

**The Last Hour:  
How Digitalization has Transformed  
Firms in the Legal Industry**

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# **The Last Hour: How Digitalization has Transformed Firms in the Legal Industry**

## **ABSTRACT**

This licentiate thesis explores how digitalization has transformed firms in the legal industry. Based on a qualitative study of 22 law firms I explore what digitalization has entailed for firms and its wider effects. The aim is to understand the digital transformation of the industry as well as the effects for individual law firms. The analysis targets changes to the distinctive characteristics of law firms as well as the implications for their practices. The key finding is that digitalization has caused massive changes to their previous characteristics of high knowledge intensity, low capital intensity and a professionalized workforce, which in turn has altered the competitive context and triggered a variety of business responses. For instance, many new firms are challenging the logic of hourly billing and are creating alternatives to this practice. This suggests that we are approaching the last hour for the hourly dominance among law firms. However, the data show a split between firms, where it is mainly new players that employ new practices while incumbents remain largely the same. By applying a lens of institutional theory, I uncover why and argue that the dominant logic of law firms makes it difficult for incumbents to adapt to digitalization, whereas new firms use the institutional complexity introduced by digitalization to exploit new opportunities by adapting or creating new practices. These changes have resulted in a heterogeneity among law firms making one single categorization of them impossible. Therefore, this thesis propose that we update our existing assumptions about law firms in particular, and professional service firms in general, in order to explain and forecast their behavior moving forward.

## **KEY WORDS**

Digital Transformation, Institutional Complexity, Institutional Logics, Law firms, Professional Service Firms

## LIST OF APPENDED PAPERS

Paper 1: How Digitalization Changes our Understanding of Professional Service Firms

Paper 2: Digital Transformation of Law Firms - The Dominant Logic under Threat

Paper 1: *How Digitalization Changes our Understanding of Professional Service Firms* was, in an earlier version, presented at the Academy of Management annual conference 2017 in Atlanta, and is currently under review for a special issue at Academy of Management Discoveries targeting the digital transformation.

Paper 2: *Digital Transformation of Law Firms - The Dominant Logic under Threat*, is currently under review for a special issue in Journal of Management Studies and was, in previous versions, presented at the Academy of Management specialized conference on digitalization 2018 in Surrey, UK, and on the Academy of Management annual conference 2018 in Chicago.

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*Charlotta Kronblad*  
*Gothenburg, April 2019*

## PREFACE

Something is happening in the legal industry. There is turbulence in the market and the nature of legal practice, which have remained the same for centuries, has started to change. It seems that finally, change is affecting one of the most traditional and institutionalized industries forcing its firms to enter unknown territory where new players, that are providing legal services in new ways, using digital technology and digital business models, are emerging.

That things were changing, and that these changes were linked to digitalization was a realization of mine a few years ago when I was still working in the legal world. Being in the midst of the transformation, my initial interest was sparked by the huge digital opportunities that I anticipated. But I was also intrigued by the realization that most of my peers were not as excited about these changes as I was. I tried to figure out why, and soon realized that their reluctance was often connected to the potential effect on the billable hour. When applying digital technology to the production of legal work it becomes possible to automatize, standardize and re-use legal output, which makes the man-hours spent working somewhat irrelevant. The application of digital technologies in law firms that sell their services by the hour therefore introduces the risk that they will sell fewer hours. Thus, digitalization is a threat to their revenue models and profit streams. Simply put: why would they invest in something that would result in them selling, and earning, less? The comprehension of this common law firm logic deepened my interest in business models development in law firms (or the lack thereof). I realized that digitalization had not only brought a tremendous potential to firms in this industry, but also challenged some fundamental assumptions and subjected previous business logics to a test.

When the opportunity arose to study the effect of digitalization on business models, I therefore jumped at it. This was both unknown territory for law firms and an unexplored area of research. Having first-hand experience of different parts of the legal industry (the sale-side as well as the purchasing-side) I felt well prepared to tackle this under-researched field. Now I feel fortunate that I have been able to study this transformation during the recent very dynamic years. I also believe that by bringing practical experiences to the table I have an opportunity to not only elevate the academic understanding of digitalization in law firms, but also to transfer knowledge back to the field. Since such knowledge is in high demand, I feel optimistic and excited about the future. Consequently, I do not regret moving to Chalmers and the world of research, and I truly hope that you will also benefit from, and enjoy taking part of, the insights of my research so far!

## INTRODUCTION

*This thesis examines why and how digitalization has transformed the firms in the legal industry. Although major changes have been anticipated for law firms following digitalization, the reasons underlying these changes and their consequences are poorly understood. The aim of this research is to reach an increased understanding of this digital transformation. This introductory section presents what digitalization is and what it has entailed for firms in the intellectual industries in general and the legal industry in particular. It also presents the topic of the thesis, the research gap, the research questions and methods, hints to the results and finally presents the outline.*

### **Digitalization and the Transformation of Firms in the Legal Industry**

Digitalization is a phenomenon that is affecting economies and society at large through the introduction of digital technologies (Kagermann, 2015). Digitalization has been described as the fourth industrial revolution, which points to its importance in relation to previous industrial shifts (Liao et al., 2017). However, it should not be seen as an instant single shift but rather as a process of continuous introduction and development of different technologies (Manyika et al., 2013), involving radical leaps at a fast pace (Reeves & Deimler, 2011). Digitalization however, concerns more than the introduction of digital technologies: it includes their suitable adoption and effective use. Thus, successful digital transformation will not just depend on the digital technologies per se but on the integration of those technologies into overall business strategies, and the fostering of cultures that promote innovation and the willingness to change (Kane et al., 2015). Digitalization is not a quick solution, or a one size fits all solution, but carries the potential of new value if there is a willingness to change (Tabrizi et al., 2019). Consequently, digital transformation differs among industries and among firms and depends on how they choose to respond to the rising opportunities.

