

The Allen & Overy Legal Innovation Benchmarking Report

A global study into how in-house legal functions
are tackling change and transformation

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ALLEN & OVERY



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Executive summary

Agents of change: how in-house legal function leaders are delivering better business outcomes





Agents of change: how in-house legal function leaders are delivering better business outcomes

QUICK READ

- More than 80% of in-house legal function leaders are aiming to implement systematic change, though most want that change to be continuous and incremental rather than transformational.
- Better data to drive decisions and reporting, and improved quality and consistency of service are the most commonly cited drivers of innovation.
- However, talent issues such as lack of specialist skills or human resources, and resistance to change are viewed as the main barriers.
- Legal function leaders must therefore become agents of change across five areas: breaking down cultural and operational barriers, innovation strategy, internal team structures and capabilities, supply chain relationships and legal technology.
- Yet our research highlights significant gaps between innovation intent and the priorities and activities pursued by in-house functions today to implement that intent.
- Those who have made the most significant strides forward in their innovation journey – the so-called ‘engaging’ segment – have closed these innovation gaps and benefited from improved business outcomes.

The A&O perspective

In-house leaders are on an exciting journey of change and innovation. As in-house legal functions move towards maturity, Allen & Overy believes leaders will achieve big gains. They will be able to run their functions more efficiently while being more responsive to business need. This will help position the legal function as a proactive and value-enhancing business partner. The most successful legal functions will be alive to change, stay ahead of market trends and not be afraid to experiment. As an agent for change, the legal function leader will be at the forefront of defining and realising this new operating reality.

Today's in-house legal function leaders

Leaders of in-house legal functions face many competing demands for their attention. At the same time as they are providing crucial legal, advisory and compliance support to business colleagues, they are also tasked with overseeing substantial innovation and development within their own functional team.

The Covid-19 pandemic is likely to intensify the pressure to change, making the future both uncertain and exciting. To successfully navigate the months and years ahead, therefore, leaders of in-house legal functions need to become agents of change. They need to take control of the innovation agenda and set the pace and objectives for change that will work for their priorities and desired outcomes.

Incremental vs transformational change

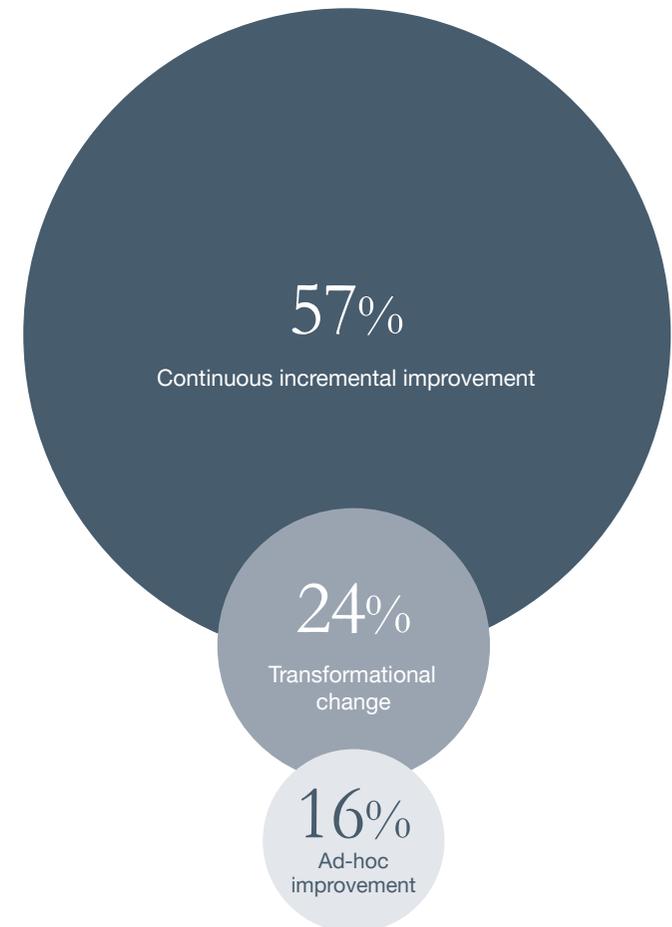
Allen & Overy's previous research in 2014, *Unbundling a market: The appetite for new legal service models*, heralded a new level of comfort among in-house legal functions with embracing innovation, diversifying their legal supply chain and rethinking their legal workflows.

Although much has developed in the six years since then, in-house legal functions have not yet embraced full-throttle innovation at the pace that some market commentators have predicted they might.

In our most recent research, we asked 92 senior in-house leaders how their function defines its approach to innovation. Only a quarter (24%) of those surveyed said they are pursuing transformational change, with an intent to radically redesign how the function operates for the future – see Figure 1.

By contrast, the majority of those surveyed (57%) look for opportunities for continuous improvement, to ride the wave of innovation month-on-month to adapt their approach as their circumstances and the external market change. A further one in six (16%) say they pursue ad-hoc improvements, looking at change on a case-by-case basis rather than as part of an overall improvement vision. This challenges the conventional wisdom that innovation is experienced as a series of big bang, transformational moments.

Figure 1: Does your part of the legal function's approach to innovation primarily envision...?



Source: Allen & Overy and Meridian West Analysis

Taking the pulse of legal innovation today

The series of papers that makes up **The Allen & Overy Legal Innovation Benchmarking Report** explores the realities of innovation and change within in-house legal functions today. We want to strip back the hype to understand the steps in-house leaders are taking to do things differently.

The insight in our series was developed through in-depth benchmarking surveys completed by 92 senior leaders of in-house functions immediately prior to the onset of the Covid-19 pandemic. If you are interested in taking part in the benchmark survey to see how your responses compare to the leaders in our research, you can do so by contacting: legalinnovation@allenoverly.com

Allen & Overy would like to thank the in-house leaders who spent time completing our benchmark survey as well as our partners in the research design and analysis, independent consultancy Meridian West.

We have grouped the findings of our research into five short papers, each of which deals with an important aspect of innovation and change within the legal function. Each paper provides insights and ideas to help your function move to the next stage of its maturity journey.

Here is a preview of our key findings:



Accelerating change: barriers in-house leaders must overcome to be successful innovators

This paper explores the factors that drive and inhibit change within the legal function. We find that:

- Among survey respondents, 53% say two of their main innovation motivations are to access better data to drive decisions and reporting and to improve the quality of service provided to business colleagues.
- This is ahead of the 33% who cite cost reduction as among their top three drivers of change for the in-house function.
- Among all the barriers to change highlighted by leaders, lack of lawyer capacity among the in-house function is the leading inhibitor, cited by 61%.
- Other ‘people’ issues (resistance to change and lack of specialist innovation skills) were cited by just under half of respondents.
- The most mature legal functions consider lack of funding to be the main barrier to change.



Articulating the innovation vision: how leaders harness new ideas within the legal function

This paper explores the building blocks needed for a successful innovation strategy. We find that:

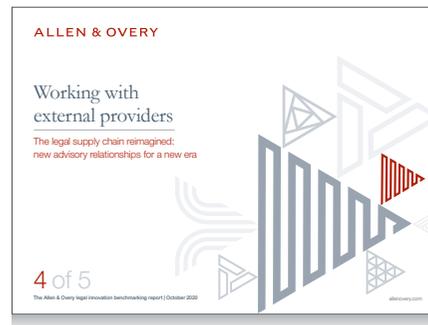
- There is a gap between the innovation aspirations expressed by in-house leaders and their adoption of established planning and implementation techniques needed to realise those aspirations.
- Only half of the legal functions surveyed (54%) have so far articulated their thinking into a clear innovation strategy around which the legal function can coalesce.
- Even fewer (35%) have a detailed roadmap illustrating the investments in technology and innovation required to execute their strategy.
- Only 37% report having used structured techniques such as design sprints to assess, prototype and get feedback on innovation ideas within their team.
- The most mature legal functions are more likely to have mapped out pain points within their legal function around which to focus their innovation activity.



Closing the skills gap: a three-step approach to fostering new skills within the legal function

This paper explores the internal team structures and capabilities that are being prioritised and adopted in order to realise the innovation ambitions of survey participants. We find that:

- Nearly half (47%) of legal functions have now appointed a COO or head of legal operations to take over responsibility for managing the day-to-day running of the legal function from the General Counsel.
- However, there is a gap between senior leaders' innovation intent and the specialist roles needed to implement that intent: only 30% have technology managers, 29% have a head of innovation and 15% have data analyst(s).
- In addition, there is a further gap between the innovation agenda and the skills that in-house leaders currently prioritise within their lawyer team. Just 28% say technology curiosity and ability is a 'very important' skill and 26% say change management is very important.
- This low expectation in relation to lawyer skills translates into under-performance: 40% rate their team as not good for technology curiosity and ability, and 43% say they are not good at change management.
- The leading organisations are recruiting new hires and retooling existing employees with a broader range of skills outside of traditional lawyering to close this skills gap.



The legal supply chain reimaged: new advisory relationships for a new era

This paper examines the changing role of legal supplier relationships, and how successful innovators manage a diversified supply chain. We find that:

- Just under half (44%) of the average legal function budget is spent on external legal providers.
- The emergence of certain new legal service delivery models has been popular with in-house legal teams. For example, 63% of those surveyed have used contract lawyers and 41% have used project-based outsourcing.
- However, most legal functions have not embraced the full range of alternative legal service providers: just 29% have experience of business / regulatory consultants, 27% of outsourcing day-to-day operations and 21% of legal function consultants.
- To manage a more diverse legal supply chain effectively, it is likely that the 41% of in-house functions which have legal procurement and supplier management specialists in place today will need to increase.
- Those furthest ahead on their innovation journey have enhanced their supplier management capabilities, and show a greater degree of openness to engaging alternative legal service providers.



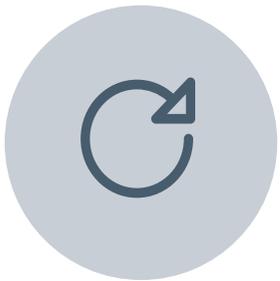
Beyond the hype: a pragmatic approach to legal technology adoption and better data management

This paper explores how advances in technology and data analytics will change the in-house legal function. We find that:

- There is a gap between the importance placed on technology to drive change in the legal function, and the adoption of advanced technologies by legal functions.
- For example, 88% say contract automation tools are important, but just 8% report using those tools extensively across their legal function today, with a further 32% saying they use it in pockets.
- Foundational technologies such as document management tools, knowledge management technology and workflow management capture the biggest share of legal spend.
- When experimenting with new legal technologies the software-as-a-service (SAAS) model is preferred over trying to build solutions internally.
- However, legal technology investment remains limited with just a third (31%) saying they have invested in legal-related technology for their function within the last 12 months.

Becoming agents of change: separating the ‘engaging’ functions from the rest

Through our analysis we have segmented in-house legal functions into three stages of legal innovation maturity, reflecting activity or engagement around innovation. These are:



Reacting. This segment is just starting out on its innovation journey with modest goals focused on making ad-hoc change. They often lack capacity or specialist skills in-house to make more significant changes. Their investment in legal technologies is limited.



Anticipating. This segment is typically on the cusp of more significant change. They may have an innovation strategy and are experimenting with new legal technologies. However, this is often in pilot phase or only deployed in pockets across the function.



Engaging. This segment is furthest ahead on its innovation journey, with greater appetite for transformational change. They typically have a sharper focus on initiatives aimed at smarter data management, and legal workflow redesign. They demonstrate a higher comfort level in bringing specialist innovation skills into their teams and managing a diverse legal supply chain. They have adopted certain technologies more than their peers have done, but the gap here is less pronounced.

Across our five papers, we have benchmarked what sets the ‘engaging’ segment apart from its peers. We have found a clear correlation between this group’s degree of innovation maturity and the superior legal function outcomes which this group believes it has achieved.



Finding out more

We hope the insights and experiences reflected in our survey will spur in-house leaders to look afresh at their future innovation priorities, and to think through the steps required to move to the next stage of maturity on their innovation journey.

For those interested in finding out more, our series of papers can be read in conjunction with Allen & Overy’s previous report, *An innovation playbook for the ‘future-fit’ legal function*. It provides detailed case studies of how leaders are addressing innovation challenges and opportunities in their legal function.

