

Pick and choose

In the second of a two-part series on innovation, Katherine Thomas looks at which areas of your business might be ripe for innovation



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In my article in the July 2019 edition of *Managing for Success*, I looked at what innovation is, why it matters, and how to do it effectively. In this article, I focus on which areas a law firm might consider when innovating. The examples below are based on my own experiences of small to medium-sized firms which have innovated their practices in a low-cost, high-impact way. I hope they inspire your firm to adopt the innovation challenge.

Improve your processes

I've lost count of the number of firms I know that spend considerable sums on shiny new things, yet continue to operate in a wasteful, inefficient way. It's human nature to look at the new as opposed to the improved, yet huge potential for Engine 1 innovation exists within virtually every law firm, and a small number of pioneering firms are starting to appreciate this.

'Lean Six Sigma' thinking gives a useful lens through which to understand process improvement. It combines Lean approaches, which address the reduction of waste, and Six Sigma methodologies, which are concerned with consistent quality. Together, they form a powerful tool for the improvement of processes in any organisation.

Lean Six Sigma identifies several sources of waste inefficiency:

- overproduction (such as creating more data than will be used)
- overprocessing (doing more work than is necessary to achieve the required result)
- rework due to defects (such as amending a colleague's work)
- inability to locate key information (such as precedents or previous pieces of advice)
- excessive motion (such as the passing of work from one person to another)
- process variation (such as handling similar matters in different ways).

How much of your work falls into one or more of these categories? Now consider the wastage and inefficiency inherent in your firm if everyone operates on a similar basis; the potential for gains through Engine 1 innovation starts to become apparent.

Many of the activities of a law firm and its solicitors can follow a process. Even

bespoke work is likely to have, at its core, a process shared with other similar matters, so process improvement can benefit every aspect of a law firm.

Process improvement within law firms often starts with process creation. Here's how progressive firms are improving their processes.

1. Choose the process to map (such as the creation of a will or sale and purchase agreement).
2. Identify metrics to assess the value of process improvement (such as time taken to complete the process, the number of individuals involved, the average gross margin achieved on price charged).
3. Convince those involved in the process – at all levels – of the need for process improvement. This is usually best achieved by sitting with them for two to three hours, with whiteboards, pens, sticky notes and plenty of coffee. Engage an independent person to facilitate the session. Map the current process chronologically, from initial conversations, through working on the matter, to conclusion.
4. Reconvene the group for another two to three hours, ideally on a separate day when minds are fresher. Work through the mapped process, identifying waste and inefficiency. Map the new process in a way that eliminates waste and inefficiency, and identify dependencies and actions required to put the new process in place.
5. Record the new process and share it with all involved.
6. Deliver what is needed to put the new process in place.
7. Once the process is in place and working effectively, take new measurements using the factors identified at the start of the project, and assess the value of the new process.
8. Identify areas of the process that require further refinement.

I have facilitated a number of process-mapping and process-improvement sessions for law firms. Every time, we identify significant embedded assumptions, blockages, wastages and inefficiencies that degrade customer experience and profitability. Process mapping and process improvement is challenging work. It is unglamorous and attritional, but it is one of the most



Pricing innovation appropriately will be critical to success

effective ways for a law firm to innovate.

Automate your documents

While artificial intelligence grabs the headlines, a growing number of law firms are focusing on innovations closer to home. Many are automating document production. This technology isn't new, but it is being rediscovered at the moment. Systems such as HotDocs can reduce the time spent on creating the first draft of a document by as much as 95%. By distilling the document down to a series of 'and/or' components and identifying key pieces of information that are replicated throughout, a basic document such as a will or contract can be created in no time.

This technology enables lawyers to do more work in less time, freeing up time to focus on client interaction and refining the documentation. This allows you to provide a more responsive, personalised, high-quality service for the same or lower price, while still maintaining margins. Firms that deploy this approach usually retain their existing charging model and take the opportunity to realise the profit benefits of increased efficiency.

Other firms offer this technology directly to clients. Document automation can help firms diversify the way they make money. Clients want 'self service' in straightforward matters in order to save cost, and this can be a conduit to more complex work and a deeper client relationship. Firms also need to be able to compete with 'New Law' firms such as Lawpath and LegalZoom that are already offering automated documents directly to customers. Allens Accelerate in Australia, for example, charges clients a fixed price for access to the technology to create a customised legal document. The client can access the firm's lawyers for advice, should they require more sophisticated input.

Document automation can be a valuable Engine 1 activity. While automation is the output, human input is obviously required. It is easy to overlook such an important, but not urgent, project, when client demands will always take precedence. As a result, many firms are finding it helpful to use focused resource

in this area (see below on adopting a variable cost resourcing model).

Implement the right technology

Law firms have traditionally engaged with technology as utility: part of a firm's infrastructure, as much as its offices and people. However, you will know that technology is now so much more than that to a lawyer: it is now front and centre of client service delivery, and an integral part of the way lawyers work.

Nevertheless, old habits die hard, and elements of our thinking about technology remain from those purely 'infrastructure' days. One of those elements is the notion that, in order to be valuable, technology has to be applicable across the firm. This 'enterprise-wide' approach works for common processes such as document storage and email messaging, but it rarely works for the delivery of specific services, because diverse practice areas require diverse technological solutions. When considering innovating through technology, drop the notion that one size must fit all, and instead adopt specific 'micro solutions' for each practice area's specific needs.

This kind of new tech can also be more cost effective than enterprise-wide solutions. 'Plug-n-play' solutions can be introduced without significant implementation lead time or cost, and used – and therefore paid for – only when they are needed.

By reframing thinking around technology from enterprise-wide to micro solutions and from fixed cost to plug-n-play, the possibility of innovating through technology becomes more achievable.

Adopt a variable cost resourcing model

Social, technological and economic changes have precipitated a huge shift in the workforce over recent years. Now, law firms are moving away from a large, fixed-cost workforce, towards a 'blended' or 'core-plus' model, whereby a hub of employed staff is augmented by contract resources as and when required. By using services such as Free Range Lawyers that provide resource on a variable, rather

than fixed, cost, firms can work in a more agile and ultimately profitable way. The core-plus model reduces the cost of production because contract lawyers are only paid when they are needed. Add to this the overheads saved if those lawyers work remotely, and the figures look even more appealing.

Using contract lawyers also has a direct impact on a firm's ability to innovate. One firm, for example, with a business model that previously prevented it from advising start-ups in a profitable way, now services this market profitably through a combination of automated documents and a team of lawyers working remotely. So, with little or no fixed cost attached to contract lawyers, firms have been able to experiment with new service lines in a low-risk way. What Engine 2 innovations could you introduce by using a low-investment / low-risk pool of contractors?

Ensure your fee arrangements are appropriate

To my mind, it's impossible to incorporate any of the above innovation strategies profitably without pricing on a basis other than time. Given that many innovations will operate on a different 'cost of production' basis to traditional legal services, how can they be priced for profitability? It is difficult to see how the billable hour can be a suitable pricing mechanism. Some firms may be able to shoe-horn new approaches into the existing structure and make them pay for a while, but firms will increasingly find it difficult to equate value solely with time.

Conclusion

When working to innovate using Engine 1 or Engine 2, remember that the profitability of the innovative law firm will be based on its ability to identify what clients value (this won't always be the production of documents by human beings) and charge for it in an appropriate way (this won't always be by the hour). It will make money in a variety of different ways (not only through the direct labour of its employees). It might charge fixed fees for automated solutions; success fees for complex, contingent pieces of work; and prices based on value where the client and the firm share a deep understanding of one another and the matter in hand. Pricing innovation appropriately will be critical to future success.