Digitalization is integrated with the wake of the information economy: where tangible assets increasingly are being replaced by intangibles and information has become “the new oil” (The Economist, 2017). Also, the general economy is becoming increasingly knowledge-based and the intellectual industries are gaining central positions. Thus, understanding the digital transformation of intellectual industries is especially important (Løwendahl, 2009). Among the intellectual industries, professional services are particularly interesting. They are not only at the core of the digital transformation, but have also been largely untouched by previous industrial shifts (Susskind, 2010). Due to their role of providing expertise to other fields they also have a major impact on industries far beyond their own. Consequently, the transformation of professional service firms (PSFs) is of great general importance.

The value opportunities from digital technologies can however be hard for PSFs to capture since many apply business models that rely solely on human intellectual input for their revenue- and pricing models (Løwendahl, 2009). Traditionally the PSFs have only treated the time that the knowledge workers put into production as the relevant factor in pricing their service, disregarding the use of any technological or structural capital. That is, the price of intellectual services often depends on the number of hours spent in the production of the service and the level of seniority of the persons engaged in the production (Maister, 2003). This practice of hourly pricing has been central to value creation and capture for centuries (Susskind, 2010) and has become institutionalized in business models and dominant logics of many intellectual industries such as architecture, accountancy and law.

However, digitalization is making the time spent on a matter rather irrelevant for the creation and capture of value. First because other kinds of capital but human become employed in the production of the service, and second because digitalization has the potential to increase

efficiency through automatization, standardization and re-use, allowing more output to be produced per hour (Smets et al., 2017). In most other industries these effects on efficiency would be seen as positive; implying time savings and the potential for additional value creation. However, in industries based on the billable hour, this same mechanism has quite different effects. If work is digitalized the firms will be obliged to bill the clients for less time (compared to the time it previously took to complete the service). This risks lower incomes and revenue. Therefore, some reluctance towards the digital transformation can be expected from PSFs. Moreover, as the firms move from a focus only on human capital to create value, to one that includes value creation from technological and/or structural capital, they need to adapt their business models and practices and employ different/new resources, value offers, pricing models and organizational forms (Teece, 2018). Consequently, firms in intellectual industries whose value have been based mainly on human capital are being, or will be, fundamentally affected by digitalization and face some specific challenges and opportunities that depart from their previous assumptions, practices and logics. To realize value from digitalization the firms consequently need to change their business models and resource mixes and adopt a new way of thinking which diverge from previous logics and practices. This can pose particular difficulties for incumbent firms that already have established successful business models (see for instance Bettis & Prahalad, 1995; Christensen et al, 2013; Teece, 2018).

Despite the potential for major changes, and the great interest in these changes research on PSFs is scarce (Barret et al, 2015; Smets et al., 2017). Most studies of digitalization have instead focused on the setting of manufacturing (Carlborg et al., 2014). This means that we do not know much about the actual effects of digitalization on PSFs. This thesis tries to fill this research gap by focusing on the digital transformation of PSFs, and in particular one type of PSFs: being law firms. Law firms are often used as the research context for PSFs and are commonly lifted as the prime example of them. Similar to architectural firms and accountancy firms, law firms encompass all the distinctive characteristics of PSFs and have professionalized workforces which create value from knowledge without much need of other capital than human (von Nordenflycht, 2010). Thus, firms in the legal industry are well suited for research aimed at transferability beyond the study context.

In case of the legal industry, recent literature suggests that digitalization has introduced new actors, structures, practices, values and beliefs (Hinings et al., 2018), which are challenging previous practices, dominant business models and organizational forms (Smets et al., 2017; Bresica, 2016; Susskind & Susskind 2015). In the case of the firms involved, the introduction of digital technology has arguably enabled a transformation of their work processes and service delivery (Christensen et al., 2013). It is however not yet empirically established what the digital transformation has actually entailed for the firms: Has digitalization inspired the creation of new firms, and has the emergence of such new firms, with new strategies and business models, affected established firms? Has digitalization transformed the characteristics of the firms in the industry, and what has this entailed for their practices? In order to understand the digital transformation of the legal industry and its impact on law firms, I hold that we need to explore the underlying mechanisms that enables and drives the digital transformation. If we can understand how digitalization has transformed law firm characteristics, we can begin to understand their emergent responses to these changes.

To capture the full impact of the digital transformation this thesis builds on a qualitative study of 22 law firms. Aspiring to explain the impact of digitalization on both industrial and firm-level, I analyze the transformation of law firm characteristics as well as changes to law firm practices. By analyzing the impact of digitalization on the distinctive characteristics of law firms we understand *why* law firms change, and by analyzing their particular practices we understand *how* they are responding to the new conditions and *how* they are trying to create and capture value from the rising digital opportunities.

## Research Questions

To tackle the overall aim of understanding how digitalization has transformed firms in the legal industry, two research questions guides the research process.

- How has digitalization transformed the characteristics of firms in the legal industry?
- How have different firms in the legal industry responded to digitalization?

