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Although knowledge management is now seen as being at the core of many firms' strategies, many have still been slow in implementing the relevant programmes according to recent research, says *Matthew Parsons*

As the ancient Chinese curse goes, "may he live in interesting times". The results of recent research into law firm knowledge management (KM) suggests interesting times are indeed ahead for law firms and the leadership of KM programmes. Of course, interesting times can be a blessing not a curse, particularly if we understand a little history and better understand current behaviours.

In April 2004, in conjunction with Joy London's legal KM blog excited utterances, I conducted an online survey of the legal KM community. More than 120 participants in 12 countries shared their knowledge and wisdom, including managing partners, chief operating officers, directors of know-how, knowledge managers, directors of technology, librarians, partners and lawyers. International, national and regional firms were all represented.

The objective of the research was to investigate current practices, roles, leadership turnover, resources and structures for KM in law firms. In addition, the study enabled legal KM professionals to identify areas for specific KM research that would be most valuable for their initiatives and their firms.

Law firm KM interest remains high

The first key research finding is that interest in law firm KM remains high, with 61% of firms having a KM programme in place and 21% planning one. In other words, 82% of the firms in the survey either have a KM programme or are currently planning one. Significantly, of those firms that are not pursuing a KM programme, 80% were US-based, including firms with in excess of 1,000 lawyers.

Investment levels are significant

Annual KM budgets can be significant for larger firms, with one major English based firm reporting spending of between \$3m (£1.6m) to \$5m (£2.7m) annually on KM. US firms surveyed are seeing annual budgets up between \$2m (£1.09m) to \$3m, with an average annual budget of more than \$1m (£546,000).

The average number of people engaged full-time in firms' KM programmes is 8.6, with 19% of firms having more than 14 full-time people engaged in the programme. The number of people engaged reached up to 70, including 20 lawyers, for one large UK-based firm. The number of partners engaged was much smaller at 1.7, although when the top 15% of firms are removed (who averaged nine partners) the average dropped to 0.5 of a partner. The number of lawyers engaged averaged 4.8, reducing to 2.6 when the top 15% of firms (who averaged 16.8) are removed.

Thirty firms generously provided information on the rate of growth of the KM budget this year and a forecast for next year. Of these firms, none saw a decline in budget in the current year, averaging an increase of 17% in the KM budget.

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For next year, only two of those firms forecast small declines for next year (-10%), with the average forecast being a strong increase of 10%.

More leaders recruited from outside the firm, with varying backgrounds

An unexpected research finding was that only 42% of the current leaders of law firm KM programmes had practiced law with their firm. In the early days of law firm KM, leadership was often an ex-lawyer who had practiced with the firm and self selected themselves as an appropriate leader of a new KM initiative. Of the remaining leaders, 35% had practiced law with a different firm and 65% had never practiced law at all.

As the role of KM matures in law firms it appears that they are prepared to actively look outside the firm for key leadership roles and that having a background as a practicing lawyer is no longer a prerequisite for the role.

Formal education qualifications of KM leaders continues to be dominated by law degrees (66%) and information science (27%), although backgrounds are beginning to include accounting degrees, technology degrees and MBAs. Interestingly, only one respondent had a formal qualification at masters or PhD level in KM.

KM leadership not always a full-time leadership role

Another unexpected finding was in relation to the amount of the leader's time that is allocated by the firm to the KM leadership. Only 55% of leaders were allocated five days per week by their firm to the leadership role. The balance of the firms ranged fairly evenly between one day per week (13%) to four days per week (8%). In US firms, 21% allocated the leader one day per week to the leadership role.

This suggests that in many firms the leader of the KM programme either has additional non-KM related responsibilities, or performs a significant amount of operational KM delivery responsibility in addition to leadership.

Notwithstanding the sometimes limited amount of time allocated to the leadership role, the functional leader of the KM programme (who spends more than 50% of their time on KM) retains an important role reporting to very senior levels of the organisation. Reporting lines to the managing partner (42%), chief information officer (15%) or chief operating officer (14%) were the most common.

Two trends that I expect to see grow in strength in the coming years are evidence of links with training and human resources and reporting lines to a KM committee. In 6% of firms, the reporting line was to the director of training, or the director of human resources and in 4% of firms the reporting line was to a knowledge committee, including the managing partner, chief operating officer and knowledge partner.

KM emerging from early days in most firms — especially in the US

Despite the large amount of press about KM since the early 1990s, many firms report having KM programmes in place for only a few short years. Over 42% of firms have had their programmes in place for between three to five years, with only 26% of firms having programmes older than five years.

Here we see a significant divergence in the research between UK and US firms. For US firms, 95% have had their programmes in place for less than five years, with 43% in place for less than three years. By contrast, 70% of English firms have had KM programmes in place for more than three years, with 30% in place for more than 10 years. This bears out anecdotal views in relation to the longer history, and more established position of, KM in UK firms.

The relative early days of the programmes are also borne out

by the finding that in 55% of firms the current head of the KM programme was the first person appointed to the role. In US firms, 67% of current leaders are the first person their firms have appointed to a KM leadership role.

Strategies are increasingly documented and usually have not involved consultants

An encouraging finding from the research was in relation to the documentation of knowledge strategy and the sharing of that strategy with partners throughout the firm. In 63% of firms there is a formal, documented KM strategy. In just over half of firms (53%) a written description of the firm's KM strategy has been shared with all partners of the firm. As the programmes mature and increasing attention focuses on outcomes and results, one can expect a significant increase in the number of firms formally articulating their KM strategy and sharing that strategy with partners as key stakeholders.

