How are law firms responding to the financial impact of the coronavirus pandemic?

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It's been nearly three months since the coronavirus began disrupting the business operations of entire industries worldwide. As a result, law firms have been finding a variety of ways to cope with the financial challenges being imposed by the pandemic. The ALM staff at Law.com, one of the industry's leading media platforms, has surveyed 86 major firms, listing a brief summary of each one in alphabetical order. Patterns have shown that the majority of firms are doing everything they can to avoid layoffs, furloughing, and compensation reduction measures for their lower-paid associates and support staff. Some firms and managing partners are exceeding the status quo with cash calls, partner-funded assistance programs, and voluntary leave. Most summer associate programs have been affected, but firms are demonstrating loyalty for their summer and first-year associates with guaranteed job offers and financial assistance in certain cases. This article will break down each of the major patterns being seen, with the firm-by-firm guide published by Law.com being the primary source of data.

Compensation reduction measures are being seen across the board but managing partners are shouldering the biggest sacrifice in pay cuts.

Of all of the measures that firms are taking to soften the economic blow due to the coronavirus, tiered compensation reductions are the most commonly reported. In fact, 86% of firms have undergone some kind of compensation reduction across the hierarchical board with managing partners taking on the deepest cuts. C-level executives and special counsel are also receiving similar cutbacks in some cases, depending on how their pay level stacks up to managing partners. Most reductions for the highest paid partners are being reported in the range of 10% to 35%. Eversheds Sutherland, whose draws are based on revenue, announced on May 6 that its equity partners would be "leading the way" when it comes to pay cuts. "We're preparing for what we think will be less work for the short term. We don't want to be caught off guard," said the firm's U.S. co-chair, Mark Wasserman, "we can always dial [these measures] back if there is a faster recovery."

Associates and support staff are also being impacted by compensation reductions, but at a lesser rate, on a tiered scale, and with a minimum threshold in most cases.

According to the firms willing to disclose this data, associate salaries are currently being impacted at an average rate of 15%. Support staff are also being affected at a slightly lower average of 13% on a tiered scale based on annual salary. Commendably so, most firms have established a minimum annual threshold for those receiving cutbacks, typically around $85,000 with some not affecting anyone making less than $150,000-$200,000 annually. The bulk of firms electing for these measures have confirmed that these cutbacks are very temporary and may be lifted later this year, depending on performance levels. Ballard Spahr is among the firms that have been able to avoid downsizing through the implementation of compensation reductions alone. In a recent statement, chairman Mark Stewart declared, "we hope to avoid layoffs and to remain as busy as we have been, guiding our clients through this turmoil and back to normalcy as soon as possible."

In addition to reduced draws and distributions, managing partners at some firms are stepping up for cash calls and contributing special capital.

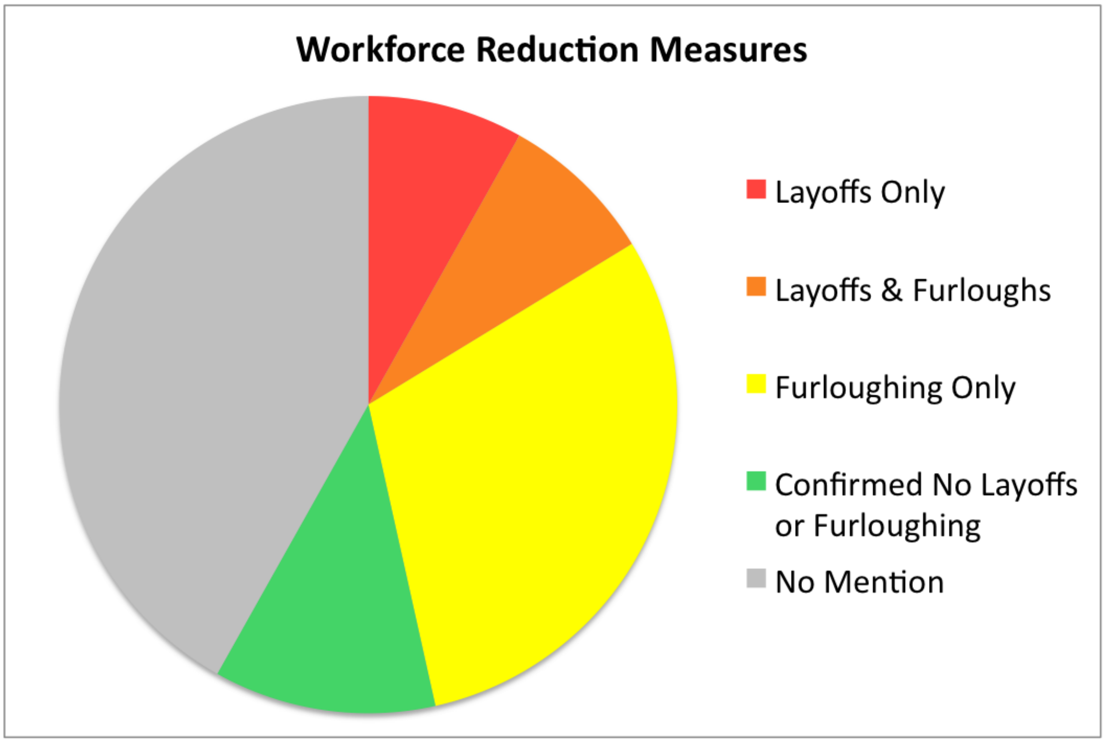
For certain firms, managing partners have banded together to contribute additional capital in order to protect the rest of their firm from layoffs and furloughs. London-based firm, Allen & Overy, is holding a cash call for partners as a hopeful alternative to compensation reduction measures for the rest of their staff. "The COVID-19 global crisis is an unprecedented situation for us and our clients," Allen & Overy said in a statement, "the firm is in a very strong financial position but given the unknown nature of the evolving challenges and their long term impact on our markets, it is sensible to introduce some prudent management measures as part of our ongoing scenario planning." Equity partners at Fox Rothschild have also made a special capital contribution in addition to a 20% reduction on their monthly draws. Additionally, managing partners at Spanish law firm, Cuatrecasas, have reportedly raised €20 million ($22 million) through special capital contributions, which has significantly boosted their internal financing fund.

