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Lean Law

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Operations Management Group

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Abstract:

Operations management in service industries is receiving an increasing amount of attention from management researchers Harvey (1989). Previous OM research has defined the PSOM as a generic service type with high levels of customer contact/service customization and fluid/flexible processes with low capital/high labour intensity (Schmenner, 1986, 2004; Chase and Apte 2006; Lewis and Brown 2011). However, published research in this field deals rather cursorily with sector specific cases, such as legal and financial sectors: professional service organisations (PSOs) and less so from a resource based view (RBV) (Lockett, Wright, and O'Shea, 2008). Yet, SOM and PSOM deserve more attention.

Transformative approach/ methodology

We will use evidence-based management methods to reduce waste, inefficiencies, and ineffective supply chains' processes in the legal system. These methods are, for example: multiple criteria decision analysis; quality function deployment; 6 Sigma; lean/agile/resilience; and simulation software such as Arena or Simul8. Moreover, there is the opportunity to employ aspects of stakeholder analysis (the flow of information back to the source, through the legal network, for reuse and service modularisation and mass customisation of legal products and services) to gain effectiveness and efficiency, through the lean thinking ideology.

Contribution

This research will enable the research team to disseminate best practices within the legal profession and make a direct contribution to knowledge through:

- Having analysed the legal mechanisms and generated effectiveness and efficiency ratios
- Determined gaps and areas for improvements within the legal supply chain/network
- Created evidenced based models of the legal supply chain/network to understand behaviours throughout the multiple 'pipelines'
- Tailored Lean and Agile solutions to improve the performances of these supply chains throughout the use of evidence based management methods such as 6 Sigma, SPC, MCDA, and benchmarking
- Propose an evidence-based design that has been thoroughly evaluated in to be selected domains within the legal supply chain/network.

Introduction

Since the deregulation of the Legal Services Act 2007, the legal services sector faces the challenge in adapting different or new service models and processes. This challenge is derived from the changes, which crept up on other business service professionals over the late 1980s and 1990s and in largely favourable economic conditions have been experienced by the legal profession over just five years and during a global economic downturn. However, there has been significant growth in demand, were clients are requesting more and better legal advice, whilst paying less. For this reason, there is the need of new 'alternative service providers' who can create direct competition by developing more commercial structures and standardised products. The legal services sector is expected to enhance its services using supporting technologies that underpin them by efficient process and resourcing.

According to Legal Services (2014) the UK is a major global centre for the provision of legal services, accounting for 7% of global law firms' fee revenue. Legal services have been seen as an enabler effect for business growth and stability. The economic contribution of legal services is seen in its broadest sense a facilitator of justice and the wide range of transactions undertaken on behalf of clients. As a result legal services make a substantial contribution to the UK economy. For example £20.4bn contribution to UK gross domestic product in 2012, 1.5% of the total. In 2012 the sector employed 316,000 people employed in legal services, which includes over 130,000 solicitors and 16,000 barristers and advocates, in which two-thirds of these are employed outside London. Furthermore UK law firms' graduate intake totaling over 700 in aggregate, about 5% of the total graduate recruitment in 2013.

Financial Performance

The global economic crisis of 2008 and the prolonged economic recession, which followed, was seemingly the nadir for the profession (Tsolakis, 2014). It was reported by Legal Services (2014) that gross fees generated by law firms in the UK increased by 5% in the financial year 2012/13 to £28.5bn, while fee income of the largest 100 law firms in the UK increased by 8%. However, the slow global economic growth has constrained growth during the 2013/14 financial year. Law firms are likely to continue to maintain tight control over costs and are therefore initiating new methods of working in order to operation more efficiently and effectively.

For example Deane Price, (2015) quoted that "You get paid more money the more hours you work on a file under hourly billing arrangements, so the temptation to over-work a file is there. Hourly billing encourages inefficiency, while fixed-fee billing encourages efficiency."