You can download a copy [here](#).

A&O services



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A&O supports in-house legal functions across the lifecycle of transformation projects:

- Initial advisory support including best practice frameworks for current state assessment
- New model design
- New model change management and implementation including measurement through balanced scorecards/KPIs
- Technology maturity assessments

Contacts:



Catie Butt
Executive Director,
A&O Consulting – New York
Tel +1 646 3446653
catie.butt@allenovery.com



Kate Morris
Executive Director,
A&O Consulting – Sydney
Tel +612 9373 7721
kate.morris@allenovery.com

Drivers and barriers to innovation

Accelerating change: barriers in-house leaders must overcome to be successful innovators

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Accelerating change: barriers in-house leaders must overcome to be successful innovators

QUICK READ

- Leaders of in-house legal functions seek systematic change: 81% say they are pursuing transformational or incremental improvement in the way they run their function.
- They are motivated by a desire to deliver a better service experience to their business counterparts.
- They want to use data to help the business make smarter decisions and reduce its risk exposure.
- Yet leaders tell us they face many barriers. 61% say lack of lawyer capacity limits their ambition, and 49% describe lack of funding as a constraint.
- Those furthest ahead on the innovation journey have successfully overcome many of these barriers to accelerate the pace of change in their function.

The A&O perspective

Now is the time for in-house leaders to be bold, to rethink how a modern legal function could operate. Whether they see change as radical or incremental, leaders need to drive their function forwards relentlessly. As in-house legal functions move towards maturity, Allen & Overy believes leaders will face barriers. Change is never easy, but the barriers to change are not insurmountable. The most successful legal functions will be those that have a clear innovation vision supported by a pragmatic plan for change and improvement.

Riding the innovation wave

Leaders of in-house legal functions are keen to ride the innovation wave to the benefit of their team and their wider business stakeholders.

Among the 92 senior in-house leaders interviewed by Allen & Overy, nearly a quarter (24%) are seeking transformational change within their legal function. A further 57% say they are pursuing continuous, incremental improvement.

However, there is no single, overriding motivator for this change. The in-house leaders interviewed signal that a wide array of factors are driving innovation within their legal function. These range from harnessing

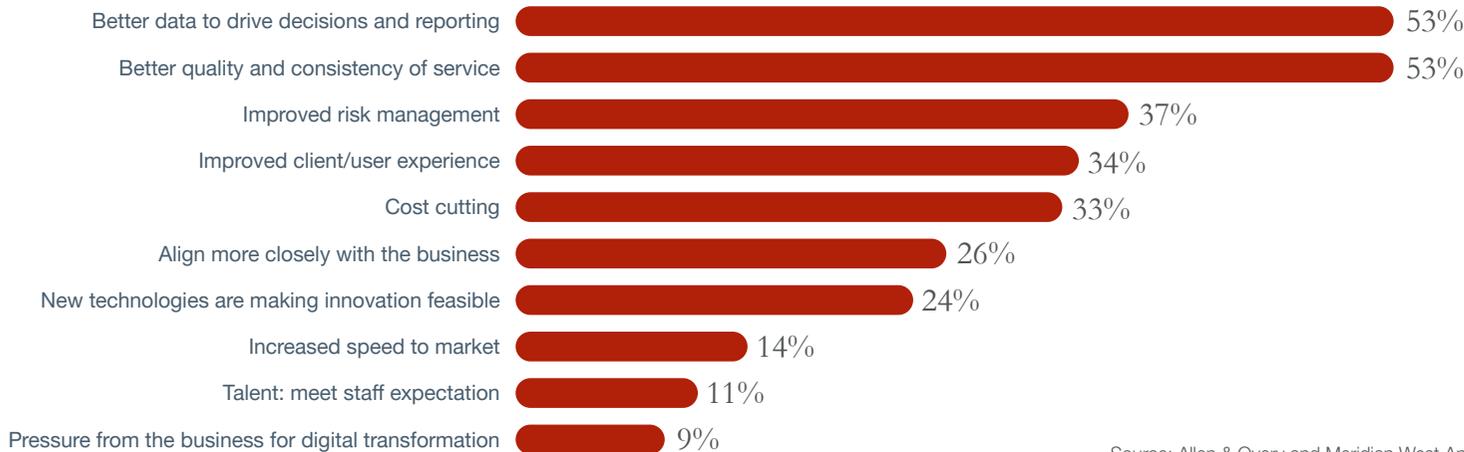
the power of data and improving risk management processes, to improving the user experience for internal colleagues and increasing the speed of legal decision-making.

Just as there are multiple drivers for innovation, these in-house leaders identify a range of barriers impeding their success. Top of the list of barriers is a lack of internal lawyer capacity to focus on innovation or process improvement, closely followed by lack of funds, a cultural resistance to change and limited specialist innovation capability or skills within the in-house team.

Smart data analytics: a leading driver of change

When we asked in-house leaders to tell us their top three drivers of innovation, a range of factors emerged – see Figure 1. While we may have expected a few factors to dominate the responses, the results show that motivations were quite evenly distributed. Only two motivating factors are cited by more than half of the survey respondents among their top three motivators. This suggests leaders are pursuing their own innovation agenda for their own reasons. They are not simply following the path set down by their peers.

Figure 1: Please rank the following in terms of their importance as drivers of innovation in your part of the legal function – showing top three drivers aggregated.



Source: Allen & Overy and Meridian West Analysis



Utilising data more effectively to drive smarter decision-making emerged as the joint top driver for change, cited by 53% of survey respondents. In-house legal leaders recognise that they are custodians of valuable business intelligence. They want to utilise data contained in contracts and other legal documents, as well as insight collected about the operational performance of the in-house function, to improve their understanding of the business, minimise its risk exposure and improve commercial outcomes and turnaround times.

Among the ‘engaging’ segment in our research – those furthest ahead on their innovation journey – utilising data to drive smarter decision-making is the stand-out driver. This is cited by two-thirds (65%) of this segment. It is followed in second place by a desire to improve the user experience for colleagues across the business, cited by 50%.

Innovation initiatives and new technologies that facilitate greater visibility and sharing of data have become an important focus of effort for in-house legal teams in recent years. The intent demonstrated by the 53% who desire to use data smartly is closely allied to the 37% who want to improve risk management outcomes for the wider business.

Take the example of a large commercial bank that makes thousands of loans to its

corporate customers each year. The legal documents associated with these loans will contain valuable data about customers along with relevant contract terms and commercials. Extracting and analysing this data will help the bank to understand better the profile of its loan book, as well as the operational processes by which it makes lending decisions and documents these in a contract.

With easy access to more relevant data, the legal team can help the business to model its risk and reward appetite, and the potential consequence of making certain lending decisions. It can find correlations in the data between loans that deliver higher returns for lower risk and gain a better understanding of how the presence or absence of certain contractual provisions in the loan documentation increases the bank’s risk exposure.

Our survey points to an increasing role for in-house legal teams not just to respond to the wider needs of the business but to utilise this kind of smart analytics to provide proactive advice and intelligence based on the data and insight within their domain.

This is why the in-house teams in our survey who are furthest ahead in their transformation journey – those we are calling the ‘engaging’ segment – prioritise better data analytics over all other drivers of innovation. They know investment in this area can unlock significant value for the business.

Aligning the legal function more closely with business aims

A third (34%) of the in-house leaders we surveyed say they are motivated to innovate in order to improve the experience of their wider business colleagues when engaging with the legal function.

Leaders want to change the perception of the legal function as a blocker to business transformation and growth. They want to move from being considered a function that is difficult or cumbersome to work with, to a function that helps colleagues to realise their commercial objectives.

In-house leaders are achieving this shift in multiple ways. One is by explicitly linking the innovation strategy and activity of the legal function to the broader strategic aims of the business. This signposts their intention to be accelerators, not blockers, of change. This is reflected in the 14% in our survey who say increasing speed to market is one of the top three drivers of innovation with the legal function.

A second way that this supports the in-house team to move from blocker to enabler is the trend towards greater deployment of self-service tools. In-house legal teams are increasingly developing simple tools that will allow business colleagues to triage their issues and be directed towards appropriate templates or other forms of support with minimal intervention from the legal team itself.

Barriers to change: are internal teams over-stretched?

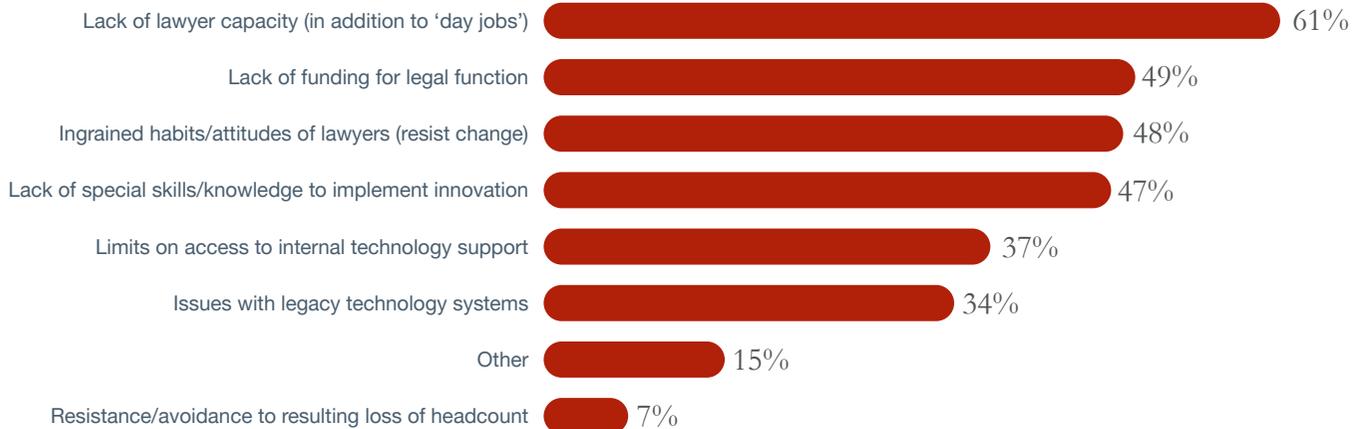
Although in-house leaders express a strong desire for change, this is not always easy to achieve in reality. When asked to identify the three most important barriers that inhibit innovation within the legal function, just under two thirds of respondents (61%) said lack of lawyer capacity was a barrier.

Leaders of in-house legal teams are concerned that their teams are being asked to take on too much innovation or change management responsibility in addition to their day-to-day responsibilities for providing legal advice and support to the business. Our survey respondents paint a picture of a legal function stretched to capacity. Leaders say they are required to juggle effort across two time horizons: immediate business need and long-term functional change.

However, the leaders of legal teams that are most closely engaged with innovation do not share this concern to the same extent. This raises an important question: is the real resourcing challenge for in-house lawyers not a lack of lawyer capacity but a lack of specialist skills to implement innovation, particularly technology and data expertise?



Figure 2: Please rank the following in terms of their importance as barriers to innovation in your part of the legal function – showing top three barriers aggregated.



Source: Allen & Overy and Meridian West Analysis

Figure 2 shows that in addition to lack of lawyer capacity, leaders are also concerned about resistance to change within the legal team (48% identify this among their top three barriers), lack of specialist skills or knowledge within the team to implement innovation projects (47%), and limited technology support from elsewhere in the business (37%).

The most mature legal functions in our research – the ‘engaging’ segment – feel less constrained by these challenges. Only 35% point to ingrained attitudes of

their lawyers and resistance to change, compared with 48% across our survey population as a whole. Less than half (46%) identify lack of lawyer capacity as a challenge. These results suggest this innovative segment feel better equipped to implement their innovation vision and are not held back to the same degree by a culture within the legal function that is suspicious of change.

These multiple and diverse barriers highlight just how difficult change management can be within the legal function while also

managing ongoing operational challenges and addressing rising expectations from business colleagues.

The pressure to be on the front foot in supporting the business in strategy and value-adding activity, not just compliance, adds further pressure. If this tension is not successfully negotiated, in-house leaders are likely to see a widening of the gap between the expectations for innovation and the reality delivered.



Managing cost pressures: balancing efficiency with innovation

While only a third (33%) of survey respondents identified cost-cutting as a primary driver for their innovation efforts, the post-Covid-19 reality may present a very different situation for many in-house legal functions. With many diverse industries facing an immediate financial challenge, businesses will be looking to control costs. The legal function, alongside other support functions and processes, will likely be one area where significant costs savings will be expected to be made.

