

EFFICIENCY GAINS AND ENHANCED LOSS PREVENTION

7 KEY STEPS

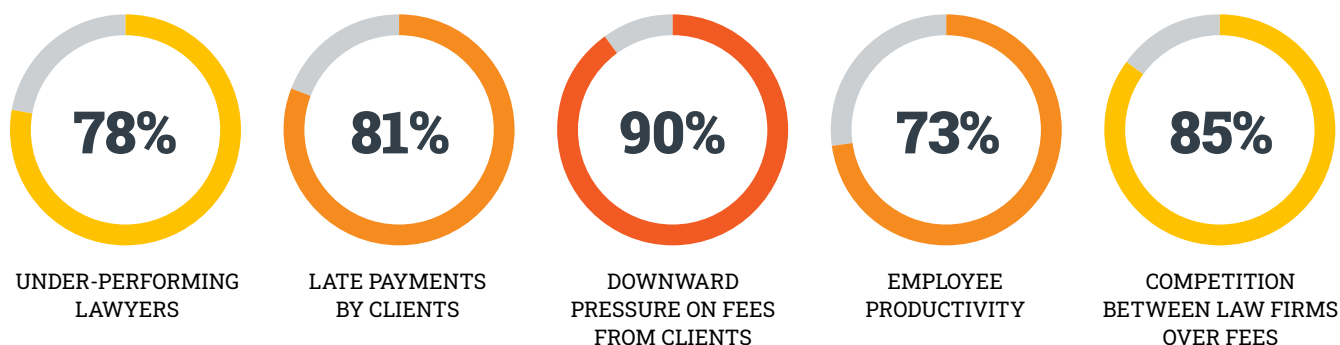


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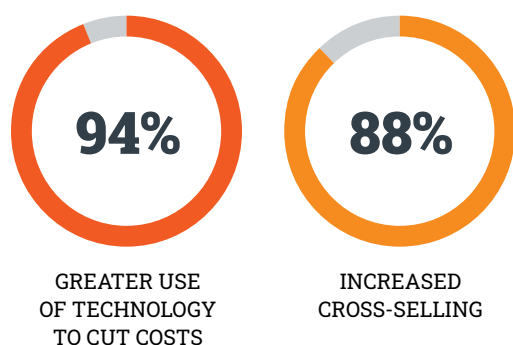
Making knowledge work

OVERVIEW

Data from the [Thomson Reuters 2020 Law Firm Leaders Report](#) indicates that survey participants saw a high or medium risk to their firms' profitability from the following:



The report indicated that these risks are forcing firms to think about and run their businesses differently than ever before across all functional areas. Two of the top methods firms are planning to employ for performance improvement relate to optimization and profitability. These include:



Optimize for profitability

To remain competitive and protect profitability, law firms must fundamentally transform their business model, gaining profitability through new service models, increased efficiencies, and decreased risk. The challenge is to deliver the same or better-quality service to clients within modified pricing structures

based on relative-worth of service provision while maintaining or increasing profitability.

The best way to do this is to optimize utilization of all firm resources such as human capital, financial capital, and technology, inside and outside of the firm. This needs to be done within a consistent, structured, repeatable, and auditable process. And protecting the firm's profitability as a result by reducing insurance expenses as well as losses due to malpractice and other professional liability claims.

Maintain a competitive advantage

Law firm clients are evaluating the efficiency of law firm business processes more than ever before, knowing that a firm's efficiency of operations directly impacts the quality, price, and velocity of the service they receive. This evaluation drives client decision-making regarding what firms to leverage for its legal service needs. Firms that win their client's confidence get more revenue and enjoy better profitability through their own efficiencies. Firms that fail, lose market share, revenue and profitability, and may eventually lose everything.

