

The Evolving Role of Law Firm IT: From Infrastructure to Strategic Support

Market Overview

Since the Great Recession of 2008, the shift from a seller's market to a buyer's market for legal services has transformed the industry and re-shaped the business of law. Corporate law departments are applying a wide range of new strategies that are driving the change. As highlighted by [HBR Consulting's 2017 Law Department Survey](#), law departments are bringing less complex and repeatable work in-house, increasingly using alternative legal service providers (ALSPs), leveraging technology platforms to deploy third-party enterprise software applications and controlling budgets for matters handled by outside counsel.¹

In March 2018, General Electric (GE) signed a multi-year, exclusive contract with UnitedLex (an ALSP) to outsource various legal operations, litigation, investigations, e-Discovery, forensics, and document review functions, with expected cost savings of \$40 - \$50 million for GE. This came on the heels of a similar outsourcing deal that UnitedLex struck in December 2017 with DXC Technology, billed at the time as the largest-ever services outsourcing transaction in the legal industry.

A key driver of these deals is UnitedLex's ability to make long term investments in technology platforms to more effectively deliver a variety of legal services, including investments in data management software, contract management software, workflow applications and other tools. We are increasingly seeing corporate law departments select these new providers because they are able to leverage large investments — multiples of what the average law firm is spending — in technology platforms that can improve outcomes while also reducing costs.

ALSPs also increasingly include the Big Four accounting firms, especially in the UK and Europe. These consultancies

are similarly leveraging their scale to commit outsized investments in technologies to enable more efficient service delivery. As a part of their institutional DNA, the Big Four have been making these technology investments for many years in a variety of industry verticals and are deliberately increasing their focus on legal efficiency tools. Other ALSPs are introducing competing organizational structures that combine technology consulting with a newly established law firm.²

Recognizing these trends, some law firms are increasing their investments in machine learning, predictive analytics and a multitude of project management and efficiency platforms. However, it is proving difficult for these firms to demonstrate the ROI required to influence law firm leadership to commit to the long-term investment required. "Many predict law firms, as currently constructed, will lose ground to 'new law' providers," according to The American Lawyer.³ "U.S. legal spending directed to law firms is expected to shrink between 2015 and 2025 from \$300 billion to \$265 billion, while the share of the market for 'new law' firms is expected to grow from \$2 billion to \$55 billion."

Firms are struggling to respond for two reasons: (1) their core competency is to practice law and serve clients, not to deliver IT services; and (2) they do not have the resources to invest at a scale necessary to close the growing technology gap with these new competitors and / or existing large scale firms. This dynamic presents an opportunity for firms' IT leadership, but to successfully exploit this opportunity, they will need to focus their efforts differently. Focusing technology investments and sourcing decisions on tools and roles that advance the strategy of the firm will make a practice area more competitive and better connected to clients, driving efficiency across the firm and improving its competitiveness.

Technology Investments as Differentiators

Recent industry surveys note that technology investment is emerging as a key component of a firm's success or decline. In fact, law firms that were considered "dynamic" increased their investments in technology last year by 3.2%, while those considered "static" increased technology spending by just 1.2%, according to a 2017 study from Thomson Reuters' Legal Executive Institute.⁴

By technology investment, we are not referring to the traditional areas of infrastructure, which are now commoditized to the point of being a utility. Rather, we are referring to investments in technologies that can influence how the firm practices law, streamline the execution of the work and ultimately influence a law department's buying decisions. These investments can produce a positive ROI and can have a direct impact on the firm's revenue and profitability. Many law firm leaders within IT and the firm are well-positioned to focus here. However, doing this requires letting go of investments focused on non-differentiating IT activities, things that all firms are doing and that are not unique to the firm (e.g., infrastructure, server management, networking, etc.).

Law firm IT leaders can increase their impact and value to their firms by shifting traditional investments in infrastructure towards innovative support tools. By educating firm leadership on available technologies for practice improvements and new business models that can provide greater cost predictability, these leaders can deliver greater value without significantly increasing investment levels.

The triple threat of increasing client demands, emerging competition for client dollars from non-traditional legal service providers and the explosion of transformative

technologies are straining law firm CIOs in unprecedented ways. A CIO's ability to set and direct strategy is now essential to the firm's success. To remain competitive, many law firms are increasingly investing in transformative initiatives. "The current climate of investing is part of a redefinition of the law firm model, where law firms are leveraging an intuitive understanding of business to both support innovation and reimagine the law firm of the future," said Ari Kaplan, a legal industry analyst at Ari Kaplan Advisors.³

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As noted, many law firms are investing in machine learning applications, such as contract review platforms and expert systems. Some firms have developed their own data analytics software to provide proprietary insights into both the business and practice of law. And other firms have actually begun serving as incubators of start-up businesses that leverage technology in the delivery of legal services. Refocusing management bandwidth and investment dollars from infrastructure to these initiatives can mean the difference between success and failure for these nascent initiatives.

