

Executive summary

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





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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

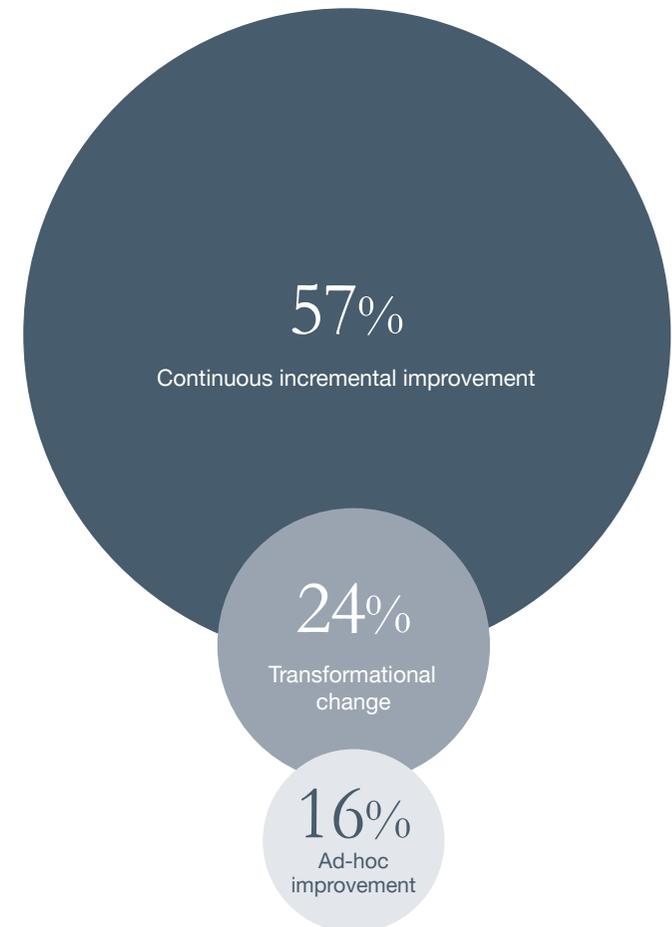
Allen & Overy's previous research in 2014, *Unbundling a market: The appetite for new legal service models*, heralded a new level of comfort among in-house legal functions with embracing innovation, diversifying their legal supply chain and rethinking their legal workflows.

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@allenover.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:

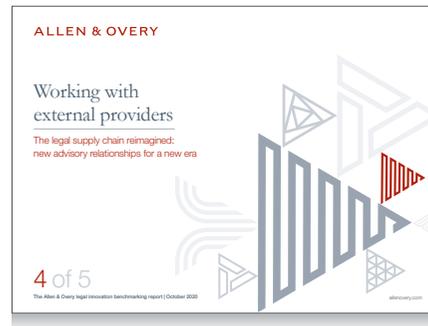
- There is a gap between the innovation aspirations expressed by in-house leaders and their adoption of established planning and implementation techniques needed to realise those aspirations.
- Only half of the legal functions surveyed (54%) have so far articulated their thinking into a clear innovation 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.



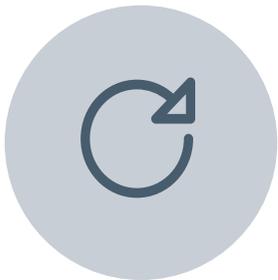
Beyond the hype: a pragmatic approach to legal technology adoption and better data management

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



[View online](#)

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

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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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