Competitive Edge

According to research by Legal Week, for the 2012-2013 financial year, the top 50 law firms have seen their average profits shrink by 0.5% while average turnover has risen by 6.9%, indicating that law firms are feeling margin pressure and finding it difficult to manage their costs within the fee structures being demanded by this market. Therefore, law firms need to be relentless in their pursuit of margin management, which is constantly under threat from both revenue, and expense pressures. Furthermore James Tsolakis, (2014) quoted that:

“ Demand for legal services remains constrained. Accompanied by a continuing level of fee-earner overcapacity relative to the demand for legal services, pressure continues on billing rates, margins and profitability. Over the next few years, to remain competitive, law firms will need to better understand their business. They will develop better skills and techniques in cost accounting, project management and workflow analysis”

Lean Thinking

With firms becoming more aware of the various improvement models from the business world, including programs like *lean six sigma*, some have begun to test these practices in the real world of law. In fact, one of the lesser known models, *continuous improvement* (known as CI), has already been implemented on a vast scale at Clifford Chance, one of the world's ten largest firms.

“Legal Firms will also have increased leverage at the lower end of the fee-earning ‘pyramid’, meaning that paralegals and associates will have more responsibility for instruction execution, thereby delivering a more cost-effective service. This will all serve to positively respond to client needs, deliver a more flexible and nimble variable-cost based law firm business model, and drive down the cost of delivering legal services”.

Themes

- A key challenge facing professional service providers lies in their ability to respond rapidly to customer demand whilst providing a personalised service experience. However, the cost implication associated with a personalized service offering is often prohibitive for providers who operate in a classically non-modular service delivery mode (Giannakis, et al, 2015).
- Concept of modularity in response to demanding economic conditions, a highly competitive, market, regulatory changes, reduced barriers to entry and rapidly changing social and technological trends.
- The development of highly standardised and low-cost components with specified and standardised interfaces which can be mixed and matched readily and with commonality of use across multiple products \
- A loosely-coupled architecture between its components and interfaces, enabling disaggregation and recombination

- The provision of a platform or infrastructure, which facilitates network user interactions.
- Modular service offerings - pre-packaged bundles that customers can choose from.
- Modular processes – processes that are decomposed into standardised and customised service processes (modules), delivered independently by appropriately skilled resources and then recombined into customisable combinations to achieve maximum flexibility.
- Modular organisations – a loosely-coupled organisation where there is flexibility to allocate personnel around the organisation and / or use resources from outside the boundaries of the firm.

Legal Service Delivery

Through the decomposition of the legal process into component parts and assessing the level of customisation required, modular processes can deliver each component in an appropriately standardised manner, resulting in an increase in standardisation of overall service delivery. The modularity literature suggested that “off the diagonal” improvements with modularity i.e. delivering services with high-levels of customisation in an efficient and standardised manner (Bask, 2011). The results from the disaggregation of the two legal processes above suggest this is possible for legal service delivery (Giannakis, et al, 2015).