## Methods and Results

This thesis is built on a qualitative study involving 35 interviews in 22 different law firms. The analysis of the findings from these interviews shows that digitalization has transformed the distinctive law firm characteristics as well as their practices. It depicts both *how* and *why* the digital transformation has enabled different reactions and responses among law firms and shows how the digital transformation is intertwined with firm-level dynamics. The emerging heterogeneity among law firms is explained with the use of institutional theory and the concepts of institutional logics and complexity. Consequently, this thesis not only contributes to our understanding of PSFs, and the particular stream of literature that focus on the specifics of these firms, it also provides institutional theory with an illustrative case of contemporary institutional complexity, where digitalization has enabled practices that conflict with the dominant industry logic. In effect, I show how digital opportunities are exploited by new firms while the incumbents, who embrace the dominant logic, refrain from change. The findings also point to the emergence of hybrid firms that successfully combine elements of new and old practices and become potential drivers of institutional change.

## Outline of the Thesis

In order to fully answer to the research questions and explore the process of digitalization we need a sound point of departure. After this introduction I therefore present the literature that I draw upon. I try to link the different theoretical frames adopted in the two appended papers and introduce theoretical concepts such as industry recipes, dominant logics and institutional complexities. I also present literature that describes PSFs characteristics and its effects on managerial practices. I continue by describing my research journey, my methodological reasoning and the specific research context of the Swedish legal industry. The thesis ends with a discussion chapter and a conclusion, before the two appended papers.

## LITERATURE

*In this section I present the literature that I draw upon in my research. I discuss why firms in different industries develop different practices and strategies. This connects to the logics that drives firm practices and is elaborated on through the use of institutional theory, institutional logics and complexity. I also introduce work on PSFs and what differentiates them from other firms. Lastly, I describe the specific context and common business model of law firms and introduce the discussion of digital transformation of law firms.*

### **Industry Recipes and the Strength of Dominant Logics**

The common business practices in any industry depend on the strategies and practices that have been applied in the past. This is described as path dependence and serves to create stability which is particularly important in an unstable world (Sydow et al., 2009). When our world changes we tend to resort to what we know, and what we know how to do. Spender (1989) argues that managers deal with uncertainty in ways that are characteristic to their particular industry –acting in line with their specific body of knowledge and professional common sense. He refers to an “industry recipe” which is based on a shared set of ideas common to the industry, but that is applied, by managers, to the particular firm at hand. Following a recipe is therefore not about the managers reflecting on their industry but is based on their reasoning on their firms in relation to the industry: “*Change occurs because of what happens to companies, not what happens to the industry*” (Spender, 1989). However, as different firms in an industry apply different strategies and ultimately achieve different results, messages are sent back to the industry about what works and what does not. This influences the other firms and alters the common set of ideals, eventually changing the recipe itself. Therefore, recipes adapt as the context develops in a social, technological, economic or cultural sense. That is, with the concept of a recipe, Spender shows how the micro level action of managers, acting upon changes in the context by implementing changes in relation to their firms, ultimately influences the transformation at the industry level. A similar line of argumentation, connecting the micro- and macro-development, is present in institutional theory where micro-level reasoning and behavior depends on commonly shared norms and ideas which guide and legitimize certain practices (see for instance Powell & Colyvas, 2008).

Bettis and Prahalad (1995) provides a similar line of reasoning arguing that dominant logics prescribes particular business practices. In their discussion they connect logics to the stability of organizations and show that logics serves as filters, as levels of strategic analysis, as basis for unlearning and/or as basis for adaption thereby influencing different levels in firms. These authors relate the concept of the dominant logic to strategic variety, cognitive variety, response speed, learning and unlearning, to describe how the logic serves to create and preserve practices. Consequently, they use the concept of logics to explain why firms are not as responsive to changes as they should be to change. In situations where information is becoming increasingly available (which is a current tendency linked to increased digitalization) firms should be able to spot and act upon opportunities – yet many do not. Bettis and Prahalad (1995) describe this *information rich but interpretation poor – systems* and explain that firms build their reasoning on dominant logics that serves as filters for the analysis of incoming data that they form their reasoning and corporate actions and learnings upon. This leads to a situation where incumbents have a hard time to recognize and act upon changes. Before incumbents can re-direct their firms they need to “unlearn” practices and forget the basis of the dominant logic. Bettis and Prahalad (1995) argues that this is a reason why incumbents often are outcompeted by new entrants during structural transformations to their industries.

## **Institutional Logics and Complexity**

In line with the reasoning in Spender (1989) and Bettis and Prahalad (1995) scholars of institutional theory have developed new concepts to describe how the industry dynamics influence organizational practices and micro-level sensemaking, and vice versa (see for instance Powell & Colyvas, 2008; Nigram & Ocacio, 2010; Thornton et al., 2012). Institutional theorists argue that the institutional context constantly affects its actors and their actions (Scott, 1998) and that their shared norms and experiences create particular contexts in where certain practices become prescribed (Powell & Colyvas, 2008). The context builds on formal and informal institutions, the former includes laws, rules and regulations, and the latter includes norms, cultures and ethics (North, 1987). Over time, the individuals within a certain context, establishes particular logics which prescribe how they should act within that context (Powell & Colyvas, 2008). These logics provide information on the actions available to individuals, and how individuals can make sense of and legitimize their actions (Nigram & Ocacio, 2010). Thus, particular logics serve as cohesive systems of practices, assumptions, values and norms which are created and re-created within relations (Powell & Colyvas, 2008). Zilber (2013) argues that logics provide a way to connect the structural- (macro) aspects to micro-aspects which stresses the dynamic relations between actors and structures. For firms, this means that the formal and informal institutions in different industries shape certain practices and organizational forms, which support a particular logic which in turn, affects the long-term development of its institutions. When behavior and practices reproduced collectively, and repeated over time, certain logics becomes dominant (Thornton et al., 2012). To understand specific reactions and responses to an external phenomenon in a given context, which we need to do to explore the impact of digitalization on law firms, we need also to understand the particularities of the context and how the dominant institutional logic prescribes certain behavior within that context.