The lack of funding for innovation initiatives within the legal function was cited as a barrier by nearly half (49%) of survey respondents. That pressure around funding is likely to intensify over the short to medium term as organisations place tighter control over costs.

As a result, in-house leaders will need to be smart about how they deploy their already constrained resources to accelerate change in future. This will require trade-offs between investments in new processes and technologies that will deliver on

innovation outcomes such as improved risk management and data analytics, against a need to find process efficiencies that will eliminate cost and allow business colleagues to self-serve their needs better.

Those in-house leaders who have greater centralised control over their legal budget may find it easier to make the trade-offs required to maintain momentum on their transformation journey, while also achieving tighter cost control. Our survey results show that in just 39% of legal functions today the budget for external legal resource is managed centrally by the legal function. In the remainder of organisations, the budget is devolved to business divisions to manage.

Those who have greater budget control will be more confident in being able to promise a reduction in outlay, such as spend on external law firms, in exchange for protecting resource for innovation projects. This will enable them to run a leaner function in future while remaining responsive to changing business needs.

Accelerating change: challenges or opportunities ahead?

Successful innovators are not deterred by a challenging external environment. While market conditions over the next six to 12 months may intensify the barriers to innovation, the necessity for innovation and change will also increase.

Pressure on resources will require in-house leaders to rethink how their function supports business colleagues and will force greater prioritisation of effort. The need to be agile, increase speed to market and make better sense of data and analytics will not disappear. Instead, they will rise up the agenda for most in-house leaders.

The experience of those in-house functions in our survey which are most active in pursuit of innovation shows that the kind of change desired is possible. A small number have taken significant strides forward already. If the remainder do not seize this opportunity to reassess and rethink their approach to innovation, they may struggle to keep pace with the market.

Drivers and barriers: how to move to your next stage of maturity

Regardless of your starting point, here are three ideas to help your legal function overcome some of the most common barriers to innovation cited by participants in our research:



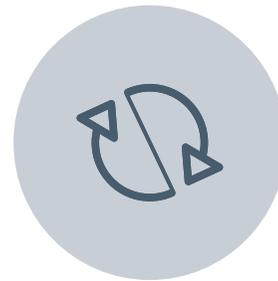
1: Have a laser-like focus on what is driving you towards innovation.

Our survey shows there are many possible drivers for embracing innovation within the legal function. It is important to clarify the purpose of your innovation activity both within the legal function and to your wider group of business stakeholders. Is there a shared vision and set of drivers around which your team can shape their efforts?



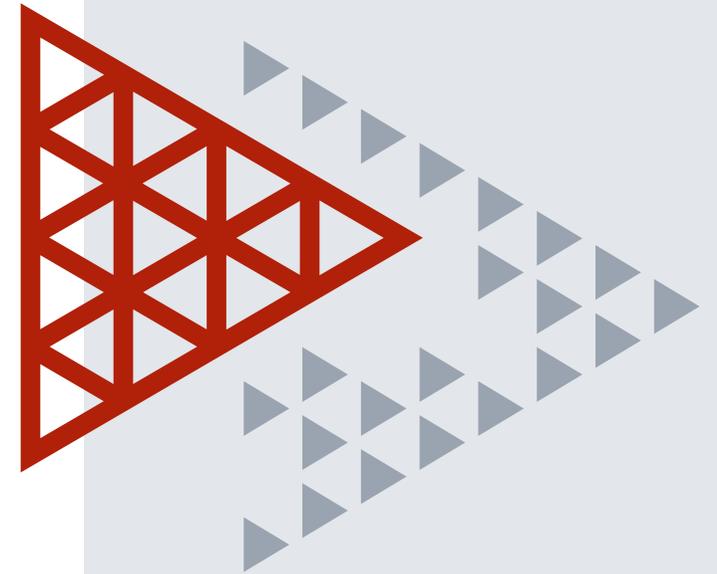
2: Understand how acute the barriers to change within your legal function really are.

Do you understand which cultural, organisational and financial barriers really inhibit your innovation activity? It is important to separate perception from reality. Encourage your team to identify and share their pain points. This can focus minds on the positive changes required to overcome barriers in future.



3: Accept that trade-offs will be required to implement change successfully.

Managing change is difficult, especially in an environment where team capacity is stretched, and budgets are likely to face greater scrutiny. Innovation leaders do not let adverse circumstances derail their efforts. Now is the time to make carefully considered decisions and trade-offs in order to direct funding towards the projects and activities that will deliver results in your desired areas of focus.



A&O services



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A&O supports in-house legal functions across the lifecycle of transformation projects:

- Initial advisory support including best practice frameworks for current state assessment
- New model design
- New model change management and implementation including measurement through balanced scorecards/KPIs
- Technology maturity assessments

Contacts:



Catie Butt
Executive Director,
A&O Consulting – New York
Tel +1 646 3446653
catie.butt@allenovery.com



Kate Morris
Executive Director,
A&O Consulting – Sydney
Tel +612 9373 7721
kate.morris@allenovery.com

Strategy and vision

Articulating the innovation vision:
how leaders harness new ideas
within the legal function

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Articulating the innovation vision: how leaders harness new ideas within the legal function

QUICK READ

- While a majority of in-house legal functions have an innovation strategy, most have yet to formalise or document their vision into a clear implementation plan.
- Just 45% have documented their target operating model.
- Just 35% have a technology road map.
- This lack of clarity inhibits successful operational change.
- Those furthest ahead on their innovation journey proactively identify pain points within their internal legal function, and experiment with new ways of sourcing solutions to these challenges.
- These open-sourced ideas become the starting point for a focused innovation delivery plan.

The A&O perspective

Innovation is a critical capability for the modern in-house legal function. Like all organisational capabilities it needs to be nurtured deliberately and strategically. As in-house legal functions move towards maturity, Allen & Overy believes leaders will need to be more disciplined about defining, documenting, and communicating their innovation vision and their implementation roadmap. The most successful legal functions will encourage experimentation and new ideas, but will also have the right metrics in place to track progress and reprioritise their innovation activities where necessary.

Demystifying innovation

Successful innovators demystify the innovation process. They make it easy for colleagues to get on board with their vision. They recognise that innovation and ideation can be broken down into discrete activities supported by clear workflows and underpinned by tried and tested approaches to the development and roll-out of new ideas.

Innovation and ideation within legal functions are no different. Allen & Overy's survey of 92 leaders of in-house legal functions reveals that those with the most mature innovation capabilities have taken steps to document and map out in detail their approach to legal innovation. They have put in place Key Performance Indicators (KPIs) to track progress against their innovation roadmap.

Those with industry-leading approaches have adopted innovation best practices from other sectors and across other business functions to accelerate the pace of change. Our research shows that the most mature legal functions are using approaches such as open sourcing of ideas, design sprints and innovation incubators to harness new ideas to solve genuine legal and business problems.

It starts with a strategy

In our previous paper in this series, *Accelerating change: the barriers in-house leaders must overcome to be successful innovators*, we reported that 81% of leaders of in-house legal functions aspire to deliver change systematically within their function. This includes 24% who are pursuing transformational change. They are motivated by a mix of drivers including smarter use of data, more effective business partnering, and improved risk management outcomes.

Achieving this level of significant change does not happen by accident. It starts with having a strategy and purpose to innovation that is clearly documented and then widely

communicated. It requires a clear direction and vision that colleagues within the legal function and from across the wider business can rally around.

Our research reveals that just over half (54%) of the legal functions we surveyed now have a documented strategy in place for the function that articulates their innovation priorities – see Figure 1. A further 21% say they do not have a documented strategy in place today but are actively working towards having one in future.

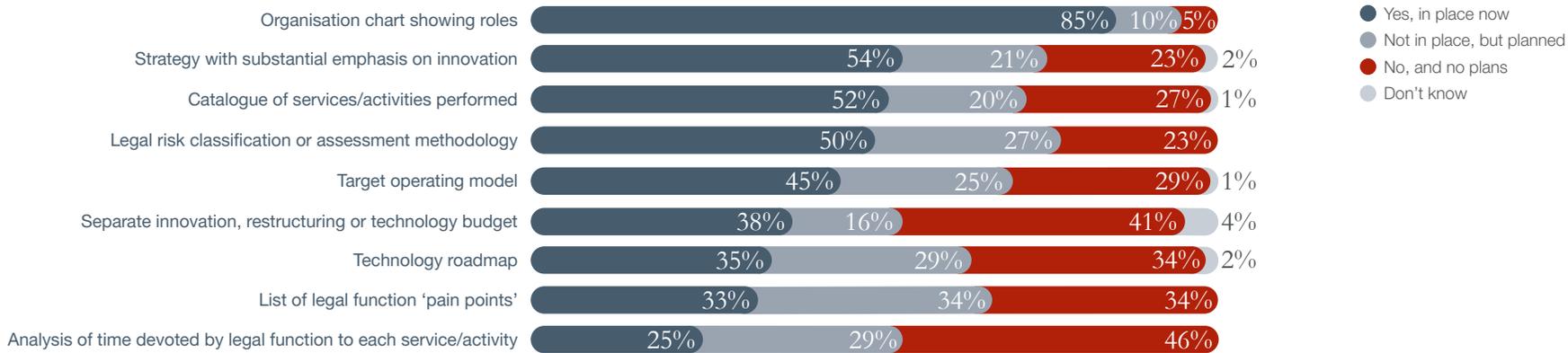
A typical innovation strategy is likely to include details on the legal function's overarching innovation mission,

clear innovation goals, priority activities and associated time horizons. It will define the extent of the team's innovation aspirations: whether they are looking to transform their legal function to become market-leading or are pursuing ad hoc changes to keep pace with peers in the market.

Articulating a simple and clear innovation purpose helps to demonstrate how the legal function's innovation priorities contribute to, and are aligned with, broader business goals.



Figure 1: Does your part of the legal function have/maintain written versions of the following?



Source: Allen & Overy and Meridian West Analysis

From innovation strategy to roadmap

Although three quarters of in-house leaders currently have, or are working towards, a documented innovation strategy, fewer (45%) have documented a desired target operating model for their function, with a further 25% saying they are working towards that over the next couple of years.

Fewer still have a documented technology roadmap or a dedicated innovation,

restructuring or technology budget to fund this activity: just 35% and 38% respectively in our survey say they have this in place today.

These results suggest that while legal function leaders have made significant headway in defining their overall innovation vision, they have yet to fully consider the practical steps required to realise this

vision. They have not mapped out what technology is needed to support change, or how innovation investments will be funded.

This level of detail is important. A vision that is not anchored around a deliverable roadmap or innovation plan will be difficult to achieve.

Having a clearly defined target operating model, for example, is an important step of this process. While there is no single operational blueprint that will work for all in-house legal functions, our research suggests that legal functions are moving towards becoming more technology-enabled with a more diversified supply chain of external providers and a more diverse mix of skilled professionals within the team.

A target operating model will also provide clarity of purpose for the function by articulating the tasks that the legal function

will and will not do. It describes the division of legal tasks between in-house team members, external legal providers and what business colleagues can self-serve.

It is encouraging to see, therefore, that 52% of the legal functions we surveyed have already catalogued the activities performed by the legal function, with a further 20% planning to do this in future. This insight is a useful starting point for thinking through changes to the function's future operating model including which tasks can be eliminated, outsourced or undertaken within the business.

Leaders are forging ahead

The most mature legal functions have already started to take these steps with greater gusto. Our survey shows the most mature segment of in-house functions – those we call 'engaging' functions – are forging ahead. For example:

- 85% of the most mature functions have a documented legal innovation strategy compared with 54% across our survey population as a whole.
- 77% have a separate innovation, restructuring or technology budget compared with 38% across our survey population as a whole.
- 62% have a technology roadmap compared with 35% across our survey population as a whole.
- 62% have a list of legal function pain points compared with 33% across our survey population as a whole.

Identifying your innovation focus: begin with the pain points

Although having a top-down innovation vision is important for legal transformation, real innovation usually emerges from frustration with an existing problem or pain point.

Start by identifying which legal processes may take too long, result in inaccuracies, involve lots of manual input or fail to deliver value to internal stakeholders. These kinds of pain points indicate possible areas for iterating or innovating legal process.