Previous methods aren't sufficient

Historically, the need for efficiency gains and risk mitigation in law firms has been addressed through a variety of techniques, including:

- Increased documentation and communication of policies and procedures
- Implementation of new business systems to support the needs of functional teams and departments
- Creation and distribution of various reports to attorneys and management
- Addition of staff to assist with workload within operational teams
- Enhancement of accounting systems to fill in the gaps
- Implementation of knowledge management systems to capture and allow re-use of work
- Various types of automation to reduce time-on-task for standard functions (such as macros for document creation)
- Workflow automation for one-off business processes
- Implementation of ERP systems for organizational resource management

These methods all add value to the organization, and some provide better return-on-investment than others. But they aren't sufficient to create the type of organizational shifts in business model and related operations required to meet today's dramatically different client demands and pressures.

Clients are scrutinizing legal service fees, and rating and measuring law firm capabilities to receive the best value. So, law firms must increase efficiencies on a new scale to both win work and restore profitability of work that is obtained.

Achieving efficiencies across the law firm enterprise transforms law firms from siloed individuals or teams into a true enterprise capable of wielding all its resources in the most powerful manner possible for the firm's competitive advantage and profitability.

Benefits of optimization

The value of achieving efficiencies across the law firm enterprise through the optimization of business processes includes:

Increased profitability through substantial efficiency gains and enforced loss prevention

By optimizing processes law firms increase the bandwidth of their attorneys and other teams so they can spend increased time on profit-earning work (legal service provision and business development).

In addition, firms can track and repeat successful staffing and matter delivery approaches and pricing models, driving continuous improvement and increased profitability into the enterprise.

Increased efficiency supports growth (revenue and profit). Lateral hires, new office openings, acquisitions or new service offerings are expediently assimilated into the firms' operations in ways that ensure quick revenue recognition while at the same time mitigating risk of loss as consistency is enforced through codified business processes.

In addition to more effective internal resource leverage, business processes can be strategically extended beyond the boundaries of the firm, folding in strategic partners or other outside entities in a coordinated, auditable way. This allows law firms to leverage internal and external resources in the most optimal, price-effective ways for service delivery.

Long-term leveragability

The optimization process is meant to support the evolving and changing needs of an organization's business processes. So, a law firm can leverage every single investment it makes and apply it to each subsequent implementation and investment.

Transformation through incremental change

Transformation is overwhelming to think about doing all at once (and impossible to do all at once). Instead, law firms that map their strategy for transformation, and then are successful at implementing those transformational strategies in incremental, digestible ways to the enterprise are the ones who will see success. Process optimization is an evolutionary process well suited for incremental transformation.

By leveraging **the following transformational steps**, law firms will be able to adopt new strategies and related tactics into the very fabric of daily business operations at a pace they feel their organization can successfully assimilate.



These steps are straightforward and practically achievable:



Step 1:

Identify an appropriate process for optimization



Step 2:

Understand how the chosen process interacts with various people, functions and business systems today



Step 3:

Reflect on the process with an enterprise-awareness to ensure all opportunities for improvement have been understood and prioritized



Step 4:

Identify clear enterprise objectives the optimized business process must provide



Step 5:

Build the cross-functional process improvement team



Step 6:

Re-engineer an optimized to-be process that is targeted at meeting objectives identified in step #4



Step 7:

Ensure adoption through effective organizational change management

Let's look at each step in a bit more detail to understand how each is accomplished.

HOW TO TAKE EACH STEP

This section provides additional detail regarding how to complete each step to ensure maximum value recognition for the firm.



STEP 1: **IDENTIFY AN APPROPRIATE PROCESS**

When thinking about where and how to apply these efficiency gains for the highest value for your firm, it is best to start with an understanding of some of the key business processes that are already being used (but not necessarily optimized).

A sampling of standard law firm processes include:

- Prospect Pitch
- Pre-Intake
- Fee Negotiations
- New Business Intake
- Matter Resource Planning and Management
- Matter Budget Management
- Credit
- Collections
- WIP / Billing
- Lateral Hire
- Rate Changes
- Litigation Follow-up
- Conflicts Changes and Updates
- Client and Matter Name Changes
- Billing party and address changes
- Mergers & Acquisitions
- Employee New Hire
- Employee Termination

Criteria to use to determine where to focus

Optimization of all business processes is beneficial, but some carry more weight and immediate return-on-investment than others.