Thornton et al. (2012) argue that the institutional logics can be understood by examining the different factors that constitutes their base. They propose seven factors which together build the logic. They suggest that organizational and professional factors contribute alongside economic, political and religious factors, plus factors related to the surrounding community and immediate family. In order to understand how a particular logic becomes established we need to understand how these different factors interplay, and the sources of their individual legitimacy, identity and attention base. From an institutional logic perspective, we can go beyond firm-level analysis to explore the wider context which includes all of these factors.

To discuss the dominant logics within law firms we consequently need to consider all these influencing factors. However, the professional domain is particularly relevant as it is the professional domain of law that separate the firms of the legal industries from firms of other industries. Thornton et al. (2012) argue that for law firms the professional associations, professional status and relational networks are particularly important for the development of the professional logic. Another influence on the professional logic is professional identity, which builds on the wider perception of the quality of the craft, personal reputation and individual professional behavior, which in turn is motivated by capitalism and a strive for reputation (Thornton et al., 2012). Thus, specific professional aspects contribute to the establishment of a particular logic which prescribes certain behaviors and practices within the industry.

When an external factor affects the institutional context, it can conflict with the established logics which in turn, can cause institutional complexity (Greenwood, 2011). This may be manifest in conflict and confusion but might also open up for different paths of behavior. That is, when something happens which affects the institutional context this can give rise to numerous different practices, despite the presence of a dominant logic.

Digitalization can be seen as one such external impact, and consequently can be expected to drive institutional change by challenging the previous dominant practices and logics in different industries (Hinings et al., 2018). Digitalization challenges and replaces (or complements) existing practices, values and beliefs across different industries and organizations (Hinings et al., 2018), and arguably encourages and enables large variation in behavior and practices. Since this study focuses on the impact of digitalization in a highly institutional field, it is imperative to explore whether digitalization causes institutional complexity, where previously dominant logics are challenged, and how firms responds. Earlier studies of institutional complexity address similar situations where the dominant logics have been challenged by new logics and practices. For instance, some examine the confrontation between a commercial logic and an artistic logic (Amans et al., 2015), a business logic and a sport logic (Carlsson-Wall et al., 2016). These studies show that institutional complexity arises when different logics meet, and that there may follow a period of confusion and institutional complexity until one logic is accepted as the new (or renewed) dominant logic. Some studies indicate that in different fields, different logics creates more or less tension, depending on the level of institutionalization and fragmentation (Zucker, 1987). From this perspective, emerging practices should be considered relative to one another since they are acted out within a specific context (Feldman & Orlikowski, 2011) in which it is possible that multiple logics both compete and work together (and may be mutually facilitating and strengthening) (Goodrick & Reay, 2011).

### **The Characteristics of Firms in the Legal Industry**

To understand how digitalization has transformed the legal industry we need to establish our point of departure: what built the current law firm logics and practices and what characterizes their shared behavior. To understand this specific context is particularly important since PSFs tend to differ quite substantially from firms in other industries (Maister, 2003). Compared to most other firms, key concepts such as; economies of scale, profit maximization, incorporation and external ownership, human resource management, quality control and hierarchical authority have completely different meanings for PSFs (Løwendahl, 2009).

Law firms are often described as the most extreme form of PSFs and together with accountancy and architecture firms they are categorized as *Classic PSFs* (von Nordenflycht, 2010). The *Classic PSFs* possess all the distinctive characteristics of PSFs, namely: a high knowledge intensity, a low capital intensity and a professionalized workforce. What these characteristics mean for the individual firms, and its management, is discussed later in detail. However, it should be noted that not all categories of PSFs share these three characteristics. Some exhibit only one or two, although law, accountancy and architectural firms include all three. This is depicted in Table 1 below, presenting von Nordenflychts (2010) Taxonomy of PSFs.

Table 1: von Nordenflycht's Taxonomy of PSFs

	<b>High Knowledge Intensity</b>	<b>Low Capital Intensity</b>	<b>Professionalized workforce</b>
<b>Technology developers</b> <i>Biotech, R&amp;D labs</i>	X		
<b>Neo PSF</b> <i>Consulting Advertising</i>	X	X	
<b>Professional Campuses</b> <i>Hospitals</i>	X		X
<b>Classic PSF</b> <i>Law, Accounting Architecture</i>	X	X	X

