

More Than a Buzzword: How Law Firms and Law Departments Can Harness Innovation



Introduction

In a profession enamored with centuries-old precedent, the term “legal innovation” has long been an oxymoron. Lawyers were commonly—and often rightly—perceived as too stagnant and tradition-bound to embrace radical change. But more recently, legal innovation has taken off, garnering extensive buzz in the industry.

The “innovation” label has been slapped on everything from alternative fee arrangements to modern matter-management solutions. But these approaches, while new to legal organizations, are not necessarily revolutionary. So, do they qualify as true innovation? The answer is an emphatic yes. When it comes to the law, innovating means changing something that has been established or introducing something new, be it large and organization-redefining or modest. The term encompasses far more than technology; operational changes and mindset shifts can be innovative as well. As new practices become the norm, they are no longer novel; therefore, the criteria for what constitutes innovative is, by definition, constantly evolving.

In this whitepaper, we will explore what legal innovation currently is and survey elements that contribute to successful innovation, including an effective framework to support innovative efforts in law firms and corporate law departments.

Why Legal Organizations Decide (and Need) to Innovate

Law firms and law departments innovate for a variety of reasons, largely in response to the differing pressures they face.

Law Firms

On the law firm side, there is great pressure to grow, attracting new clients and recruiting new lawyers. Yet obstacles to growth are aplenty: law firms face more competition in the marketplace than ever before. Alternative legal service providers, contract attorneys and even accounting firms are cutting into law firms’ traditional stronghold in material ways, offering a range of comparable services at a noticeably lower cost. Firms also grapple with the need to entice younger talent with technology—the tools and applications that can make their legal practice, and their overall lives, less burdensome.

Aside from growth, retaining existing clients and lawyers is another impetus compelling law firms to innovate. Clients, who themselves are focused on embracing transformation, expect their law firms to keep pace. They want their law firms to provide new avenues to deliver advice and

services in real time, with greater efficiency and at a lower cost. Law firms are thus turning to technology that can improve transparency and deliver timely insights to their clients. Firms are also using technology, specifically analytics, to support strategic decision-making, such as predicting the success of lateral hires, informing their recruitment decision-making and underpinning legal guidance by analyzing client and external data. This same data-based knowledge can also be the basis for new services and enhance delivery of existing services.

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Profitability also drives innovation. In light of competitive pressure, law firms must find ways to offer services at acceptable margins for fixed or other non-hourly fee arrangements. To maintain their status in the expanding legal services market, firms must find ever more ways to increase operational efficiency, especially for clients served by multiple practice areas at the firm.

Lastly, law firms are looking to innovation as a means of diversifying their revenue sources. For example, some firms are starting to offer subscription-based services that provide more predictable ongoing revenue streams. Others are investing in legal tech startups or building incubators to create new technology that will benefit both themselves and their clients.

Law Departments

Different motivations spur innovation on the law department side. One key driver is law departments' desire to build greater in-house capacity, broaden their practice area expertise and enhance the value of the legal support to the businesses they serve. The more work they can handle internally, the less money they need to spend on outside counsel and other costly resources. At the same time, law departments must find ways to reduce lower-value work and, where necessary, shunt it to less expensive resources. That means law departments must continually devise ways to streamline and expedite their workflows, such as by automating matter intake and providing self-service options for routine, lower risk legal needs.

Another driver is a focus on finding ways to reduce outside counsel spend: the demand for legal work is growing, but budgets are not keeping pace. Law departments aim to maximize their budget by increasing their control over those legal matters that are in the hands of outside counsel. By adding more transparent tools for monitoring case progress, they can improve their real-time awareness of matters and thus better track their spending.

The Four Elements of Legal Innovation

Reflecting these diverse motivations, law firms and corporate law departments typically focus on one or more of four elements of innovation.

1. Talent and Incentives

The first element is related to human resources and focuses on building talent and motivating creativity through incentives. New roles are emerging with business-centric responsibilities (such as account management, growth management and project management) and programs to encourage attorneys and staff to come up with new ideas. We have witnessed the creation of chief innovation officer or operations manager positions and a broader acceptance of solution architects, product manager and other roles not traditional to the legal industry. Reshaping the traditional “pyramid” staffing model to align the needs of the legal work with the appropriate level of personnel is foundational, when the focus is improving efficiency and enhancing overall talent development.