Leaders can capture insights about pain points qualitatively (for example, by inviting colleagues to submit honest feedback on existing processes and what they find most challenging) or quantitatively (for example by analysing data about the time spent on different legal tasks). A rigorous process of feedback and analysis will ensure that future innovation priorities and investment are proportionate to the areas which will deliver the most value and enhance the experience of colleagues.

It is interesting, therefore, to see that only a third (33%) of in-house leaders so far have documented pain points within the legal function, and only a quarter (25%) have analysed time devoted to specific actions or activities undertaken by the legal team.

When in-house leaders are equipped with this kind of hard data about the amount of legal function time being devoted to specific activities, it is possible to have much more constructive conversations with business colleagues about their allocation of legal function overhead and about how they can support legal function innovation aimed at reducing that overhead and improving the client experience.

Fostering good ideas: utilising proven innovation approaches

Our research identifies that legal function leaders are adopting proven innovation and ideation techniques to capture grassroots ideas and accelerate the pace of change within their function. Figure 2 shows that just under three quarters (72%) currently reach out to colleagues in the function in a structured way to capture ideas. A further 61% seek the input of colleagues from within other business functions.

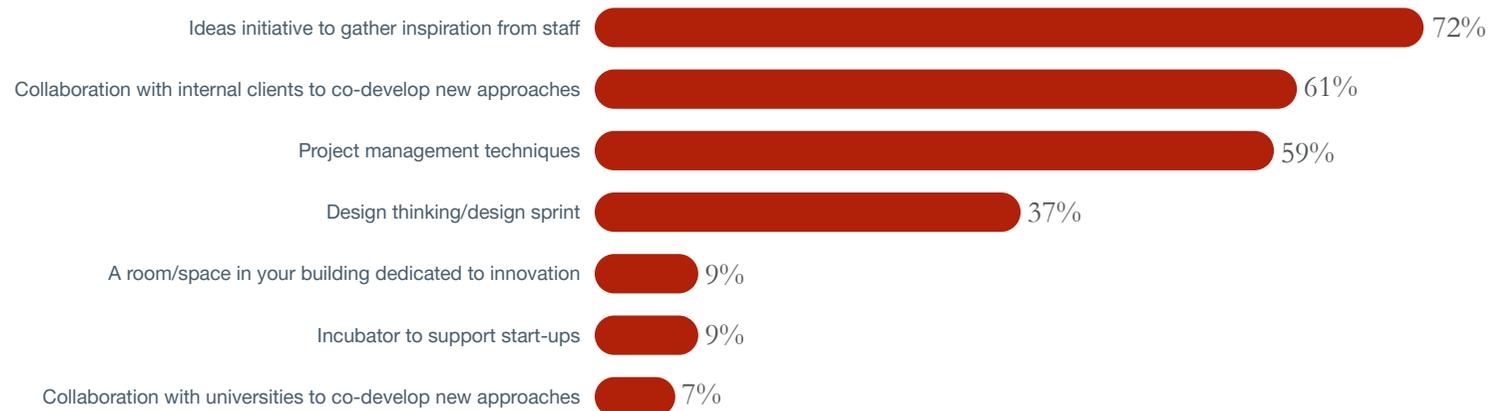
Just over a third (37%) utilise design thinking or design sprint approaches. These are processes which prioritise the user or client experience of a service and involve rapid user testing of new ideas to iterate and develop new approaches. Those with experience of design sprints within the in-house function speak positively about its impact: 85% say the approach has generated a positive impact for their team.

For example, the legal team for a large real estate investment company may want to build a new process to enable asset management colleagues to issue short-term leases to occupiers in their portfolio. Before rolling the system out to the business they could use a sprint approach to test and iterate a prototype quickly, gaining feedback from colleagues on features and usability as part of the design process.

Approaches such as dedicated innovation spaces or innovation incubators, which provide financial and knowledge support to start-ups, are currently used by far fewer in-house teams. Just 9% of those in our survey say they are using those techniques.

However, our research does suggest that the largest in-house functions have enjoyed success with the use of innovation incubators: nearly two thirds (63%) of internal functions that have adopted an innovation incubator so far say it has had a positive impact on their business.

Figure 2: Which of these techniques does your part of the legal function use to generate and develop innovation ideas?



Source: Allen & Overy and Meridian West Analysis



Measuring progress: do you have the appropriate KPIs in place?

Most legal functions either use no Key Performance Indicators (KPIs) to measure their innovation progress or measure primarily whether their spending is within budget.

However, a minority of in-house leaders have made important strides in the last few years in the adoption of new KPIs. As they are rethinking their innovation strategy and target operating model, leaders need to make sure they have the right measurements in place to define and report success.

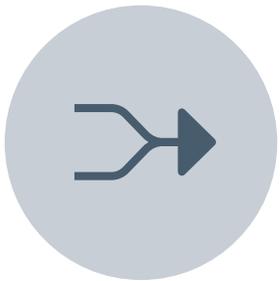
Some functional leaders are taking a balanced scorecard approach, focusing on metrics that measure both activity (e.g. time spent, money invested, and projects started) and outcome (e.g. employee adoption of new ideas, money saved, and time efficiencies).

They are reporting both quantitative data and anecdotal feedback from colleagues.

“We have developed a legal scorecard system to track our progress,” says one Head of Legal at an Asian bank who took part in our research. “It looks at quantitative and qualitative metrics including external legal costs and savings made year-on-year, internal budget spent, feedback from the business and other support functions, operational risks, efficiency gains and the adoption rate of new technology.”

Strategy, vision and purpose: how to move to your next stage of maturity

Regardless of your starting point, here are three ideas to help your legal function move to its next stage of innovation maturity.



1: Support your innovation vision with a clear delivery plan.

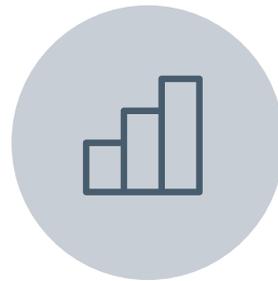
The starting point for genuine innovation is a clear strategy and purpose. This needs to be underpinned by a clear delivery plan with specific goals, priorities and allocated responsibilities and budget in order to see tangible results.

This is hard to achieve without robust data about your function's 'as is' state to understand how the team operates at present. Our survey suggests that most in-house teams have begun to articulate their innovation mission but have yet to translate this into a deliverable route map.



2: Use innovation ideation techniques to enhance the value of your team's activity.

The in-house leaders who have experience of ideation techniques such as design sprints, innovation incubators and collaboration with internal colleagues rate the impact of these techniques highly. To be successful, it is vital to apply these techniques to real pain points for the legal team or wider business identified through a mix of task analysis and direct feedback.



3: Put in place the right KPIs to measure and celebrate success.

Operating in a post-Covid-19 reality is likely to mean in-house legal resource is constrained. It will be more important than ever to build evidence through measurable and data-driven KPIs to demonstrate how your team is delivering against its promised innovation goals. A balanced score card that contains a mix of activity and outcome metrics, alongside qualitative assessment, should provide leaders with confidence that they are heading in the right direction.



A&O services

Fuse, A&O's tech innovation space, houses a range of legaltech and fintech providers and allows our clients to learn about legal tech and so supports tech selection and adoption.

Our multi-disciplinary **innovation** team helps clients surface and capture ideas and challenges, and is expert at facilitating user-centred design to shape and then prototype the tech-enabled ideas that result.



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Contacts:



Shruti Ajitsaria

Partner and Head of Fuse –
London

Tel +44 20 3088 1831
shruti.ajitsaria@allenoverly.com



Nitish Upadhyaya

Senior Innovation Manager,
Legal Tech – London

Tel +44 20 3088 2159
nitish.upadhyaya@allenoverly.com

Teams, structures and capabilities

Closing the skills gap: a three-step approach to fostering new skills within the legal function

3 of 5





Closing the skills gap: a three-step approach to fostering new skills within the legal function

QUICK READ

- Leaders of in-house legal functions aspire to change systematically and nearly half of those surveyed cite resistance to change and lack of specialist innovation skills as barriers to change.
- But our research reveals a gap between that aspiration and awareness and the roles being hired into legal functions.
- Just 30% have hired a legal technology manager. Only 29% have hired a designated Head of Legal Innovation. Less than one in six (15%) have a data scientist within their team.
- A blend of legal, operational and technology expertise and experience is required to realise innovation ambitions.
- Those furthest ahead in their innovation journey are addressing this gap through a combination of hiring, training and outsourcing.

The A&O perspective

The modern in-house legal function is on the cusp of change. It is an exciting place to work, dynamic and full of possibility. As in-house legal functions move towards maturity, Allen & Overy believes leaders will welcome into their team individuals with a greater diversity of skills and experience. The most successful legal functions will deliberately seek out individuals with skills in technology, innovation and user design, data analytics and legal supplier management among other areas. At the same time they will retool existing team members to build confidence and enthusiasm for these new ways of working.

Three strategies to foster new skills

Investing in new skills and talent development is just as important as investing in technology to future-proof the legal function. As in-house legal functions refocus their innovation efforts, leaders within these functions need to make sure they have the right mix of skills and experiences within their team to deliver on future innovation priorities and expectations.

Allen & Overy's research on 92 senior leaders of in-house legal functions reveals that 85% of the legal functions surveyed already have a documented organisation chart which maps out the roles and responsibilities of team members in their function. A further 10% do not have this in place today, but they are working towards it. With clarity over existing roles, leaders can begin to identify and address skills gaps within their team.

Our research shows that in-house leaders are adopting three complementary strategies to close the skills gaps they uncover. First, they are hiring new roles into the legal function to bring in individuals with a new set of skills and experience. Second, they are training existing team members on the skills that will be important for the future. Third, they are outsourcing certain activities to third parties who are better resourced to fulfil the requirements of specific tasks.

Step 1: Hiring new roles into the legal team

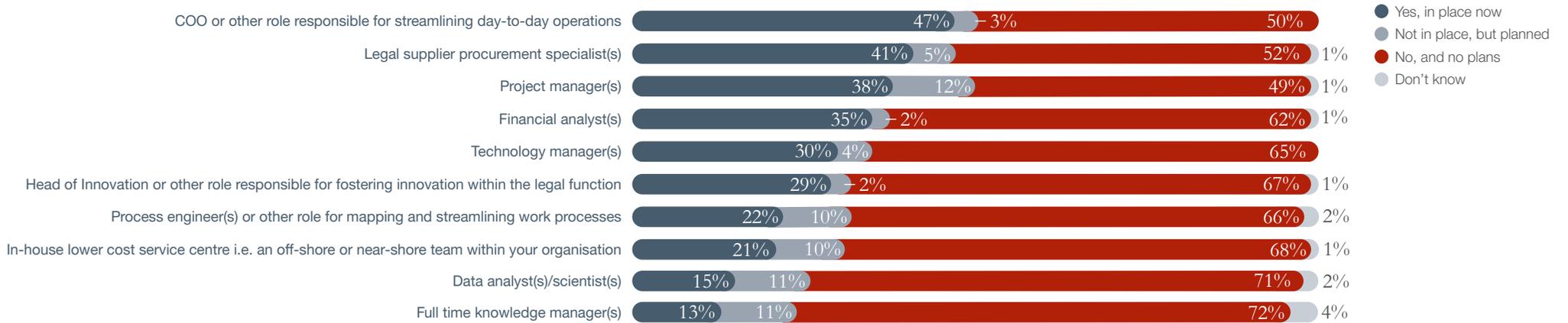
As the innovation remit of the legal function has widened in recent years, the skills and experience base of the team has also begun to diversify. One of the most noticeable shifts, particularly among legal teams with the greatest headcount, is the division of responsibility for advising the business on legal matters and managing the operational activities of the legal function into two separate roles.

Figure 1 shows that nearly half (47%) of legal functions today have a COO or other senior operations role in place responsible for operational management of the function, and a further 3% are currently planning to hire this role in the immediate future. Other roles that are becoming more prevalent include legal supplier procurement specialists, project managers and financial analysts: our research shows that 41%, 38% and 35% of legal functions today currently have these roles in place respectively.

