



AN ADERANT WHITE PAPER FOR LAW FIRMS

TECHNOLOGY: CHANGING THE ATTORNEY-CLIENT RELATIONSHIP FOR THE BETTER!

INTRODUCTION

Several years ago, an article in the ABA’s Law Practice Today asked us to imagine a global industry managed by “part-time leaders with minimal business training.”

The business ran for decades on the same model, with few coherent strategies for growth, marketing or pricing. Executives were asked to wear many hats in their enterprises, including professional expertise, sales, marketing, human resources and management. Customer demand never wavered and profits continued to grow at a healthy pace.

What if steady customer demand suddenly changed?

That’s exactly what happened after the 2008 financial crisis. Although demand has rebounded somewhat in the past few years, the balance of power has shifted to the client side.

While lawyers retain the critical knowledge base that commands high fees, clients no longer accept being excluded from the process. According to The American Lawyer’s 2014 survey of the Am Law 200, “Firms on average last year showed the lowest revenue per lawyer since The American Lawyer began tracking the 200 firms in 1998.” The legal services economy has improved, but the recovery has been modest. From 2010 to 2013, the growth rate for legal services revenue was 4.6 percent—less than half of what law firms enjoyed during the boom. Things continue to change, with technology heavily entrenched in the future of the client-attorney relationship.

RESISTANCE TO BUSINESS IMPROVEMENTS

The turmoil rocking the legal profession in recent years highlights what a unique place it held historically among successful global enterprises. Few other industries could defy best practices, marketing investments, management training and technology for so long without suffering debilitating consequences.

Change never comes easy, as evidenced by Altman Weil's 2014 Law Firms in Transition survey. Many firms remain tied to the status quo:

- Less than half the firms surveyed intended to make significant changes to their business models
- Only 30 percent reported intentions to change their strategic approach to pricing in 2014
- 39 percent would overhaul the efficiency of their legal service delivery
- 46 percent were working on lawyer staffing strategies

However, when firm leaders were asked about the biggest driver of their decision-making, 44 percent chose short-term profitability to hold on to key partners and 56 percent cited long-term, client focused investments.

Integrated software applications provide clients with real-time data about their cases, and firms can continuously monitor the profitability of a matter.

THE CHANGING FIRM-CLIENT DYNAMIC

Some firms are embracing proven business methodologies and technology designed to increase transparency. Clients now can measure a firm's performance based on detailed analytics. Firms, in turn, can interact with their clients as partners in a process rather than collection sources at the end.

The shift toward client power is clear in the changing terms of the billing arrangement. The billable hour continues to endure despite numerous reports of its impending death. Lawyers would prefer to continue using the billable hour since it is more profitable than alternative fee arrangements and favors traditional firm-client dynamics.

However, The American Lawyer's recent annual survey noted that 60 percent of Am Law 200 firms reported discounting rates for some or all of their top 50 clients. Virtually all firm leaders said they used some sort of alternative fee arrangement.

In a 2014 article for Beaton Capital called "The Big Bang in Big Law," Warren Riddell noted that "Smart clients are demanding insights from their legal providers, the quid pro quo for law firms is being able to embed themselves with their clients to provide a long-term service that actively improves their clients' operations."

While expecting more, clients are not extracting every last pound of flesh from firms. As The America Lawyer reported, "For all their price-consciousness, customers continue to pay premium prices when they have to. And even when they don't, they continue to pay large sums, whether on an hourly or flat fee basis."

Growth of AFAs

35%
growing but the
pace is slowing

37%
leveling off



21%
growing at an
accelerating pace

8%
declining modestly

THE VALUE OF TECHNOLOGY TRANSPARENCY

For clients to participate effectively in the decision process on case matters, they need accurate, timely information. Technology is bridging this gap and radically altering traditional attorney-client interactions. Integrated software applications provide clients with real-time data about their cases, and firms can continuously monitor the profitability of a matter.

These project management solutions enable firms to manage client engagements throughout the life cycle. The benefits to firms are clear and compelling:

- Increased efficiency
- Transparency
- Flexibility to meet client expectations
- Improved visibility to matter profitability

To make this model work, however, the client also needs tools to monitor how effectively the overall caseload is being handled. The client must feel confident that individual cases are not languishing, that the firm is not settling too many cases or spending too much on settlements, and that the work product meets client standards.