Managerial Consequences of High Knowledge Intensity

The concept of high knowledge intensity implies that a lot of value is created from intellectual capital and that most of the work is of an intellectual nature (von Nordenflycht, 2010). Furthermore, in knowledge intensive firms the knowledge workers constitute the “front line” (Alvesson, 2000) and are not just support or executive staff (as they would be in a back-office of experts, R&D department or similar). According to von Nordenflycht (2010) the knowledge is bound to the individual worker and connected to human capital although Morris and Empson (1998) suggests that it also can be embedded in organizational structures. If we consider intellectual capital to be bounded by the individual (human capital) the consequence is that the individuals holding this capital become very important to the firm’s value creation, and their bargaining power is particularly high. Løwendahl (2009) argues that therefore these workers have a high preference for autonomy and become difficult to lead. von Nordenflycht (2010) even compares management of knowledge workers to herding of cats, and considers that this (the difficulty to manage these individuals) is why knowledge intense firms have created particular organizational and compensation systems, such as partner led organizations with large bonus payments or stock options. That is, when the key assets leave the firm each night there must be a good incentive for them to return the next day. This particular situation has led also to the development of informal management styles which are visible in rotating management schemes and the lack of explicit rules (Greenwood & Empson, 1998). Another key feature of knowledge intensive work is the *opaque quality* of the output (von Nordenflycht, 2010). This makes it difficult for the client to assess the quality of the services provided, particularly if the client is not an expert in the field (Løwendahl, 2009). For example, in legal practice it may be too late before a client knows whether a particular legal advice was good or bad. This requires the client to use other factors in the assessment of perceived quality. For instance, they may consider appearance and reputation, those which the firm has bonded with, the firm’s name and whether it applies ethical codes (e.g. belongs to a professional association which applies a set of ethical rules). This means that the image of a lawyer in an expensive suit in a corner office in a high street location, is not just symbolic but is a source of value creation for the law firm. If you look as if you are good (and expensive) then most likely you are. It follows that a high price tag on the service signals high value, making a high price a sales argument rather than the opposite. This means also that most firms are able to set their own price for their legal services, without much regard to the cost of the production of the services. Within law firms, this has created profit margins that are unheard of in most other settings (Levin & Tadelis, 2005).

### Managerial Consequences of Low Capital Intensity

The characteristic of low capital intensity implies that little else is needed to stay competitive but the individuals and their intellectual capital. Thus, there are no significant needs for inventory, factories, equipment, patents or copyrights (von Nordenflycht, 2010). Low capital intensity means also that the bargaining power of the employees, discussed as a consequence of knowledge intensity above, increases further. Employees can simply leave the firm and start up their own competing businesses since there is no need for a large amount of capital to start a firm. Another aspect of low capital intensity is that there is no need to organize to protect external financial stakes. Instead, PSFs typically are organized to accommodate for their particular needs: for instance by profit sharing within a partner structure in order to allow for efficient cat herding (von Nordenflycht, 2010). Thus, low capital intensity has affected how PSFs have been able to practically address some of the challenges stemming from their knowledge intensity.

### Managerial Consequences of a Professionalized Workforce

The third key characteristic of PSFs is their highly professionalized workforces. A professionalized workforce shares a body of knowledge (for instance from having completed the same or similar higher education) and has the possibility to regulate and control that body of knowledge within their profession (Maister, 2003). This implies that the profession has a self-regulated monopoly regarding the use of their knowledge, where the self-regulation in itself erects substantial entry barriers and leads to muted competitive set ups (von Nordenflycht, 2010). This muted competition implies some organizational slack which allows the firms to survive even if they operate less efficient than they should. It could be said that normal competitive behavior is sidestepped in favor of other professional concerns. In this regard the professionalization implies that shared professional ideology, building on norms that can be translated into codes of ethics, is ranked higher than efficiency (von Nordenflycht, 2010). Among these shared norms, trusteeship is central and includes a responsibility to protect clients and society in general. This norm places substantial constraints on organizational design since the professionals sharing this norm tend to be adverse to allowing organizational forms that might threaten their trusteeship behavior (Løwendahl, 2009). This is visible in their resistance to outside influence and to having non-professionals managing their firms. Somewhat unexpectedly (from a societal point of view), organizational slack has a positive correspondence to the level of professionalization (von Nordenflycht, 2010), which shows that self-regulation does not contribute firm efficiency. Instead, firms focus on preserving ethics and norms, without considering whether this enables appropriate management practices. A negative correlation to organizational slack is outside ownership (von Nordenflycht, 2010). However, although external ownership could put pressure on firms to reduce slack, this is not likely since professional associations tend to restrict external ownership in order to protect ethical norms.

A final organizational feature connected to professionalism, is the up or out – promotion practice. This practice common among *Classic PSFs* is seen by many researchers as a response to cat herding, providing a strong incentive to uphold quality while striving to become a partner (von Nordenflycht, 2010). However, Morris and Pinnington (1998) argue that it originates from a professional norm, and is accepted and commonly used because it is thought to be appropriate, rather than because of any real implications for efficiency. This norm (and connected practices) is preserved in firms that regards themselves as elite and have particular client stock, heritage and size. The norm is reproduced by recruiting from prestigious universities – i.e. incorporating into their system those that already showcase adherence to the desired norms. From recruitment

and onward, the practice of up or out functions as a way to socialize the professionals to achieve required performance levels (Morris & Pinnington, 1998) without being linked specifically to an efficient management strategy. However, Maister (2003) argues that there is a clear connection to successful management since firms that apply up or out strategies have created extreme profits from the routine ability to realize surplus value from junior associates working excessive hours without reward them in terms of promotion.

