

The knowledge imperative

A research report: best practice in
using knowledge to increase efficiency
and profitability in law firms

OMCpartners

strategy • management • advisory

CONTENTS

Executive summary	3
Client pressures and their implications for knowledge	4
Six knowledge best practices	4
Barriers to increased knowledge efficiency	8
Outcomes for those firms implementing knowledge best practices	10

EXECUTIVE SUMMARY

The UK legal market is under unprecedented pressure to operate more efficiently. Traditional ways of buying legal services are changing and firms have to fight harder to win work and sustain their profitability. They are being forced to get more from their assets and to look at new approaches to preserving and gaining competitive advantage.

Against this background, PLC commissioned OMC Partners to conduct in-depth research into how firms are responding to these pressures in the area of knowledge (see box, “*Research methodology*”).

A range of practices emerged. At worst, haphazard or complacent approaches were hampering fee earners in their day-to-day role. At best, firms have been able to reduce the cost of creating knowledge by up to 10%. Strikingly, some have used knowledge to enable a reduction of up to 25% in the overall cost of matter delivery.

The research amounted to 50 hours of interviews. This report identifies current client pressures and their implications for knowledge. It then distils the best practices observed among the interviewed firms that supported the most successful knowledge approaches. It examines some of the common barriers preventing firms from implementing these. Finally, it outlines some of the improvements seen by firms who were adopting the best practices.

Six knowledge best practices

- The firm’s management structure promotes the strategic importance of knowledge.
- Knowledge approaches are designed to drive the firm’s competitive advantage.
- While maximising competitive advantage, knowledge comes from the best value source.
- Knowledge strategy supports the systematic improvement of leverage and realisation rates.
- The productivity benefits of knowledge investments are calculated and fully delivered.
- An appropriate level of dedicated resource is allocated to knowledge work within practice areas.

Barriers to increased knowledge efficiency

- Decentralised knowledge functions prevent systematic implementation.
- A misconception about what clients are actually paying for.
- Cultural resistance to working with new technology or external providers.
- The decision-making process for implementing new approaches is dominated by the costs without a rational assessment of the benefits.
- Senior stakeholders in law firms are often the least open to change.
- Under-resourced implementation of knowledge initiatives.

Outcomes for those firms implementing best practices

- Greater client focus.
- Improved risk management.
- Cost reduction.

