Table of contents

Chapter 1: What is digital transformation?

All businesses operate by some set of unstated rules and sometimes those rules change – often in very significant ways. Yet there is no flashing sign that heralds these rule changes. They creep up on you as they crept up on us, without warning.[6]

1. Meaningful change or management speak?

Lawyers love words. In law firms, a high value is placed on correct and consistent use of language. It's all about precision; the quickest way to lose credibility with a group of law firm partners is to present a slide with a typo on it. Although the legal sector has its own lexicon (which is pretty much impenetrable to those outside the profession), lawyers remain deeply sceptical of vocabulary used by professionals in other industries. The language of business that is standard outside of law may simply not resonate in a law firm (or worse, may be viewed as management speak, and an instant turn-off).

For this reason, if you were to ask a typical line lawyer in a corporate law

firm about the firm's digital transformation strategy, you would likely be met with a blank look. If you were to speak to a GC of a large corporation about digital transformation, however, she or he would probably understand exactly what the term means. This is because digital is integral to the strategy of most large corporations, and in many cases is driving the business strategy itself. This is not the case in most law firms, where digital transformation is still far from central to the strategy. Law firms may be familiar with the term 'digital transformation' in the context of advisory work, as most firms are advising clients on the legal and regulatory implications of their digital initiatives. Many lawyers, however, remain unaware of (and often disinterested in) the law firm's own digital transformation.

So let's start, in a lawyerly fashion, with the definitions section. What is meant by 'digital transformation', and how is it different from 'innovation'?

2. Innovation vs digital transformation

Corporate innovation means the creation by a business of something new (to the business, to the market or to the world) that meets three criteria:
- desirability (customers/clients want it);
- feasibility (it can feasibly be created); and
- viability (it creates value for the innovating business).[7]

At the intersection of these three elements lies successful innovation. Anything that is outside the intersection cannot be considered true innovation (it's not innovation if you invent something completely new that no one wants, for example; nor is it innovation if you have an idea for something people want and which would add value, but cannot feasibly be built). The term is often applied to the creation of new products and services. It is also, though more rarely, used in connection with the creation of entirely new business models.

In the law firm context, innovation is widely used to describe initiatives to modernise existing legal service offerings to clients. For this reason,

innovation has become associated with the adoption of legal technology. The association rather devalues the term's currency. Innovation in law firms did not start when 'legal tech' came onto the radar in 2012. Its roots are in the more prosaic world of process efficiency and the offshoring/nearshoring of commodity legal services. Although it may seem very old school now, the move by a number of large law firms to establish captive centres[8] to deliver more process-oriented legal work was the first (and perhaps the only) truly radical and lasting change to the traditional law firm operating model. It was also a genuine exercise in responding to customer needs.

For the purpose of high-level definitions, we can think of innovation as new ways to deliver legal services, using process, people and technology, usually to drive greater efficiencies, increased profitability and lower risk.

'Digital transformation' goes further than innovation, encompassing wholesale operating model change to future-proof a business. Its objectives are new revenue generation as much as cost reduction and efficiency gains. Digital transformation is expansive. It touches the entire operating model of an organisation: client-facing delivery and product development; data management and exploitation; the client experience; tooling and software; cloud strategy, data centre strategy; and the other fundamentals of IT infrastructure. It also touches delivery of the new operating model, including the capabilities to implement the model and the cultural change to sustain it. There are many ways to define digital transformation, but I like this definition, from Salesforce:

> *Digital transformation is the process of using digital technologies to create new – or modify existing – business processes, culture, and customer experiences to meet changing business and market requirements. This reimagining of business in the digital age is digital transformation.*[9]

This definition hits the essentials. It is sufficiently broad, reflecting the fact that digital transformation requires attention to technology,

process, culture and the customer experience. It also contextualises the reason why digital transformation is so urgently needed – because in every industry sector, the market, the economy and the competition are changing so rapidly.

3. Why should law firms change?

The World Economic Forum (WEF) white paper on digitisation of professional services, produced in collaboration with Accenture as part of the WEF's digital transformation initiative, contains some interesting analysis of the impact of digital transformation on professional services.[10] Their research shows that of all professional services categories, Big Law is the laggard in terms of digital disruption.

The white paper was published in 2017 (a long time ago in the digital world) but the results still resonate. Why is it that law firms have not yet experienced the kind of disruption that has impacted other industries – and other professional services providers? Why is it so difficult to find examples of successful radical change?

Sceptics in law firms commonly give three answers to this question. The first relates to revenue. Law firms are making a lot of money, which suggests that the model works. Why try to fix something that is not broken? The second relates to expertise. Legal expertise, the argument runs, cannot be commoditised, and consequently law firms are not vulnerable to disruption in the same way as other businesses. The third relates to brand. The established brand and deep client interactions that many law firms enjoy create a relationship of trust that cannot easily be copied or eroded.

These important challenges need to be met head on.

3.1 Money, money, money
It is true that many law firms, particularly those at the top end of the market, continue to be very profitable. Partners in these firms will tell you their business model is working just fine, and that there is simply no need for change. In some cases, they will be right. If I were to walk

into the boardroom of Kirkland & Ellis and tell them that they urgently need to become more digitally effective, I would certainly be laughed out of the room. 2020 was kind to Kirkland:

> *Insiders at the Chicago-based firm said that its turnover was approaching $5 billion for the twelve months to the end of January [2021], up from $4.45 billion in the previous year. One partner described the firm's performance as "eye-watering".*[11]

The issue here, though, is one of conscious strategic choice. The law firms that stand to gain the most from digitisation (and that have the most to fear from disruption) are not the Wachtells or the Kirklands – these firms have made a clear strategic choice to focus all their energies on a particular market segment and to do this very well. The firms that need to think seriously about digitisation are those that have not yet made a conscious strategic choice about where to play in the market, have not recognised the immediacy of the threat to their traditional business model and are at risk of sleepwalking into a strategic vacuum. Loitering in a no-man's-land between bespoke, high-touch legal advisory and being a 'full service' law firm is a dangerous place to be without a winning strategy.

3.2 Law firm expertise

It is certainly true that some elements of legal services, particularly corporate legal services, can be highly complex and unique. There is also some logic to the argument that the bespoke nature of high-end legal work makes wholesale disruption, through a challenger provider or platform, harder to achieve. Certainly, law firms are not accustomed to thinking of their services as 'products' as would be the case in the B2C sector. The concept, common to a product world, of developing and packaging up 'reusable components' – that is, common elements or approaches that can be applied to different clients with similar issues – is a much less familiar concept in a law firm setting.[12]

This is an extract from the chapter 'What is digital transformation?' by Isabel Parker in Successful Digital Transformation in Law Firms: A Question of Culture*, published by Globe Law and Business.*

Lawyers are justifiably proud of their professional expertise, and it can be uncomfortable for them to admit that a significant portion of their work is not really all that special.