

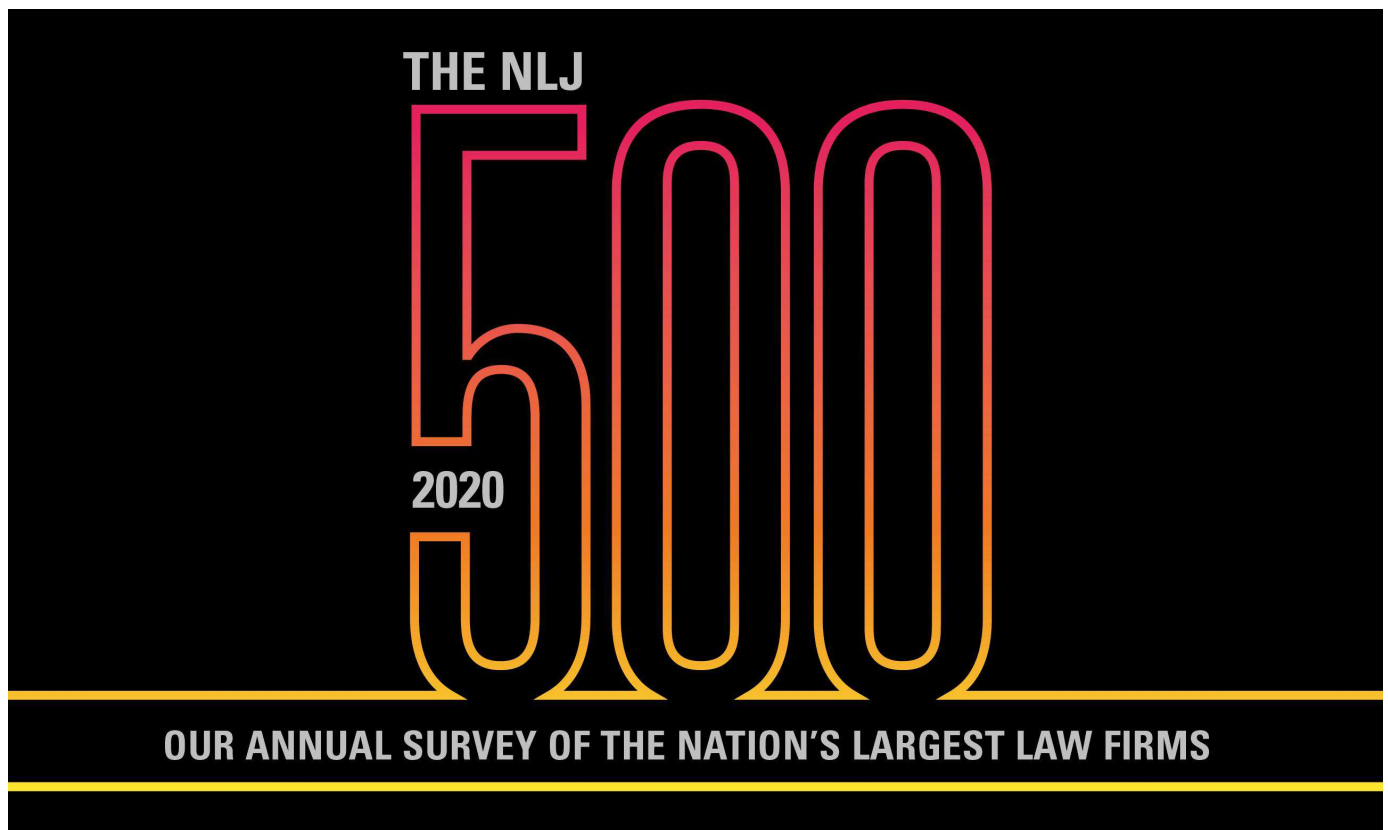
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The NLJ 500: Steady Growth, But What's Ahead?

Head count jumped by 2.5% at the nation's largest firms in 2019. But that was before the pandemic.

