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State of the Industry: How Law Firms
Manage Their Back Office

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A law firm's success can hinge on the efficacy of its back office. Even if a firm's attorneys are exceptional at their practice, when the paperwork is disorganized or Accounts Receivable are chronically behind or there's no time to intake new clients, things go downhill—quickly.

In this white paper, we will cover an overview of how law firms are managing their back office operations in today's landscape. We will also discuss the ways in which the COVID-19 pandemic has impacted law firms, and explore some of the solutions that firms can implement to adapt and be successful in these changing times.

Law Firm Back Office Operations – The Basics

The back office of a law firm typically handles all of the operational tasks necessary to support the firm's attorneys as well as its clients. Some of the most common aspects of law firm operations that the back office covers include:



Reception & Intake

The back office team answers incoming calls from current and prospective clients, completes initial consultations, processes new client intake, and schedules appointments.



Billing & Collections

The back office team is often responsible for invoicing or billing clients and following up until payment is received. They may also help with budgeting or writing billing processes and procedures.



Trust Accounting

The back office team reviews client ledgers and deposits, reconciles between the bank and accounting programs, and generally is responsible for ensuring that trust records are correct.

Back Office Service Delivery – Are Firms Outsourcing or Hiring?

When it comes to which professionals are actually delivering these critical operational components, firms have two options:



Hire an in-house professional or team of specialists

OR



Outsource to a third party service provider or agency

There are pros and cons to both methods, but law firms are already (and increasingly) outsourcing at least some aspects of their operations.



of law firms use contract lawyers



report using part-time lawyers



report outsourcing non-lawyer functions

In addition, the International Legal Technology Association's 2019 technology survey reported that 39% of the law firm respondents outsourced infrastructure support – up from 28% the year before.



In total, about 70% of law firm leaders reported outsourcing some or all of their back-office and/or administrative functions, up from 56% in 2018 – a 14% increase year over year.

The reason for outsourcing is clear:
At least **60% of survey respondents cited cost savings as the top key benefit of outsourcing**, a 21% jump from last year.

Why Law Firms Are Outsourcing Their Back Office Operations

Cost savings isn't the only reason; by outsourcing back office operations, firms can:



Streamline new client intake



Provide better customer service



Increase collection rates & reduce past due accounts



Improve accuracy in accounting & records management



Optimize processes & procedures

Lawyers **don't collect on 12% of the hours they bill** to clients, according to a 2021 Legal Trends Report. By outsourcing to a third party that's responsible for issuing and pursuing accounts receivable, firms may be able to significantly reduce uncollectible accounts.

The Great Resignation Makes Talent Acquisition Difficult

The COVID-19 pandemic has had a widespread impact on every industry, and law firms have seen a unique and lasting change. In particular, COVID caused rampant stress, a shift to remote work, and a forced reckoning with what matters in light of the pandemic for workers in every industry, leading to what's become known as the "Great Resignation".

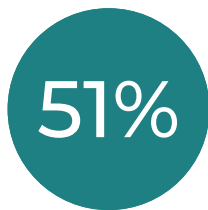


of workers are considering a career change

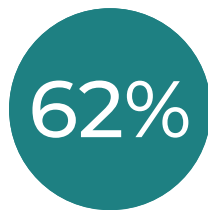
According to studies, more than 40% of workers around the world say they are considering quitting their job or changing their profession. That shift has impacted the legal industry, where many law firms in the U.S. are struggling to find good talent. For example, associate hiring decreased nearly 50% between 2019 and 2020, according to the NALP Foundation for Law Career Research & Education.

Now, in 2022, many firms are now scrambling to attract and retain associates. Far from cutting back on hiring, law firms are desperate for talent as the demand for legal services has remained strong and even increased in practice areas such as security, employment & labor, real estate, and bankruptcy.

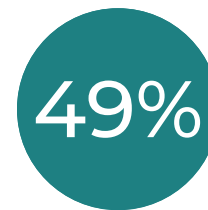
The pandemic is not just impacting firms' ability to find new talent; it's affecting their existing workforce.



of lawyers felt it was hard to separate work and home during the pandemic



women and minorities are more likely to struggle in this regard



of lawyers felt disengaged & overwhelmed by their responsibilities

For senior attorneys (62 and older), COVID-19 has affected their income & retirement plans:

- 33% said the pandemic changed their retirement plans
- Of those lawyers, 53% said COVID-19 delayed their retirement and the other 47% said it hastened their retirement
- 36% of older lawyers said they made less money during the pandemic and only 18% reporting making more money

Some responses from senior lawyers included:



“ The pandemic made me realize life is short, perhaps I should pull the plug while I can.