In an ideal project management scenario, clients can see the status of any matter—cost and fee charge data, case documents and attorney work product—and see the status of all matters at a macro level. They can view real-time key performance indicators showing the number of cases being settled versus defended, average settlement amount and the time it takes to resolve cases.

Firms can closely monitor actual-vs-estimate time spent on tasks, ensuring that a potentially profitable engagement does not turn into a loss. Software applications facilitate this by recording time by phase and task. They also provide insight on where and when more expensive resources have been used, tracking revenue against estimates to ensure there are no surprises for clients.

RESISTANCE TO PROCESS IMPROVEMENT AND COLLABORATION

In their white paper titled *Applying Continuous Improvement to High-End Legal Services*, Clifford Chance explained why process improvement has met resistance in the legal profession:

“The threshold challenge for applying continuous improvement in this industry is that lawyers historically have not been trained to look at the work they do as a process. This can be traced back to law’s heritage as a professional apprenticeship. Trainee lawyers learn by observing how more senior lawyers operate; the focus is on the acquisition of knowledge and expertise, rather than understanding the ‘how’ or ‘why’ of service delivery.”

“The result is not a lack of process, but fewer fully standardized processes. When applying continuous improvement in the legal sector, then, the first step must involve bringing everyone together to map out an agreed and standard process for delivering the given task, creating a foundation for improvement. This often challenges those involved to think about what they do on a daily basis, and have often done over many years, in a completely new way.”

Further complicating progress at the macro level is that lawyers are not known as natural collaborators. A recent post by Joe Lamport on Good2BSocial called “Why Big Law Partners Don’t Play Nice in the Sandbox” claimed that “resistance to collaboration is... deeply engrained in the big law partner’s sense of professional identity. Many big law firms have established compensation schemes that completely work against fostering the spirit of collaboration.”

Collaboration will be key for successful players in this new paradigm. As an example, the Sutherland firm was featured in an article in *Law Practice Today* called “Legal Project Management from the Inside” on process improvement. Sutherland found that feedback interviews were one of their most effective tools in managing the client relationship. By finding out what their customers really thought, they improved not only dialogue with their key customers, but also the perception of the customer service they were offering.

THE NEED TO DEFINE FIRM PROCESSES

Part of the challenge for firms moving from the “old way of doing things” is figuring out what the exact processes of their practice are; only then can they be analyzed and improved. In a story by Hanson, Millard and Thompson called “Mastering Complexity” in *Managing Partner* magazine, the authors noted three broad processes firms can examine to improve their overall practice:

- **Collaboration Processes:** These facilitate lawyers collaborating together on a matter. They are especially important if the firm has multiple offices or operates a virtual business model (such as a significant work-from-home component).
- **Work Product Processes:** These processes result in the actual creation and delivery of work product to clients, from matter opening to closure.
- **Knowledge Management Processes:** These processes involve the collection and codification of knowledge, so it can be delivered back to lawyers when needed on subsequent matters.

In a separate story called “Optimizing Processes,” the authors found that typical business processes required to operate a law firm fell into seven primary areas:

- Developing strategy and business plans
- Managing finances
- Opening, running and closing matters
- Managing client relationships
- Developing business
- Managing people who work in the firm
- Delivering a legal transaction or advice

Fortunately for firms ready to examine their processes and make improvements, the technology now exists to make this less painful. Legal process management applications, for example, allow both firms and clients to view data in real time and track matters using various metrics. Using such programs creates an interesting new dynamic in the attorney-client relationship, empowering both sides with more accurate information for decision-making.

TYING CLIENTS TO THE FIRM RATHER THAN INDIVIDUAL PARTNERS

In their 2013 management issue, the ABA featured an article by Mary E. Vandenack called “Dawn of a New Business Model” about the new Morningstar Law Group, which arose when 10 lawyers left two large firms to create a new business law firm with multiple practice areas. The lawyers intended not only to break away from the big law system but also to define a new client services model and firm structure.