RESEARCH METHODOLOGY

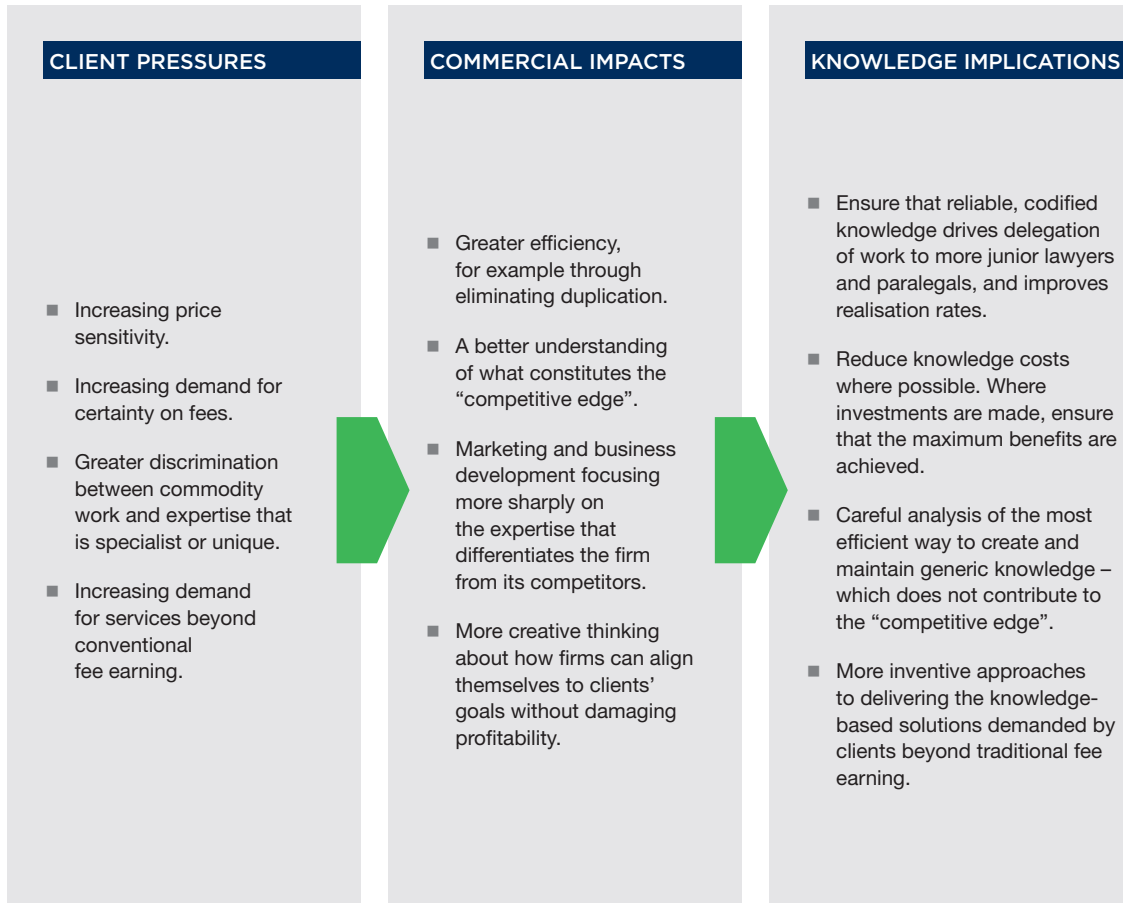
OMC interviewed a broad range of stakeholders across ten leading UK firms. Interviewees in each firm included heads of knowledge management (or their equivalent), as well as partners and associates in at least two practice areas in each firm. The interviews covered corporate, commercial, litigation, competition, employment, environment, planning and property practices.

For the purposes of the research, “knowledge” was taken to mean all technical legal knowledge and its commercial application (whether internally or externally sourced). The following categories were used:

- Current awareness.
- Practice and guidance notes.
- Precedents and document assembly tools.
- Tacit knowledge (knowledge that is not shared).

CLIENT PRESSURES AND THEIR IMPLICATIONS FOR KNOWLEDGE

Change in the legal profession can rarely be described as fast. However, experienced partners that we spoke to across almost every firm and practice area agreed that the past three years have seen a transformation in the legal market, as emerging trends have swiftly become new imperatives. These pressures principally stem from clients that are becoming more systematic and demanding in their approach to purchasing legal services.



SIX KNOWLEDGE BEST PRACTICES

Every fee earner or head of knowledge management involved in the study recognised these market pressures and the need to adapt. Most also acknowledged the need to accelerate the pace of change.

Six best practices emerged from the participating firms, which could be directly linked to the most beneficial outcomes:

1. The firm’s management structure promotes the strategic importance of knowledge.
2. Knowledge approaches are designed to drive the firm’s competitive advantage.
3. While maximising competitive advantage, knowledge comes from the best value source.
4. Knowledge strategy supports the systematic improvement of leverage and realisation rates.
5. The productivity benefits of knowledge investments are calculated and fully delivered.
6. An appropriate level of dedicated resource is allocated to knowledge work within practice areas.

1. The firm's management structure promotes the strategic importance of knowledge

- There is a centralised knowledge management function which has a mandate for building a consistent, firm-wide knowledge strategy.
- The central knowledge function is empowered to implement this strategy across the firm and influence and improve fee earner working practices.
- A partner within each practice area is responsible for ensuring that the firm-wide knowledge strategy is applied as specifically as possible to the group's clients or area of law.
- Where they exist, professional support lawyers (PSLs) have equal and dual reporting lines to practice area heads and the central head of knowledge management. The central function manages PSL performance and is responsible for structuring PSL career paths.

"One objective of the central knowledge function is to offer an enlightened view of the longer-term benefits of investing in knowledge and to persuade partners in different practice areas that a more strategic and systematic approach leads to greater efficiency."