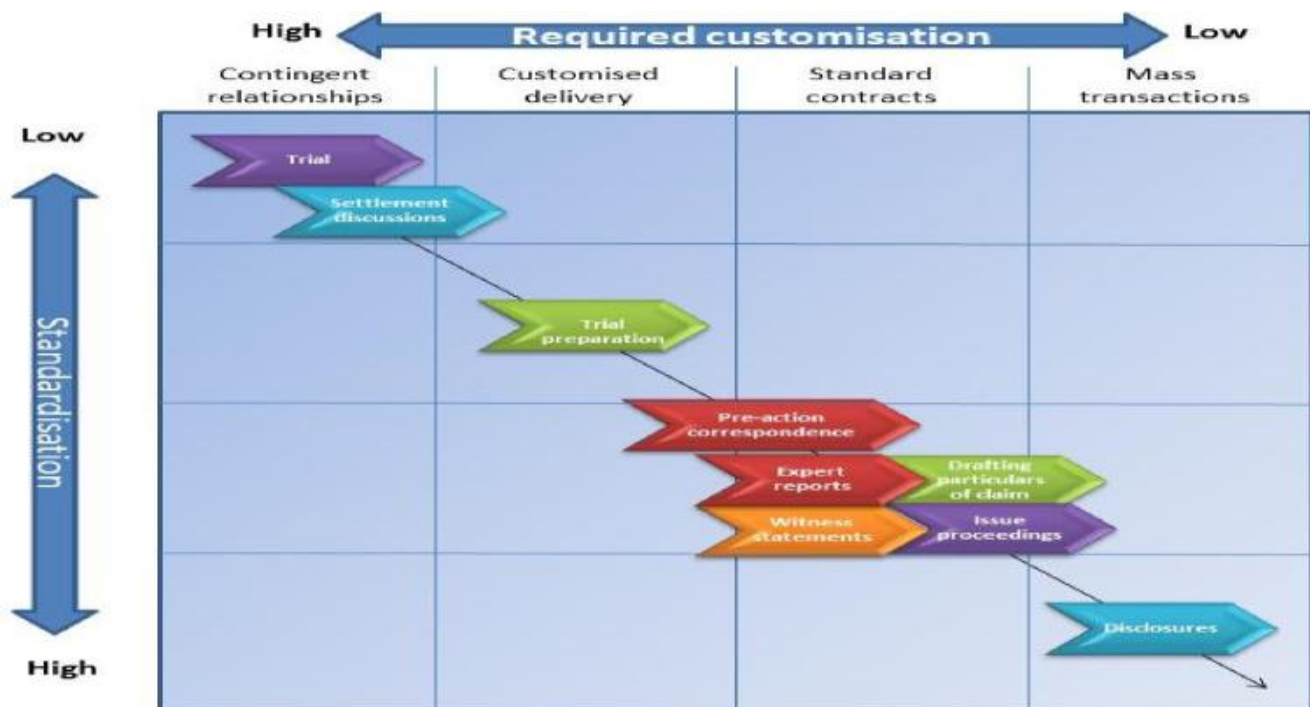


Figure 1 – Decomposition of a litigation process into modular components that are delivered at an appropriate levels of standardization (Giannakis, et al, 2015)