While individuals occupying the COO role may have a legal background, an increasing number are being hired from outside of the legal profession. This means they come with a proven track record of operational expertise and disciplines – for example, cost management, process improvement and technology implementation – that they can apply to the legal function context.

However, there is a noticeable disconnect between the ambitions expressed by most legal functions to take a more proactive approach to innovation and the pace at which they are recruiting specialists with the core skills required to deliver on these aspirations. For example, 75% say they either have or plan to have a documented innovation strategy within their legal function. Yet only 29% employ a Head of Innovation. Just 15% employ data scientists. Only one in three (30%) of legal functions employ technology managers.

Figure 1: Which of the following positions or resources does your organisation currently have dedicated to your part of the legal function?



Source: Allen & Overy and Meridian West Analysis

Among the most mature legal functions that took part in our survey – those further along their innovation journey that we call the ‘engaging’ segment – there is a greater tendency to employ these specialist roles. For example, 96% of the most mature legal functions have a dedicated COO role within the legal function, and 69% have a head of innovation role.

The functions not yet at that level of maturity may feel their overall headcount is not large

enough to accommodate specialist roles or may have allocated resource to other priorities. Rather than relying solely on generalist lawyers or operational managers to take on responsibility for executing innovation responsibilities, they could look to co-opt specialist expertise from elsewhere in the business through short-term internal secondments to work on delivering specific innovation projects.

Step 2: Developing existing talent through training

While not every in-house function has the resource or capacity to hire in multiple innovation or technology specialists, training and talent development programmes are an important way to foster new skills across the in-house lawyer team.

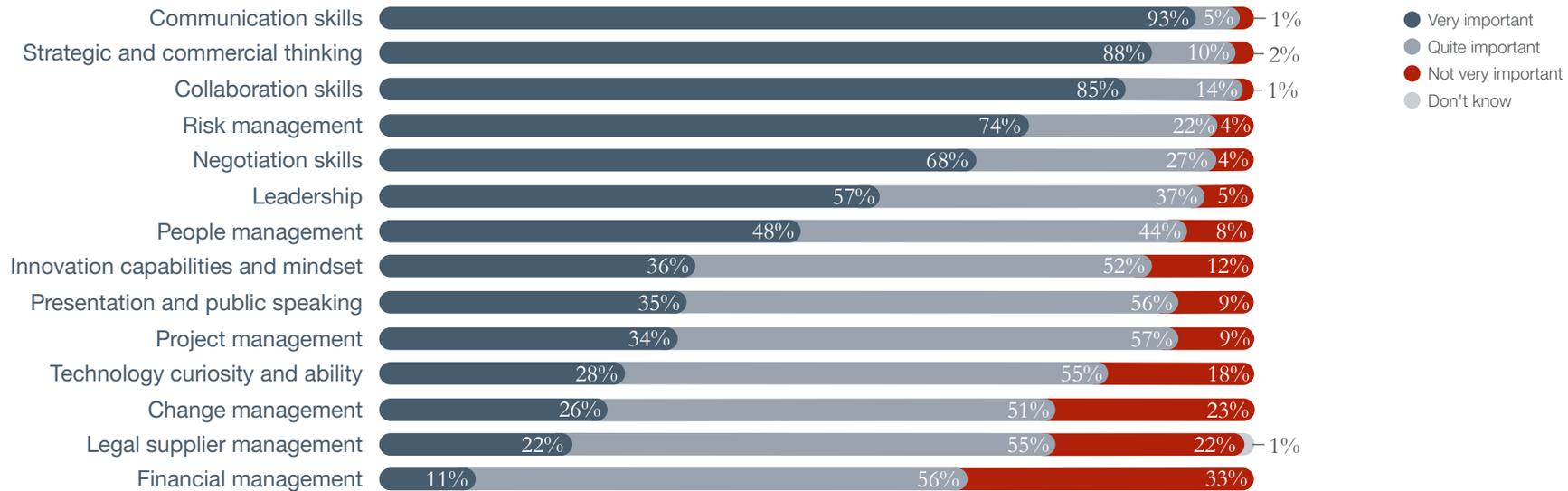
However, when we asked leaders of in-house functions what skills are most important to foster among lawyers in their team, the results show leaders

continue to prioritise skills that have been traditionally associated with effective lawyering. These include skills such as communication (93% see as 'very important'), risk management (74%), negotiation (68%) and collaboration (85%) – see Figure 2.

The research again reveals a disconnect between leaders' innovation priorities and how they view the skills agenda.

Although the importance of strategic and commercial thinking was recognised for in-house teams (88% identify as 'very important'), just 36% say an innovation capability and mindset is 'very important' for lawyers in their team, 28% identify technology curiosity and ability as 'very important', and 26% highlight change management.

Figure 2: How important are the following skills for the front-line lawyers in your part of the legal function?



Source: Allen & Overy and Meridian West Analysis



We then asked our survey participants to rate their legal function's current capability against the same skills outlined in Figure 2. There is a close correlation between the skills prioritised and the self-assessment of areas of current strength. Communication skills, for example, are rated highly by 61% of the in-house leaders surveyed, and 57% give negotiation skills the highest ranking.

The inverse is also true: innovation is an area of self-identified weakness. Just 15% of the in-house leaders surveyed rate the innovation capability and mindset of their team highly, 12% give the highest rating for technology curiosity and ability and 10% for change management.

As highlighted in an earlier paper in this series, 47% of in-house leaders believe a lack of specialist skills within their legal team is among the top three barriers to more impactful innovation within their team. Yet this lack of skills need not impede legal functions from changing. Skills such as change management, innovation processes and data analytics can be taught and developed, though leaders should consider whether retooling lawyers in this way will be as effective or as quick to deliver change as creating and hiring specialist roles.

Many in-house legal teams now partner with HR and learning and development colleagues to develop and roll-out coordinated talent development programmes for both in-house lawyers and those fulfilling operational or innovation roles.

These programmes often include a mix of internal and external training, coaching and mentoring from senior commercial leaders in the business, and the opportunity for internal secondments or job swaps with those in commercial, technology or innovation functions.

Step 3: Utilising the supplier ecosystem to access new skills

Where it is not possible to hire in or develop the new skills required internally, in-house leaders need to look at whether they can access new capabilities by outsourcing activities to third parties. This might include outsourcing tasks to existing panel law firms, project-based outsourcing providers or other third parties. For example, 21% of in-house leaders in our research say they have utilised legal function consulting to advise on the ideal structure and management of legal tasks or on the implementation of new legal technology within their team.

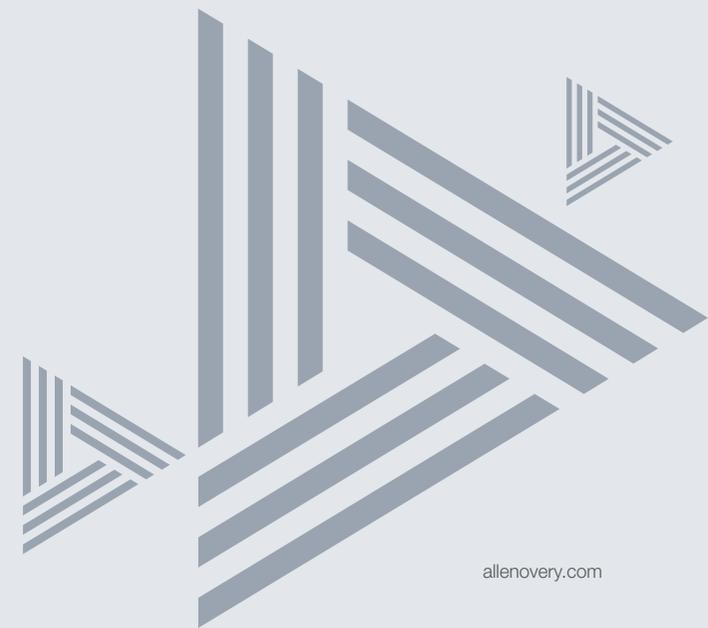
Our research also reveals that one in ten (9% of) legal functions are also leveraging some form of innovation incubator models, usually associated with their parent companies, to enhance their approach to innovation. Such incubator models enable established businesses to provide funding, support and other resources to start-ups, and in return provide a more flexible way to benefit from market-leading innovation approaches within their supplier ecosystem without the expense of bringing additional headcount onto payroll. A further 7% have developed partnerships with universities to achieve similar goals.

The next paper in this series considers in more detail how the legal supply chain is evolving and what this means for how in-house leaders manage their activity workflows.

A diverse team in practice: experiences of the innovation leaders

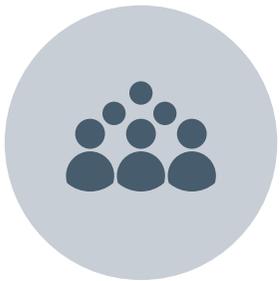
The legal functions that are most engaged with innovation in our research – those we call the ‘engaging’ segment – have made noticeable headway in assembling a more diverse team. They have made significant progress by hiring five roles in particular:

- **COO.** Nearly all (96%) have hired a COO for the legal function, compared with less than half (47%) across our survey as a whole.
- **Head of Innovation.** More than two thirds (69%) have hired a Head of Innovation or equivalent role responsible for developing and implementing the function’s innovation strategy. This compares with less than a third (29%) across all survey respondents.
- **Financial analysts.** A large majority (80%) have recruited financial analyst(s) into their team, compared with just 35% of all legal functions.
- **Legal procurement specialists.** 81% have recruited individuals with a specialism in legal procurement and supplier management, compared with just 41% across the entire survey respondents.
- **Project managers.** Almost three quarters (73%) of the most innovative have recruited individuals with specialist project management capabilities, compared with just 38% across all legal functions in our benchmarking survey.



Closing the skills gap: how to move to your next stage of maturity

Regardless of your starting point, here are three ideas to help your legal function move to its next stage of talent development maturity.



1: Target a diverse mix of skills and experience in your recruitment strategy.

Our research shows that the most mature in-house legal functions have taken huge strides to diversify the skills and experience of their team. They have hired individuals with operational, innovation and change management experience and expertise to aid their transformation journey. Often these hires have been made from outside of the legal industry. Where could specialist hires enhance the skills profile of your existing team?



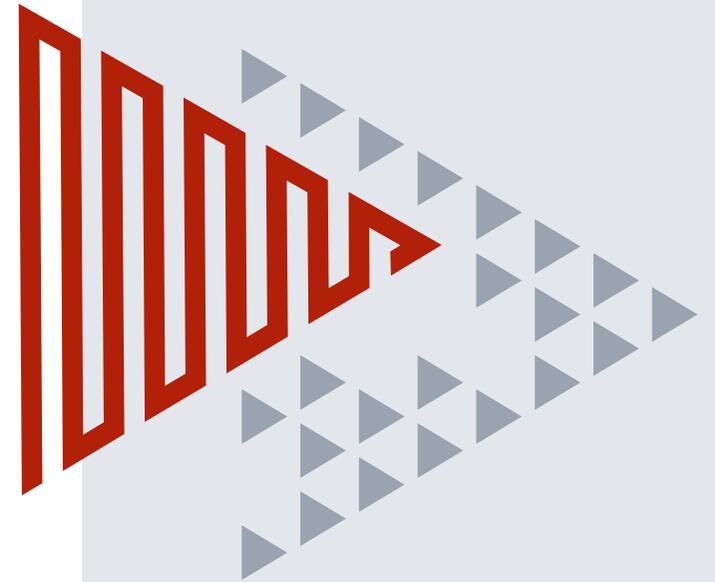
2: Do not overlook the importance of innovation and technology skills.

Most in-house leaders in our survey do not place as much value on innovation and technology skills as they do on more traditional lawyering skills. How the performance of team members is measured, and the expectations leaders set around skills prioritises, have a direct impact on how team members will prioritise their own skills development. They are less likely to be curious about innovation if their contributions are not recognised as valuable.



3: Consider a role for third parties in supporting you to close the skills gap.

If talent development and recruitment budgets are under pressure it is possible to find ways to develop skills through partnering with third parties or outsourcing specific tasks to specialists. Internal partnerships with leaders in other business functions can also bring about mutually beneficial opportunities such as job swaps, internal secondments, and project collaborations.



A&O services

A&O has a well-developed, systematic approach to **transformation**: with experts in legal technology, data science, project management and process mapping.

