



# Technology the new business model for law firms

So far technology has had little real impact on the legal profession. But the next ten years will see a fundamental change in the way in which law firms operate argues Alan Hodgart. With a squeeze on prices law firms will be forced to implement technology to take out the cost in the more routine parts of high value work.

The enormous advances in technology over recent years have resulted in a transformation of many industries. Business models have undergone a dramatic reshaping as the adoption of technology has allowed fundamental changes in business processes and cost structures. The result has been improved quality and lower prices across industry after industry. It has also allowed businesses to grow profitability even while lowering prices.

## Investment in infrastructure not in changing business processes

The impact of technology in the legal market has been much less than in many other industries. There are a number of reasons for this:

- The impact of competitive forces on law firms and how they are managed has been relatively recent and, even now, has not been fully embraced by many partners.
- The cost of investment in technology and the impact this has on partner 'take home' income. While law firms in general have invested a significant amount of money in technology much of this has not been in business processes.
- The resistance by partners to the fundamental changes in behaviour that would be caused by the incorporation of technology into the work processes.

Of course, law firms now make a significant use of technology, much more than ten years ago. The point is that it has mainly been used to make the internal infrastructure of the law firm more effective and efficient than to change the fundamental business processes.

The early technology investments by law firms were primarily in financial systems. Finance directors developed computerised reporting systems; time recording systems, real time key performance indicators and the like. There are now systems that allow profitability, by client and by type of work, to be calculated along with other sophisticated analyses. These systems clearly enable better management to occur but, on their own, do not change business processes.

The same is now true throughout most law firms' infrastructure. Human resource departments now use quite sophisticated programs for monitoring people development, for appraisals and record keeping. Marketing departments have comprehensive client data systems, client management programs and a range of marketing data to hand on computers, available at the touch of a button.

When discussing this lack of investment in business processes with law firms the reply is that many firms have invested in comprehen-

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sive knowledge management systems and this has changed the way lawyers work. They now have many standard precedents and other documents easily available to the lawyers. To many lawyers this indicates that business processes have changed due to the adoption of technology. However these changes have simply made the existing business processes more efficient: they have not changed the business model as such.

The one exception to this argument is among firms who specialise in high volume personal injury claims, debt recovery and residential conveyancing. Some, but far from all, firms in this market sector have responded to very competitive pricing pressures and made fundamental changes in how the work is done. Technology is used to process much of the work, paralegals or 'clerks' are used rather than lawyers



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for processing and lawyers focus only on specific issues that require their skill and not on processing documents.

In discussion with key executives from a major insurance company we noted the lower profitability of a number of law firms they used for processing claims. One said, “We have forced down prices and this is what has hit their bottom line. On the other hand, we’re not convinced they (the firms) have done anywhere near enough to take cost out of their business.” Even in this sector of the market, where profits are under very strong pressure, there are still firms who have tried to graft technology onto the old business processes. This makes old processes more efficient but it requires a change in the processes themselves if costs are to really reduce.

### Price pressures will force change

This is a huge problem staring the legal market in the face. Clients of all types are becoming more and more price conscious. High value work, work that is of significant importance to clients, is much less price sensitive than lower value, less important, work. An increasing amount of legal work is not seen to be of even mid-value to clients and the percentage of legal work seen to be high value is shrinking.

At the same time clients also believe that there are great swathes of legal work that are not particularly complex and that there are many good lawyers who are quite competent in this work. Given a significant lack of competitive differentiation between many law firms, clients invoke price as a differentiation. If firms with similar levels of competence look the same then price becomes the deciding factor.

At the same time law firms face significant increases in costs. Salaries of lawyers continue to rise, as do other major costs such as rents. In the past lawyers worked more on a ‘cost plus’ system: hourly rates rose every year (or more) in order to cover rising costs and to maintain

(or even increase) profitability. This is no longer acceptable to many clients who are asking for rate reductions not increases.

The market is heading to a position where many firms will find it difficult to continue to raise prices (that is, hourly rates) at least across the board, but costs will still rise. Profitability can be maintained by making everything the firm does more efficient or by reducing the number of equity partners (or both). These approaches both have limits, however, and will cease to be effective at some point.

### The way forward: standardisation of process

The solution lies in a radical transformation of the way in which legal work is done and this will change the role of many lawyers in a fundamental way. The technology to do this is available already but very few firms have done anything about it.