Prioritizing which business process, and what elements of that process, to address is based on the following assessment criteria:



The impact the process has on firm profitability

- Will an increase of efficiencies or visibility lead to higher profitability?
- Will a mitigation of risk lead to higher profitability?



The number of departments or functional teams the process involves or touches.



The number of other business processes the selected process is connected to or impacts.

A common process firms address first is the New Business Intake process. If examined against the assessment criteria outlined above, it becomes evident why this process is a common starting point.



NEW BUSINESS INTAKE EVALUATION

Assessment criterion

Impact on firm profitability:

HIGH

Efficiency gains in New Business Intake lead to accelerated revenue recognition and associated cash flow.

- Financial risk mitigation within New Business Intake (such as ensuring proper credit checks, retainer amounts, targeted A/R collections, new client reviews, etc.) ensure time-value-of money recognition (increasing profitability) and loss prevention.
- Risk mitigation for effective and monitored conflicts clearing and engagement letter reviews contribute immensely to the firm's loss prevention, further enhancing profitability by reducing losses and decreasing insurance rates for malpractice.
- Reduced manual inputs achieved through automation provide increased bandwidth to operational teams, allowing them to speed up work and do more work without the need for additional human capital expenditures.
- New Business Intake is where we learn of new clients, new prospective work and new matters (new work) typically first. If the firm identifies key practice areas that tend to be the best 'candidates' for cross-selling, the new business intake system could be proactively monitoring for potential or new incoming work that may satisfy those parameters. Then, proactively alert practice leads and the business development team when the system 'detects' these potential fruitful areas.
- The best time to work with clients on payment terms and outstanding AR is when new work is coming in. The new business workflow can automatically surface historical payment performance metrics and react accordingly by escalating clients that exceed firm identified thresholds for 'special handling'.
- When lawyers face competitive pressures, they may react by proactively offering reduced pricing structures. A great way to address this is by spotting the occurrence of this during a potential or new matter intake. Then involving other facets of the law firm that can assist by providing background information and a value proposition.

- The worst thing to do is take on more bad work. A well implemented workflow can 'spot' key indicators of lawyers who historically underperform and insert quality control mechanisms to help stop the issue before it starts on any new piece of work. Of course, ongoing, real-time metrics of new business intakes and other indicators are also at the firm's fingertips, helping with ongoing assessment and analysis. Additionally, lateral hire workflows can help ensure appropriate initial assessment and a more targeted 'near-term' monitoring of success against expectations to further mitigate the issue from becoming a long-term issue rather than a short-term loss.

Assessment criterion

Number of involved departments/functions:

HIGH

- Attorney / Secretary
- Finance
- Conflicts
- Intake
- Records
- Credit
- Billing
- Collections
- Marketing

Assessment criterion

Number of other processes implicated:

HIGH

- Billing
- Matter delivery
- Collections
- Conflicts Updates
- Lateral Hire
- Marketing
- Multitude of Matter & Client change processes that run during their tenure at the firm

As evidenced from our sample evaluation on previous page, the New Business Intake process is indeed a process that merits the attention law firms give it for gaining efficiencies and ensuring effective loss prevention.

Performing this type of assessment against other processes will provide clarity around prioritization of optimization.



STEP 2: **UNDERSTAND CURRENT INTERACTIONS**

Now that you have identified the process you want to optimize, the next key step is getting a deeper understanding of how people, departments and business systems interact with that process in its current form.

If we follow the New Business Intake example forward, we might note that with today's business process the following people and business systems are involved:

- Lawyers
- Secretaries
- Intake Teams
- Conflicts Teams
- Records Teams
- Marketing / BD Teams
- Finance Teams

Business systems that are currently involved in the process might include:

- Conflicts of Interest
- Accounting
- Records
- Docketing
- Knowledge Management
- CRM



STEP 3: **BREAK DOWN THE SILOS**

To achieve the highest value from your process optimization, it is crucial to break down the current siloes that likely exist in the enterprise.

To do that, use the information we identified in the previous step, along with the understanding of challenges throughout your enterprise, to discern what people, departments, functions, and business systems may be best included into the process in question.

