



The Future of Law. Since 1818.

Changing at client's speed -  
what's stopping law firms?

A large, glowing teal arrow graphic that starts from the bottom left and points towards the top right, with a slight downward curve at the end. It has a soft, ethereal glow around it.

Way  
ahead.

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# Introduction

## A threat to survival?

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**Over the past thirty years, there have been changes in virtually every aspect of UK law firm operations – from re-organisation of work, to mergers and acquisitions that minimise duplication. This pace of change continues to accelerate rapidly.**

All these changes have been driven from the outside. For instance, clients have become more cost conscious. They're increasingly keen to differentiate between commoditised work and bespoke legal advice – and now seek greater transparency in costs. Likewise, deregulation is an external change factor that intensifies competition.

Yet despite this new reality, frequently referred to as 'the new normal', there's a widespread view that the pace of change within law firms is not keeping up. The consequences of the failure to react fast enough can impact not only the profitability, but the survival of law firms.

LexisNexis commissioned research to provide answers you can profit from. Our enquiry is designed to help unlock resistance to change and help firms win. So we set out to uncover the answer to the critical question, **"what's stopping you from making the necessary changes?"**

### In search of the cause

We engaged Dr. Kishore Sengupta of the world-renowned professional services faculty at Judge Business School, University of Cambridge, to undertake the research on our behalf. Dr Sengupta conducted a qualitative research programme of the top 50 law firms. This included detailed conversations with senior and junior partners and associates, and senior executives in business support functions.

He looked for common patterns, conflicts and agreements, and held subsequent interviews to corroborate these findings, examine consistencies, and add detail. The results are revealing. We have uncovered the real reasons lawyers often find their firms frustratingly slow. Even more importantly, we offer some explanations that could promote meaningful dialogue and help dismantle barriers.

We hope you find this paper both helpful and insightful.

#### Mark Smith

Market Development Director  
LexisNexis

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# The challenge of interpreting change

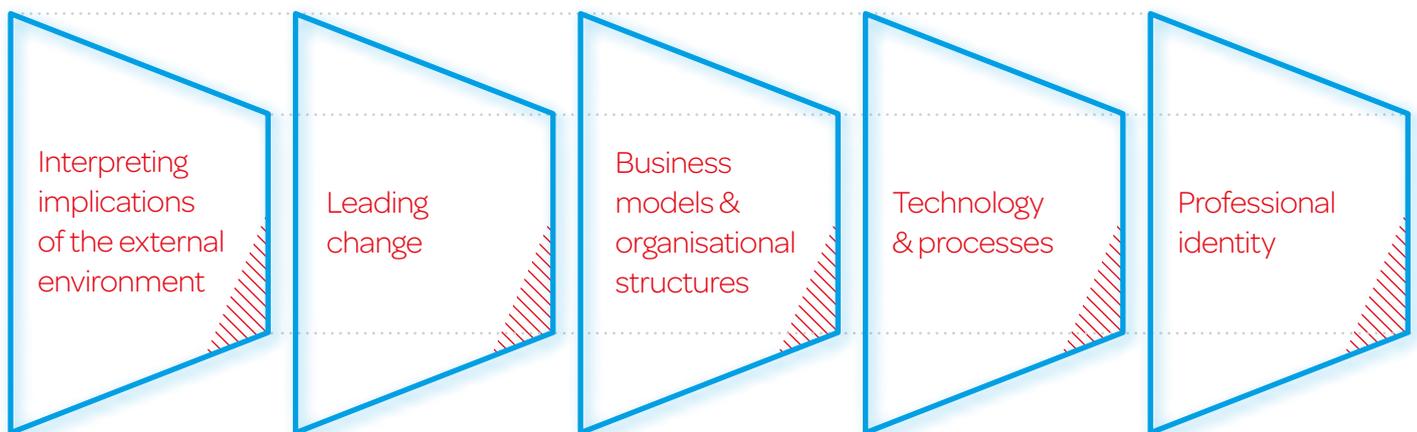
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In investigating the main barriers to change amongst the top 50 UK law firms, this paper investigates the following two questions:

- 1 If the case for change is so widely accepted, why have large law firms not responded fast enough?**
- 2 What are the principal barriers to change?**

Five key barriers to change were revealed, as shown in the diagram below. We'll tackle each barrier one by one to determine the answer to the first question.

