

October 6, 2011 12:26 am

New directions

By Reena SenGupta

When Allen & Overy hosted a conference for its partner law firms throughout the world, sessions on innovation were sold out. Perhaps it is no surprise that the firms – from locations as diverse as South Korea and Kazakhstan – were keen to hear thoughts on innovation from A&O, which tops this year’s FT Law 50 ranking of European law firms.

Yet in one session, the managing partner of a Swedish firm asked if clients really wanted innovation. In a recent survey in that country, innovation had ranked 19th out of 20 items that clients valued from their lawyers.

For some, innovative lawyering still has a negative or risky connotation. But as the FT’s annual Innovative Lawyers report continues to show, the ability of lawyers to innovate on behalf of their clients is essential to the smooth functioning – and, in times of crisis, the survival – of business and government.

The reason that some clients and lawyers still question whether lawyers should, or can, be innovative comes down to two factors. The first is confusion about how innovation is defined; the second lies in the intrinsic nature of lawyers and legal practice.

The FT report’s definition of innovation is that lawyers add transformative value to business, either through new solutions or applications of the law, or through exceptional execution and delivery. In the operational categories such as strategy, client service and efficiency, innovative firms are those that have made improvements to their businesses by revamping their value proposition to clients or by establishing their competitive advantage in the legal market.

Clearly, innovation defined in these ways is essential to both successful law firms and thriving clients.

However, traditional law firms are not natural places to foster a culture of innovation.

Steven Johnson, author of *Where Good Ideas Come From: The Natural History of Innovation*, has studied the environments that lead to unusual creativity. Looking at business, biological systems, society and research and development laboratories, he found that innovation flourished in “liquid networks”: environments that tend to be chaotic and diverse, where ideas collide and people can share their mistakes freely – in effect, places of open communication. This conjures up English coffee shops of the 17th century, but the 21st-century law firm is the polar opposite of a chaotic coffee shop. The partnership model fosters an “up and out” attitude for its associates and favours status and hierarchy. Legal training is detail conscious and mistakes are not tolerated. Lawyers tend to rely on precedents rather than invention. Few law firms have open-plan offices, and their record on diversity is poor. It is no wonder scepticism regarding the concept of innovative lawyers still remains.

However, as Mr Johnson points out in his book, great ideas are rarely the result of a “eureka moment”. Instead, they evolve in what he calls a “slow hunch”. Innovation, he says, happens incrementally or in the “adjacent possible”.

This year’s FT Innovative Lawyers report profiles many incremental innovations. Legal solutions that have worked in one jurisdiction being applied in neighbouring countries is a theme throughout the corporate, finance and litigation sections of the report.

However, it also covers innovations that are moving the legal profession forward faster and in bigger increments.

In the UK, regulatory change is setting the pace. New entrants to the legal market, allowed into the sector by the Legal Services Act, have big ambitions. Fulfilling the theme of this year’s FT report, they are bold thinkers who want to transform the legal market, particularly at the small to medium-sized end. The Co-operative Group, which is a stand-out entry in the industry pioneers section of the report, has built a legal services business worth £24m (\$37m, €28m) in just four years.

Richard Cohen, executive chairman of Epoq Legal Services, the legal technology provider also ranked in the industry pioneers section, says: “In the next few years, we will hit the tipping point where you won’t be able to survive as a small to medium-sized law firm without web-serving client-facing technology.” He points to the banks and insurers that, he says, are more ready to enter the legal market than anyone realises.

At the other end of the market there is also little room for complacency. In recent interviews with the managing partners of the largest 25 UK law firms, nearly all said their priorities were international expansion balanced with better value and more efficient services to clients. Before 2008, few firms spoke of the need to be productive or efficient with any urgency.

The four big legal outsourcing deals ranked in the resourcing, technology and efficiency section of this year’s report show an industry that has reached a definitive moment on this issue. Law firms understand that clients will never again accept a “costs-plus” model of charging, and that maintaining profitability will require operational efficiencies on a scale never seen before.

The most significant of these deals was the decision of CMS Cameron McKenna to outsource its middle- and back-office functions to Integreon, the legal and business support provider (and supporter of the research for this year’s FT report).

The need to be efficient is also pushing some law firms into an area of more classical innovation – that of product invention. For example, Taylor Wessing this year launched a legal due diligence and contract management tool that the firm believes will change the way the industry approaches certain repetitive tasks.

Internationalisation is also having an impact, but the innovation-related effects are subtle. Of the top 25 law firms in this year’s FT report, nearly half have been involved in a significant international merger or alliance or opened a new office in the past 18 months. Most of those deals have been with firms outside Europe. The need to adapt to new and often very different cultures is changing lawyers’ attitudes and forcing firms to be more open and diverse.

This, combined with the need to maintain employee engagement, particularly among Generation Y and women, is changing the way law firms communicate internally. Freshfields Bruckhaus Deringer recently held a competition for its lawyers to enhance cross-office communication. And even a firm that is less operationally innovative, such as Slaughter and May, speaks about its initiatives to be more transparent and open with its junior lawyers.

Law firms still may be a far cry from the ideas incubators of the old English coffee houses, but they are becoming places where ideas can flourish.

.....

FT Innovative Lawyers is a joint venture with RSG Consulting, a specialist legal research and writing company. Researchers spent six months preparing the report, which was based on submissions from firms and in-house lawyers. Each innovation was assessed for its originality, rationale and impact. References were taken for all ranked submissions, and more than 500 in-depth interviews were conducted.

Reena SenGupta, managing director of RSG, is a consultant and journalist with more than 15 years' experience in the legal sector. She is an expert in devising rankings for the industry and has been a regular contributor to the FT since 2001.