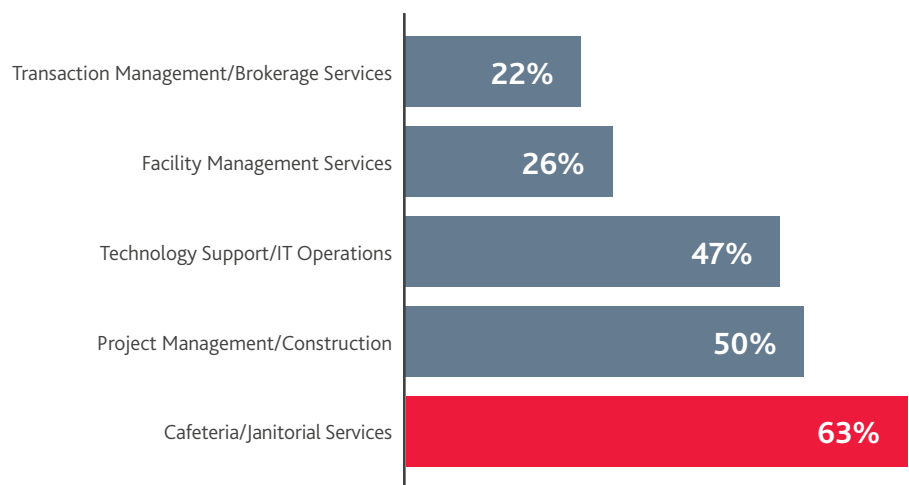
The survey shows that while many law firms are implementing more traditional workplace initiatives such as space redesign, they have been hesitant to embrace truly transformative and financially impactful initiatives such as back-office transformation through use of automation or artificial intelligence. While politically more challenging to implement, these more radical programs have the potential to significantly reduce the size of support staff at law firms, thereby reducing fixed overhead costs. Only 12 percent of law firms report having a high degree of investment in such initiatives.



4. REDUCE INEFFICIENCIES BY OUTSOURCING

In most organizations today, it is common practice to outsource non-core, commoditized corporate or support functions to specialized firms, who can do the same quality of work faster and cheaper due to economies of scale. It is also easier to hold outside vendors accountable for service performance, with the right kind of incentive structure in place. Yet among the law firms surveyed, we find that key support functions, such as transaction management or brokerage services and facilities management services are still largely retained in-house. Even cafeteria and janitorial services have a relatively low level of outsourcing, at just 63 percent.

Percentage of firms who outsource their core workplace services:

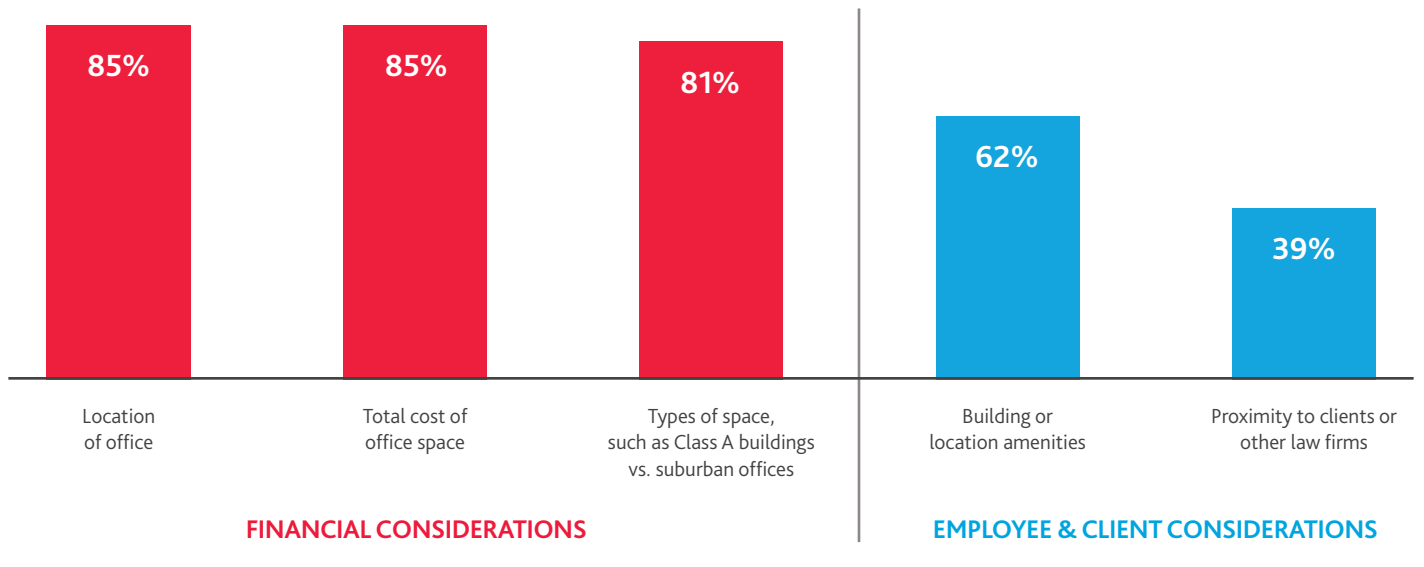


5. GIVE MORE WEIGHT TO EMPLOYEES' (AND CLIENTS') VOICES

According to C&W 2018 National Legal Sector Benchmark Survey, 45 percent of associates plan to become partners at a law firm during the next 10 years, and 75 percent of the non-equity legal workforce will be comprised of millennials by 2025. With this level of workforce competition, it's critical that brands differentiate themselves with strong recruiting and retention strategies, starting with ensuring employees voices are heard and included in considerations about the design of the future workplace.

Our survey results demonstrate that law firms have room to improve when it comes to catering to the evolving needs and work habits of employees: only 39 percent of firms take the direct input of employees when developing workplace strategy. In addition, financial considerations such as size and class of space feature more prominently when designing workplace strategy for law firms, while employee amenities in buildings and proximity to clients are given the least consideration.

Percentage of firms who placed high importance to the following components of workplace strategy:



Cost Management and Talent Acquisition As X-Factors

A key question we sought to address is whether law firms can thrive in the face of margin pressure and the need to replace its aging workforce with the best talent. Are the solutions for meeting these two seemingly unique issues interrelated? Fortunately, the answer is yes, and it is through the adoption of successful workplace strategy that addresses needs for space, cost, as well as human capital.

A workplace strategy that embodies leading practices in real estate and space management, bolstered by a modern work environment that also optimizes workflow and back-office transformation, is key to providing law firms with a sustainable competitive advantage by streamlining operating

costs and attracting next generation talent. Organizations that have leveraged workplace solutions to reduce operating costs and attract and retain lean, highly productive workforces are better suited to ride out economic downturns.

Law firm employees occupy, on average, 30 percent more physical space per employee compared to other sectors, according to C&W 2018 National Legal Sector Benchmark Survey. At the same time, real estate costs are the number one fixed operating cost outside of compensation expenses for the majority of firms, meaning that even a small change in workplace strategy can have a profound impact on a firm's profitability.