Organizations are using data analytics and technology to identify qualified talent in new ways—for example, by testing for aptitude (to add a different dimension beyond prior work experience to evaluate candidates) or applying data analytics to evaluate the likelihood of success of lateral hires.

Some law firms and corporate teams are instituting novel compensation structures that reward people for contributing to firm profitability in ways other than traditional billable hours and client development or are adding incentives to encourage attorney participation in innovation initiatives or identification of opportunities. These talent-related changes are intended to motivate creativity and support new ways of delivering legal services.

2. Technology

Technology is perhaps the most familiar innovation element. While the legal industry has perhaps been the last bastion of direct consumer delivery of services via applications, we are seeing technology begin to play a large role in the delivery of legal services. When used correctly, its leverage can greatly enhance the experience of clients and legal service professionals.

Sometimes legal organizations obtain technological tools that are functional out of the box, such as electronic discovery platforms or matter-management tools. However, more than a handful of law firms have created tools from scratch that are customized to their needs or to augment the legal services they provide to clients. These firms, especially early entrants into the space, have realized that there are a number of challenges beyond a legal organization’s traditional purview, leading to the final two elements discussed here.

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3. **Process and Product Management**

The third element centers on process and product management. In other words, legal organizations may innovate regarding the services that they deliver and how they deliver those services. The focus of process management innovation is rethinking how work is delivered, by whom and enabled by which tools, to identify opportunities to optimize the delivery of the legal services. Accessing institutional knowledge is often an initial focus of these efforts, with law firms or law departments looking to leverage institutional knowledge to improve consistency, cycle time and work allocation. For example, some are employing artificial intelligence and other tools to analyze their work product and respond to certain client questions (e.g., self-service advice and counseling “bots” or Q&A repositories).

As law firms move beyond the traditional delivery of legal services into technology-enabled service delivery, opportunities exist to “productize” services. Productizing services includes the packaging of proprietary process(es), resource allocation and technology in a service that is offered in alternative fee structures. Shifting to this business model has benefits for both law firms and clients. Firms have learned, however, that building and maintaining a software development business, for example, within the law firm structure is fraught with challenges. Special roles (e.g., product managers), performance and success measures, branding, pricing and go-to-market strategies are required. Some firms have chosen to create separate entities as a means to overcoming the business structure challenges, which leads us to the fourth innovation element.

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4. **Business Structures and External Investment**

Finally, legal organizations may innovate by creating different business structures or by making external investments to create and grow novel concepts. For example, they may create subsidiaries or incubators to deliver technology-enabled legal services (as discussed above), test ideas, create data-driven solutions to legal challenges or provide collaborative spaces for developing and testing solutions.

The Right Direction for Your Organization

As much as lawyers might yearn for clear answers, as with so many things in the law, there is no single, “right” direction for your organization’s innovations.

Over the past few years, we have seen a variety of innovation initiatives focus on one or more of the elements, often without accounting for the dependencies among them. The most successful initiatives account for these interdependencies, recognizing, for example, that new organizational structures, talent, roles and incentives are needed to support changing the business and practice of law. A firm might implement innovative technology but, without the right organizational structure and people in the right roles, adoption of the innovation may falter. Or a firm might conceive of a creative pricing structure for a type of matter, but attorneys might be reluctant to adopt it or work on those matters without a compensation structure or rewards to support the change. A firm might develop an excellent product without the structure and talent to successfully productize it and take it to market.

What differentiates those efforts that succeed from those that fail? A structured framework that sets innovation projects up for success. Here are some tips to develop that framework in your organization.

1. Create an Internal Organizational Structure for Innovation

Without ownership, accountability, a budget and the right mix of talent any initiative is destined to flounder. Leading organizations are forming a new type of group to guide and support innovation aimed to transform the work accomplished by attorneys. An internal legal solutions team that owns innovations and their implementation to work with the legal and business operations teams to design purpose-fit solutions, guide and support their implementation, thereby ensuring the least amount of disruption and the greatest likelihood of realizing intended benefits, is imperative to gaining and sustaining momentum.