At Morningstar, clients are viewed as “firm clients” rather than being tied to a particular partner. The group shifted focus from individual attorney performance statistics to the firm’s overall performance, and the partnership decision structure was flattened.

Morningstar leaders argued that the centralized management model so common in large firms “tends to create a sense of apathy and disenfranchisement among the working owners, i.e., equity partners. You end up feeling like an employee rather than a business owner, and you really are nothing more than an employee because you rarely ever are consulted about significant decisions in a meaningful way.”

The key to the new Morningstar model is incentivizing everyone in the firm. They accomplish this by ensuring that everyone feels they have a stake in the success of the overall enterprise and that their investment of effort and time will pay off. “We have 10 partners so far, and we sit around the table and discuss pretty much everything.”

Technology itself can have interesting effects on a client’s attachment to a particular firm. Process management has already allowed some of the larger firms to move toward a single-supplier model to increase client loyalty. In their innovative lawyers section last year, the Financial Times reported that “law firms will increasingly need to capture clients and be able to serve them across their business needs, from top-end legal advice to everyday legal matters to implementation.”

Business Processes Required To Operate A Law Firm

Strategy and Planning	Managing Finances	Managing Matters	Managing Clients	Business Development	Managing People	Execution
<ul style="list-style-type: none"> Market research Competitor research Legal sector trends research Strategic planning Business Planning 	<ul style="list-style-type: none"> Budgeting Accounts payable and receivable Cash management Capturing expenses Control and report 	<ul style="list-style-type: none"> Plan matter economics Manage matter lifecycle Record time Manage WIP Bill Manage debt Report 	<ul style="list-style-type: none"> Client take-on Client financial reporting Account planning and reporting CRM and contact management Communicate and report with/to clients 	<ul style="list-style-type: none"> Manage and communicate brand Strategic BD research Client analysis Campaign management New product identification and development 	<ul style="list-style-type: none"> HR operations Career planning Training Elections Internal communications 	<ul style="list-style-type: none"> Source work Plan legal processes Execute legal transactions Record and classify content for re-use

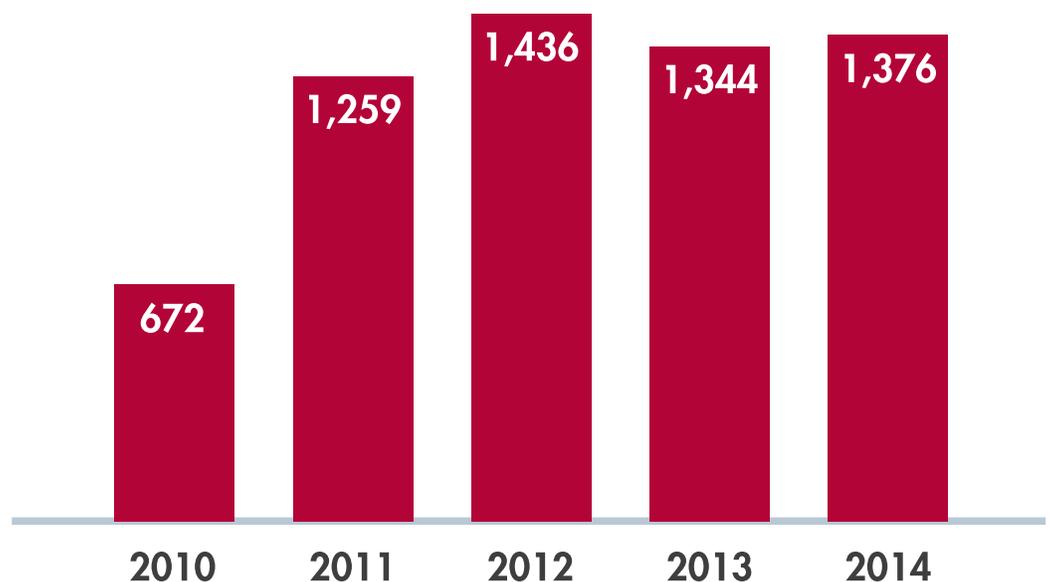
USING TECHNOLOGY TRANSPARENCY IN PARTNER TRANSITIONS

One area where better data could benefit firms is lateral hiring. In recent years, lateral hires have become the lifeblood for firms seeking to increase revenues despite decreased client demand. In his report on the 2014 lateral hiring market, Robert Kinney writing in *Above the Law* found that “2014 was a great year for the many firms that now measure overall success by the success of their lateral hiring program.” He identified two major trends in lateral hires:

1. There has been a sustained upswing in the lateral partner market over the past three years, with big law firms pursuing lateral hiring as an important part of their growth strategy
2. Over 75 percent of the largest U.S. law firms have hired 10 or more lateral partners over the last five years

Firms need the best data available to make these important lateral hiring decisions. Much of the legal technology designed to enhance the firm-client relationship could also be used to analyze the relative strength of a partner’s book. The same can be said for existing partners. If a firm fears that a partner might leave, transparency applications can determine the value of that partner to the firm. Better data will translate into smarter decisions in partner transitions.

Total Partner Lateral Hires



MORE OPTIONS WITH NEW TECHNOLOGY TOOLS

Monitoring projects in this manner is useful only if corrective actions are taken based on the data. For example, too many hours being logged on a matter could indicate scope creep, with fee-earners doing more than originally contemplated. Dealing with the issue immediately instead of after the project is more likely to have a positive outcome. Likewise, when an anticipated profit margin is suffering because the leverage is not where it should be, proactive firms can act quickly to bring the leverage back within acceptable boundaries, rescuing the expected profitability of a matter.

Thanks to advances in legal technology, firms now can increase their efficiency and profitability while engendering a more productive and transparent relationship with their clients. While these new options can be complex, the most productive first step involves examining firm processes and increasing data flow to clients.

EVERYONE WINS BY ADAPTING TO THE NEW REALITY

It is amazing to think that almost none of the technological capabilities discussed here were widely available just five years ago. Technology is truly altering the way law is practiced, and the focus on profitability and efficiency is bringing the global legal industry much closer to the “best practices” standard of the business world.

While the transition to improved business practices and advanced technology can be challenging, both firms and clients benefit from better information transparency. Decisions made with the best available data will always trump those made on hunches or false assumptions, and strengthening the bond of trust between firm and client will lead to a better long-term working relationship.



SPECIFIC TECHNOLOGIES TO IMPLEMENT TODAY

Aderant MatterWorks helps law firms quickly get to the heart of the matter: improved pricing and profitability. Providing firms with the ability to more effectively manage matters throughout their entire life cycle, MatterWorks enables proactive legal process management with effective planning, forecasting, pricing and monitoring of projects.

The only solution providing tight integration with rate and pricing information used in Aderant Expert or Elite Enterprise, MatterWorks is used by 35 of Global Top 200 Law Firms. And with experience of working with more than 130 law firms globally on matter pricing and process management initiatives, Aderant professionals bring a significant level of experience and insight into best practices and successful change management initiatives, help ensure a firm's success with this type of project.

In the area of business intelligence and analytics, Aderant's market leading Redwood Analytics and Expert ClearView solutions are available to help firms identify opportunities to increase profitability. The key to achieving this success is taking advantage of business planning, performance management, analytics and other business intelligence (BI) solutions and technologies that promote the real-time analysis of information and enable faster, more informed decision-making.

To learn more about Aderant's available solutions, visit www.aderant.com.

*This article was first published in ILTA's **Professional Services: Building Relationships** white paper and is reprinted here with permission.*



ABOUT ADERANT

Aderant, headquartered in Atlanta, is a global provider of comprehensive business management software for law and other professional services firms. With a 35-year history as a global industry leader, Aderant supports nearly 3,200 clients in more than 30 countries, representing 77 of the top 100 Global Law Firms and more than 88 percent of the Am Law 200. Aderant maintains a combined customer retention rate of more than 95 percent and a customer support Net Promoter Score of 81. Aderant's complete suite of solutions includes: business development, calendar/docket matter management with built-in court rules, practice and financial management, time and billing, case management, document management, and business intelligence. More information is available at www.aderant.com.

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