As to the use of consultants in the creation of firms' knowledge strategies, or the implementation of those strategies, consistently limited use was made of outside assistance in these endeavours irrespective of country. Only 24% of firms used consultants in the creation of knowledge strategy, and 19% used consultants for implementation. One may also expect that an increasing maturity of KM programmes and interest in results and benchmarking, will see some increase in the selective use of consultants for strategy and implementation work.

Objectives of KM programme weighted towards quality

The objectives of firms' KM programmes were led by quality, service and non-financial objectives as the most important objectives. The three financial objectives of increasing leverage, reducing costs to clients, or supporting value-based billing/fixed price billing were rated in the lowest five objectives for the programme. Using a scale from one to five for importance where five was most important, respondents rated the objectives in the following order:

- . Improving quality of service: 4.35
- . Improving use of knowledge: 4.13
- . Attracting and retaining clients: 4.11
- . Improving management of knowledge: 4.11
- . Attracting and retaining best lawyers: 3.84
- . Improving access to research resources: 3.89
- . Improving consistency of legal advice from different locations: 3.72
- . Increasing leverage: 3.68
- . Improving speed of service to clients: 3.65
- . Reducing cost of service to clients: 3.64
- . Differentiating the firm from competitors: 3.59
- . Supporting value billing or fixed fee billing: 3.07

Note that supporting value or fixed fee billing was ranked heavily below all other objectives and in 14% of firms was specifically excluded from the scope of the KM programme. The only significant difference among countries in relation to objectives was that in UK-based firms, the importance of supporting value-based or fixed fee billing was higher, at 3.5, although still significantly below improving quality of service, and still ranked in the lowest three objectives.

The record on including knowledge sharing, contributing and use of the KM systems within firms' annual performance appraisal processes is significant but not overwhelming, with

22% of firms evaluating partners and 47% of firms evaluating lawyers in relation to KM (lawyer evaluation is 80% for UK firms). Incentives for contributing are not provided in 90% of firms, however, a small group of non-UK firms are using rewards of up to and over \$1,000 (£546).

Performance measurement focused on usage and document counts

Consistent with the lower focus on finance rather than quality in the objectives of most KM programmes, the approach to measurement also does not show a high level of focus on financial outcomes. A large proportion of programmes (35%) do not measure the performance of the programme.

Measurement is significantly weighted towards usage and document counts, with the financial measures clustered as the lowest three measurement methods used. It is worthy to note that improving quality of service was rated the highest objective for the programme and that only 23% of firms measure quality. Doubtless this relates in part to the relative ease of measuring usage and document counts, often electronically by the knowledge systems and repositories themselves. However, it does indicate an imbalance in the measurement approach considering the dominant programme objective of increasing quality of service.

Probably reflective of more mature programmes, UK-based firms generally demonstrated higher rates of usage and document count measurement and an increased measurement of quality and cost and delivery measurement.

Interest in measuring value dominates

When asked "What is the one thing that you wish your CEO would understand and embrace about KM?" the answers overwhelmingly related to financial and performance matters: "that it is expensive, but it is worth it"; "that it is very difficult to produce concrete objective measurements of performance or return on investment (ROI)"; "that the benefits are not always only measured in dollars, e.g. staff and client satisfaction"; "that ROI is not immediate, it takes time"; and "that it is very difficult to show value in strict financial terms".

These comments suggest an increasing awareness of, and focus on, measurement of value of the KM programme within firms — notwithstanding that current measurement efforts are generally not financially driven. This investment return focus is also evident in participants identification of areas for research and articles to assist in their roles — dominating the requests are financial issues and requests for case studies: "Real, hardcore studies on ROI"; "measurement of ROI"; "financial and non-financial criteria for measuring success of KM initiatives"; "measurement of KM"; "how can firms quantify the financial gains to be reaped from KM? — it cannot be all cost and no revenue"; "how do you measure ROI?"; and "how do you prove value without exhaustive analyses?"

Role demographics have a lesson for current KM leaders

We can see that most law firms have, or are planning KM programmes, committing significant levels of investment. We can see there is an increasing awareness of the need to demonstrate the value of those programmes. In part, this naturally follows the increasing maturity of the role within the organisation — with most firms initiatives in the three-to-five-year group, the initial honeymoon and establishment phases are drawing to an end and firm management is beginning to increase the focus on objectives and performance.

One objective of the research was to look at turnover in KM leadership roles in firms, in particular the job longevity of the last person in the KM leadership role. What we found was that for prior leaders, 75% did not stay in the role for at least three years, and 87% did not make four years. When we look at current leaders, 60% have currently been in the role less than

three years and 75% have been in the role for less than four years.

What this might suggest is that leadership of law firm KM programmes may soon face a key period where effectively demonstrating value and the achievement of objectives will be critical to their roles and their functions. The good news is that KM leadership appears to be aware of the need to demonstrate value and has some measurement initiatives in place. However, the challenge for these leaders, and these programmes, is to both contribute value to the firm and to be able to demonstrate that contribution.

Clearly ROI pressure is upon KM. However, we ought to bear in mind that when created by Dupont in Wilmington, Delaware in the early 1900s, ROI was designed to measure the return on total investment in an entire business and not the return on expenditures that comprise part necessary expense and part investment. For example, we do not speak of ROI measures for rent, or finance — we use different assessments of value for that expenditure.

The challenge for KM leaders is to identify what KM expenses are mandatory for the firm to provide quality and to compete, and what investment is being made to achieve defined additional objectives. The former category should be managed against best practice and the second managed against project-focused ROI.

Matthew Parsons is the author of Effective Knowledge Management for Law Firms. A copy of the research report will be available without charge at www.MatthewParsons.com in mid-June 2004.

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