



Innovation in legal services

Executive summary

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The Legal Services sector plays a critical role in facilitating commercial and domestic activity and in administering justice. Innovation in this sector in the form of new services or better ways of delivering existing services has the potential to deliver significant social value. It is perhaps surprising therefore that this report represents the first major attempt to examine innovation in the legal services sector using a large-scale survey either in the UK or internationally.

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This annex details the academic literature underlying the conceptualisation of innovation in legal services outlined in section 2 of the main report.

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Key findings

This report summarises the results of the largest ever survey of innovation among legal service providers covering 1500 organisations and including one of the largest ever surveys of Barristers' chambers, of which 156 were surveyed. Twenty in-depth studies of innovation in different organisations were also undertaken. The key results are:

- The introduction of Alternative Business Structures (ABS) was intended (amongst other things) to promote innovation and diversity in the provision of legal services. Our research suggests that this ambition has been realised. The adoption of ABS status has



a positive effect on innovation. All else being equal, ABS Solicitors are 13-15 per cent more likely to introduce new legal services. The implication is that the wider adoption of ABS status would be likely to increase the range of legal services on offer.

- Solicitors are, on average, more innovative than other regulated legal services organisations in terms of both managerial and organisational changes.
- More broadly, 80 per cent of legal services organisations feel they have in place a leadership and culture which supports the development of new ideas.
- Around 40 per cent have put in place the practical steps to promote the development of new ideas.
- A quarter of all legal services organisations have introduced a new or improved service in the last three years. On average, legal services organisations obtain 6.3 per cent of their revenue from these innovative services. This rises to 10.3 per cent among other legal services providers (OLSPs) in unregulated activities.
- The major effect of innovation in legal services has been to extend service range, improve quality and attract new clients.
- Regulatory and legislative changes emerge as both a barrier to and driver of innovation. Regulatory and legislative issues were seen as being a significant impediment to innovation by only one fifth and one quarter of respondents respectively.

Background to the report

In this report we investigate innovation in legal services organisations in England and Wales, a subject which has received relatively little attention to date. Changes in the legislative and regulatory framework surrounding legal services have intensified in recent years, raising questions about the extent to which initiatives such as the introduction of Alternative Business Structures (ABS) have facilitated innovation. Significant questions have also arisen about whether elements of the current regulatory framework are either impeding or stimulating innovation.

The report has three major objectives:

- To understand what 'innovation' means in the context of the legal services sector;
- To explore what is driving innovation in the legal services sector, including the impact of competition in driving organisations to try new approaches; and
- To understand the barriers and enablers of innovation (including, but not limited to, regulation).

Our analysis draws on the existing research literature on business and professional services and a large-scale and representative telephone survey covering 1,500 legal services providers in England and Wales.

This is the largest survey of legal services innovation ever undertaken either in the UK or elsewhere. The survey was preceded by 20 in-depth studies to clarify concepts and terminology.

Definitions of legal services vary. Here, we focus on those organisations which provide legal services as their primary activity. In the report we distinguish between four groups of organisations: Solicitors Firms, Barristers' chambers, and Other Legal Service Providers (OLSPs). The OLSP group covers those providers regulated under the Legal Services Act 2007 and those providers not covered by the Act.

Benchmarks from a small scale study in 2009 suggested that significant gaps were evident between innovation practice and performance in legal services and other business services sectors. We examine whether this situation has changed.

The meaning of innovation

The term 'innovation' itself can have many different meanings with different individuals either including or excluding particular activities. In our survey work on this theme we never talk about 'innovation' but always about other more specific and descriptive terms such as 'process change', 'new services' etc. This provides a workable methodology which involves (a) identifying a range of concrete actions which may be regarded as innovative; (b) exploring organisations' engagement with this set of practices, the drivers of this engagement and any barriers to involvement; and, (c) exploring the consequences of engagement with innovative practices.

The variation in forms and types of 'innovation', and the use of the single term 'innovation' to describe both outcomes and process, can create significant communication difficulties both between business colleagues and in terms of conducting innovation research. To overcome this issue and ensure a more meaningful dialogue, instead of talking about 'innovation', studies often focus on more specific (and observable) activities or practices which form part of organisations' overall pattern of innovative activity. This is the approach taken in this investigation.

Innovation: Drivers, performance and benefits

This report adopts a broad view of innovation considering as 'innovations' both the development of new or improved services and new or improved ways of delivering legal services.

Barristers' chambers emphasise a wider range of drivers for innovation than either Solicitors or OLSPs. Key factors are changing regulation and changing demand for new services. For OLSPs in regulated activities,

legislative and regulatory changes relating to legal services were the key motivating factors for innovation. Intensity of competition is a middle-ranking motivation for all types of legal service provider.