By David Thomas | June 23, 2020



At the nation's 500 largest U.S.-centric law firms, another year of financial success (<https://www.law.com/americanlawyer/2020/04/21/the-am-law-100-found-success-in-2019-will-it-be-enough-in-2020/>) meant another year of bolstering head count. But the ongoing COVID-19 pandemic might lead to firms trimming their ranks when 2020 is all said and done.

In 2019, this group increased its head count by 2.5% on average, with those numbers rising from 169,477 to 173,694 lawyers, the same amount of growth that was seen from 2018 to 2019. But the economic damage being wrought by the pandemic could wipe those gains away.

The U.S. legal industry suffered a net loss (<https://www.law.com/americanlawyer/2020/05/08/legal-industry-shed-64000-jobs-in-april-as-layoffs-and-furloughs-spread/>) of 64,000 jobs in April, although 3,200 jobs were added (<https://www.law.com/americanlawyer/2020/06/05/after-bleeding-jobs-in-april-legal-industry-sees-a-small-rebound/>) in May, according to the U.S. Bureau of Labor Statistics. And the overall unemployment rate across the entire U.S. economy is 13.3%

(<https://www.washingtonpost.com/business/2020/06/05/may-2020-jobs-report-misclassification-error/>). Jeffrey Lowe, the global practice leader of Major, Lindsey & Africa's law firm practice group, said he doesn't expect headcounts to go anywhere but down across the board.

"It's going to inevitably mean a reduction in headcount at most places," Lowe said.

That's because compensation is the largest cost any law firm has to pay, Lowe said. Law firms only have so many levers they can pull to head off a downturn in business before it starts affecting their personnel, he added.

"I think a lot of firms were able to hide behind a very robust economy," Lowe said. The pandemic will make it "very clear which firms are in trouble and which will be strong enough to ride it out."

The pandemic has impacted law firms (<https://www.law.com/americanlawyer/2020/04/08/pay-cuts-layoffs-and-more-how-law-firms-are-managing-the-pandemic/>) all over the NLJ 500. In 2019, Baker McKenzie, the largest U.S.-centered law firm on the 2020 NLJ 500, saw its head count grow by 1.9%, to 4,809 lawyers. In April, the firm announced it was reducing salaries for all of its nonpartner attorneys in the U.S. by 15%—in 2019, Baker McKenzie had 2,911 associates and 409 other lawyers. Baker McKenzie's 1,489 partners will also see cuts, with the 684 equity partners taking a bigger hit than others.

Other NLJ 500 firms haven't been so lucky. Dorsey & Whitney; Goldberg Segalla; Husch Blackwell; McDermott Will & Emery; Miller, Canfield, Paddock and Stone; Reed Smith; Saul Ewing Arnstein & Lehr; Seyfarth Shaw; Taft Stettinius & Hollister; and Womble Bond Dickinson—law firms whose head counts grew between 2.2% and 7.1% in 2019—have all laid off employees as a result of the pandemic.

Whether law firms have any regrets about expanding just before the country experienced a severe economic downturn depends on how thoughtful they were with their hiring, said Zeughauser Group consultant Mary Young.

"It really depends on the firm's strategy and the markets in which they expanded. If they expanded in a thoughtful way, to enhance their position in markets where they already had strengths and to bolster their brands and better serve clients, then I doubt they have regrets," Young said. "If they pursued growth for growth's sake, they might have regrets depending on whether they happen to have a practice mix that provides advantages in this market."

Ditto for firms that shrank their overall head count in 2019. If law firms cut people so they could increase their productivity or get rid of underperforming practices, "they are probably breathing easier because those moves would have strengthened their firms," Young said.

But those firms aren't invulnerable to the pandemic. NLJ 500 firms such as Greenspoon Marder, Nixon Peabody and Vedder Price saw their lawyer head counts drop by 1% to 2.7% in 2019 and have also laid off employees as a result of the economic effects of the COVID-19 pandemic.