Too often, technology-related innovation initiatives fall under IT’s auspices, but the typical IT organization is challenged to maintain business continuity, address security concerns and support and enhance operations and legal technology, much less also pursue and support transformative initiatives. History proves that installing new technology and turning it over to the legal team rarely results in widespread adoption or the anticipated benefits, especially since caseloads do not stand still to allow for learning new ways of working. Furthermore, not all innovation involves a technical element.

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2. **Ensure Innovation Aligns With Organizational Strategy**

Make sure that your innovation investments align with your organization's strategic objectives (which should align with clients' needs, of course). To be truly successful, the innovation must be specific to your firm or law department. One key is to avoid innovating to "keep up with the Joneses": in law, as in life, the mere fact that your peers are doing something does not make it the right choice for your organization. In the same vein, eschew the passion projects of individuals whose ideas, however great they may be, do not line up with the firm's or practice group's overall strategy. Innovation must be congruent with your organization's culture and essential nature. For example, if your organization thrives with rigid workflows, an attempt to force it into more agile processes is likely to meet with resistance (and vice versa).

3. **Democratize Innovation**

Top-down decision-making is fine, but ideas need to come from across the legal organization. Democratize innovation by encouraging the broad submission of suggestions. Engage everyone in the organization at every level by enticing them, perhaps using rewards or incentives, to share their ideas for improving client service and other aspects of the practice of law and give them the time and space to do so. The more diverse the ideas you gather, the better the solutions—and results—you will generate, and the deeper the culture of innovation you will build. Develop incentives to encourage participation at all levels in evolving the legal organization.

4. **Focus on the Greatest Impact**

Prioritize those projects that promise the greatest impact and that aim to deliver outcomes or an experience that competitors do not provide. Develop a formal concept-to-launch decision-making process to embed criteria and weighting aligned to the organization's strategy and priorities. The concept-to-launch process enable the evaluation of each idea for its promise and feasibility. The chosen innovation(s) must relate meaningfully to your practice mix and client base. It must reflect the key types of work you perform. It should also account for and improve key client relationships. Focus on projects that will allow you to stand out from your peers.

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5. **Develop a Sound Business Case**

Include a process by which you develop sound business cases that support targeted investments. You can win the hearts and minds of the decision-makers in your organization if you can align the purpose of an innovation with the organization's strategy and show how it solves a key pain point.

Be mindful of demonstrating how the innovation will deliver a return on the investment, whether in terms of reducing cycle time, extending a new offering, minimizing time or cost spent on low-value work, offering self-service tools to clients or serving a currently unmet, yet valuable, legal demand.

6. **Measure and Manage**

Finally, incorporate measurements to assess the actual value delivered to the legal organization and its clients. To illustrate the return on the investment, look for meaningful, quantifiable metrics that can demonstrate the benefits of the innovation and outweigh any risks. Be sure to capture pre-innovation statistics that will allow a meaningful comparison.

The Formula For Innovation Success

As the focus of legal innovation initiatives continue to mature, we have noticed several key trends.

Successful projects typically do not seek to solve an overly broad or loosely defined goal. Instead, they are likely to be localized solutions, targeted to address a specific practice or a discrete client need. In other words, instead of being broad and horizontal, trying to solve a host of issues for every client, these innovations are narrow and deep: that is, they are laser-focused and provide a comprehensive solution to a defined problem that a segment of clients share.

Additionally, the best innovation projects are based on client input; what the law firm or law department believes to be valuable may not gain traction with the clients or business units that it serves. A joint meeting with clients—e.g., a “co-innovation summit”— can ensure that an innovation initiative meets a true client need and incorporates client input into the solution, thereby increasing the chances of buy-in.

Finally, those organizations that are experiencing a surge in innovation with leadership support likely started quite small. They began their quest for innovation by choosing limited, narrowly defined projects where they could achieve quick wins, building their stakeholders’ confidence and momentum. This approach encourages the further investment of time and resources needed to tackle more audacious goals.

Legal innovation is no longer a contradiction—instead, it is rapidly becoming a mandate. Fortunately, there are a variety of ways that law firms and law departments can employ this framework for success to embark on a rewarding journey of innovation.

Connect With Our Experts

To learn more about legal innovation trends or to discuss your organization's initiatives, please contact us:



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