## Barriers to change



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*A partner in a mid-tier firm recounted a conversation with a fellow partner about alternative revenue models. Unhappy with the proposed changes, the colleague remarked in exasperation: “[a certain magic circle firm] seems to do just fine (without changing), why do we need to make changes?” This conversation is symptomatic of the difficulty of establishing the need for change, a point stressed by more than one senior partner.*

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## Internalising changes emotionally

The external environment changes rapidly and unpredictably – a key driver of change. So how a law firm interprets the implications is key. An important finding is that lawyers have difficulty internalising the changes. One respondent characterised the attitude they see among colleagues as: **“the changes don’t affect what I do”**. For change to occur in an organisation, it’s widely understood that the people within it need emotional acceptance. Yet our research found that regardless of the merits of the intellectual case for change, many lawyers have not sufficiently internalised it emotionally to create a sense of urgency.

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### The following factors reinforce the inability to internalise emotionally:

- **Complacency**
- **Fear of the unknown**
- **Lawyer-client disconnect**

○ **Complacency.** Most firms have rebounded from the toughest years of the recession between 2008 – 2012. And while domestic revenue growth remains challenging, profits have increased significantly in the last two years. This has created a sense that the danger has passed. As a result there’s little urgency that more changes are needed.

○ **Fear of the unknown.** Almost every interviewee spoke of how cautiously the legal profession reacts to uncertainty in the external environment. Change involves risk and uncertainty, which many lawyers resist. In addition, the analytical, evidence-based mentality of lawyers is not well-suited to understanding ambiguous signals from the market. As several respondents pointed out, this fear of the unknown can lead lawyers to ignore signs of change. The research did uncover a few cases where respondents have embraced uncertainty as an opportunity to experiment, for instance through new business models or work structures. However, these are likely self-selected individuals and not representative of the profession as a whole.

○ **Lawyer-client disconnect.** Law firms are client-facing and many leaders are appointed on the basis of their responsiveness. This should make them well placed to understand and respond to demands for change by their clients. However, a common pattern of a lawyer-client disconnect emerged – and this comes at high cost. For instance, a client would ask for fixed prices and/or flexible arrangements for standardised work. Associates and junior partners directly affected by this request would perceive it as a threat to the viability of their billings and proceed to stymie it.

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*A senior executive of a large UK-based firm recounted how s/he had repeatedly impressed upon their top 50 law firm that billable hours were no longer tenable for mostly standardised work. After the firm demonstrated little regard for his/her concerns, the client hired an in-house team to do the work for them, netting considerable savings.*

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# Barriers to leading change

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Even with the need for change understood and accepted, failure to lead and implement change by the leadership of the law firm is the second barrier to change. Conversations with senior partners, heads of HR, IT and other organisational leaders entrusted with implementing change revealed three factors that help create this barrier.

1

## **Difficulty of implementing change at scale.**

The largest of law firms have been likened to oil tankers or cargo ships, where shifts in direction take time. This is exacerbated by the consultative culture of the profession. As a result there is neither speed nor agility of response in meeting the demands of the external environment.

2

## **Inability/unwillingness to take the lead.**

Leaders of law firms are focused on external clients and are often loathe to act as internal managers. Indeed, the incentives of many organisations often create this situation. Unsurprisingly, therefore, many leaders feel others are better equipped to deal with such challenges. One partner characterised the general attitude as follows: "No one is responsible because everyone is responsible."

3

## **The treadmill effect.**

Leading change requires a significant investment of time. Yet senior lawyers spend most of their time generating billable hours – creating a treadmill for themselves. Organisational incentives that fail to encourage leaders to make time for change are short-sighted and do not favour the long-term success of the organisation.



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*"No one is responsible because everyone is responsible."*

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# Building business models and organisational structures

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When there **is** willingness to lead change, the next barrier is building a business model to implement it. Respondents universally acknowledged the difficulty of bringing about large-scale transitions using alternative business models. In addition, the consultative process acts as a brake on the speed of implementation.

