

Brave in the new world

In the current recession, managing partners have a great opportunity to overhaul their information and knowledge-management functions for long-term growth and profitability. To succeed will require addressing critical information and knowledge-management issues, but the results will fundamentally re-shape legal business creating the profitable next-generation law firm.

By **Andrew Hedley**

The evolution of knowledge management (KM) and KM systems has been at the core of advances in law-firm infrastructure. This has allowed the modern law firm to create a scalable business in which embedded knowledge can be applied consistently across the organisation to provide consistent, high quality solutions.

As we move towards the second decade of the 21st century, it is right to consider more deeply what the core purpose of knowledge management should be in the next-generation law firm. How is it likely to differ from the current role? Importantly, how can managing partners ensure that their firm's knowledge-management function is prepared for this challenge and fit for the future?

I have written before about the central role that knowledge management (defined in the broadest sense) plays in the modern law firm. When considered at this level, what else does a law firm do but manage knowledge and manage relationships? From this perspective the importance of leading-edge knowledge across the full gamut of the firm's business functions is clear. Law firm

management now has an opportunity to trail-blaze the reshaping of law firms through leveraging current knowledge-management skills and developing new ones.

Advances in technology and working practices have enabled a speed of action and insight that would have been incomprehensible only a few years ago. As technology becomes more deeply embedded, the challenge is moving from being efficient to being effective. Being effective means delivering added value and creating distinct and difficult-to-imitate sources of competitive advantage. Efficiency is expected, effectiveness is what is now required.

At the same time, alternative business models are emerging that envisage law firms stripped to their core activities with everything else being sub-contracted or outsourced. Knowledge management cannot, and indeed should not, sit outside this trend.

In order to identify the areas in which future efforts should be channelled there should be a disaggregation of knowledge management into its constituent parts and the assignment of 'value-added' to each component.

In making this assessment a scorecard will need to be constructed that considers and weights the key decision dimensions such as:

- What is the core purpose of the knowledge-management function, how is this articulated and how does it map onto the firm's wider vision, strategy and business plan?
- What elements of the firm's knowledge management and service provision can only be done by the in-house professional?
- What elements of the knowledge mix can be delivered by external knowledge providers more efficiently or cheaply than by deploying internal resources?
- What is the opportunity cost assessment of retaining in-house activities that are "at the margin" when set against how the available (and finite) internal resources could be re-deployed to create unique knowledge assets?
- What knowledge processes are commoditised (or will be commoditised soon) and is the firm best placed to deliver these internally, regardless of how much

they are a historic vestige of ‘how things are done around here’?

- Does the skill mix and profile of the current knowledge-management team map onto that which is required for the future or will some re-shaping be needed?

By taking a considered and rational approach, two immediate issues are addressed. First, due consideration is given to what should (and what should not) be ‘in play’. Second, the process provides transparency for the firm as a whole to understand the priorities of the knowledge-management function and to appreciate why change is necessary.

It is implicit in this approach that, once the unique aspects of knowledge management have been identified, action is taken to resource non-core but necessary tasks as cost effectively as possible. This may mean an outsourced solution or that the firm accepts standardised products, bought ‘off the shelf’, for day-to-day knowledge requirements to a far greater extent than is currently the case.

Central to this debate and decision-making process is a clear understanding of which elements of the knowledge-management communities’ work in the firm involves the creation of unique knowledge or processes that provide the firm with a competitive advantage. To be salient, three criteria need to be met:

- Value creation for the client;
- Building economic advantage for the firm by either improving efficiency (i.e. reducing costs) or giving pricing advantages;
- Being difficult for competitors to imitate in short-order, i.e. the advantage is resilient justifying the investment required for its creation.

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An honest assessment is required of how much time is spent ‘turning the handle’ on the precedent or practice-note machine creating content that is fundamentally the same as that generated by competitor firms. Indeed, it should be recognised and accepted that the very process by which firms exchange knowledge during their normal course of business, the highly regulated nature of the profession and the common standards that are adopted by leading firms all drive towards the standardisation of this generic documentation.

When discussing issues such as these with managing partners, I have a rule of thumb that well over 90 per cent of the knowledge contained in such systems is fundamentally generic. It is the same core knowledge that resides in the identical systems of peer-group competitors; that’s not to say that the wording or the detail is the same but the purpose and the result most certainly is. Why is such a lot of time being spent managing what is common across all firms rather than being focused on, first, developing the small percentage of knowledge that is unique and valuable and, second, then moving on to innovate in new areas that will create a competitive advantage for the firm?

Another question that must be addressed is one of capability. How well equipped is the average member of the knowledge-management team to think outside the box and rise to

the challenge of creating innovative knowledge? Indeed how many would have the appetite and be prepared to move outside their current comfort zone to address issues such as this?

We should be clear that market forces cannot be resisted – IT will continue to systemise the creation and delivery of legal services, external providers will look to increase their market penetration into those components of legal knowledge that can be standardised and offer them as outsourced services. Both bars will be inevitably and inexorably raised over time.

The picture of the future that is painted here is a fantastic opportunity for those with vision and ambition; the future for them is bright. Gone are the days of endless drudgery, maintaining huge administrative systems. That joyful task will reside with focused outsourcers who have the infrastructure and capacity to deliver economic value to these elements of knowledge management.

In this new world, firms need to rise to the knowledge-management opportunities and challenges that present themselves and reposition the knowledge-management professional’s role as a strategic one. This will mean grasping the advantages provided by outsourcing in its many guises rather than resisting it like modern-day luddites. Indeed a coalition of interests exists between the in-house knowledge team and the external provider. Each party provides a key part of the firm’s overall knowledge tapestry and benefits from the synergies created by their different, complementary and aligned roles.

Andrew Hedley is the director of Hedley Consulting. He can be contacted at: andrew.hedley@hedleyconsulting.com