Head of Knowledge Management

2. Knowledge approaches are designed to drive the firm's competitive advantage

- There is a commitment to focus internal knowledge resources on making a difference to the way clients use or perceive the firm's services.
- The firm's approach to knowledge creation and maintenance is based on an understanding of what knowledge is proprietary and what is generic to the firm's clients (see box, "Checklist for distinguishing standardised from firm-specific knowledge").
- Competitive knowledge is targeted at clients and fee-earners. For example, current awareness, guidance or commentary that is unique to the firm forms an integral part of the firm's business development and client relationships.

"Firms tend to be culturally wedded to the supposedly unique nature of their own documents, and lawyers are generally uncomfortable with the notion of their work as a commodity. But unless the knowledge is one of the firm's 'crown jewels', clients can only distinguish between firms on the basis of how they deliver the advice."

Head of Knowledge Management

CHECKLIST FOR DISTINGUISHING STANDARDISED FROM FIRM-SPECIFIC KNOWLEDGE

- Does it relate to a new or innovative product or technique?
- Is it really protected or has it gone out in public disclosures? (For example, a novel clause in a precedent being used in a deal.)
- Is it something on which partners or associates are willing to spend time?
- How recently was it created? When was it last updated?
- How profitable is the work stream to which it relates?
- How far does it overlap with coverage and materials already provided by third-party providers?

3. While maximising competitive advantage, knowledge comes from the best value source

- Creation of generic knowledge is pushed “down or out”. That is, it is either allocated to cheaper internal resources or passed to external providers, benefiting from economies of scale.
- There is an openness to collaborating with external providers, creating strategic partnerships that help the firm meet client demands.

Current awareness.

- All generic current awareness is sourced externally and accessed directly by fee earners. Information professionals ensure that fee earners minimise the duplication of information received from external providers. Proprietary current awareness (for example, firm or client-specific guidance around new developments) is created and maintained internally by PSLs or fee earners.

Precedents and clauses.

- A balance is struck between the costs and benefits of creating and maintaining precedents and clauses. One of the following approaches is chosen based on a series of decisions around whether the clause or document is proprietary or generic (see, “*Checklist for distinguishing standardised from firm-specific knowledge*”):
 - Create and maintain the entire document internally.
 - Maintain the core document internally, supplemented with clauses and supporting notes from a variety of sources.
 - Use an externally-maintained core document, supplemented with internal supporting notes and clauses.
 - Rely on an external provider for the entire document and supporting notes.

Practice notes.

- Continually maintained, generic guidance (where available) is sourced externally and supplemented by internal annotation and previous matter materials.

“As clients demand more competitive pricing, we have to think more carefully about the most profitable way to keep knowledge up-to-date We look after client-specific knowledge internally, and use an external provider as a base for other current awareness and precedents.”

Partner, Property

“I worry that I am paying my PSLs to regurgitate content that has already been produced more cost-effectively by external providers.”

Partner, Corporate

4. Knowledge strategy supports the systematic improvement of leverage and realisation rates

- Better leverage is supported by well-codified documentation and practice notes. For example, this can enable:
 - More junior members of a team to perform a task.
 - The use of more cost-effective offices within a firm’s network.
 - The creation of new paralegal hubs.
 - The use of legal outsourcing providers.
- Staffing of work is systematic and not ad-hoc. Work is always assigned to the most cost-effective level, and the overall internal resourcing of practice areas is shaped accordingly.

“Better use of knowledge allows cheaper people to do the work that costly people do otherwise. Knowledge has played a central part in the fee-earning efficiencies we have created.”

Partner, Property

5. The productivity benefits of knowledge investments are calculated and fully delivered

- A formal business case analysis is used to assess both the costs of investments in knowledge and the benefits they bring.
- Where investments in knowledge are made, the product is used across the firm, as far as possible. This may involve sponsorship from the managing partner to change fee earner behaviour.

“Transforming our knowledge bank meant committing to a degree of internal effort and cost; this was palatable because our cost/benefit analysis revealed a far more significant win in terms of savings.”

Head of Knowledge Management

6. An appropriate level of dedicated resource is allocated to knowledge work within practice areas

In order to realise the full potential of knowledge to reduce costs, improve client focus and minimise risk, the dedicated resource must be neither too thinly stretched nor excessive.