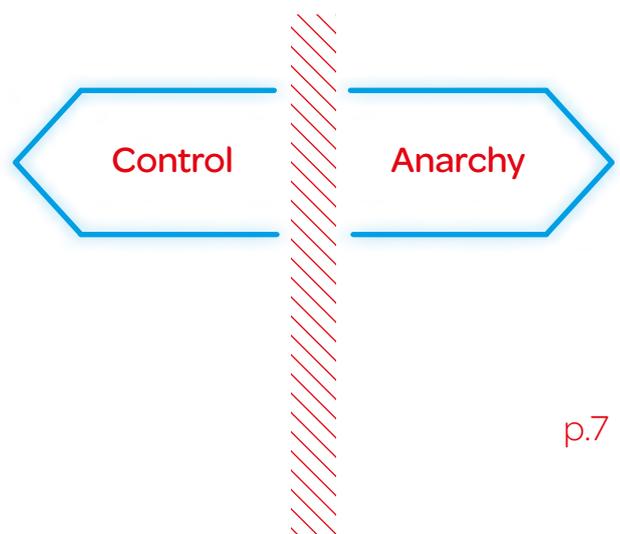
The primary pricing model of most top 50 law firms is cost-plus billable hours. However, as noted earlier, even modest changes in revenue streams encounter significant resistance from lawyers. Alternative models also typically require experimentation with possible short-term instability in existing revenue streams.

## Payback periods

Multiple-year payback periods are often the norm with alternative models – for example, to cover a new IT system. Yet the current top 50 law firms' LLP structure of annual cash-outs makes this difficult to implement. Yearly distribution of profits therefore becomes an impediment to longer-term investments, and leaves little to no reserves to tide over instability. Furthermore, partners who are close to retirement have little incentive to defer their cash-outs in favour of longer-term investments. Some senior partners also noted that taking the longer view requires a strong sense of stewardship – which is tenuous at best with the expanding size of firms.