### **Towards a Digital Transformation of Law Firms**

While the impact of digitalization emerged first in the manufacturing industries where it changed the modes of production and resulted in machines replacing workers for repetitive mechanical tasks (Brynjolfsson & McAfee, 2014), the intellectual industries have recently experienced similar changes. Within the intellectual industries, work and workers are increasingly being replaced by technology (Brynjolfsson & McAfee, 2014). This is threatening previous ways of working and previous business models while simultaneously, giving rise to new opportunities. For instance, the rapid developments in digital technologies targeting artificial intelligence (AI) poses a particular challenge to the human intensive work in intellectual industries, since increasing amounts of this work can be conducted by machines (Huang & Rust, 2018). Simultaneously however, AI carries a particular potential for value creation in these industries since value is created mainly from intellectual capital (Barett et al., 2015). If intelligence can be created artificially, and the technology is constantly improving there is huge potential to scale, to cut costs and to improve speed and quality: in essence to create new value. How to capture this potential value is particularly relevant since AI challenges current business models and practices, and especially in the legal industry where the most common revenue models focus on man-hour as the basis of value creation.

Although great changes have been anticipated in the legal industry following digitalization, there is a lack of research in this area. Richard Susskind is one of the few researchers that has targeted this topic and has become a leading figure in the scholarly debate on the digital transformation in law. Publications such as “The end of law” (2010) and “The future of the professions” (co-authored with Daniel Susskind, 2015) has put the public eye on the transformation of the industry and has raised an interest in the specific impact of digitalization on law firms. Susskind, and some other scholars (such as Christensen et al., 2013; Smets et al., 2017 and Bresica, 2013) have suggested that digitalization carries a disruptive potential for the legal industry where it involves not only the introduction and application of digital tools and technology but also a transformative force which affects industry structures and changes the playing field. Since digitalization introduced new information and communication technology to the industry and promoted standardization, automation and re-use, this has enabled knowledge to be bundled, packaged and provided to the market in new ways (Christenssen et al., 2013). Thus, digitalization carries the potential to reshape the nature of service delivery by the means of communication, production, collaboration and networking and by the introduction of disruptive technologies (Susskind, 2010). This could make legal work easier and allow more to be done in less time (Bresica, 2016). Therefore, digitalization creates the potential for the emergence of a new playing field and a larger variety of law firms and business models (Susskind, 2010) with individual firms experiencing a pressure to adopt these new business models and practices. We can see that digitalized tools such as email, scanners and electronic search tools are already in frequent use but it is argued that law firms generally have yet to implement new technologies that build on machine learning, big data or the sharing economy (Bresica, 2016). Other examples of technologies, and applications, with the potential to accelerate and systematize legal work which have yet to be fully exploited include AI and sophisticated document management software.

## METHOD

*This section describes the methodological choices for the empirical study which serves as the foundation of this thesis. It reflects my choices related to the sampling process and the collection and coding of the data. Since both of the appended papers result from the same research (although with some additions and adjustments) this chapter discusses their differences related to methodological approaches and coding and analysis of the data. Also, in this section I discuss my role as a researcher and legal industry insider. I reflect on how to realize the benefits of this position while attempting to minimize bias and I discuss the process related to validating my results. Finally, I describe the research context of law firms in the Swedish legal industry.*

### **A Qualitative Study of a Contemporary Phenomenon**

Since digitalization is a contemporary and under-studied phenomenon, a research process aimed at understanding its implications needs to allow for some flexibility. Consequently, an explorative approach following a qualitative research method was deemed appropriate (Bryman & Bell, 2015). Explorative approaches are particularly suited to in research targeting poorly understood phenomena (Miles & Huberman, 1984). When new questions arise during a study it might be necessary to adapt the research process along the way. Such flexibility enables an understanding of the complexity of the research setting and how it develops. Since the aim of this study was to understand a complex transformation, a case study was considered appropriate. Case study methods have the advantage of enabling depth while they simultaneously include insights to allow comparison and to identify patterns (Eisenhardt & Graebner, 2007; Dubois & Gadde, 2002). To understand how digitalization has transformed the legal industry, the empirical study was designed to fully explore both industry and firm level consequences. Accordingly, the two papers that build on this study use different levels of analysis and employ different perspectives on what constitutes the case. The first paper targets the industry as the case and adopts an industry level view to understand the contextual transformation. The second paper focus on the practices of firms and is constructed as a comparative case study, employing a firm level perspective in examining the similarities and differences of the two sampled polar types (groups of law firms). In combination these papers provide a rich picture of the current situation in the industry, a deep understanding of the mechanisms and consequences underlying the transformation of key characteristics and an appreciation of how firms and individuals act in the changed context by adopting new practices.

Since the second paper applies institutional theory, I also considered research methods in line with this theory. Institutions can be studied at different levels: from the macro-perspective which attempts to grasp changes in society at large, to the micro-level which encompasses individuals' mental modes. Powell and Colyvas (2008) argue that understanding change is best done from a micro-perspective which studies how individuals act and make sense of the changes. If we understand the actions, practices and motivations of individuals this provides insight to macro-level changes, since the macro-perspective builds on the repetition of micro-level practices over time (Reay et al., 2013). It would be impossible to understand the impact of a complex phenomenon solely by looking at new practices, but we need also to understand the reasoning behind the actions and their consequences. Thus, we need to put practices into context and understand the reality of that context, both as outside spectators and as the actors involved. A qualitative design enables an understanding of how the individuals react and respond to digitalization, and how they make sense of their responses. When exploring change from the perspective of institutional logics, this focus on practices is particularly appropriate: understanding the connection between logics and organizational practices helps to

explain why certain organizational forms and governance structures enable and motivate certain responses to external impacts (Smets et al., 2017). As the study is aimed at exploring *how* and *why* practices changed following digitalization, I analyzed both the responses from different firms (the *how*) and established *why* digitalization caused certain reactions and responses. Thus, it is firm practices, rather than the individual firms or individual actors that are the focus (Nicolini, 2013). In essence, this combines a practice approach and an institutional perspective.