In this way, we begin to understand how a process that has historically been viewed in a siloed or functional-level way, spans multiple functional areas across the enterprise. And if addressed and considered in this enterprise-aware manner, could deliver substantially increased efficiencies and risk mitigation to boost profitability.

The following table provides an example of this kind of analysis for the New Business Intake process.

Imagine incorporating the needs, expertise, or perspective of additional teams and business systems and what benefits that might provide:

POTENTIAL NEW INVOLVEMENT	REASONING
Marketing	Identification of information needed by marketing for their processes during intake will provide better return-on-investment for downstream marketing efforts
Billing	Inclusion of billing as part of intake will ensure that billing guidelines and setups occur more accurately and more quickly, allowing the firm to send bills out faster and get faster payment
Credit	Ensuring credit is involved to evaluate credit worthiness of new customers and to enforce appropriate retainers provides effective and timely loss prevention
Collections	If new matters are being brought in for existing clients with substantive outstanding accounts receivables, involving collections during the intake process can accelerate resolution or protect the firm from taking in bad business, which would negatively impact profitability
Finance	Detecting variances to rates or fee negotiations that occurred without finance involvement during intake can mitigate risk of loss of profitability
External system for corporate intelligence	By mining information available from external data providers (such as Dun & Bradstreet, Bureau van Dijk or S&P's CAPIQ) and incorporating firm-relevant information into the process (such as Corporate Family Tree information), conflicts check accuracy can be increased, time to evaluate conflicts decreased and opportunities for deeper penetration into existing customers identified almost immediately, providing greater revenue opportunities.
Docketing system	If your firm has a substantial IP practice, integration with the firm's docketing system may reduce matter setup and maintenance for this transactional practice area.
Knowledge management systems	Automated setup of matter sets based on matter categorization and associated templates facilitates faster and more effective collaboration.

At the conclusion of this step, you should strive to determine which of the above new areas you think are the most important to include in a prioritized manner,

or perhaps all of them, depending on their importance to your firm's profitability.



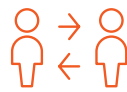
STEP 4: **IDENTIFY CLEAR OBJECTIVES FOR THE PROCESS IMPROVEMENT**

Before you begin with the subsequent process improvement steps, STOP and ensure you clearly identify the enterprise objectives the improvement must meet to make the investment worthwhile.

Here are some examples:

1. Protect profitability by ensuring appropriate level of retainer received and Client payment terms are negotiated early, along with credit worthiness.
2. Enhance profitability by proactively controlling pricing and rate structures.
3. Reduce the average duration of the New Business Intake process to no more than 2 days, with the result being an accurately set-up client and/or matter ready for WIP retrieval and billing.
4. Increase bandwidth of operational teams to empower them to process more intakes faster.
5. Provide attorneys immediate visibility into where all intake requests are in the process to reduce time spent tracking down request status.
6. Accelerate cash flow by reducing our outstanding Accounts Receivable > 90 days for top 10 active clients by 30%.

In other words, identify the results the firm needs to achieve and then ensure these are clearly communicated and understood by the team responsible for the process improvement so that decisions that are made during the process improvement initiative are correctly aligned to these goals.



STEP 5: **BUILD THE TEAM**

First and foremost, the team must include the right mix of players. Each player has a role and responsibility, and that needs to be clearly defined.

Remember, we are most often looking to transform processes from the departmental level to the enterprise level.

As a result, the process improvement team must not only have representatives from each of the cross-functional teams, but the appropriate decision maker from each team must be included.

It is crucial that the team include business process improvement experts whose responsibility it is to guide the team through the improvement process, challenging current practices that make sense in the current process, but that may hinder the ability to meet the objectives defined in Step #4.

In addition, the business process expert is responsible for listening empathetically to the potentially varying views and needs of the functional teams and coalescing the team into an enterprise-focused force of change.



STEP 6: **DEFINE THE TO-BE PROCESS**

In this step, the process improvement team identifies the requirements for the to-be process.

To achieve the fastest and best results, the business requirements and the envisioning of the resulting solution should be done in tandem. Visual cues such as understandable process maps and mock-ups of what the various users will see when they interact with the process must be used consistently and changed frequently and re-validated. This is a highly iterative process, and heavily dependent on intricate details.