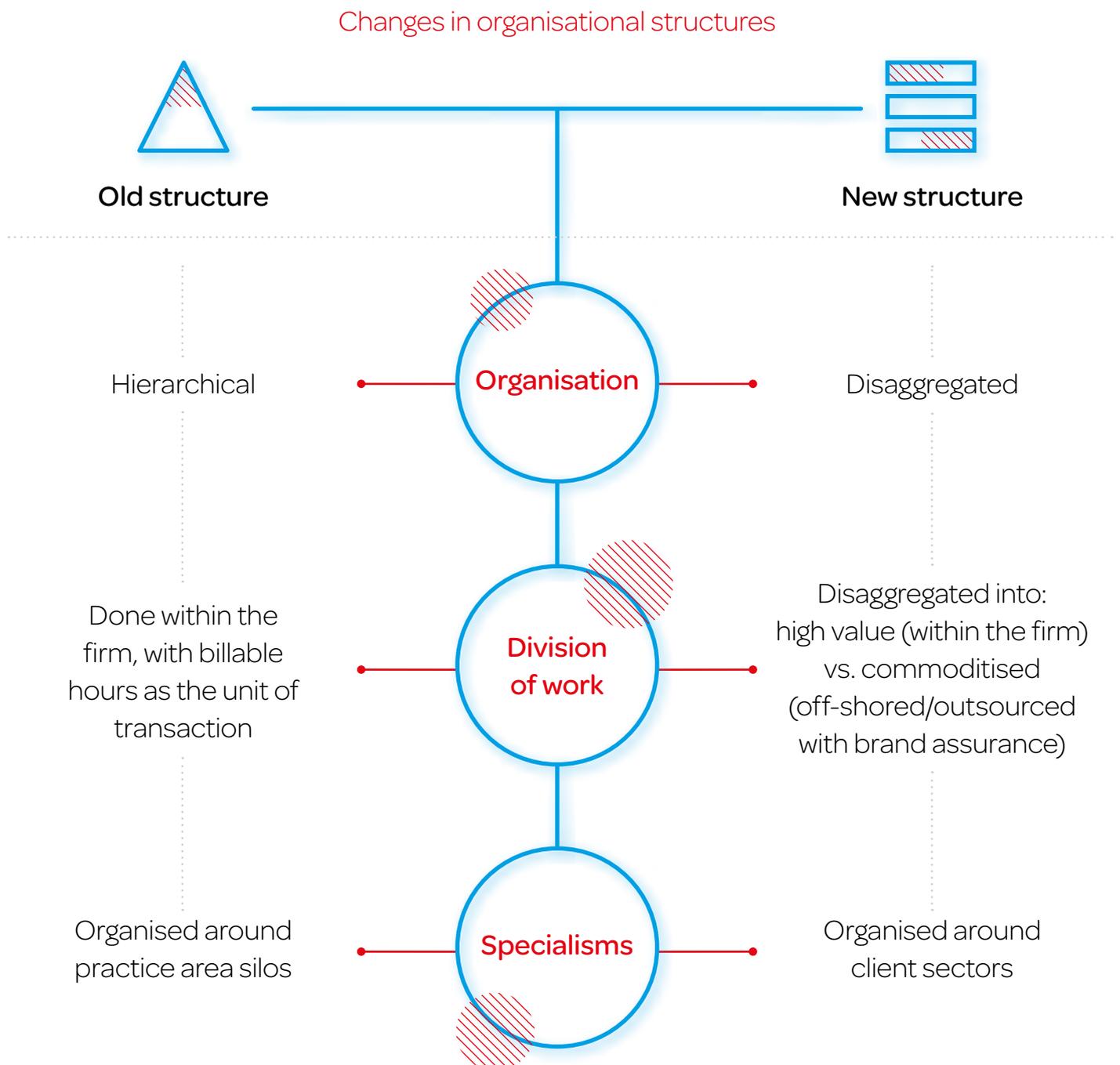
## The shape of the law firm

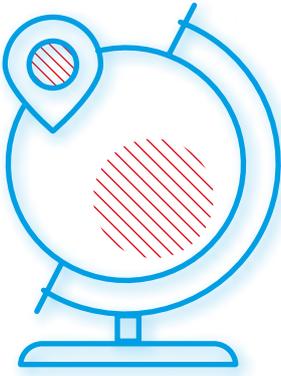
Changes in business models alter the shape of the law firm. The primary challenge here is to get the right balance between **'control and anarchy'**, as one respondent put it. Too much control stifles autonomy, impedes flexibility, and is inconsistent with law firm culture. A move in the other direction preserves autonomy and flexibility, but makes it difficult to establish governance. It also inhibits the ability to make change at scale.



# Building business models and organisational structures

To enable new business models, changes are needed in organisational structures. This brings the challenges shown below.





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*In at least three firms, junior partners and associates who were keen to generate billable hours and fill available capacity found ways to inhibit the movement of work to an offshored location.*

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### **Hierarchical vs. disaggregated**

New pricing models, such as high volumes of contractual work at a fixed price, require a less hierarchical and more disaggregated organisational structure. The three main problems here are governance, incentives and culture. Breaking away from a hierarchical structure requires re-thinking governance – and many firms have difficulty with this.

Adopting incentive schemes for disaggregated structures while retaining consistency at the organisational level has been another struggle. Respondents voiced reservations and some degree of resentment moves toward what they termed ‘unbalanced incentives’. One associate felt that while standardised work fills up available capacity and provides stability in their unit, doing such work within the firm was being increasingly dis-incentivised. Finally, culture shifts are often painful to implement.

### **Division of work**

Many of the top 50 law firms have set up low cost centres (offshoring or northshoring) to divide high-value and commoditised work. The commoditised work may be retained by the firm but undertaken in a lower cost location, or may be outsourced to a third party. In practice, such division of work is difficult to implement. Setting up and working with offshored units can also cause operational difficulties, particularly when they’re newly formed. Lastly, the movement of work creates professional anxieties that do not help morale and motivation.

### **Specialisms**

Law firms were traditionally organised around specialist practice areas such as real estate and corporate. This provided differentiation, reputation, and a predictable career path for employees. Today, however, clients prefer a more joined-up approach. In response, the vast majority of top 50 firms now position themselves as sector focused, based around the industries of their clients.