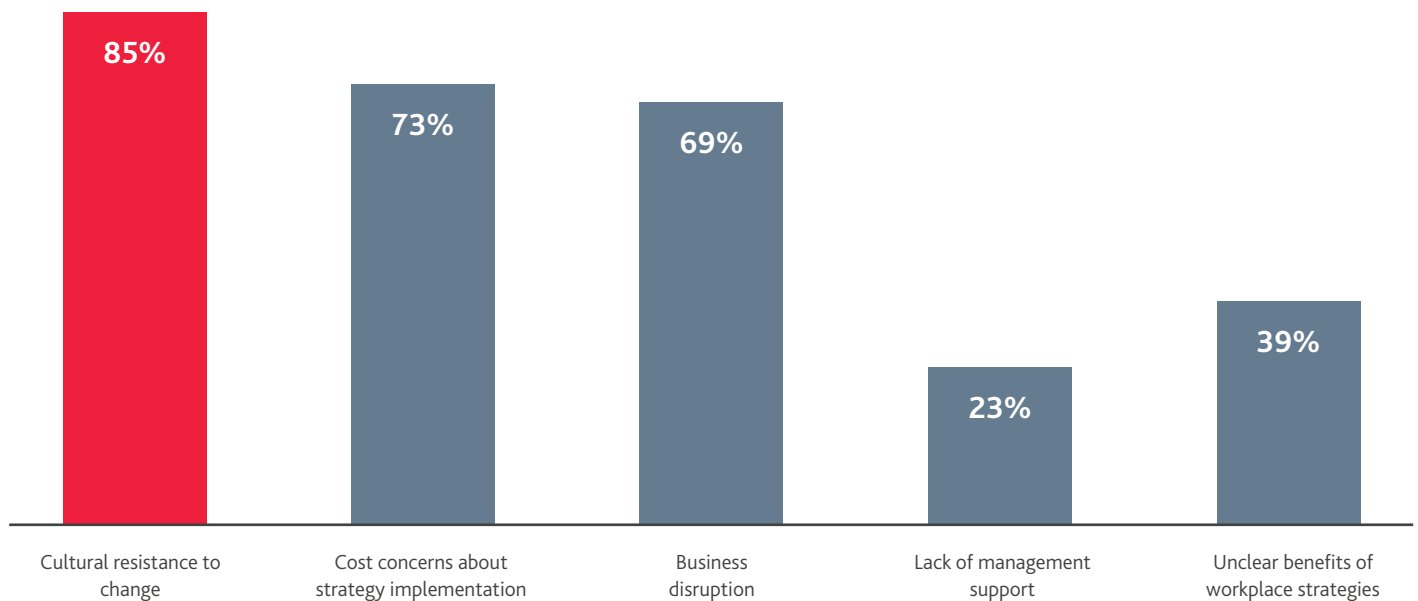
Barriers to Workplace Transformation: Cultural Resistance is the Elephant in the Room

Our survey findings show that many law firms are not pulling the right real estate and workplace levers to affect financial and operational change that can deliver a significant competitive advantage in the future.

To determine why, we asked respondents to identify the biggest barriers to workplace transformation. The number one reason cited is cultural resistance to change.

An old nemesis for all transformation programs, culture change is more acute within law firms, whose affinity for traditional ways of working remains strong. Other obstacles cited include cost of implementation, risk of business disruption and unclear benefits from workplace transformation.

Percentage of firms who reported Very & Somewhat Likely to face the following obstacles to implementing workplace strategies:



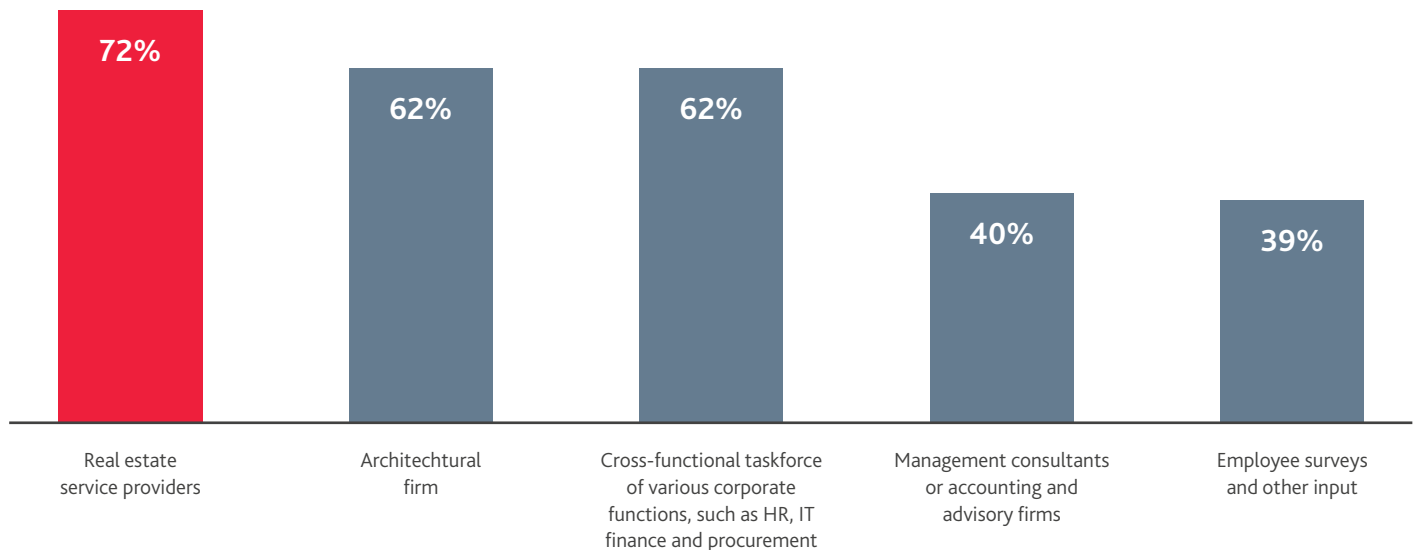
Seeking the Right Resources for Change

Workplace strategy implementation is a complex journey that needs to overcome political and cultural barriers and requires close coordination between firm leadership, finance, HR and IT. It requires a specialized approach to assess the status quo, and expertise in space design, workflow optimization and mobility technology. It also requires a significant amount of time from internal resources who have diverse priorities.

The survey probed about what internal and external sources law firm executives would most likely turn to for workplace transformation counsel. The majority (72 percent) identified

real estate service providers as the leading source, while less than 40 percent cited inputs from their own employees. This can be problematic if the interests of real estate brokers and service providers are not aligned with enterprise workplace priorities, which usually calls for smaller space and more nimble service delivery structures. A best practice is to prioritize internal inputs for workplace requirements and preferences, and engage a hybrid team of in-house stakeholders who collaborate with specialized firms to roll out such plans, typically on a pilot basis and then implemented more widely.

Percentage of firms who are Very Likely to use the following sources when investing in workplace strategies:



Reaping Transformation Rewards: A Call To Action

The data reinforces that the legal industry has not yet embraced a holistic workplace strategy that can improve margins, attract the right talent and boost productivity. Some firms are ahead of others, and firms that lag today will fall further behind unless they initiate change immediately and with the appropriate sense of urgency.

How should law firm executives determine where they stand relative to peers with regard to workplace maturity?