By the end of this step, a document that reflects all aspects of the to-be process must exist and be reviewed, validated, and signed by the key business owners.

Skipping or shortcutting on this step can severely impact the return on the firm's investment.

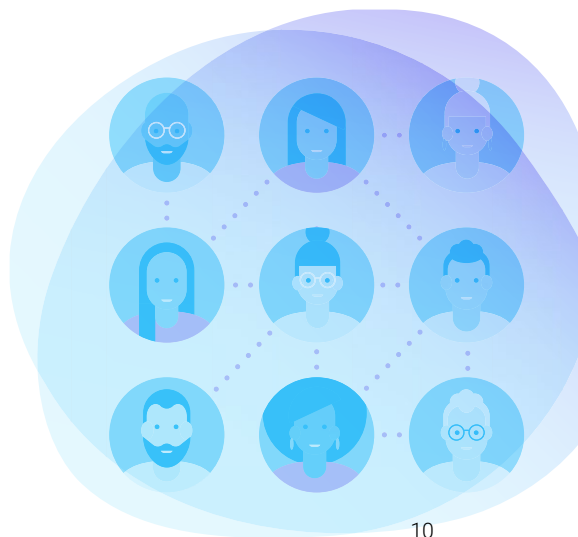
STEP 7: **ENSURE ADOPTION**

Optimizing enterprise processes benefits everyone. It also tends to affect everyone, or a large group, in one way or another.

If you are engaged in the rollout of your very first process improvement project, then additional considerations will be important for end-user adoption.

Here are the key components of successful organizational change management for a process improvement project:

- **Communicate the organizational objectives to everyone early and often prior to rollout.** Make sure all users understand why these changes are being made from a firm wide perspective.
- **Ensure targeted end-user training is provided.** Different users in the process will have different training requirements, and training should be tailored accordingly.
- **Provide ample floor support following rollout.** Process improvement projects are different than other projects your firm may have implemented involving technology. Floor support following the rollout should be more heavily emphasized than training. Remember, we are changing the way people work on a day-to-day basis, and this kind of change takes a different rollout approach.
- **Provide end-users with multiple mechanisms for seeking support.** These are business processes, so many end-user questions will be business-related as opposed to technology related. Therefore, the firm must appropriately stratify support across all business and technology teams.
- **Expect a 45-60 day “adjustment period” for your organization.** Ensure attorneys and the executive team are aware of the changes and how they impact various users so they are prepared for reactions to change from the enterprise. Encourage and accept feedback, but do not jump to make changes during the adjustment period. Instead, wait until the end of the adjustment period, and then carefully examine and evaluate what feedback continues to resonate, and intelligently determine changes for inclusion in subsequent improvement initiatives. In this way, you avoid the trap of over-reacting to changes resistance, and ensure your ongoing investment continues to have fidelity and value.
- **Support functional teams in holding the line on cutting off the old ways of working.** People often resist change. One mechanism of coping is to insist on utilization of the ‘old way’. Functional teams must be counseled to ‘hold the line’, sending back anything that does not adhere to the new way of working. This is the best way to ensure the change ‘sticks’. Executives need to support functional teams in this change management tactic for maximum value recognition.
- **Communicate results back to the user community,** so they feel involved in helping the firm move forward in meeting its objectives!



THE RESULTS

Do it right, and you'll get faster and better results from your process improvement projects than any other business or technology initiative you will ever do. Here are just a few you can expect:

- ✓ Increased profitability through enterprise-wide efficiency gains
- ✓ Enhanced customer satisfaction, as relative-worth service delivery increases their overall sense of your firm's value
- ✓ Intelligent loss prevention, as firm policies and procedures are codified and enforced in every activity
- ✓ Better executive decisions made faster as the right people are involved at the right time and armed with the right information (no more looking through multiple systems or asking for reports to figure out what to do)
- ✓ Evolutionary change agent in place for enterprise transformation that can be used as a key tool for rollout and implementation of firm strategies and objectives time and time again



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