In some, typically larger, firms, this means achieving an optimal ratio of PSLs to fee earners. In firms or practice areas with no PSL support, the equivalent fee earner time must be dedicated to knowledge work.

Regardless, the precise ratio of dedicated knowledge resource to overall fee earners depends on a number of variables (including the area of law, the type of work performed, and the client base in question). Larger firms where PSLs are focused on high-value work, will typically target a ratio of one PSL to 50 fee-earners. Broadly speaking, we observed the following characteristics of firms with varying proportions of knowledge resource:

INTERNAL KNOWLEDGE WORK : FEE-EARNING WORK	TYPICAL CHARACTERISTICS
1 : 30	<ul style="list-style-type: none"> ■ An over-reliance on internal knowledge, often duplicating creation/maintenance from external providers. ■ When PSLs were allocated in this way, they were often involved in administrative tasks that could be performed more effectively elsewhere.
1 : 50	<ul style="list-style-type: none"> ■ A best-in-class ratio, which larger firms were targeting. ■ Knowledge resources were only working on value-add knowledge creation/maintenance. ■ PSLs were focused on improving fee earners’ productivity and client-facing knowledge initiatives.
1 : 70	<ul style="list-style-type: none"> ■ Appropriate where the law is more static, more commoditised or less complex. ■ However, some firms were under-resourced at these levels and PSLs were over-stretched. The firm was unable to maintain knowledge consistently as well as focus on adding value to clients.

BARRIERS TO INCREASED KNOWLEDGE EFFICIENCY

Firms typically encountered the following barriers when attempting to improve knowledge efficiency:

Decentralised knowledge functions prevent systematic implementation

- Many firms had devolved knowledge creation to practice areas. Where they existed, partners responsible for knowledge in each practice area tended to focus on clients and fee-earning first, and knowledge strategy second. Firms that lacked strong central knowledge support tended to be less efficient around knowledge.
- Other structural issues prohibited effective staffing of work, even if good knowledge existed to enable it. For example, partners' reward structures did not encourage effective resource allocation across offices. Similarly, fee earners' requirements to reach billing targets prevented work being pushed to the most junior resource available.

"Some of our regional offices prefer to maintain their own versions of our standard documents."

Partner, Corporate

"Because in reality knowledge decisions are practice-area led, some knowledge work is retained internally even though there is good case to take a more critical view. It can be difficult to see the wider benefits."

Head of Knowledge Management

A misconception about what clients are actually paying for

- Some firms overestimated the amount of their work that involved unique expertise, ignoring the fact that almost all work has commoditised elements.
- Some firms also suggested that higher rates were easier to justify if clients believe that documents are "bespoke".
- Some mistook verbal and other aspects of style for content; ignoring the fact that clients pay for substance.
- Sometimes there was a tendency among senior lawyers to "hoard" work that could be delegated to more junior lawyers to provide the best value for money for clients.

"For the fees they are paying, clients would expect 100% of every document they receive to have been drafted exclusively for them."

Partner, Corporate

Cultural resistance to working with new technology or external providers

- There was often cultural resistance to either automating documents or using non-qualified staff to do clerical work, both of which were seen as "not the way our firm works".
- Sometimes there was a reluctance to rely on external providers, particularly for precedents. In these cases, there was often no attempt to collaborate to improve external precedents.

"Document automation goes against the document creation model espoused by fee earners. It's too much of a change of style – we have not even been able to look at the costs and benefits."

Partner, Corporate

The decision-making process for implementing new approaches is dominated by the costs without a rational assessment of the benefits

- The true costs of the internal maintenance of knowledge are under-estimated. For example:
 - If less than 100% of internal knowledge is continually maintained, fee earners are often unsure whether a resource is up to date or not. Time spent checking with an external provider is frequently written off.
 - Analysis of the cost of internal maintenance rarely acknowledges the ongoing additional cost of maintaining each newly created piece of knowledge.
- “Sunk” costs were sometimes inappropriately included when analysing the business case for new approaches.
- Among some firms there was a perception that the effort required to change ingrained PSL and fee earner behaviour was simply too great to be worthwhile.
- Some firms viewed knowledge purely as a cost overhead and have not made the causal link to the potential improvements in productivity and client focus.