Historically, technology strategy has focused on the traditional IT functions of maintaining the firm's hardware and software infrastructure (Exhibit 1). The future of law firm technology is illustrated on the right: it is now centered on the alignment of new and emerging technology selection, adoption and implementation to drive the competitive needs of the firm, with a specific focus on the firm's clients.

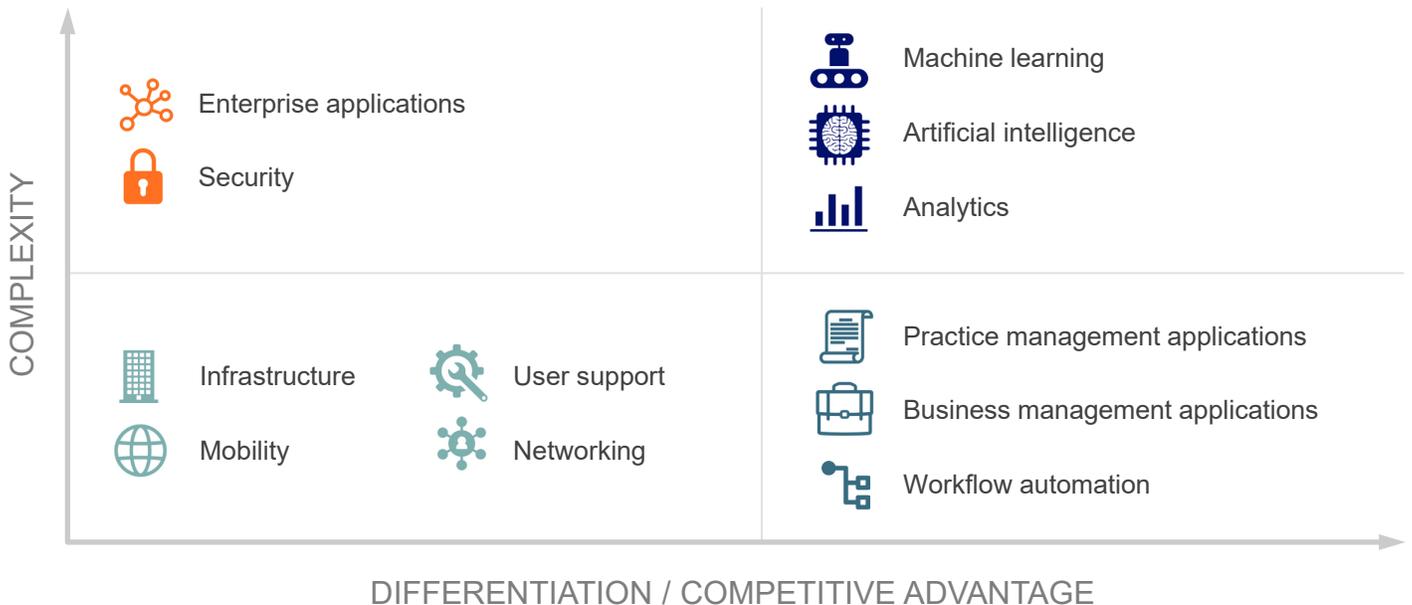
Exhibit 1. Future State of Law Firm CIO Model



The right quadrants in Exhibit 2 provide examples of common transformational tools and initiatives that best-in-class firms and CIO's are deploying. Ideally, a firm will build upon successful initiatives from the list in the left quadrants as the path to more complex and impactful change. The outsourcing

of necessary, commoditized infrastructure and services (e.g., user support and infrastructure) is an effective strategy for creating the necessary focus to successfully tackle more complex initiatives on the right.

Exhibit 2. Evolution of IT Strategy



The role of IT leadership in this model continues to evolve, with an expectation for the CIO to be an innovator who leverages technology to support the firm's business success, as well as its approach to client service. As a result, it is critical for IT leadership to create and implement a technology strategy that goes beyond the traditional role of maintaining the firm's hardware and software infrastructure.

Today's law firm CIO will be most effective by aligning the firm's IT strategy with the competitive needs of the firm and seeking creative solutions to technology challenges in an environment of constant change. This will require questioning the existing IT support models – and the corresponding allocation of resource investments – to determine how effective these traditional approaches will be in the future delivery of legal services. CIOs in today's law firms are required to be stewards of technology and innovation in an environment of fast-paced change. Many are concluding that by leveraging managed services partnerships to handle their firms' IT infrastructure needs, they can improve client service stability, tech support, data security and disaster recovery — and achieve significant cost efficiencies as well, creating capacity for them to focus on revenue-supporting activities.



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Conclusion

This emerging law firm leadership model requires the coordination of divergent priorities and the development of different business models. Historical priorities of maintaining hardware and software have been stability, reliability and security in order to “keep the lights on” at the firm, whereas today's strategy requires flexibility and adaptability, fundamentally altering a firm's operations and revenue opportunities.