The difficulty here, as expressed by several partners, is that the move from silos of specialism to a client-oriented focus creates challenges in overcoming differences in culture, language and professional practices for each industry. Further impediments are lawyers’ dedication to, and identification with, their practice areas. Finally, many mid-career lawyers see progressively higher practice specialisation in narrower niches as the path to partnership.

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# Fear and apathy around technology and processes

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The research surfaced a curious contradiction around technology. On the one hand respondents described how technology plays an increasingly important part in the legal profession, helping to manage documents, workflows and knowledge. On the other hand, most law firms appear to struggle with technology. Many lawyers are apathetic and invest little time or energy in technology as a means to improve their work.

Thus, while embracing technology should enable big changes in how law firms work, in reality technology is a barrier to change.

**The research identified four main factors underlying this barrier:**

- **Using enterprise technology**
- **Re-engineering processes**
- **Resistance to technology-based processes**
- **The relationship between lawyers and technology**

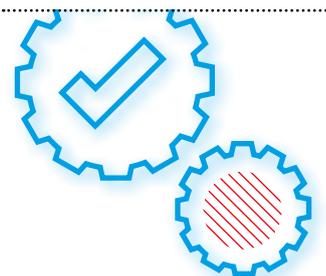
○ **Enterprise technology.** As law firms grow, they become increasingly dependent on enterprise technology. Organisations that aspire to scale need a well thought-out enterprise architecture consistent with the firm's operating model. This needs to be implemented through technology that can be maintained, scaled and altered cost-effectively. Yet the research showed very little evidence of this.

Respondents described patchworks of specialised bespoke systems that become increasingly difficult to maintain with growth. The systems are riddled with incompatibilities within and across processes and suffer from low interoperability.

Maintaining these systems can be expensive and difficult and they don't adapt well to the needs of remote and mobile working, cloud computing, and the world of bring-your-own-devices. They also cause acute pain in post-merger integration. To reshape them to reflect changes in business models, processes, or the regulatory framework requires effort and investment that many firms hesitate to undertake. It's important to remember that all these difficulties with enterprise technology are by no means unique to law firms.



*One partner stated their IT systems "just about work".*



- **Re-engineering processes.** Technology doesn't exist in isolation, it's woven into processes and workflows. As the use of technology increases, processes are re-engineered. A key to effective re-engineering is to co-opt lawyers into the redesign of processes. However, the research revealed a tendency among lawyers to deal with inefficiencies in existing processes simply by working harder.
- **Resistance to technology-based processes.** Implementing end-to-end technology solutions inevitably disrupts existing patterns of work – creating resistance to new technology. Specific imperfections of new processes, and perceptions of the immaturity of the associated technology, aggravate associates who complain to the partners.
- **The relationship between lawyers and technology.** The research also highlighted a deep ambiguity in the relationship between lawyers with technology. Generally speaking, the technology that affects the landscape of law is relatively poorly understood. Moreover, use of technology requires continual investment in updating skillsets. Many lawyers appear to do this reluctantly – perhaps because they feel overburdened, or maybe they are ambivalent towards it. There is also some evidence that mid-career and senior members of the profession are not comfortable with technology.

Finally, the research indicates that in some cases technology can be seen as a threat to livelihood rather than as an enabler. Technology no longer simply automates and improves productivity, it's crossing over to knowledge-based skills. This causes consternation and anxiety. One partner asked: **“If technologies underlying intelligent documents and machine learning do indeed become scalable, how much will really be left for lawyers to do?”**

Some talked about the opportunity to focus on higher value activities that entail 'soft' skills and underpin trusted advisor relationships. Others are in wilful denial of the capabilities of new technologies and their power to disrupt existing ways of working.