“In theory, our precedents are maintained internally, but I frequently have to check with [an external source] because I’m not sure whether the firm precedent is up to date”

Associate, Corporate

“We won’t look at alternative sourcing approaches for our precedents because of the huge amount of effort it has taken to build them to date.”

Partner, Property

“The PSLs, as a group, are overworked, put upon and unable to craft their own remit. Partners are used to being spoon-fed by them. When in practice partners are forced to look at using them better, they are very sceptical.”

Head of Knowledge Management

Senior stakeholders in law firms are often the least open to change

- The knowledge strategies of many firms were driven by the approach of the most senior partners.
- This hinders engagement with new technology, external providers and modern management techniques.

“Firms that succeed are those where senior partners acknowledge that their sphere of influence is not as wide as it used to be. There are some areas where others may know better – knowledge is one.”

Head of Knowledge Management

Under-resourced implementation of knowledge initiatives

- Some firms were under-resourcing the implementation of knowledge projects, often because they lacked senior management sponsorship.
- Several firms were focusing only on those practice areas which were amenable to change or could provide the resource necessary to support it. This was often to the detriment of practice areas where there was the greatest potential for benefits.

“We have seen significant savings in those practice areas where we took a systematic approach to focusing on proprietary knowledge. Unfortunately we can’t get senior support to roll this out in other areas where the benefits could be even larger.”

Head of Knowledge Management

“We developed an extranet for our clients. Clients love it but don’t use it – we should have done more to make it part of their work processes.”

Partner, Property

OUTCOMES FOR THOSE FIRMS IMPLEMENTING KNOWLEDGE BEST PRACTICES

Firms that were successfully implementing best practice approaches were achieving significant benefits, either through greater client focus, improved risk management or reductions in cost.

Greater client focus

- Firms that focused on understanding what clients perceive as generic or proprietary saw improved realisation rates. “Previously we wrote off work because we spent too much time on parts of the documentation that clients saw no value in” was a common theme.
- Firms that concentrated only on current awareness that was tailored to clients or sector-specific interpretations of legal developments saw significant business development successes. They were more consistently engaged in constructive dialogues with existing and potential clients.

Improved risk management

- The risks inherent in haphazard knowledge maintenance were minimised. One firm commented: “The negligence and reputational risks are huge if knowledge is not up to date. Luckily we weren’t called up on it, but the huge amount of documents we were trying to maintain internally was a big worry”.
- Firms with accessible, well-maintained knowledge were able to delegate work to junior resources more securely. “There are risk implications if there is too much delegation without the right level of knowledge support. But making sure junior lawyers and paralegals know what they are doing is key to greater efficiency,” said one partner.