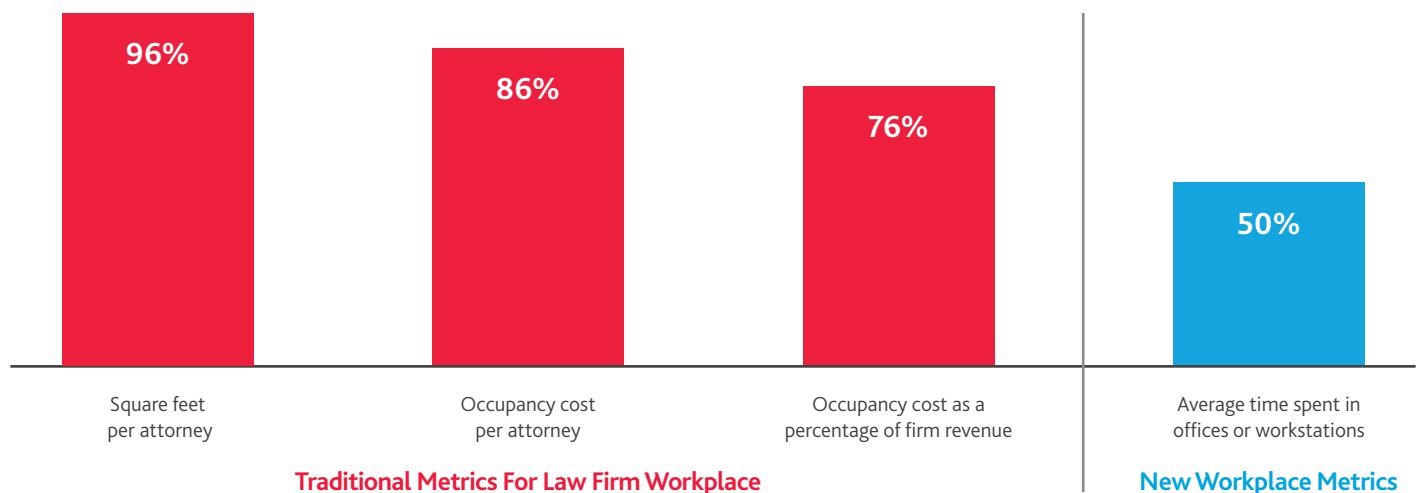
The answer begins with conducting an objective assessment of current workplace utilization and operational review of key front and back office functions. A structured, metrics-driven benchmarking exercise will reveal areas of opportunity as well as gaps, and assist with developing a tailored transformation strategy. It will also quantify the business case for change to justify workplace investments.

Workplace transformation is a journey that requires execution excellence at pace to avoid business disruptions. It requires structure, rigor and a high degree of change management support. Law firms seldom internalize such efforts and seek help from specialized partners who understand their unique business models and brand reputations.

Typically, a workplace program will initiate the following activities that yield specific outcomes:

- ▶ **Culture Change & Vision:** Develop an executive-sponsored, employee-supported workplace transformation vision and strategy that reinforces the firm brand image and drives meaningful change to increase productivity, improve profitability and motivate next gen talent and new ways of working together.
- ▶ **Measure Workplace Success:** Track the right metrics that go beyond use of physical space to determine if the workplace is being used to improve productivity and collaboration. Simultaneously, design a program where employees are able to provide feedback on workplace experience so that their inputs are leveraged to make future choices in workplace enablement.
- ▶ **Execute an Impactful Workplace & Workforce Transformation Program:** Leverage findings from an initial workplace maturity assessment, and engage the right external partners and internal stakeholders to implement a short- and long-term action plan to unlock value:
 - **Quick win strategy:** Conduct tactical, high-impact activities to improve cash flow and reduce operation costs, such as space consolidations, lease renegotiations, and lease and contract audits. Cost savings can fund long-term workplace initiatives.
 - **Longer term programs:** Embark on a space redesign exercise for the future to improve space utilization, support collaboration and productivity and embrace mobility concepts to cater to new generations of employees. Concurrently invest in digitization and automation technologies to transform workflows and back-office functions for additional cost efficiencies.

Percentage of firms that use the following metrics to track workplace success:





CONTACT

MICHAEL PAPPAS

Senior Managing Director
mpappas@bdo.com
212-885-8429

DAVID BRADFORD

Managing Director
dbradford@bdo.com
602-293-2359

ROSS FORMAN

Managing Director
rforman@bdo.com
904-396-4016

ASIF HUSSAIN

Director
asif.hussain@bdo.com
212-817-1758

Survey Methodology

BDO's Law Firm Workplace Survey is a national telephone survey conducted by Market Measurements, Inc., an independent market research consulting firm.

The surveyors professional interviewers spoke directly to relevant executives in firms (survey sample n=30) that comprise of the AmLaw 350, and asked questions related to strategic decisions, operational practices and organizational constraints while implementing real state and workplace strategies in major law firms across the U.S.

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