Law firm leaders must contemplate whether the current model and subsequent allocation of time and IT resource investments are enabling or inhibiting their firm's transformation in the new legal services environment. By critically evaluating the value of spending IT time and resources on activities that do not support or advance the practice of law, leading firms can eliminate obstacles in their overall strategies.

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References

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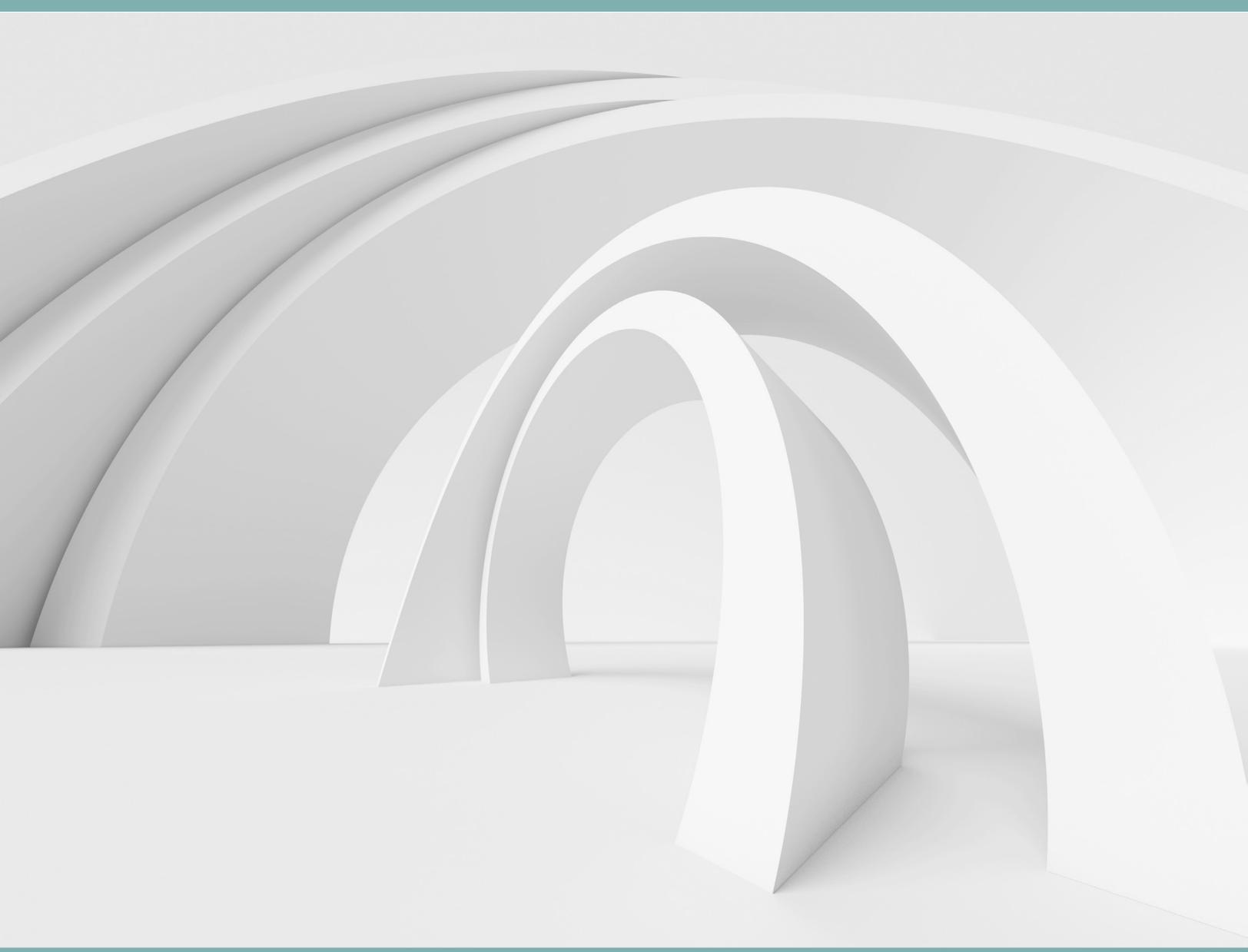
¹ 2017 Law Department Survey, HBR Consulting LLC.
<http://www.hbrconsulting.com/law-department-survey/>

² "Elevate and New Law Firm ElevateNext Collaborate with Univar to Reduce Law Department Spend By 50 Percent," PR Newswire. April 23, 2017. <https://prn.to/2vM8hku>

³ "Law Firms Are Investing in Tech Before It Overtakes Them," The American Lawyer. March 26, 2018.
<https://www.law.com/americanlawyer/2018/03/26/law-firms-are-investing-in-tech-before-it-overtakes-them/>

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⁴ "2017 Dynamic Law Firms Study: What Makes a Law Firm a Dynamic Industry Leader?" Thomson Reuters. November 13, 2017. www.legalexecutiveinstitute.com/2017-dynamic-law-firms-study/



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