It forced a partial retirement, whether I could afford it or not. ”

“ Because it became more apparent that I could work remotely, I think it has made me more likely to just slow down a bit rather than retire.

How Law Firms Can Outsource to Adapt for Success in 2022 and Beyond

Outsourcing is one of the primary solutions that firms can implement to adapt and be successful in these changing times. There are three main reasons for this:

1

Significantly reduces law firm costs

2

Creates opportunities for economies of scale

3

Makes technology more accessible

Reducing Law Firm Costs by Outsourcing

Law firms often spend between \$15,000 and \$25,000 per firm user on tech services. When firms outsource IT and tech services alone, they can reduce costs by 20% to 30%.

And that's just when firms outsource technology services. In addition, firms can see at least a 10% cost savings by outsourcing their back office functions, according to a 2019 Williams Lea survey, which also found that 70% percent of firms outsourced some or all of their back-office functions, up from 56% in 2018.

20-30%

savings from outsourcing tech services

10%+

additional savings from outsourcing back office functions

Opportunities for Economies of Scale by Outsourcing



As we've discussed, COVID-19 has increased demand for some legal services, and many law firms are struggling to keep up. By outsourcing processes like client intake and reception, billing and collections, trust accounting and other back office services, firms can more quickly scale and grow their business.

Outsourcing these services allows the firm the benefits of access to skilled talent to oversee and perform time-consuming tasks at reduced overhead cost. This unlocks the scalability that large corporations enjoy when – for example – they purchase products and services in bulk.

Even large firms are outsourcing back office services to get ahead. For example, Goodwin Procter has saved a reported \$3 to \$5 million by outsourcing over the last several years. The firm outsources services such as accounts payable, some marketing and business development functions, media services such as videoconferencing and studio support, a portion of technology security, travel services, facilities management and recruiting.

Outsourcing Can Increase Access to Technology

For firms of all sizes, technology remains to be a significant tool for firm management.

A 2021 Legal Trends Report found that 85% of legal professionals were using some form of software to manage their firms. While many of these firms turned to software and tech to manage their operations during the pandemic, the report also found that the vast majority of lawyers—95% or higher in most cases—plan to continue to use these technologies beyond the pandemic, which is a clear indication that this technology adoption has become the norm for most firms.



Businesses that provide outsourced legal services are often able to access technology and software that may be prohibitively expensive or complex for smaller law firms. By outsourcing to these businesses, law firms may be able to access technology services or software that were previously out of reach.

Priorities for Law Firm Leaders in 2022

Law firm leaders that want their businesses to grow in 2022 must focus on three key areas:



Clients



People



Operations

Consumers want more humanity. The pandemic has caused a dramatic shift for the legal industry, presenting unprecedented challenges for firms and their clients. Clients want proactive and personalized communication, and they want lawyers that will truly listen to their needs. They also demand more flexibility in the client-service relationship, for example, offering the option to meet remotely or introducing new expertise or relevant partners to support clients' changing priorities.

Support Your People

We discussed earlier how law firms are desperate for talented lawyers, and how the pandemic has left much of the legal workforce feeling disengaged, overwhelmed, and uncertain about the security of their future and/or their career. During these times, it's critical for law firm leaders to remember that their people are their firm, and that they acknowledge and empathize with their employees' very real personal, emotional and mental struggles:

- Support a culture of flexibility, collaboration and connectivity by employing technology and being communicative.
- Build new firm capabilities to alleviate stressors or eliminate menial tasks with automation.
- Allocate excess capacity to pro bono activities that create a sense of community and purpose for your associates.

Maximize Operational Efficiency

As operations are impacted by the struggle to hire talent to fill the demand for legal services and an overwhelmed and disengaged workforce, efficiency will continue to be a key aspect of successful law firms. Firm leaders should review and track their operational processes and procedures frequently to identify bottlenecks and identify areas for improvement. As cash management and liquidity are vital in these times, billing and collections efforts will be an important part of business to focus on in order to maintain a healthy balance sheet.

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