For those organisations that wish to outsource, not build their own, substantial change capability, A&O provides tech-enabled **managed services**. Hiring consultants on an interim basis from Peerpoint, A&O's **flexible resourcing** business, can provide rapid access to additional skills, including project management. A number of our consultants have been instrumental in driving clients' transformation and technology programmes, such as automation implementation.



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Contacts:



Catie Butt
Executive Director,
A&O Consulting – New York
Tel +1 646 3446653
catie.butt@allenoverly.com



Angela Clist
Partner and Head of Managed
Legal Services – London
Tel +44 20 3088 2437
angela.clist@allenoverly.com



Kevin Oliver
Head of Advanced Delivery,
Legal Tech – London
Tel +44 2890 607 564
kevin.oliver@allenoverly.com



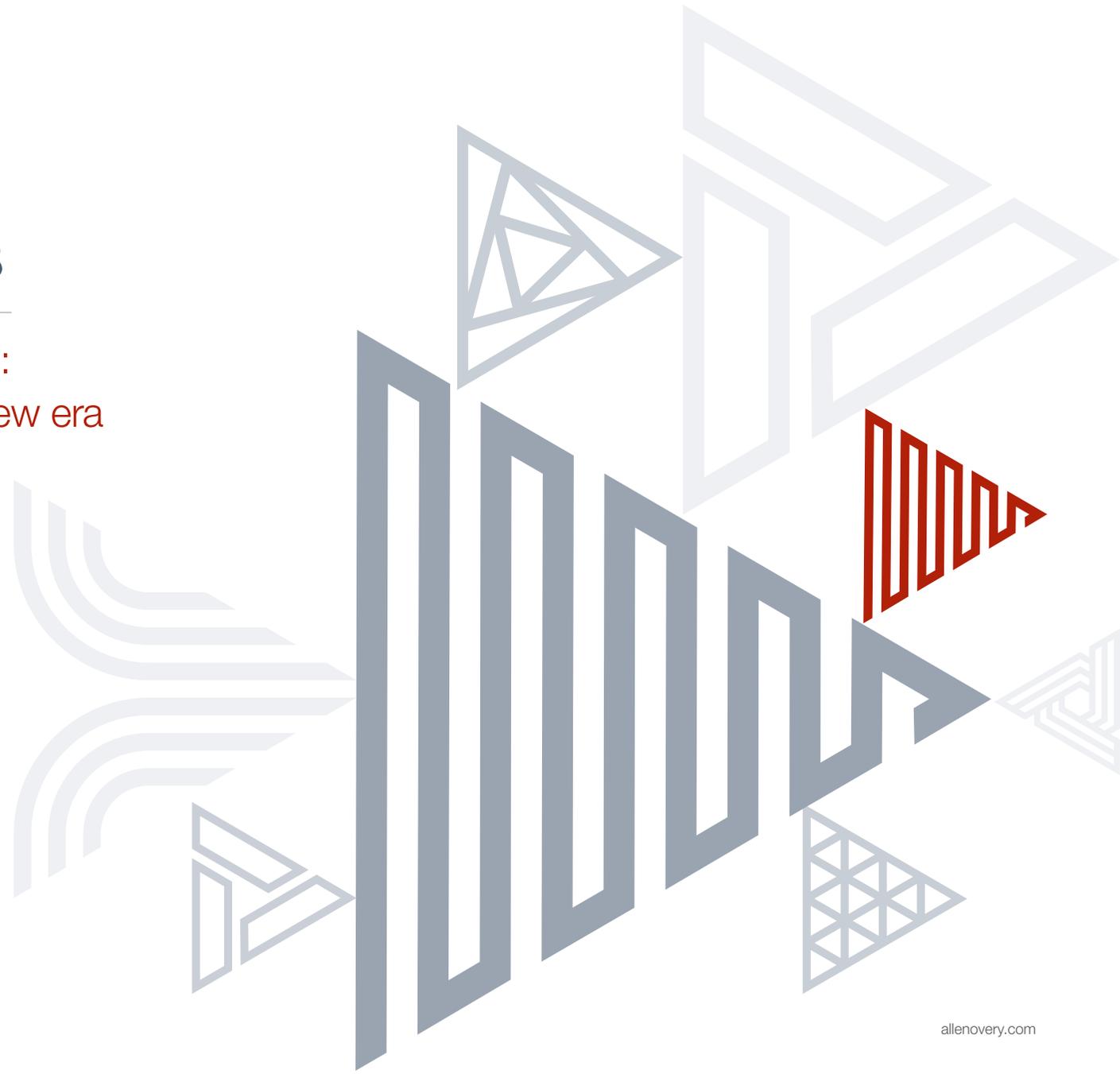
Carolyn Aldous
Managing Director,
Peerpoint – Sydney
Tel +61 2 9373 7735
carolyn.aldous@allenoverly.com



Working with external providers

The legal supply chain reimagined:
new advisory relationships for a new era

4 of 5





The legal supply chain reimaged: new advisory relationships for a new era

QUICK READ

- With nearly half (44%) of the average legal function budget spent on external legal providers, leaders of functions need to ensure they have the right mix of suppliers to support their needs.
- As legal supply chains diversify both incumbent law firms and industry disruptors have launched new legal delivery models.
- Our research shows some of these new models are popular with in-house leaders. 63% have used contract lawyers. 41% have used project-based outsourcing.
- However, use of other types of alternative provision such as operational outsourcing or consulting (whether business and regulatory, legal function design or legal service procurement) have not taken off to the same extent, although the stated future spending plans of survey participants suggest they will in the next three years.
- Those furthest ahead on their innovation journey have enhanced their supplier management capabilities and broadened their range of external providers to respond to developments in the legal services ecosystem and maximise the value of their external spend.

The A&O perspective

In-house leaders have never faced as much choice about how they resource their legal needs. The next decade is likely to be characterised by a continued blurring of legal services models, as providers combine deep technical expertise, technology, flexible resourcing and consulting capabilities in new ways. As in-house legal functions move towards innovation maturity, Allen & Overy believes leaders will recalibrate their relationships with external providers. The most successful legal functions will be those that have a clear understanding of how they want their legal supply chain to complement internal legal resource. They will be first to harness new collaboration opportunities.

A diverse legal ecosystem

The modern in-house legal function aspires to be more efficient and more innovative and in doing so to enhance the value it delivers to internal business colleagues. Yet leaders of legal functions know these aspirations cannot be achieved in isolation. Success depends on being connected into a supply chain of trusted legal partners, technology providers and other suppliers of legal services.

In-house legal teams are just one important part of a vibrant legal ecosystem that is rapidly expanding and diversifying. This means smart supply chain management will be an increasingly important capability for in-house teams to master in future if they want to derive maximum value from their legal suppliers. Allen & Overy's research among 92 senior leaders of in-house functions shows that 41% of in-house functions have now recruited legal supplier procurement specialists into their team, and a further 5% are actively hiring for these roles.

Our research reveals that the most mature legal functions have utilised the expertise of procurement specialists to reimagine their legal supply chain. They openly embrace new legal service delivery models such as contract lawyers, project based outsourcing and legal function consulting to match the best type of provider with particular legal tasks.

Budget: making external spend go further

Achieving greater value for money from legal spend is a significant motivating factor for in-house teams to adopt new delivery models. Among the in-house leaders interviewed for our research, an average of 44% of their total legal function budget is allocated to external spend with the remaining 56% spent on salaries, internal projects and other costs associated with running the legal function.

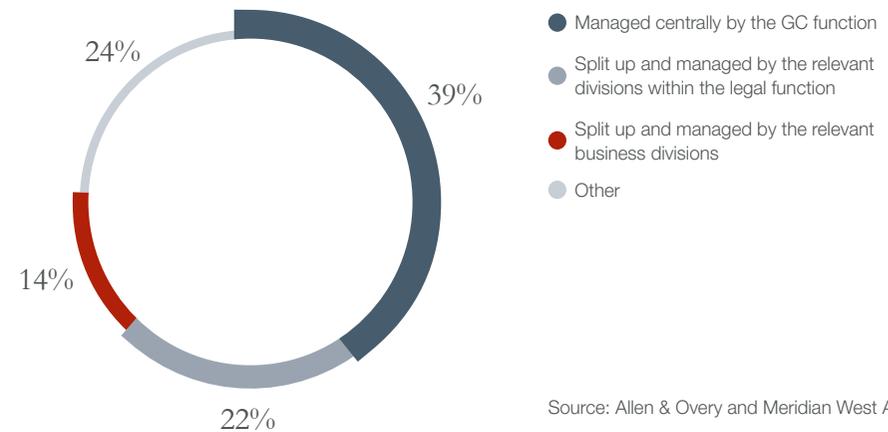
With the average legal department spending nearly half of its budget externally, it is imperative that functional leaders utilise that spend in the most cost-effective way. In recent years many in-house leaders have begun to set targets for performance improvement, fee innovation and added-value delivered by their legal supply chain. This trend is likely to intensify as functional leaders adopt a more disciplined approach to measuring both the outputs and the outcomes achieved by partners in their value chain.

"We recently implemented an outside legal spend productivity project," says the Head of Legal Innovation at one US-based industrial manufacturer interviewed for our research. "The goal of that project is to achieve a year-on-year 5% productivity improvement in outside spending. I need our external legal providers to be innovative in offering alternative and value-based fee

arrangements, and not just discounted hourly rate models."

Those leaders who have greater centralised control over legal spend within their organisation may find it easier to reimagine how their total spend is deployed without having to resort to salami slicing across multiple legal budgets controlled by different business divisions. However, Figure 1 suggests that only four in ten legal departments today retain centralised control over the entire legal spend of their organisation. In most organisations legal spend is either devolved to business units or managed in a hybrid capacity.

Figure 1: Is the overall budget for external legal resources in your organisation...?



Source: Allen & Overy and Meridian West Analysis

Allocating legal activities to appropriate resourcing models

To manage their budgets effectively, in-house leaders need to ensure that the right legal tasks are carried out by the right types of provider within their supply chain. Our research reveals that the majority of legal activities are still primarily carried out by internal legal resource. For example, 88% of the organisations surveyed rely on input from their in-house legal team for business line contracting, 80% for addressing regulatory and compliance needs and 78% for support with strategic transactional work, supply chain procurement, litigation and company secretarial activities.

Where external legal resource is currently utilised, it tends to be focused on areas

where in-house teams lack depth of resource to cope with a spike in demand or require access to specialist knowledge and experience. For example, outsourced legal firms continue to be relied on to supplement internal capability and resource for litigation work (75% use a law firm to support this activity), strategic transactional work (65%) and corporate real estate work (57%).

Our research also shows that, although there is a move towards providing tools which allow for greater self-serving of legal needs within the business, these are only regularly utilised by fewer than one in 10 of the organisations we surveyed.

Forward-thinking in-house functions open to resourcing experiments

Our research findings suggest that a majority of organisations still maintain a fairly traditional view of the in-house legal function as the 'go to' provider for legal knowledge and capability within the organisation. However, functional leaders will need to consider whether an internal centre of excellence model for the legal function will

be the most scalable and cost-effective model to address their organisation's future needs. The most innovative legal functions in our research actively embrace a more facilitative role, in which they draw on a more diverse legal supply chain to equip the organisation with legal knowledge and expertise.



Allen & Overy's research from 2014 among in-house counsel – *Unbundling a market: the appetite for new legal service models* – highlighted the emergence of a trend for in-house leaders to diversify the legal providers with which they partner. *Unbundling a market* revealed that, although alternative resourcing models such as document review services or online legal solutions were used by less than a third of in-house teams, numbers using this new models were anticipated to grow over the next five years.