Several firms are choosing to reduce or eliminate certain employee benefits as a way to shore up extra cash.

In addition to hiring freezes and reduced non-essential spending, some firms are lowering or eliminating certain employee benefits. Dorsey & Whitney has cut back on their 401(k) contributions by 33%, in addition to furloughing 4% of their staff. The firm is planning to "reevaluate its measures from time-to-time." Civil-defense firm, Marshall Dennehey, is among the firms that have chosen to suspend all employer contributions towards retirement plans. The firm's president and CEO has announced that effective May 1, the suspension will be in place through next year, and that the driving factor is to avoid layoffs. Am Law 200 firm, Duane Morris, is also suspending their employer contributions through the end of the year. Alternatively, Portland-founded AM Law 200 firm, Stoel Rives, has eliminated all parking and transit reimbursements for the time being. Attorneys and firm support staff have also been seeing an impact to their bonus potential. In many cases, firms have been deferring or postponing bonuses and pay raises, however some are still planning to award discretionary bonuses. Multinational firm, Dentons, is planning to reward high performers with the opportunity to recover some of their lost wages as bonuses later in the year.

Only a small percentage of firms have undergone any layoffs at this point.

If there's an existing sign that is demonstrating the law industry's ability to survive a pandemic and economic collapse, it is the low rate of reported furloughed workers and even lower reported rate of layoffs. Only 16%— 14 out of the 86 firms reported— have confirmed layoffs. In most cases, these layoffs have primarily included support staff such as paralegals and other office-based positions whose job is challenging to perform at home. Only a small number of layoffs reported have included attorneys. Faegre Drinker Biddle & Reath, who recently merged with two firms in February, has cited some layoffs as a result of redundancies from the merger. So far, at least one firm has filed a WARN notice. New York City-based firm, Davidoff Hutcher & Citron, has laid off at least 34 back-office and secretarial staff. Jeffery Citron, a co-managing partner at the firm, told ALM Staff that while the firm's attorneys are able to work from home, "it was very difficult to have the secretaries working, not being in the office" which made it "harder to adapt the work of support staff to the pandemic's restrictions." The majority of firms are taking great care of their laid off employees, providing severance packages and continued medical coverage.



Data for this graph was sourced from an article at Law.com which surveyed 86 firms, last updated May 22, 2020.

A larger percentage of firms are furloughing some workers, but managing partners are going above and beyond to help them.

According to the report by ALM staff, 38% of firms have furloughed a small number of their support staff, mainly those who have been unable to work remotely during the stay-at-home orders. This means that as restrictions lift, these furloughed workers will be brought back. In the meantime, furloughed workers are able to retain their benefits and many firms are finding creative ways to provide additional support. Am Law 100 firm, Sheppard Mullin, paid all of their 33 furloughed workers for the initial 4 weeks of the transition and are expecting to bring everyone back in the next 60-90 days. Davis Wright Tremaine has instituted a program for employees to donate their unused vacation time to those with pressing medical and family needs. Additionally, they have initiated a partner-sponsored employee fund as another way to provide relief for staff members experiencing financial hardship. Katten Muchin Rosenman, another firm that has had to implement pay cuts and furloughs, has also started their own fund to assist their furloughed employees.

