



INNOVATION TRENDS IN LAW DEPARTMENTS OF U.S. AND GLOBAL COMPANIES

A REPORT ON LEVERAGING THE TRENDS RESHAPING THE LEGAL
SERVICES INDUSTRY



Introduction

When we look at the legal field, corporate law departments and law firms are often seen as having competing interests. In reality, however, their relationship is symbiotic, and their objectives more similar than different, when we consider the challenges they face and the solutions they can choose from.

For example, both law departments and law firms are required to justify value to their clients. This puts both under the constant pressure to iterate to more efficient methods when considering how they manage talent, use technology and handle overhead. Additionally, both must face common macro challenges, including, for example, the generational shift as more millennials are coming into the workforce and the need to cultivate talent in the face of retirement of senior executives.

As a result, the participants in the legal vertical, whether inhouse law departments or outside legal service providers, must embrace change in order to stay competitive in their industry and to respond to the changing needs of their business counterparts. This article will explore the coming challenges and how legal departments and law firms must adapt to drive increased value for their stakeholders.

Greater Workload Brings Added Responsibility for Law Departments and Law Firms and the Need to Innovate

Due to macro changes outside the legal vertical that have affected business units across the board and changes unique to the legal vertical, law departments are having to take on added responsibilities within their corporations. Their duties have grown beyond dispensing basic legal advice. Now, increasingly, legal departments are being looked at as trusted advisors helping to shape the strategy of the company overall and, in many circumstances, functioning as strategic competitive advantages to the business enterprise overall.

Due to these added responsibilities, experienced legal operations leaders are being brought in to help boost efficiency and rethink traditional modes of operations, so they can accomplish more of their traditional responsibilities with existing resources and expand their departments' responsibilities through existing resources and new resources, innovative solutions, and technologies.

Because of these overarching forces, law department expenses are increasing. As a result, corporate law departments have been taking the work previously assigned to law



firms back in house and investing in technology and resources and other vendors that can support legal departments in adapting to these trends and leveraging them for the benefit of their business enterprises.

The Added Spending vs. the Need for Efficiency

However, the added spending raises a concern in an environment where efficiency is being scrutinized. Therefore, rather than bringing in additional legal staff to take some of the stress off attorneys, alternative staffing models are being explored and other vendors and service providers are being brought in to improve areas such as project management, invoice review, legal department strategies, and legal spending management.

With these new models of law department strategy and management, general counsels and chief legal officers are finding that it is essential to bring in non-legal staff who specialize in business, consulting, and technology and are well versed in legal operations. These specialists focus on project management, process improvement, and technology implementations, so that attorneys can focus their time efficiently on legal matters.

Additionally, law departments are iterating on their existing methods of fulfilling their responsibilities and are unlocking significant values by improvements through lean strategies and design thinking methodologies. This type of internal resource alignment must be embraced by law departments that wish to enable their enterprises to keep up with their competitors and law firms that wish to remain relevant in this shifting legal landscape.

The Relationship Between General Counsel and Legal Operations Leaders

With the role of general counsels shifting to take on more of a business advisor role, many are hiring legal operations professionals to increase efficiency within internal departments and manage vendor and contract management, technology, staffing and cost containment. These legal operations professionals and organizations such as the Corporate Legal Operations Consortium (CLOC) and ACC Legal Operations, are transforming the legal department function at a fundamental level.

Leading law departments have already improved on the prior versions of themselves through (1) the integration of technologies such as artificial intelligence solutions, and (2) the incorporation of new procurement methodologies such as law firm RFP



optimization and implementation of guidelines on firm performance, increased evaluations, and scorecards, and the expansion of value based billing. The changes in technology and methodologies have a symbiotic relationship and improvements of a law departments technologies lead to improvements in methodologies, which in turn leads to additional improvements in technologies, all resulting in a more effective legal department.

Technology Expected to Take Become More Transparent, Predictable and Secure

Traditionally, law departments have lacked resources and interest in technology adoption. This trend has changed as there has been an increase in legal systems' technology budgets and an increase in the overall comfort level of attorneys with technologies in all aspects of their lives. The investments in technology have already improved internal efficiencies and, as a result, have accelerated the pace of law departments' ongoing adoption of newer and newer technologies – quite simply, law departments are iterating faster and more often.

The focus of priorities on the technology being adopted, includes, among other things, those technologies that add intelligent and relevant analytics to historical data, provides improved reporting systems, and increases visibility of critical business metrics that are empowering law department leaders to make smarter business decisions.

Law departments are also embracing software solutions that provide more transparency to outside counsel activities. Some of these even provide capabilities for real time monitoring.

Using Data to Make More Strategic Decisions

There is no doubt that data driven metrics can increase a company's efficiencies. Law departments and firms have been attempting to increase operational transparency through e-billing and contract management tools for many years. The technology available now allow law departments to do significantly more with their data today than was even possible just short two years ago. Law departments are now able to harness their historic data to predict future needs that may arise involving staffing, expenses, liabilities, and more.

Many law departments are already using these analytics to help assemble project teams faster. They are also beginning to incorporate employee time recording initiatives to supplement e-billing data. This allows them to identify trends that will help them



improve their use of internal resources and determine areas where work can be made more efficient using outsourcing and automation.