The research context of the legal industry was selected since law firms are frequently depicted as archetypical examples of PSFs and has the potential of exemplifying the digital transformation of PSFs. The legal industry is also a frequent research setting for institutional analyses due to its common distinctive characteristics and solid sense of professional homogeneity (see for instance Cooper et al., 1996; Sherer & Lee, 2002; Thornton et al., 2005 and Empson et al., 2013). Moreover, the small size of the Swedish legal industry offers a prime opportunity to include multiple subjects to understand all aspects of the industry.

### **Data Sampling, Collection and Analysis**

Since my interest is in both firm level practices and how individuals perceive the implications of digitalization, a qualitative interview-based study was selected. The main source of data for the two appended papers are interviews with 35 professionals from 22 different firms in Sweden's legal industry (see Table 2). In order to explore different aspects of the firms' responses to the digital transformation, it was important to have a broad sample that included both incumbents and new more digitalized firms. To obtain such broad sample I chose to sample polar types in the industry (Eisenhardt & Graebner, 2007). As one polar type the large traditional law firms were targeted. In Sweden there are eight law firms with more than 100 legal employees (i.e. lawyers and legal counsels) (Affärsvärlden, 2016). I included all eight firms. At the other end of the spectrum are firms working in new (digitally inspired or enabled) ways. I targeted law firms mentioned in legal press as "digital" or as being part of the emerging "legal tech" community. Snowballing techniques (Noy, 2008) were used to find relevant law firms and individuals to talk to. A snowballing technique is especially effective in limited settings such as the legal industry in Sweden whose small size has enabled the building of social networks whose members either know or *know of*, one another. Fourteen law firms were selected based on their new practices relating to digitalization. Since this part of the industry is nascent, indicators for the digital polar type are vague. Some sampled firms did not have an explicit digital business – or delivery – model but instead, had a partner with a publicly expressed interest in digitalization. Thus, the level of digitalization among the sample firms varies. The firms in the sample are presented according to size. In addition to the eight large firms, there are six medium-sized (with between 10 and 100 legal professionals), and eight small firms (with less than 10 legal professionals).

Table 2, *The Sample of the Study*

Type of law firm	# of firms in sample	# of informants in sample	Type of informant
<i>Big law firm (more than 100 legal employees)</i>	8	15	Managing Partners, Knowledge Managers, Partners, Senior Associates, Junior Associates
<i>Medium sized law firm (11- 99 legal employees)</i>	6	8	Managing Partners, Partners, Associates, CEO
<i>Small law firms (1-10 legal employees)</i>	8	12	Managing Partners, Senior Associates, CEO
<i>Total sample</i>	22	35	

The interviews took place mostly at the offices of respective law firms; if the firm did not have a set work location, the interviews were conducted in cafés. Interviews lasted between one and two hours and followed a semi-structured format. In order to explore how digitalization has transformed the industry I did not merely collect data on technical implementation and use of IT tools, but I went beyond the application of technology to understand its effects on firm characteristics and what firm level responses this triggered in form of new business models, organizational forms and management practices. Thus, discussion was broad and targeted a vast number of areas to understand whether and how digitalization had affected the firms’ practices, strategies and business models, and the interviewees’ reasoning about these changes. In preparation for each interview publicly available data (e.g. from web sites and industry press) on the focal firm was reviewed. Field-notes were taken during office visits to complement the interview transcriptions.

As already stated, the level of analysis differs between the two papers. In the first paper I analyze the industrial transformation and how digitalization has challenged the core characteristics of the firms (knowledge intensity, capital intensity and professionalization). For paper two the data was instead analyzed at firm level – with a focus on how different groups of firms have responded to the changed context. The semi-structured format of the interviews allowed the interviewees to reflect broadly on the digital transformation, addressing both its implications and why, or why not, it had provoked a particular response which in turn enabled both levels of analysis. Thus, the semi-structured format made it possible to revisit the data after writing the first paper to address the research questions in the second paper.

For the purpose of the first paper I basically followed a deductive approach (Bryman & Bell, 2015), where I initially tried to understand why the previous literature on PSFs was no longer relevant– and proposed a new understanding of PSFs post-digitalization. The second paper was more abductive (Dubois & Gadde, 2002), and derived from the empirical data but with constant iterations with the literature on institutional logics and institutional change to find theoretical explanations for the diverging responses to digitalization observed in the field. Consequently, I addressed what challenges there were for the dominant players to change, and what new strategies the emerging players implemented. Consequently, the first paper uses a coding structure whose key constructs are derived from the theory – departing from PSF theory and the lack of an explanation in the previous literature of the reality in the legal industry post-digitalization. The coding in the second paper is instead based on the data – and the approach is more abductive (Dubois & Gadde, 2002), with frequent iterations between theory and data. In this case the theory also includes institutional theory and the concepts of complexity and logics. The coding structures are presented in detail in the respective method sections in the appended papers.

