

# INNOVATION AND THE LEGAL SERVICES SUPPLY CHAIN

Beaton Global outlines the latest research on how your peers manage and what they think about innovation in their legal department.

Contributors in previous editions of the *Australian Corporate Lawyer* have noted the growing importance of in-house counsel, transitioning from being ‘just lawyers’ to becoming increasingly senior members of the strategic leadership team in organisations and government departments. This has been driven, in part, by the increasing prominence of commercial ethics, the widening reach of in-house teams across organisations as more departments find themselves facing compliance risks and the continuing need for legal expertise to traverse the ever-changing political and legislative landscape.

In addition to a seat at the table, you and your team will need to start considering the issue that defines the priorities of many in senior leadership positions . . . innovation:

- How are you managing innovation in your department?
- Are you delivering increased value to your end-customers through innovation?
- How are you encouraging your outside counsel to innovate?

Our recently released report on “Client-led Innovation in Legal Services” sheds light on these issues. Based on a survey of clients of the leading Australian law firms (one third of respondents were corporate counsel), this research explores the relationship between innovation and the legal services supply chain.

In the context of this report, we have defined innovation as: *“implementing an idea which addresses a specific need and delivers value for both their clients and the law department.”*

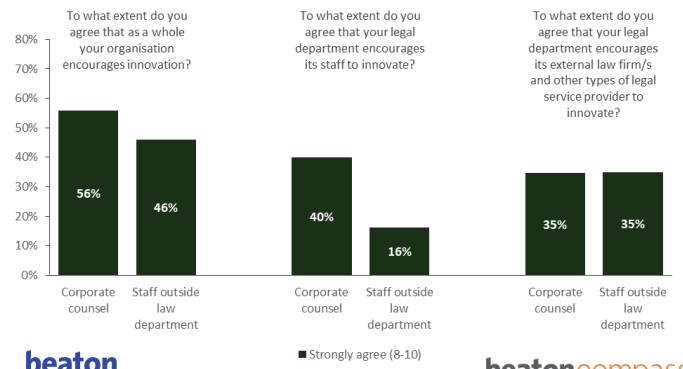
## Change in the law department

Everyone recognises that innovation is important. When asked to indicate how much they agreed that their organisation as a whole encourages innovation, it was found that fifty-six percent of in-house lawyers strongly agreed<sup>2</sup> compared to forty-six percent of staff outside the law department (such as CEOs, board members and managers). This suggests that corporate counsels have a heightened awareness of the pressures on them to innovate and deliver more value to their organisations.

In our previous contribution to this magazine,<sup>3</sup> we argued that corporate and commercial legal services was in the buyers’ market stage of the industry lifecycle. New forms of law firm competition and technological augmentation and substitution of lawyers’ services have given in-house lawyers the power to put downward pressure on prices and demand more-for-less. As those most involved in this shift in consumer power dynamics, you are more aware of the scale and breadth of the disruption in the industry and the implications of this for the work you do.

This may explain why, when asked whether they agreed that their law department encourages its staff to innovate, only sixteen percent of colleagues outside the department strongly agreed. This is in contrast to the forty percent of in-house lawyers that strongly agreed. Crucially, when asked whether they believed their law department encouraged its external law firms to be innovative, thirty-five percent of both in-house lawyers and others strongly agreed.

If that was not alarming enough, our research shows that law firms are not regarded as innovative to begin with. Our *beatonbenchmarks* data, which is based on an annual survey that we have sent every year for the past fifteen years to the clients of professional services firms (which many ACC members may have completed over the years), shows that clients rank innovation as the poorest performing attribute for half of the law firms in the study.



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That is, your colleagues outside the law department believe that any innovation of their legal work predominantly comes from law firms and not their own corporate counsel team, while also believing that law firms are not very innovative at all.

This highlights the magnitude of the challenge facing in-house lawyers for recognition of their innovation efforts and value-add. How are you managing innovation in your department?

Do you have an innovation framework in place to encourage new ways of thinking? There is a myriad to choose from: Agile, design thinking, intrapreneurship, using incubators and open innovation, to name a few. Based on our experience in advising law and other professional services firms, as well as this research, we at *beaton* would advocate for a framework of innovation that puts consumer needs at the centre of the process. We have called this client-led innovation.

## Adding value for the client

Whether your clients are internal stakeholders or external end-customers, innovation should be driven by addressing their specific needs. Often firms we are advising respond to this by objecting, “that does not improve our bottom line!” They argue that innovations that prioritise the firm’s needs, such as lower overheads or greater efficiency, result in savings that can be passed on to the client making them more satisfied with their service.

Not only is this not necessarily the case (this report found that innovations leading to lower fees were not a strong influencer of firm use and our *beatonbenchmarks* data have consistently shown that lower costs are not a driver of client satisfaction), but we would respond by saying prioritising clients’ needs will better improve the financial position of the firm. Meeting client needs can differentiate you from your competitors, which leads to greater client satisfaction and an increased prospect of repeat use, as well as a greater likelihood of the client recommending your firm to others, thus forming a virtuous cycle.