Data can also help law departments' abilities to make corporate decisions regarding M&A and divestiture activity, elevating their strategic role within the business enterprise.

New technologies are also enabling law departments to set budgets and establish pricing parameters for services they procure from outside counsel based on the historical data that they have available internally and, in some cases, using publicly available data.

Legal departments, however, need to find the right resources to help them implement and manage these new technologies to reach these goals and capabilities.

Competitors, Clients and Demands and Their Effects on Law Firms

Because there is more of an emphasis on efficiency and value, law firms are now looking for ways to make clients aware of their new higher standards.

New firms are popping up who have already adopted new technologies and are exhibiting higher quality work. Traditional firms must demonstrate increased value and efficiency in nearly everything they do in order to keep up.

The New Landscape of Competitors

As internal spending continues to increase, many law firms find that their biggest competition are their own in-house counterparts. This is especially the case in many of the AM Law 200 firms that serve primarily Fortune 1000 clients with large, established law departments and extensive legal capabilities beyond just managing outside counsel.

But of course, competition is not limited to in house counsel. There are also 'New Law' firms that pose significant threats. These are particularly managed service providers that specialize in everything from M&A to document assembly. They provide a viable route for corporations seeking innovative, cost effective business partners. These new processes stray away from the 'Big Law' paradigm in a way that can make traditional law firms obsolete if they are unable to incorporate innovation and technology to transform their business models.

The competition is also coming from the 'Big Four' echelon of accounting and consulting that have enabled those firms to stake a claim in the international legal market. These firms are now expanding their reach into the U.S. through vigorous



efforts to relax regulations that have historically kept the legal market in the U.S. closed to accounting and consulting firms.

The increasing competition puts pressure on law firms to stay afloat and forces them to rethink the way they determine their costs, provide their services, and demonstrate their value to clients. Firms that can increase their level of services but are not communicating improvements to clients effectively will experience a disconnect that may be fatal in some circumstances.

How Profitability Can Help Law Firms Stay Ahead

In this competitive landscape, healthy revenues and a focus on profitability are vital in helping law firms stay ahead of the disruptive changes that will render others obsolete. This can be achieved with reinvestments opportunities to support new service offerings and technology as well the hiring of a skilled staff.

Another way many law firms are struggling to stay competitive is in their ability to identify where to cut costs when it comes to operations and IT functions. After the financial meltdown in 2008, many of the largest and oldest law firms made decisions to retain only top talent and cut everyone else, including support staff and junior personnel. The same mindset will not work in the new competitive landscape.

Those in leadership positions have found there is no need to develop new operational platforms in house. Rather, they are using law firm procurement leaders to transition non-legal activities to manage service providers and contractors. As a result, vendors and external business partners can play critical roles in streamlining expenditures to provide more predictability about future spending.

The Growing Need for Risk Mitigation and Vendor Governance

With an increase in outside parties coming in to improve law firm efficiency, there is a growing need for vendor governance and risk mitigation.

Many vendor and firm relationships make it necessary for vendors to have access to private employee client information as well as direct access to the firm's networks, systems and physical spaces.

This increases the likelihood of data security incidents making it necessary to take precautions. As a result, many corporate clients are requiring law firms to undergo extensive audits to prove their policies are in place regarding vendor selection, relationship management and offboarding procedures.



Because there is an increasing demand to keep client data safe, law firms are looking at the most efficient methods for enforcing vendor related policies in order to gain and retain client trust.

Doing Away with Obsolete Billing Practices

Since the recession of 2008, law firm rates have increased by 3 to 4%. With the increasing pressure on law firms to offer more transparency to their clients there is a demand to justify price hikes by creating more predictable pricing structures and demonstrating the quality of their work to their clients.

This begins with updated billing practices that are more accurate and transparent.

To answer the call, research has shown that law firms are making improved billing processes more of a priority. Haphazard billing practices and manual reviews which result in late invoicing to clients is no longer acceptable for corporations. Companies that do not update with efficient, accurate timely billing stand to lose out to their competitors.

To Sum Up

Due to the new changing landscape of the legal industry, the need for adaption is necessary and is predicted to manifest in the following ways:

1. **New Tools and Talent Are Needed to Make Systems More Efficient:** Law firms and departments must continue to look to new technology and methods for boosting productivity and simplifying operational processes. They must embrace the most effective technology tools and combine it with a thorough assessment of their staffing needs and bring in experienced staff to maximize profitability and success in the future.
2. **Technology Adoption Does Not Mean Improved Security:** While bringing in a third-party business software solution may seem like a step in the right direction, law firms and law departments can only be as successful as the IT security and policies that support them. Companies must also work to provide data compliance, security for their customers, and rigorous vendor policies to have a leg up on the competition.



3. **Innovation is Necessary:** While the law firms and departments must take a similar path in increasing security and efficiency while showing value, there is an ongoing need for innovation. Companies must continue to provide the very best services and support them with the right level of capital and communication in order to survive in this ever-changing landscape.

Although the future may be uncertain for those in the legal industry, keeping on top of trends and adapting as necessary can help companies stay relevant. Stay up to date to ensure your success!

If you are interested in more information on how to leverage these trends for your legal department or law firm, we can help. Contact us at info@legalsofttech.com and a client success representative will contact you immediately.