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*Professional service firms in other sectors – such as accounting and consulting – have invested in enterprise architectures and systems and many have succeeded in utilising technology to become more agile.*

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*Rather than facilitate solutions, partners can cite imperfections as evidence that “this does not work”, thus undermining the technology adoption effort.*

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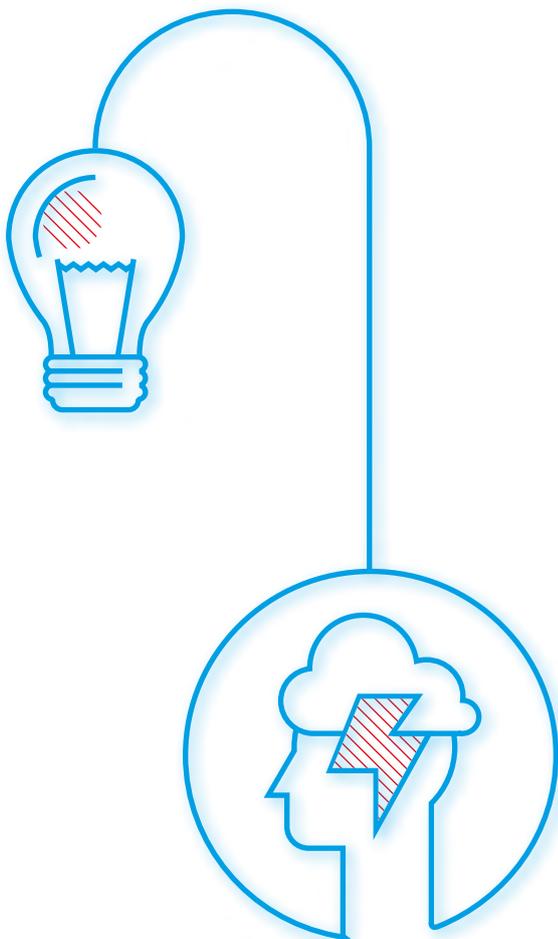
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# An entrenched view of professional identity

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Almost all the interviews brought up the question of professional identity in times of change. The views of the respondents were complex, and often laced with emotion. It's clear, though, that the professional identity of lawyers is a barrier to change.

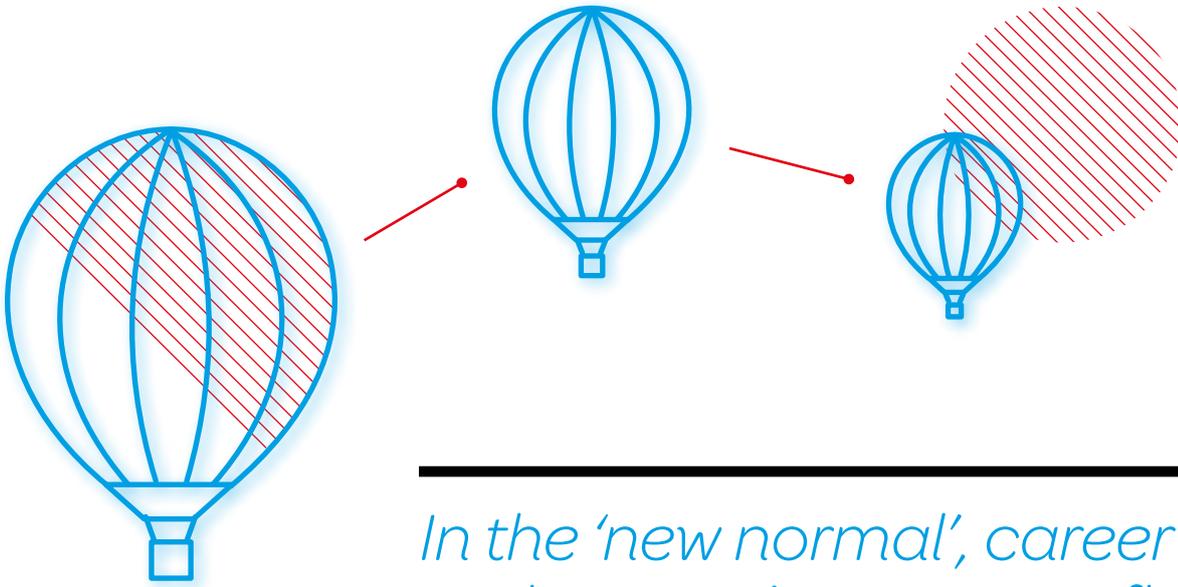
A lawyer's professional identity is heavily grounded in their expertise. The result is high quality, bespoke legal work in specific practice areas. On the other hand, this makes lawyers reluctant to deal with relatively standardised work. As one partner noted, **"It's difficult to get associates to understand that not every piece of work needs to be of Rolls Royce quality."**



In addition, many lawyers maintain an inward focus on their expertise and are not keen to acquire new skills such as technology or project management. Nevertheless such skills are essential in a changing environment.