More than half a decade on we see the continued penetration of these alternative legal delivery models across the market. Figure 2 shows that nearly two-thirds

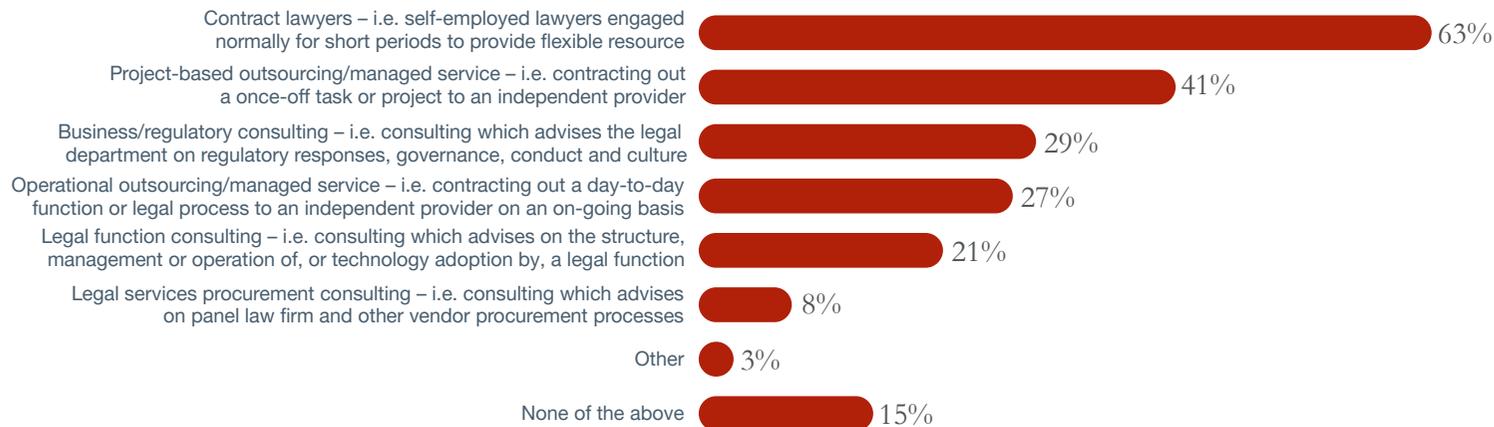
(63%) of legal functions have used flexible resource such as contract lawyers. More than four in ten (41%) have experience of using project-based outsourcing to help with a one-off task or project. This might, for example, relate to an eDiscovery exercise, a contract portfolio review or a large-scale regulatory change programme such as LIBOR contract repapering or GDPR compliance.

However, Figure 2 shows that other delivery models such as legal function consulting, operational outsourcing and procurement consulting are used by a relatively small proportion of organisations. The significant growth in penetration anticipated in 2014 has not yet come to fruition. Nearly one in

six (15%) of the legal functions we surveyed have not yet adopted any of these newer legal solutions.

We are beginning to see divergence in the market, with forward-thinking legal functions forging ahead and others adhering to the traditional model. The most active legal functions in our survey show a greater tendency to adopt these new models. For example, among those furthest ahead in their innovation journey – those in-house functions we call the 'engaging' segment – 81% have experience of using contract lawyers, 46% use business / regulatory consultants and 38% have experience of using legal function consulting.

Figure 2: Does your part of the legal function use any of the following external resourcing/advisory models?



Source: Allen & Overy and Meridian West Analysis

Future resourcing models: are we at a tipping point?

Although the headline adoption rate suggests that many in-house functions have been slow to embrace innovative delivery models, the reality is that the past five years have witnessed a blurring of boundaries between legal supply chain categories. In-house leaders do not typically compartmentalise their supply chain according to business model, but instead focus on building an ecosystem of suppliers based on which providers are best resourced to address specific legal tasks.

These choices involve navigating trade-offs between a range of factors: price versus quality, scalability versus niche expertise, onshore versus offshore solutions, and technology-led versus people-led models. In the final paper in this series we will explore in more detail how in-house teams are factoring these trade-offs into their adoption of legal technologies to achieve better business and legal outcomes.

As in-house leaders have become more open to experimenting with new supplier models, traditional law firms have also embraced innovation to defend their share of legal work. Our survey results suggest law firm incumbents have been successful in this diversification strategy. There is just as much openness to use law firm incumbents for these new services as for other industry disruptors.

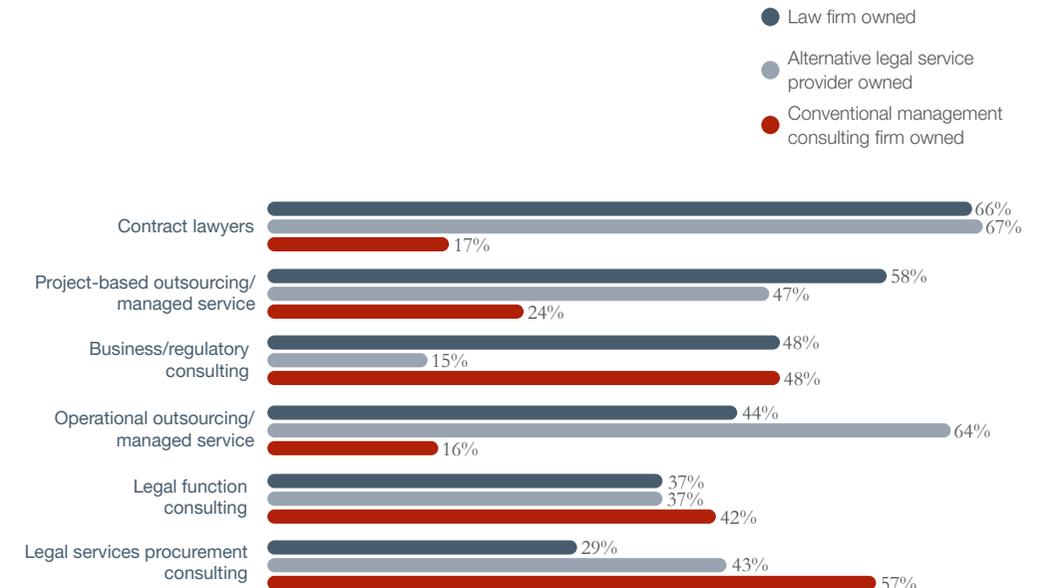
For example, Figure 3 shows that 66% of in-house leaders with experience of using contract lawyers say they had used a contract lawyer solution owned by a law firm. Similarly, 58% of those who have experience using project-based outsourcing or managed service solutions say they had done so through a law-firm owned model, compared with 47% who had used a model owned by an alternative legal service provider.

Even in the field of business or regulatory consulting, law firms are as likely to be used as conventional management consulting firms: among the in-house functions with experience of business or regulatory consulting 48% have used a traditional law firm, and 48% have used a conventional management consulting firm.

In-house leaders, therefore, are looking to their traditional law firm provider relationships to offer examples of service delivery innovation and improvement. At the same time in-house leaders display greater openness to trial new providers with alternative delivery models than ever before.

This suggests that, although we may be reaching a tipping point in comfort levels for adopting new legal delivery models, the winners and losers across the legal supply chain are not yet clear.

Figure 3: Are the external resourcing/adviser models which your part of the legal function uses...?



Source: Allen & Overy and Meridian West Analysis

Adviser and supplier relationships: how to move to your next stage of maturity

Regardless of your starting point, here are three ideas to help your legal function move to its next stage of maturity in the way it manages its adviser and supplier relationships.



1: Identify opportunities for business colleagues to self-serve their legal needs.

Our survey shows that there remains relatively little opportunity for colleagues across the business to self-serve their legal needs. Instead they rely on the in-house function as their 'go to' support. This model is overhead intensive and may not be sustainable in a cost-sensitive post-Covid-19 environment. Have you mapped out what tasks can be realistically undertaken by business colleagues with more limited intervention from the legal function, and what tools are required to enable self-service?



2: Analyse the cost-benefit of utilising different legal delivery models.

Embracing a more diverse supply chain of legal providers may enable you to achieve greater efficiency from your overall legal spend. However, it also requires enhanced supplier management capabilities within the in-house team. Have you identified what legal activities carried out in-house could be delivered more cost-effectively through an outsourced legal solution?



3: Recalibrate your law firm relationships to achieve a win-win outcome.

Do you understand what resourcing models your panel law firms use to service your legal work? Choosing to work with law firm providers which operate a range of different service delivery models can provide greater flexibility without the challenge of managing a fragmented supply chain. Open conversations with your traditional legal suppliers will help you to understand their approach to legal delivery model innovation and how this will benefit you.



A&O services

A&O Consulting can help assess current routines, hiring and legal services procurement practices, and identify opportunities for optimisation in these areas.

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Contacts:



Catie Butt
Executive Director,
A&O Consulting – New York
Tel +1 646 3446653
catie.butt@allenoverly.com



Angela Clist
Partner and Head of Managed
Legal Services – London
Tel +44 20 3088 2437
angela.clist@allenoverly.com



Andrew Trahair
Partner and Head of Advanced
Delivery & Solutions – London
Tel +44 20 3088 2780
andrew.trahair@allenoverly.com



David Wakeling
Partner and Head of MIG –
London
Tel +44 20 3088 3251
david.wakeling@allenoverly.com

Technology and data

Beyond the hype: a pragmatic approach to legal technology adoption and better data management

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Beyond the hype: a pragmatic approach to legal technology adoption and better data management

QUICK READ

- The proliferation of legal technologies means that it is more feasible than ever to automate and streamline legal processes.
- Yet our research reveals a gap between innovation intent and the pace of technology adoption.
- While over three quarters of leaders of in-house legal functions say technology is important to the future success of their function, only a small minority are using legal-specific technologies extensively across their function.
- For example, just 8% are using contract automation tools across their function, with a further 32% saying they use it in pockets.
- Most in-house functions say they look to software-as-a-service models, or to their incumbent law firm providers, to reap the efficiency benefits of technology while minimising upfront capital investment.

The A&O perspective

Technology and smart data analytics have the potential to revolutionise the way legal functions operate, but only if the right technologies are deployed for the right legal tasks. As in-house legal functions move towards innovation maturity, Allen & Overy believes leaders will increase the proportion of their budget invested in technology. The most successful legal functions will be those that embed technology in day-to-day legal workflows. This will enhance connectivity and collaboration between the in-house legal function, its internal stakeholders, and external legal suppliers, which in turn will reduce cost inefficiencies and cut turnaround times.

Surveying the legal tech landscape

The promise of legal tech to upend the legal services ecosystem as we know it has grabbed the attention of both the legal press and industry commentators in recent years. But just how revolutionary are in-house leaders in their attitudes towards legal technology? When Allen & Overy surveyed General Counsel in 2014 for our research report *Unbundling a market* we found that the adoption of hybrid or technology-driven legal solutions was in its infancy. How much has changed six years on?

In Allen & Overy's most recent research among 92 senior leaders of in-house functions we see that functional leaders are taking a pragmatic approach to technology adoption. They are influenced not by hype but by business need. Our survey results show that technology advancement is only one of many factors motivating leaders to embrace change and innovation within the legal function. Just 24% of those interviewed place new technologies among the top three most important drivers of change within their function.

Our research reveals that most legal functions today are focused on adopting a core set of foundational technologies well rather than spreading their technology focus too thinly. The majority allocate their time and resource to using technologies that aid with document management,

information management or supplier management rather than on contract lifecycle automation or sophisticated document review technologies. These latter advanced technologies are being deployed only in pockets across the legal function or not at all.

Unlike the other areas that we have researched, when it comes to technology adoption, there is greater similarity in approach between those organisations that fall into what we call our 'engaging' segment and the other survey respondents.

Critical technologies: better visibility of legal function activity

When we asked in-house leaders to identify the technologies that were most important to their legal function, it was foundational technologies such as document, knowledge and email management that topped the list.

Figure 1 shows that three quarters (74%) of the leaders interviewed say shared document and record management technology is critically important to their legal function, with a further 24% describing this as moderately important. Knowledge management and email management are identified as critically important technologies by 62% and 45% respectively.

Other technologies identified by a substantial minority as being of high importance include those that provide improved visibility of internal or external workflows. These include team management tools, incoming matter portals, chatbots and supplier management tools, as well as contract lifecycle tools that facilitate automated drafting, internal or external review of documents and e-signing. This suggests that leaders are focusing on technologies that provide greater real-time information about the status of activity within their domain.

Interestingly, more advanced technologies such as innovation management platforms and artificial intelligence-based tools are considered less important overall to the technology mix for in-house legal functions today. For example, just 30% of leaders surveyed say eDiscovery tools that allow document review and data extraction are critically important for the legal function, with 23% describing these tools as not important at all.

Figure 1: Rank these categories of technology in terms of importance for your part of the legal function.



Source: Allen & Overy and Meridian West Analysis

The technology adoption gap

Although a relatively high proportion of in-house leaders say that a broad mix of technologies is critically or moderately important for their function, a much smaller proportion currently use these technologies extensively within their function.