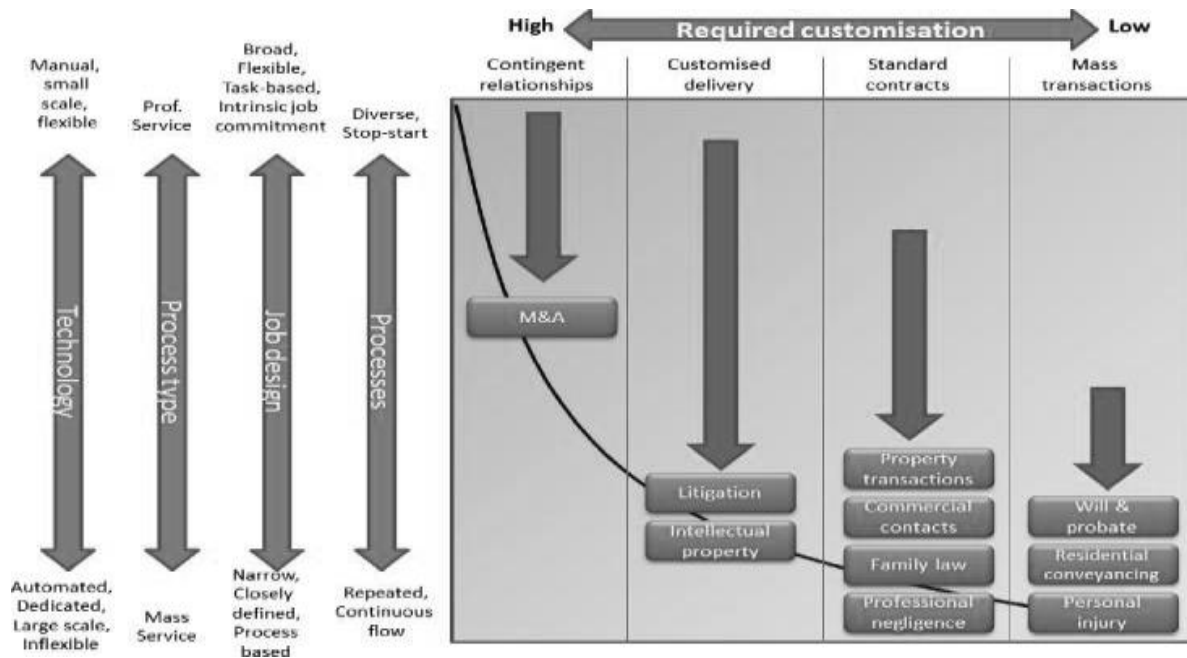


Figure 2– Repositioning legal service delivery to achieve “off the diagonal” improvements (Giannakis, et al, 2015)

An operations strategic framework for law firms has been developed which has provided clarity regarding the key performance criteria and operations strategy decisions for a service business (particularly a law firm) over and above the generic criteria put forward by Slack and Lewis (2010). It also provides a theoretical framework against which further research in the legal industry can be conducted (Giannakis, et al, 2015). At present, no firms have been identified that were offering complex legal services in a modular way, presenting an opportunity for an innovative firm to seize ‘first-mover’ advantage. Project data also showed that despite limitations with the existing types of legal processes (i.e. ‘bespoke’ and ‘commoditised’), not one of the firms sampled is currently delivers legal services via modular processes. Innovative new entrants to the legal market have developed modular, simple legal service offerings to great effect and have managed to demonstrate impressive year-on-year sales and profitability growth (Giannakis, et al, 2015).

Process modularity also presents significant opportunities for the development of modular law firms. Interviews suggested that outsourcing and offshoring was not being pursued by most firms for a number of reasons being cited including; cost, risk, process and institutional factors. Despite the unpopularity of outsourcing, opportunities do exist for the creation of centralised legal process delivery centres. A conceptual sourcing model was developed to illustrate the perceptions of law firms of different sourcing mechanisms in terms of both risk and cost. Although modularity principles have not been widely deployed in the legal industry yet, the concepts developed in this project have illustrated how modular offerings, processes and firms could improve growth, efficiency and profitability of law firms.

Case study - Clifford Chance

During the course of litigation, or in response to regulatory enquiries, clients were required to collect large quantities of data that can amount to many hundreds of thousands of emails and documents. The documents must then be reviewed to identify those documents that are responsive to the particular litigation or regulatory request.

By working with a team of partners, lawyers and case managers in London to analyse this process and found that, by making a few changes, the company was able to improve its efficiency significantly.

For example, by instituting formal communication points within the process, the company was able to increase the flow of documents through the review team – which comprised both paralegals and junior lawyers – by giving them more efficient access to the experienced lawyers working on the matter. Queries from the review team were dealt with on a daily basis, therefore reducing the number of documents tagged incorrectly. Feedback is immediate, giving the reviewers a clearer understanding of the documents and related issues. The introduction of a statistical ‘sample size calculator’ also enabled the team to decide, on a mathematical basis, the optimum number of documents to be checked for quality assurance purposes.

Using these techniques on suitable document reviews can potentially lead to significant time savings on the previous process overall by decreasing the number of documents that are tagged incorrectly and reducing the amount of senior lawyer time spent reviewing irrelevant documents.

The company introduced a standard template briefing document and review protocol. This has ensured that teams are better prepared before the review and the lawyers are engaged from the outset with the review team and the issues.

Focus:

- Identifying best practices and improvements and we won't take no for an answer. We have left the world of mythology for the one of science and industry
- We have a standardized process, even in high stakes matters; banished is the view that “I am an artisan, every matter is unique.”
- We solve another challenge most firms face, which is training new lawyers. Plus, we call on our professionals who are not lawyers as equals.
- We understand that change management is hard but we won't be daunted. We will work hard to make sure we don't backslide.

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