Expertise also creates a divide between lawyers and non-lawyers. The research found that many radical ideas for change that come from support services are not taken seriously. The trend towards promoting heads of support services to partners has helped narrow this divide, but not significantly.

Identity is also based on a long tradition of debate and consultation. It was often highlighted that getting lawyers to think in more commercial terms, in keeping with client preferences, has been difficult. As one partner stated, many lawyers forget that the **"clients pay for their opinions, not their doubts"**.



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*In the 'new normal', career paths must incorporate flexible structures and interruptions.*

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### Lock-step

Career trajectories are also tied to identity and lawyers expect an orderly transition through the ranks of the firm, with partnership the reward for billable hours. In other words, lock-step. However, this is no longer viable for several reasons. Firstly the steps are no longer predictable. Secondly the shape of the firms has changed and there is no longer room for many to transition to partnership. Thirdly, evaluation is increasingly broader than practice-based niches (such as interpersonal skills and client relationship management). Lastly, lawyers now have to expand their expertise to include interpersonal skills, client management and so on.

The responses of lawyers are generally not supportive. The hardest hit are mid-career professionals who want the lock-step and feel a

diminished sense of ownership without it. Those who no longer believe in the lock-step choose to move out of the top 50 law firms for ones with a newer business model – creating an outflow of talent. The new members of the work force, millennials, have significantly different career expectations that include regular feedback and a good work life balance. Large law firms have simply not adapted enough.

For many, the changes do not go far enough, while those who wish to preserve the status quo feel alienated. There is also a perception that despite the consultative culture, governance is in the hands of a relatively small group of individuals. This leads to a sense of powerlessness.

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# Conclusions

## Integration and solutions

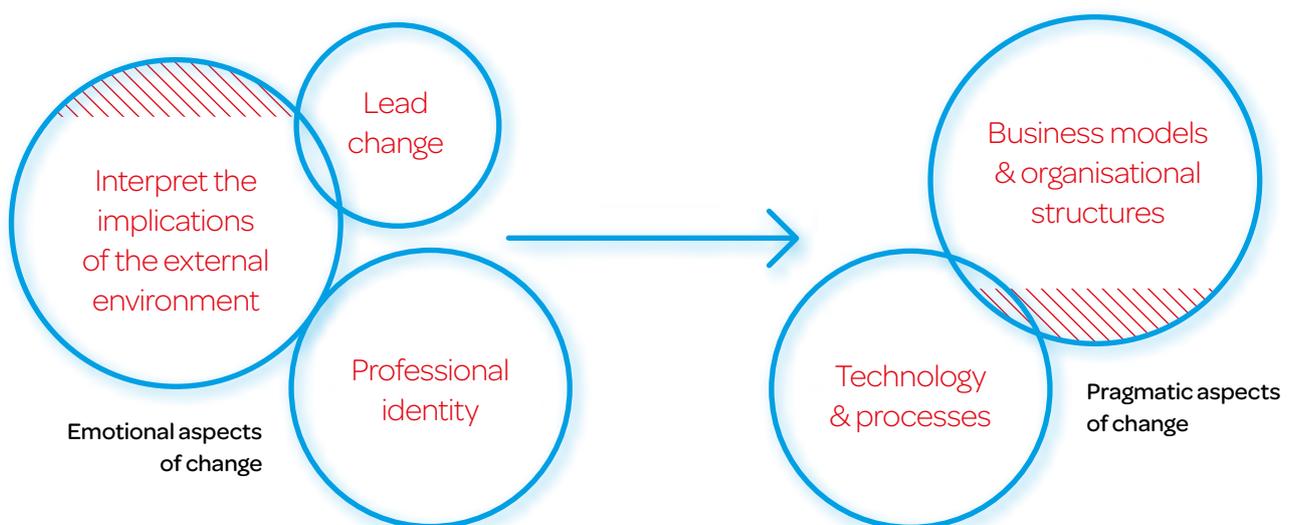
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The external forces affecting the top 50 UK law firms also affect their clients - and most professional service providers worldwide. When many other professional service firms have already made significant changes, why haven't law firms?