Instead of layoffs and furloughs, some firms have adopted voluntary leave and buyout programs.

At least 8 firms have adopted voluntary leave and buyout programs, as an alternative to harsher workforce reduction measures. Freshfields Bruckhaus Deringer is offering flexible working arrangements and reduced hours for those interested as a way to avoid layoffs, while Mayer Brown is allowing all lawyers and staff 12 weeks of sabbatical leave. Australia's biggest law firm, MinterEllison, has introduced a temporary "COVID-19 leave scheme" and has asked all permanent employees to purchase six weeks of leave, which will be funded by a temporary salary reduction from April through December. Another firm to implement a voluntary buyout plan includes Ropes & Gray, who is offering 12-30 weeks of pay depending on each year of service for all U.S. support staff. On a global scale, Shearman & Sterling is offering all support staff and fee-earners the opportunity to take a 3-6 month sabbatical while still receiving 30% pay, plus an additional 10% incentive for those who complete pro bono work during their voluntary leave.

Many summer associate programs will now be shortened and held virtually, while the next class of first-year associates waits to start until after the new year.

Nearly 20% of the firms listed in the report have made some sort of change to their summer associate program, including delayed start dates, a shortened duration, less pay, and in a few cases— cancelling them entirely. Firms such as Baker & Hostetler, are shortening their summer program's duration and pay. Other firms such as Hogan Lovells and Holland & Knight are cutting their summer programs in half, but still paying all of their summer associates for the originally planned number of weeks. In a handful of cases, firms have decided to cancel their summer associate program all together. The good news is that the majority of firms will still be making job offers to their would-be summer associates. Cahill Gordon & Reindel are among the firms that are taking great care of their summer associates despite the program's cancellation. Not only are they honoring their would-be participants pay in full, they are also giving everyone the opportunity to assist with the firm's pro bono work during the summer months. According to a news article by Bloomberg Law, the firm said, "we wanted to give [our summer associates] peace of mind that the firm is supporting them in this difficult moment." Squire Patton Boggs is also electing to cancel their summer program entirely, but will be offering a $5,000 stipend to students who have already been admitted into their program.

The start date for the next class of first-year associates is being pushed to January 2021 in most cases.

When it comes to the next class of first-year associates, 13% of the firms have reportedly deferred their first-year associates until January 2021. In addition to the worldwide stay-at-home orders, this has also been due to the delays seen across the board of state jurisdictions for the July 2020 Bar Exam. Pepper Hamilton, who is still planning to merge with Troutman Sanders on July 1, is helping all of its new associates with living expenses and other costs associated with bar exam preparation. These new associates are also able to enroll in the firm's health insurance plan before officially starting in January 2021. It is clear that firms are doing everything they can to preserve this important tradition in recruiting new talent. Nathan Peart, managing director at Major, Lindsey & Africa, has highlighted the importance of first-year associates as key elements of the law firm's talent pipeline. Peart said, "I think there is a recognition that you're going to need junior associates in the next few years as things bounce back."

Even as the law industry continues to evolve post-COVID, there will always be a need for any type of legal work.

As we think about moving forward post-COVID, it is equally important to consider what was happening prior to the pandemic. According to the 2020 Report on the State of the Legal Market by the Center on Ethics and the Legal Profession at Georgetown University Law Center, Thomson Reuters' Legal Executive Institute and Peer Monitor, the law industry was already evolving. Traditional law firms have been seeing a slight decrease in demand as clients are now able to receive law services from a variety of non-law firm alternatives. When it comes to practice areas, the demand for litigation, labor/employment, real estate, bankruptcy, M&A, and general corporate were experiencing an increase prior to the pandemic. Although certain practice areas have seen an increase as a result of the coronavirus, such as employment and bankruptcy, is it clear that the slowdown has been felt across the board in the law industry. Most firms are hopeful for a quick comeback. As we continue to hold our breath during this pandemic, Forlesia Willis, Director of Talent Acquisition at Gibson Arnold & Associates, is encouraging law professionals to focus on how they can continue to grow at their firm and within their focus practice area. "We've had a blip on the screen," said Willis, "but there will always be a need for all types of legal work."

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