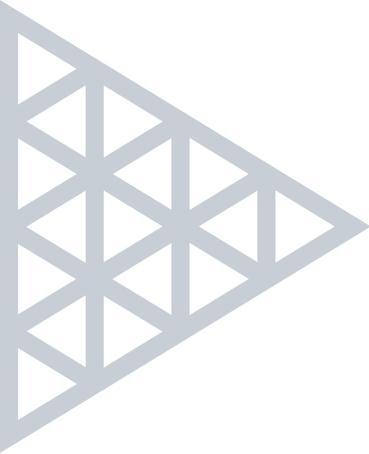


Strategy and vision

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

2 of 5





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.

This is the second in a series of papers that makes up *The Allen & Overy Legal Innovation Benchmarking Report*. The report explores the realities of innovation and change within in-house legal functions today. 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@allenover.com

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 is 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.

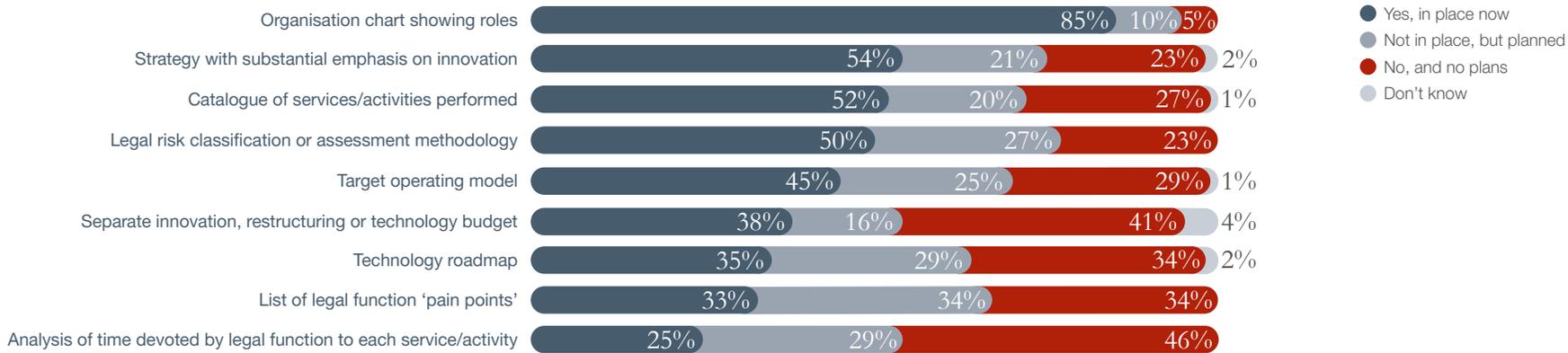
A typical innovation strategy is likely to include details on the legal function's overarching innovation mission,

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.

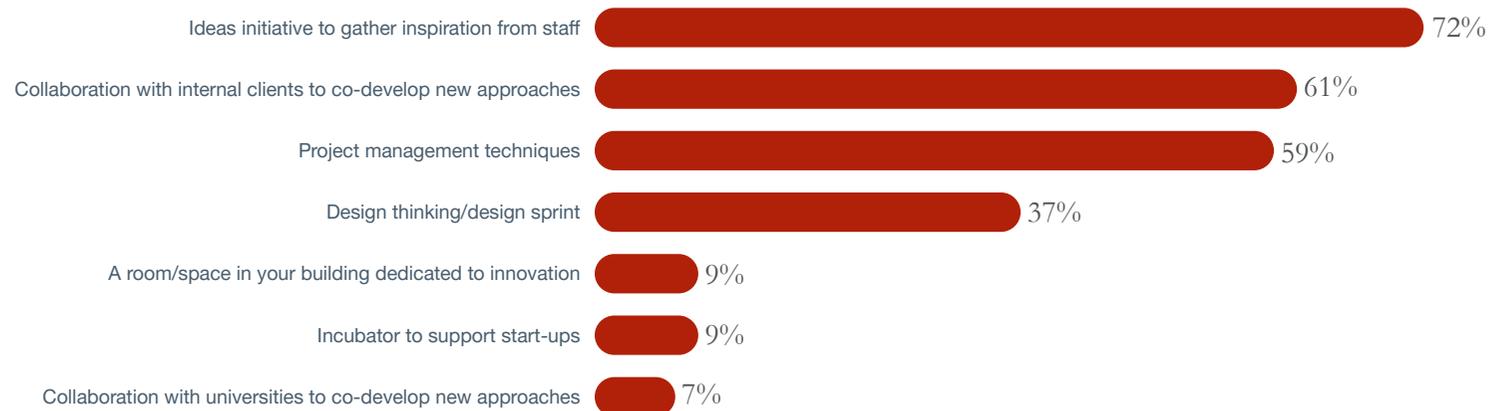
Just over a third (37%) utilise design thinking or design sprint approaches. These are processes which prioritise the user or client experience of a service and involve rapid user testing of new ideas to iterate and develop new approaches. Those with experience of design sprints within the in-house function 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.

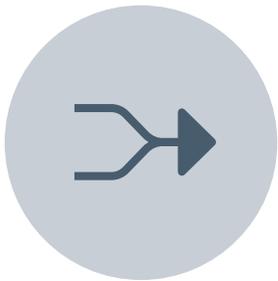
Some functional leaders are taking a balanced scorecard approach, focusing on metrics that measure both activity (e.g. time spent, money invested, and projects started) and outcome (e.g. employee adoption of new ideas, money saved, and time efficiencies).

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.



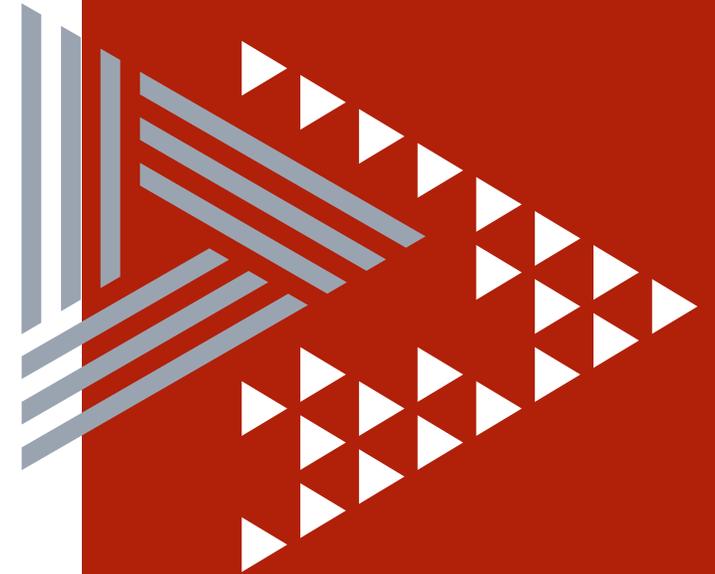
2: Use innovation ideation techniques to enhance the value of your team's activity.

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.



Our next paper, *Closing the skills gap: a three-step approach to fostering new skills within the legal function*, explores the changes in-house leaders can make to their team to ensure they have the right mix of skills and experience to address the innovation priorities on their agenda. It will be available to download on **17 November 2020**. You can read it [here](#).

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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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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