Eight of the nine technologies in Figure 1, for example, are cited as critically or moderately important by at least three quarters of the legal functions we surveyed. Yet Figure 2 shows that five of these same technologies are being used extensively by only 15% or less of legal functions today,

and two more are used extensively by one third or less of legal functions.

Although Figure 2 shows that some legal functions have experience of using these technologies in pockets, this only accounts for a further 22% to 36% of legal functions at this stage of adoption. This suggests that in-house leaders face a challenge in broadening the appeal and adoption of these technologies from being used only in pockets to being deployed across the whole legal function.

Figure 2: Which of the following categories of technology does your part of the legal function currently use?



Source: Allen & Overy and Meridian West Analysis

Our survey reveals that the most mature in-house legal functions have made some headway compared with their peers in closing the technology adoption gap. Of those functions furthest along their innovation journey – the ‘engaging’ segment – 50% are utilising legal supplier management tools compared with just 30% across our survey population as a whole and a third (31%) are using knowledge management tools compared with 15% across all legal functions. However, the gap between the ‘engaging’ segment and the rest is nowhere near as pronounced in technology adoption

as it is in the other areas of innovation activity explored in this survey.

Figure 2 does suggest that there is openness to greater experimentation with new technologies across all legal functions, with a significant minority of legal functions either piloting new approaches or planning to introduce new technologies into the legal function within the next two years. For example, although only 40% utilise contract lifecycle technologies today, a further 16% are in the piloting phase and an additional 21% plan to introduce within two years.

Many in-house leaders therefore demonstrate increased willingness to experiment as technologies evolve. “As technology solutions and alternatives are coming onto the market and options are becoming better proven, the value-adding ability of these technologies is becoming more apparent,” says one General Counsel in an Australian asset management business interviewed by Allen & Overy. “That means it is easier to justify to the business in terms of cost and prioritisation of these new technologies.”

Technology with purpose: improved data management

As in-house leaders are faced with greater choice about the legal technologies on the market, they will need to become savvier about where to focus their effort and investment. It will be increasingly important for legal functions to have sufficient knowledge and understanding within the function to make smart procurement decisions and avoid getting bamboozled by technology hype.

However, our research shows that fewer than a third (30%) of those interviewed by Allen & Overy say they have a dedicated technology manager within their legal function. Only 35% have a detailed

technology roadmap in place which describes the future technology investments and priorities for the legal function with detailed time horizons for future adoption.

Technology investment within the legal function needs to address a clear, strategic purpose. Those in-house leaders furthest ahead on the technology implementation journey tell us they are prioritising technologies that deliver faster turnaround times for routine legal workflows, improve self-service capabilities for colleagues outside of the legal function, and enhanced data management capabilities.

With greater management and insight into their organisation’s legal and commercial data, they are looking to provide more accurate and valuable commercial intelligence back into the business. This requires investment in tools and technologies that facilitate better extraction, interrogation and visualisation of data contained within large volumes of contracts or other legal documents.



Are legal functions under-investing in technology?

If you were to follow blindly the hype generated around legal technology, it would be easy to gain an impression that in-house leaders are investing significant sums into legal technologies today. However, our research reveals that fewer than a third of legal function leaders have a dedicated budget to spend on legal technology, and consequently 65% have not spent anything on legal technology within the last 12 months.

Figure 3 shows that of those legal functions that have invested in legal related technology within the past 12 months, most spent less than USD100,000.

Only 3% of those surveyed had invested more than a USD1 million. The average spend across all organisations interviewed was less than USD150,000.

In our previous paper in this series, *The legal supply chain reimagined*, we found that legal functions spend an average of 44% of their budget on external resources. Taken alongside the findings in Figure 3 this suggests that the majority share of external budget today is not spent directly with legal technology providers but on other legal service delivery models, including law firms, contract lawyers or project-based outsourcing.

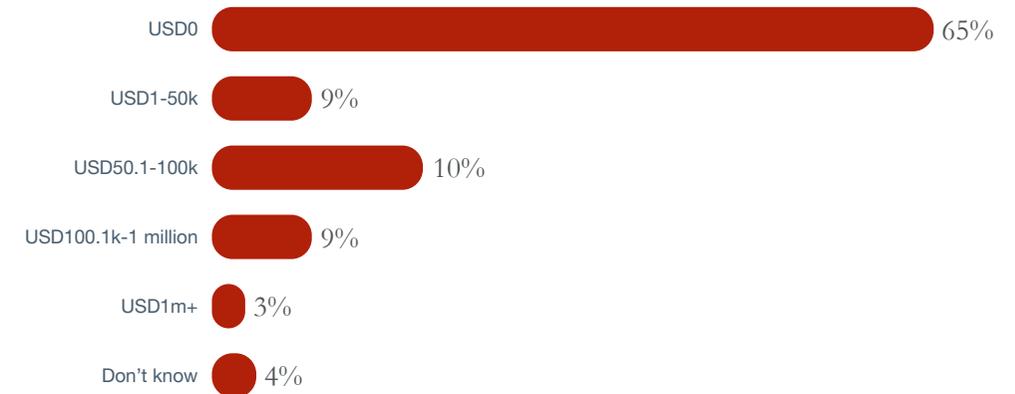
In-house leaders are reluctant to spend directly on technology but are keen

to reap the benefits. Some functional leaders tell us they are waiting for the legal technology market to mature before making significant investments. "I want to be able to buy an off-the-shelf platform that multiple point solutions can plug into," says the COO for the legal function at one global financial institution in our survey. "Spending significant sums of money in an environment where we need to knit together multiple platforms is a significant risk. We would rather wait for the platform to develop so that we are ready to respond when the technology ecosystem is sufficiently evolved."

Other leaders tell us they are looking to their relationships with incumbent legal suppliers to harness the advantages of legal technology. They expect their law firm providers to invest in new technologies because they are better positioned to achieve economies of scale.

The view of one Belgian banking sector General Counsel is common among the leaders we interviewed: "We would like our law firms to adopt more technology to become more efficient and provide better value for money. Investing in platforms with standardised documentation would be a real benefit too."

Figure 3: What is your estimate of your part of the function's spend on legal related technology over the past 12 months?



Source: Allen & Overy and Meridian West Analysis

Legal technology: build or buy?

For those legal functions that are open to exploring new technologies, it can be daunting to know where to start. Is it smart to buy off the shelf, or to build your own custom solution?

Our research shows that the first port of call for most legal functions is to look at what generic technology options already exist within their organisation. 73% of the leaders surveyed say they have utilised non-legal specific technologies already licensed elsewhere in their organisation to address their legal-specific needs. This makes good sense since the technology is already installed and paid for. However, those interviewed

say it is sometimes not responsive enough to the particular needs of the legal function and therefore fails to garner adoption.

Just 39% of those interviewed have built their own solutions in-house by integrating multiple applications or software into a bespoke solution. Without the support of specialist internal technologist or data managers, the build option is not practicable for many of the in-house functions we surveyed.

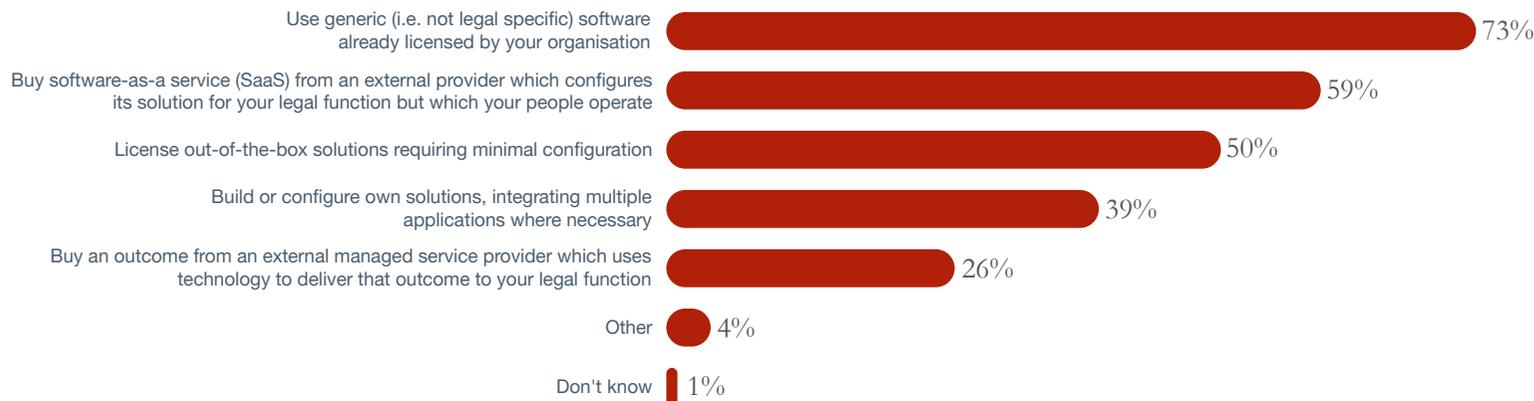
When utilising external technologies, there is a slight preference towards using software-as-a-service (SaaS) model over licensing out-of-the-box technology solutions

(59% have used SaaS models compared with 50% for out-of-the-box solutions).

The benefit of SaaS model service for in-house functions is two-fold. First, that it can avoid the need for upfront capital investment. While most legal functions have extensive freedom to buy services in return for fees, they typically find it harder to obtain budget to make significant capital investments in technology implementation. It is perhaps surprising, therefore, that only 26% of legal functions have contracted tech-enabled managed services as a way of accessing technology without making capital investments.

The second benefit of the SaaS model for in-house teams is that the burden of ensuring good service provision is on the external technology provider, not the legal function or the internal IT department. External providers take responsibility for ensuring their technology is always accessible, that features are regularly upgraded, and that storage and processing power is scaled up and down according to demand. These things are much more difficult to achieve for those in-house functions that choose to build technology solutions internally.

Figure 4: Which of the following approaches to sourcing technology does your part of the legal function currently use?



Source: Allen & Overy and Meridian West Analysis

Legal technology: how to move to your next stage of maturity

Regardless of your starting point, here are three ideas to help your legal function move to its next stage of legal technology maturity.



1: Define your use case for future technology investment.

Do you understand what legal and business problems you are trying to solve through greater investment in technology? Start with the problem, then look for the technology. Before committing to significant external spend, audit what technologies are being used elsewhere in your organisation and how they might be repurposed at little cost for the legal function.



2: Identify opportunities to get more value from existing data.

Smarter application of data captured by the legal function can support business colleagues in their commercial decision-making. Does your function's legal technology investment include the appropriate tools to undertake good data analysis, for example, of your organisation's contract portfolio? Do you have the right capabilities to extract, interrogate and visualise data for your internal stakeholders?



3: Build confidence among your team to encourage the adoption of new technologies.

As we have seen elsewhere in this series, lack of technology mindset and skills can be a major barrier to the successful adoption of new technologies. When plotting your legal technology roadmap do not neglect the investment of time and resource required to hire non-legal specialists (for example, technology managers, data scientists or process engineers) and to train up internal team members so they feel confident and comfortable deploying new technologies in practice.



A&O services

A&O has experience across the legaltech ecosystem through its own accelerating use of **LegalTech** and through **Fuse**, its tech innovation space. Fuse is available to all clients wishing to explore legal technologies and their application to in-house legal.



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Contacts:



Shruti Ajitsaria
Partner and Head of Fuse –
London
Tel +44 20 3088 1831
shruti.ajitsaria@allenoverly.com



Kevin Oliver
Head of Advanced Delivery,
Legal Tech – London
Tel +44 2890 607 564
kevin.oliver@allenoverly.com





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Methodology

The insights in the series of papers that makes up **The Allen & Overy Legal Innovation Benchmarking Report** were developed through in-depth benchmarking surveys completed by 92 senior leaders of in-house functions. Respondents held senior legal or operational roles (e.g. General Counsel, Head of Legal Operations) within their respective organisations. Organisations spanned 18 different countries globally. 60% of those surveyed came from organisations with a global annual turnover of more than USD5 billion. Participants represent a broad cross-section of industry sectors, with 81% identifying themselves as belonging to a highly regulated sector.

Please note that due to rounding, percentages in some charts may not always appear to add up to 100%

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