The impact of this failure is significant. Consider for a moment the firms' clients, who are themselves under cost pressures and need to compare services and shop around. Unsurprisingly they are less than impressed when comparing the pace of change and responsiveness of law firms to those of large accountancy and consulting practices.

### Addressing emotions to create practical change

Our research identified and described five barriers that impede law firms from making changes. The diagram below shows the barriers on the left that are related to the emotions underlying change, while the ones on the right are about the pragmatics of change. The academic and practitioner research on managing change shows that the emotional aspects must be aligned with the pragmatic ones in order to drive change. Thus, unless the barriers on the left in the diagram below are addressed in a meaningful manner, it's difficult to envisage significant change taking place in the top 50 UK law firms.



Antecedents relationship of barriers to change

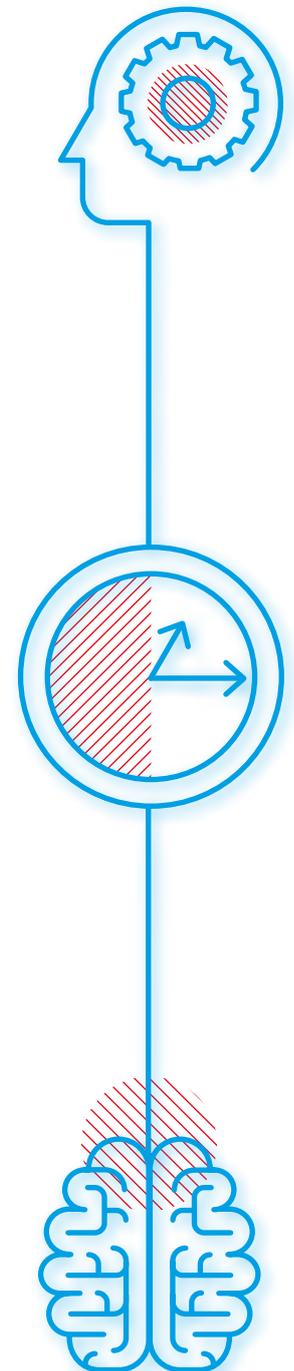
## Solutions

There are three avenues law firms should consider to address the emotional barriers:

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- 1 Repeatedly and persistently highlight how the 'new normal' is affecting the profession and the implications of this.** Emphasise how the legal profession may have its own uniqueness but is not immune from the environment. This same environment has reshaped other professional service firms dramatically and at least two concrete steps can be taken here.
  - Pay urgent attention to the voice of the client across the organisation to counteract the lawyer-client disconnect.
  - Become open and learn from other knowledge-based professions. Research shows that firms as diverse as surgical care and automobile racing can learn from each other. So there's no reason why law firms can't learn from accountancy firms and vice versa. Learning from other domains propels change faster, and law firms should invite firms to share stories and set up collaborative structures that facilitate mutual learning.
- 2 Create slack for change.** Extensive research shows that conceptualising, planning and implementing change requires organisational slack at all levels. One common thread across all the interviews highlighted a distinct lack of slack. As one respondent put it, "**law firms are not wired for slack**". Clearly leaders need to make time for change. Equally important is the need for the disciplined allocation of time, especially at higher levels. The practice of billable hours is another obvious obstacle to change that urgently needs to be addressed.
- 3 Use role models to legitimise a shift in professional identity.** The research highlighted individuals who've taken the initiative to step beyond the confines of professional identity, for instance by broadening their skill sets. Somewhat disconcertingly, some of these individuals have also chosen to step out of the orbit of top 50 law firms. If the professional identity needs to shift, so should the role models. Leaders in top 50 law firms need to pay greater attention to this, and not only through incentives and compensation mechanisms.

Innovation, new role models and emotional clarity are all clearly needed to create a forward-thinking profession that breaks free from the chains of tradition. This will pave the way for success in the future.



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