Cost reduction

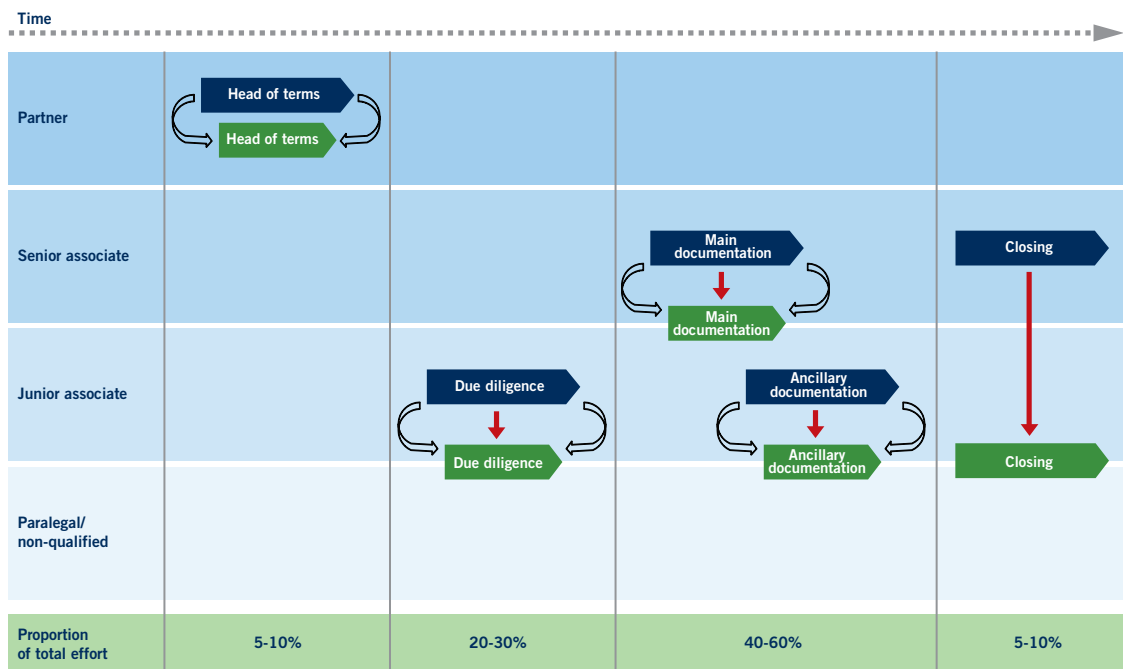
- Firms implementing best practice approaches were seeing cost reductions in both the creation of knowledge and, more significantly, in matter delivery.
- Firms that actively pushed the creation and maintenance of generic knowledge “down or out” (to cheaper internal resources or to an external provider) were able to reduce the associated cost of production by up to 10%. Typically, the freed-up time was redeployed to higher value activities.
- Firms were realising the benefits of greater efficiency in matter delivery in one of two ways:
 - They were reducing write-offs caused by a) work allocated at too senior a level or b) poorly maintained knowledge leading to wasted time.
 - On fixed or capped price deals, firms were able to reduce their cost of delivery, leading to direct improvement in profitability.

Cost reduction in a generic transaction

This high-level process map illustrates how and where firms were typically using knowledge to enable greater efficiency in transactional matters.

The chevrons show where most work will be carried out. Improved knowledge practices will lead to work being performed faster and at a lower level (though some stages, such as closing, will of necessity require some involvement at all levels).

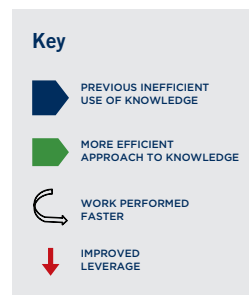
Each stage of the transaction tends to absorb a percentage of the overall effort (see row labelled “*Proportion of total effort*”). Greater savings will be achieved where the greatest effort is spent.



Evidence of what was actually being achieved:

- Up to 10% reduction in the total cost of matter delivery through faster drafting.
- Up to 15% reduction in the total cost of matter delivery through improved leverage (for example elements of main documentation can be passed to junior associates, lowering costs and freeing up senior associate time).
- Overall up to 20-25% cost reduction in matter delivery.

The best firms were consistently achieving these levels of efficiency by combining rigorous matter management techniques with sound knowledge practices.



NEXT STEPS

If you would like to discuss how any of the implications of this report might impact your firm, please contact Jack Diggle on jack.diggle@omc-partners.com or Will Long on william.long@practicallaw.com.



ABOUT THE AUTHOR

Jack Diggle is a partner at OMC Partners – a management consultancy that works with law firms and legal departments to help improve their operational efficiency. He has led numerous projects with leading US and UK law firms and corporates. The scope of his work includes strategic sourcing programmes (including the use of legal process outsourcing), process deconstruction and organisational design.

Prior to OMC Partners, he worked for ten years in the investment banking sector with Goldman Sachs and ABN AMRO, and also at PwC Consulting.

Commissioned by

PRACTICAL LAW COMPANY®



ABOUT PRACTICAL LAW COMPANY

Practical Law Company is the leading provider of online know-how for lawyers. Over 200 experienced non-practising lawyers create and maintain generic precedents, practice notes, current awareness, market practice analysis and checklists. 80% of the UK's top 500 law firms and 90% of the FTSE 100 rely on these resources to work more efficiently and provide greater value to their clients.