Dinsmore & Shohl posted one of the highest percentages of growth on the 2020 NLJ 500, bolstering its ranks by 16.5% in 2019. Joshua Lorentz, who chairs the firm's intellectual property department and its finance committee, discussed how he feels the firm's increased head count will position the firm in a pandemic.

"We don't think it'll be a liability. We think it makes us stronger," Lorentz said. This year alone, Dinsmore has added 35 lawyers to its ranks, but it has had to furlough staffers who were unable to work remotely. "We're going to look for opportunities. We're going to try to step forward."

For Lorentz, the question of whether the firm has too many— or too few—lawyers during the pandemic can be answered in part by the numbers of hours they're billing. But hours only tell part of the story, he said.

"It's more than just a metric," Lorentz said. "You have to trust your practice group leaders about what's happening on the ground, not just the metrics."

The Outlook Across U.S. Cities

Major legal U.S. markets such as Houston, Los Angeles, New York, San Francisco and Washington, D.C.—as well as London—all saw head count growth in 2019, between 2.2% (Washington) and 8.3% (Houston). Chicago's numbers, on the other hand, stayed relatively flat, slightly shrinking by 0.2% year over year.

Texas continues to be an area of interest for law firms. ALM Intelligence in November 2019 reported (<https://www.law.com/texaslawyer/2019/11/21/consider-this-nearly-half-of-the-am-law-200-have-at-least-one-texas-office/>) that 82 law firms on the Am Law 200 had at least one office in the Lone Star State by the end of 2018—that's 157 offices with 4,067 lawyers. According to the 2020 NLJ 500, Houston, Dallas and Austin saw their lawyer bases increase by 8.3%, 10.2% and 12.2%, respectively.

Minneapolis, which legal consultants have described as being the second-most-important market in the Midwest (the first being Chicago), saw (<https://www.law.com/americanlawyer/2020/03/02/big-law-has-saturated-the-biggest-u-s-cities-where-is-the-next-frontier/>) seven new firms setting up shop in 2019, including three major mergers. But that city's contingent of lawyers shrunk by 2.5% last year. Opening an office in a new city can be a complicated, time-consuming and expensive affair in a normal circumstance. And Lowe predicted that as the pandemic continues, law firms are going to be especially careful about branching out into new markets.

The pandemic appears to have disrupted at least one firm's plans to expand. Seyfarth, ranked 44th on the 2020 NLJ 500, increased its head count by 4.5% in 2019. Some of the lawyers Seyfarth brought on last year were supposed to act as the firm's beachhead in Seattle, which was supposed to launch (<https://www.law.com/americanlawyer/2020/03/31/seyfarth-eyes-new-seattle-and-dallas-outposts-after-strong-2019/>) in 2020. Amid the pandemic, Seyfarth cut salaries and furloughed employees in May. Later that same month, a firm spokeswoman declined to comment on any plans to expand into Seattle and Dallas this year.

Legal consultants believe the industry is poised to change following the pandemic. With firms reporting that they've stayed productive even as their lawyers work remotely, that might cause some law firms to reexamine their office locations in expensive major markets.

It's not a new conversation for law firms, Young and Lowe noted. Firms have already ditched their law libraries, Young said. And at some firms, partners have the same size office as associates, Young said. However, Young noted that, in the short term, law offices will actually need more physical space in order to fully comply with social distancing guidelines various states have issued.

A study from Robert Half International, a human resources consulting firm, found that 74% of workers want to keep working remotely once the various stay-at-home orders have been lifted.

"We'll likely see more firms fully embrace a comprehensive digital work environment, with remote work becoming the norm versus the exception," said Jamy Sullivan, executive director of Robert Half Legal.

Sullivan said Robert Half is seeing law firms use contract or temporary attorneys more for contract drafting and review, as they relate to new government regulations, insurance claims and mortgage refinancing.

"In an uncertain economy, it's not unusual for firms and legal departments to rely on legal experts who are hired on a temporary, project or contract basis," Sullivan said. "While firms may feel cautious about hiring, at the same time, they have work that must get done and don't want to be understaffed."