A year or so ago we asked a group of heavy hitting M&A partners the following question: “What percentage of the legal work on a £10 billion hostile global M&A is really complex and requires a top flight partner?” The answers ranged from 5% to 10%. There is a critical point here: the deal itself may be very high value to the client but that doesn’t mean all of the work is complex.

If this is true of a £10 billion hostile takeover think about the percentage of truly complex work across the legal profession. Even on a generous estimate it is unlikely to exceed more than 20%, say 25% at the outside. Yet in many firms 80% of the work is carried out by partners and other high cost individuals. This cannot last for long. Even delegating it down to more junior (hence cheaper) staff is only a short-term solution as it leaves the basic business model intact.

The answer lies in recognising that legal work is like much other work: people go through a series of steps to move from a problem to a solution. Most professional work is capable of being broken down into a series of steps or processes. This is as true for a consultant on a strategic review, a lawyer on an employment matter and a property advisor on a major transaction. Each individual who does one type of work in a firm might have variations in how they carry out these steps in order to get to a solution but most go through a similar process to get to a solution for the client.

Where this is the case the steps in a process can generally be standardised: this applies not just to the paperwork but also to the activity itself. Everyone will do the work in exactly the

same way. Once we have achieved this it becomes straightforward to use technology to carry out many of the activities. This involves far more than simply using standard documents. By inputting into a computer program the processes required to answer specific issues, the technology can select alternatives (given a set of questions) and move from a problem that is put into the system to producing options as solutions.

Once a professional has these options he or she can then apply their knowledge and make a selection. In other words, instead of delegating routine work to a junior fee earner the technology can carry out this out, leaving the professional to work on the last 10% or 20% of the matter.

### Changing the face of the legal profession

Of course, it is not as simple as this. Intelligent systems require significant input if they are to work effectively and there is a large investment to be made in developing the data basis necessary to support this approach. Users of the systems also need to know the questions they need to ask in order to trigger a response: but it is not that difficult. The fact of the matter is that the technology is currently available and those law firms who can master it will be able to reduce costs, compete on price, possibly raise value to clients and improve profitability.

The changes that this approach will bring about are immense:

- Pricing by the hour will become irrelevant when a computer is doing 80% of the work and the professional only 20% so new pricing models will be required.
- Developing junior fee earners will become difficult because much of the work on which juniors used to cut their teeth on will be computerised.
- Law firms will not need so many lawyers if computers are doing 80% of the work so their human resource systems will require scraping, as a new type of recruit will be required.
- Significantly, the role of a partner will become very different. Partners will only need to have input into work where there is a particularly complex issue: the rest will be done by the computer and a few associates. Partners will become much more marketing and relationship focused than most are today.

This is a huge challenge. Even today there are many partners who find it difficult (even im-

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possible) to delegate work to a junior colleague and then supervise it effectively. They either do it all themselves or abdicate it when they pass it over to another. In the ‘new world’ they will be ‘delegating’ largely to a computer and if they have trouble ‘letting go’ now it will be doubly difficult when it is delegation to a computer rather than an individual.

The legal profession is ripe for this change. Much of the legal work can be standardised as processes and then programmed into an intelligent system. Technology can take a legal problem and move it a long way towards a solution

without any human involvement once it has been programmed effectively.

In a world of rising costs (a major one being salaries) and a squeeze on prices, the critical issue is to reduce labour time (and cost). Making existing labour intensive systems more efficient is only the starting point. Changing the way in which the processes are performed so as to eliminate much of the labour cost is the only solution in the long term.

This business model will be less important to law firms who are operating primarily in the very high value area of work where there is a continuous stream of complex work. Even so, these firms will be best advised to look at ways in which they can implement technology to take out cost in the more routine parts of high

value work. Outside this group, and this means the vast majority of law firms, it will be a strategic imperative and those who can achieve this early will have a huge advantage.

The main barrier at present in most firms is the partners: they see it as a huge risk to their status and it also moves them a long way outside their comfort zone. Firms who can harness the support of partners will be in a strong position to build market share in the long term.

The solution lies in a radical transformation of the way in which legal work is done and this will change the role of many lawyers in a fundamental way. The technology to do this is available already but very few firms have done anything about it.



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