Just over one quarter of all respondents had introduced a new or improved service in the previous three years, with OLSPs in unregulated activities markedly more likely to do so than Solicitors or Barristers' chambers. The introduction of a new-to-the-market innovation is much less common, indicated by less than 8 per cent of respondents. On average, respondents obtained 6.3 per cent of their revenue from innovative services. This percentage was highest (10.3 per cent) among OLSPs in unregulated activities.

Innovation in the delivery of services was reported by 26.1 per cent of respondents, again lower among Barristers' chambers than other groups. Among Solicitors the predominant change was in the use of electronic communication with clients, including the use of electronic forms, and improved case management systems. OLSPs also frequently mentioned the use of on-line and electronic communication with clients. Among Barristers' chambers innovation was focussed on direct access to clients and the need for a more client-focussed approach.

Service providers of all types and sizes make substantial use of social media, especially among larger firms. By far the most common use is in advertising legal services to clients and providing legal updates or free information, with over 73 per cent of social media users doing these. By contrast, the direct provision of legal services via social media was relatively uncommon, although more commonly done among Barristers' chambers than by other types of legal service provider.

The major effects of innovation are in extending service range, improving quality, attracting new clients, and improved tailoring of services. By contrast, improving speed of delivery and increasing revenue from existing clients were less important, although still mentioned by a majority of organisations. OLSPs – both regulated and unregulated – are more interested than Solicitors or Barristers' chambers in innovating to increase revenue from existing clients.

Innovation: Leadership and management challenges

While around four-fifths of legal services organisations feel they have a leadership and culture which supports the development of new ideas only around 40 per cent have put in place the practical steps to promote the development of new ideas. This pattern differs little between Solicitors, Barristers' chambers and OLSPs. As suggested earlier this results in new services being introduced in around a quarter of legal service providers (over a three year period).

Recruitment priorities differ significantly: around a third of OLSPs regard it as 'very important' to recruit those with a legal services background compared to around two-thirds of Solicitors and Barristers' chambers. Only around a third of organisations regard 'training staff to develop new ideas' as very important.

In terms of how organisations undertake innovation, Solicitors engage most actively with their customers. Levels of investment in promotional activity vary widely, however, with OLSPs in unregulated activities spending an average of 2.3 per cent of turnover on branding and promotion compared to 1.6 per cent by Solicitors and 0.6 per cent by Barristers' chambers.

Comparing levels of innovation over time is difficult because of the lack of research into innovation in the legal sector. A 2009 survey suggests a picture of stability rather than significant sector-wide change. However this is likely to reflect the different samples used in each survey rather than wider market changes, with the scope of the 2009 being significantly limited when compared to 2015 and not looking at the legal sector as a whole.

Impacts of regulation and legislation, other barriers to innovation

Legislation and regulation were frequently cited as a driver of innovation (paragraph 9). They were also the most commonly cited constraints on innovation, seen as being a significant impediment to innovation by between one fifth and one quarter of respondents. This implies that around 75-80% of respondents did not consider regulation or legislation to be a major constraint on innovation.

The next biggest constraints are lack of the necessary finance for innovation, limited market opportunities, and lack of expertise in the business, each mentioned by under 20 per cent of legal service providers. Other factors (e.g. attitudinal barriers and lack of collaborators) were generally viewed as being relatively insignificant.

Most organisations believe regulatory and legislative issues have a neutral effect on innovation. Of the remainder, nearly twice as many organisations see "Changes in legislation related to legal services" as having a positive rather than a negative effect on innovation. In only three aspects of regulation (dealing with client complaints, client confidentiality and managing clients' money) was there a perception that the general effect of legislation on innovation had been negative.

Solicitors take a more positive view on the role of regulation and legislation in innovation than OLSPs. This is especially true for changes in legislation relating to legal services, professional indemnity insurance requirements, and the need to keep up with new regulations.

For Barristers' chambers particular issues seem to exist with the requirements for professional indemnity insurance. For OLSPs in unregulated activities the key issues relate to legislation on client confidentiality and complaints.

The innovation impact of ABS

The introduction of ABS was intended to promote innovation and diversity in the provision of legal services. Our survey includes data from around a third of SRA regulated firms with ABS status.

Our econometric analysis suggests that the adoption of ABS status has a positive effect on innovation. All else being equal, they are 13-15 per cent more likely to introduce new legal services. They are also more likely to engage in strategic and organisational innovation. These findings allow for differences in characteristics, age, area of work, gender, and the ethnicity of ABS and non-ABS Solicitors. The implication is that the wider adoption of ABS status would be likely to increase the range of legal services on offer.

We also find ABS Solicitors have higher levels of innovative activity of all other types than other Solicitors. This is consistent with ABS Solicitors' higher level of investment, staff engagement and external involvement in innovation.