We would argue that this same logic applies to law departments. Meeting the needs of internal and external clients substantially increases the value of your work and your department. This study found that twenty percent of the most innovative solutions of law departments were implemented to address client needs. Some examples of these motivations were:

- “Company focus on sustainability and customer needs”
- “Excellence and speed in service to clients and end-customers”
- “Efficiency, customer satisfaction – improving understanding and therefore positive perception of outcomes”

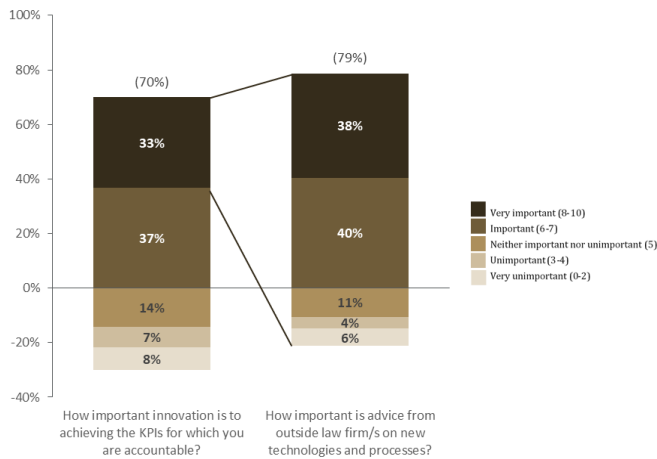
We anticipate this number to rise as law departments become greater drivers of innovation in their organisations. There are some indications that this will happen. When clients of law firms were asked to identify how important innovation was to achieving their KPIs, thirty-three percent said very important<sup>4</sup> and thirty-seven percent said important.<sup>5</sup>

### Managing your outside counsel

Of those thirty-three percent that said innovation was important to their KPIs, thirty-eight percent indicated that advice from their outside law firms was very important and forty percent said it was important. In many instances you can, and should, be using your law firms as an invaluable resource to assist in your innovation activities.

If your goal is to meet your clients' needs and your law firm's goal is to meet your needs, then by the law of transitivity, your law firm's goal should be to meet your clients' needs.

Has your outside counsel asked you how they can innovate to better suit your needs? This study found indications that this was not happening, with three in four respondents indicating that they could not name a single outstanding example of innovation from a law firm they knew. As discussed above, clients of law firms have much higher purchasing power than they have ever had. You should be exercising this power and suggesting to your outside counsel how they can better serve your needs (and thereby your clients' needs).



Without this guidance from you, their clients, law firms will continue to make their innovation investments in legal technologies. While there are many dividends to the digitalisation and digitisation of legal services, many clients do not believe technology alone is innovation. When asked to describe law firm activities that they considered innovative, just fifteen percent indicated something to do with technology. Some suggested that such innovations were mostly marketing gimmicks that did little to add value to the service being provided by the firm.

In contrast, when respondents to the survey were able to identify an outstanding example of innovation by a law firm (three in four could not), forty-seven percent said that the example was initiated as a joint effort between themselves and their law firm. This highlights the importance of collaboration for the meaningful development of change that has tangible effects on client needs.

Innovation workshops, such as those offered by *beaton* (which includes copies of the full sixty-four page report), can help identify your needs and facilitate the co-development of solutions that add value to your department, organisation and end-customers. Our experience indicates that innovations developed using our framework have much higher success rates.

The question is not whether your outside counsel is innovating, but whether they are asking you *how* they can innovate and how they can help *you* innovate.

### Conclusions

The legal services industry lives in times of great change. While the dynamics between BigLaw and NewLaw firms play out, corporate counsel are gaining in stature and assuming positions on the strategic leadership teams of their

organisations. This newfound authority carries with it many responsibilities, chief among them is to innovate and deliver added value.

Our recently released report into "Client-led Innovation in Legal Services" found that for many in-house lawyers, their colleagues have yet to recognise the relationship between the law department and innovation. We argued that the best way to achieve this was through listening and addressing the needs of your internal stakeholders and external end-customers. Although only one in five respondents engage in this kind of innovation, we anticipate this number will grow as more corporate counsel assume leadership roles.

One way to accelerate this process is by leveraging the existing relationship between you and your law firms. Collaboration and co-development of innovative solutions is in the best interests of your firm, you and, most importantly, your end-customers. [a](#)

#### Footnote

1. This definition draws on the work of Nick Skillicorn, first published as "What is innovation?" (2016): <https://www.ideatovalue.com/inno/nickskillicorn/2016/03/innovation-15-experts-share-innovation-definition/>
2. On a scale of 0–10, they rated from 8 to 10.
3. "General Counsel should be more demanding" (2016), Dr George Beaton, *The Australian Corporate Lawyer*, Volume 26, Issue 4.
4. On a scale of 0–10, they rated from 8 to 10.
5. On a scale of 0–10, they rated from 6 to 7.

By arrangement with *beaton*, if you or your law firms would like to purchase a copy of the "Client-led Innovation in Legal Services" report or would like to arrange to have an innovation workshop to identify and address your needs, email [compass@beatonglobal.com](mailto:compass@beatonglobal.com). Mention this article to receive a 10% discount.



**Shanan Kan**

As Product Manager, Shanan oversees *beaton's* research publication *beatoncompass*, which investigates how client insights guide firms' strategies. He is a strong advocate for evidence-based decision-making and co-developing research initiatives with clients. Previously a social researcher, Shanan studied at Swinburne University and the Australian National University, where he graduated with first class honours for his research on gamification.



**George Beaton**

As Executive Director of *beaton*, Dr George Beaton consults to professional services firms in Australia, New Zealand, Asia, UK, US and Canada. He is regarded as a leading researcher and independent authority on professional services industries and their firms. His particular research interest is in the imperative for law firms to remake their business models, on the subject of which he wrote *NewLaw New Rules* in 2013 and co-authored *Remaking Law Firms – Why and How*, published by the American Bar Association in 2016.