

Land of Promise

Published in KM Legal magazine

August 2010

The enduring market for legal services, with supply significantly exceeding demand, means that law firms are being challenged by their clients to deliver their services better, faster and cheaper than ever before. Impending deregulation seems set to be a further catalyst for this now established trend. A wide range of conversations with managing partners reveals that increased activity is not being commensurately matched with increased revenue. Firms are running harder to stand still and the long term prognosis for profitability is bleak, unless a different operating model can be introduced.

By reconsidering the nature and role of knowledge management (KM), there are opportunities to reshape the service delivery process and develop revenue streams that are both sustainable and profitable.

KM repositioned

First, KM needs to be repositioned. In the minds of many it is inexorably intertwined with legal technical knowledge at best and the management of voluminous information systems at worst. It is perceived as a world occupied by pedants rather than at the core of the business proposition; as a means by which a firm can create unique value for its clients and a strong brand position.

My argument is straightforward, what else does a law firm do but convert knowledge to revenue? If we step back from the strait-jacket of historic convention it is clear that every aspect of a firm's interaction with its clients involves leveraging knowledge in some way; whether it is legal knowledge, relationship knowledge, process knowledge, systems knowledge or organisational knowledge. Defined in this way, being significantly better at managing knowledge will clearly create opportunities. How we interact with our clients and the way in which we provide services to them are, both intellectually and practically, KM challenges!

The link between KM, strategy and business development

What this means in practice is that a much closer link is needed between strategy, business development and KM. Collaboration will enable new ways of enhancing the client experience to be developed through a more integrated view of how the firm's strategy, core markets and service proposition can be developed.

From a client perspective, knowledge value is most likely to be added in one of three ways.

1. Managing existing knowledge assets better

Typically this will mean improving both the efficiency and efficacy of the firm's current intellectual and process capital, such as the development of systems to share and leverage knowledge more effectively.

It will also require firms to recognise those aspects of their knowledge systems which are either already commodity areas or will inevitably become so – and to treat them as such. What this means in practice is ensuring that these can either be delivered at the lowest possible cost (perhaps by allowing someone else to do this on behalf of the firm) or accepting that they should no longer be part of the firm's service mix.

At the same time, there must be investment in the (inevitably few) unique knowledge assets, which:

- Clients value most highly;
- Are challenging for competitors to replicate; and
- Enable the firm to command a price premium.

2. Creating new knowledge assets

Knowledge innovation also has a central role to play in the development of the profession. It is likely that new vistas will be opened by those able to adapt the principles of leading edge KM to new scenarios.

This may be by applying these techniques in areas which the firm does not currently frame in this way or by creating new applications that deliver enhanced client value. Advances in technology will allow innovative firms to push the envelope of what is possible at an ever increasing pace.

3. Combining existing knowledge assets in new ways

A scenario that firms should also consider is whether existing knowledge assets can be used in new ways. This may involve, for example, combining previously discreet elements to create a new approach or by opening areas that were previously internally ring-fenced to client interaction.

The fusion of intellectual capital and process re-engineering

To survive in a deregulated and fiercely competitive market, law firm leaders will need to develop ways of embedding their intellectual capital in knowledge systems and constructing these systems so that tasks can be undertaken at the lowest possible level of competency. While the profession has talked of the need to 'manage the pyramid' for many years, the new economic reality will make such legal process re-engineering an imperative for survival.

With the advent of external investment into the profession, embedding knowledge in processes and systems that can be replicated with high levels of consistency is important for another reason – it creates the potential for revenue streams which can be valued in an investment appraisal

analysis. This in turn will enable firms to raise the capital required to stay at the forefront of an investment heavy innovation curve.

It is interesting to note that, following an initial fanfare and apparently high levels of interest from the private equity community in law-firm investment opportunities, it appears that its focus has now shifted to the legal process outsourcing companies which are opening up new markets in supplying services to law firms.

They have the business model, underpinned by consistent processes and the ability to generate ongoing revenue streams, which most law firms lack and which this approach seeks to address. Consider the scenario below as but one example of how strategy, business development and knowledge management could combine in a way which reshapes the rules of competition.

Self-service and value-added

A cross-discipline approach could engage the client through the introduction of advanced self-service features, which would also provide the opportunity for increased added value through client-side customisation.

The advance of intelligent systems, able to take the 'human lawyer' out of an increasingly complex range of legal process interactions, make the direct interface of client and firm system inevitable. The speed with which these innovations are adopted depends upon the development and commercialisation of such knowledge systems together with the extent to which firms are prepared to offer them.

Regardless of the trepidation felt by the profession more generally, innovative firms or new entrants with a strong technology orientation seem certain to drive these opportunities.

This route allows a charging mode much more akin to industries in which up-front investment in 'research and development' is recouped through a licence or service model that reflects the very low 'cost per use' of a highly automated delivery mechanism. Such a fundamental shift in the way in which legal services are procured has the potential to be game-changing.

The outlook for the traditionalist – the future of a cottage industry approach

The traditionalist will no doubt view developments such as these with disdain. But what future can there be for a cottage industry approach in which one person (or a small group of people) hand-craft every agreement as if it were a work of art in its own right?

While there will be those of huge intellect, who are able to command premium fees for solving unique problems, such lawyers are a tiny percentage of the profession. For the vast majority in the mainstream, the options are limited and stark! Adaptation to new ways of working is no longer an option.

What next?

KM has been long recognised as crucial to the success of the firm from an efficiency and risk-management perspective. It is only now that the more astute leadership teams are awakening to the potential for competitive advantage to be gained from their firm's knowledge assets.

The same thinking also leads inexorably to a realisation that a holistic view of the ways in which knowledge – legal, process, system, client and relationship – can be better leveraged is at the core of strategic thinking, rather than a peripheral activity which has only a tangential impact.

The challenge for the KM community is one of repositioning. Collaboration with their business development colleagues will enable them to demonstrate that they are able to bring a wider perspective to the firm's strategy, its client relationship management and its operational efficiency.

Of course, such a role is strikingly different to that which many knowledge professionals currently fulfil. For some it will be seen as a great opportunity, while for others it will not be a career route they wish to follow. This first group will be small in number but significant in the impact they are able to make on their firm's future success.