## **My Role as a Researcher – the Benefit of Being an Insider**

It is imperative to state that I, being the sole author and researcher of this thesis, have an extensive experience of the legal industry from having practiced law for almost a decade. While I left active legal practice a few years back, I still identify (and present) myself as a lawyer and master the legal lingo, why I consider myself an insider (Dwyer & Buckle, 2009). My previous experience is also what inspired this research. Being an insider entailed a deep contextual understanding of the legal industry and has provided me with background knowledge that was invaluable in preparing for and conducting my research. An insider perspective is imperative for establishing trust and achieving authenticity in interviews and crucial for obtaining rich data (Dwyer & Buckle, 2009). As an insider, I am familiar with specific language and jargon, was able quickly to establish common ground with the interviewees and be considered “one of them”. This enabled the interviewees to be blunt and to speak truthfully while my understanding of the context allowed me to challenge any standard or superficial responses. In combination, this allowed me to pierce the protective veil –or bubble – which commonly surrounds the firms in this industry. My insider status allowed me to gather rich, and truthful, data by asking relevant follow up questions and widen the discussion and obtain detailed and honest responses. Familiarity with legal jargon and a pre-understanding of the context also added value to the analysis. Together these benefits enabled a study with a perspective from inside the protective bubble that surrounds law firms. Moreover, this insider position was beneficial for getting access to legal professionals. Thus, it was not difficult to get managing partners to commit to participating and give their time for interviews. However, being an insider is not solely positive, but there are particular risks of being blinded by previous assumptions, personal biases and being unable to identify certain patterns and overlook what is more easily depicted from the outside (Dwyer & Buckle, 2009). In order to overcome these particular problems connected to the role of the insider researcher, I invited a research assistant to listen into and help to transcribe and analyze the data. This allowed identification of some new patterns which helped to improve both construct - and internal validity of the research.

## **Research Quality and Validation**

Traditional ways of determining research quality involves evaluations of validity and reliability, and replication (Bryman & Bell, 2007; Flick, 2009). In other words, high-quality research should measure what it says it measures, the data should be true to the studied context, the conclusions should be transferrable back to the field and recorded in a manner that allows other researchers to repeat the study. We need to consider how to construct research that leads to a good representation of the “reality” that we aim to study, and as a part of this process we need to consider validity and reliability of the methods we apply. The discussion must be transparent and show that the work has been conducted correctly. To achieve high quality research requires consideration of all of the parts of the research process. One way to ensure research quality is to address the four questions, depicted in figure 1. These are questions that I have formulated, that have guided the process of how I have planned, executed and described my research.

A positive response to all four questions means that I can be confident that the crucial areas related to research quality have been addressed.

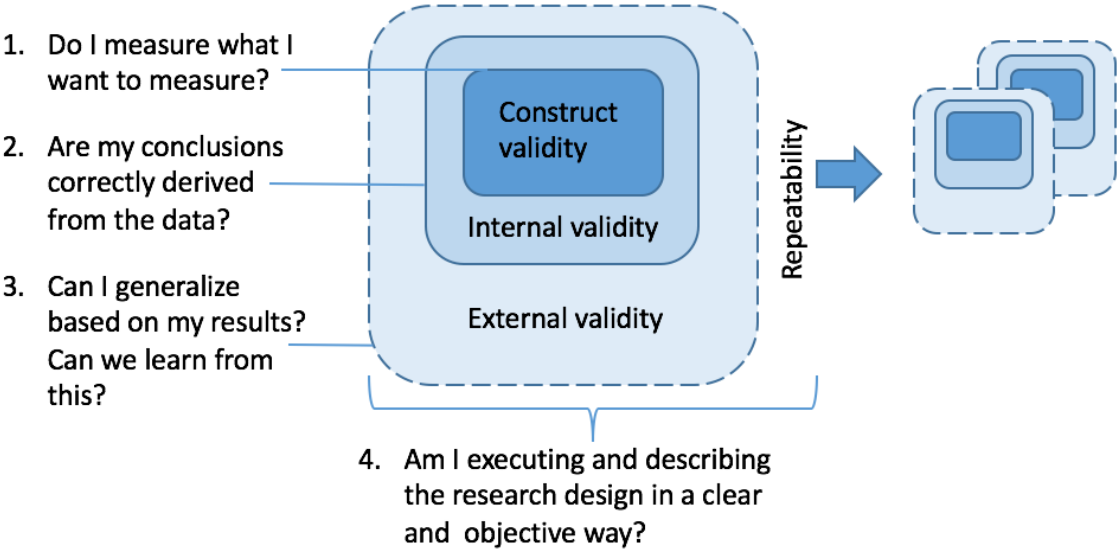


Figure 1, My Assertions for Research Quality

My research design was guided by these four questions related to research quality. The research process based on semi-structured interviews with a broad range of active industry actors, was aimed at understanding the impact of a complex and ongoing phenomenon and enabled high construct validity, i.e. it ensured that I was measuring what I had set out to measure. Moreover, I believe that an insider perspective and understanding of the professional jargon enabled me to delve deeply into the subject by asking relevant follow up questions and by being able to correctly analyze the data. Therefore, I believe that the data gathered is reflective of the reality of the transformation and would claim internal validity of the results. As already mentioned, a second coder was invited to help with the interview transcription and analysis of the data to ensure that correct (un biased) conclusions were drawn.

The validity of the study was also ensured also through various industry presentations seminars and workshops, both before, during and after the interviews. These seminars and presentations allowed me to assess both the internal and external validity of my study. I established internal validity by asking interviewees whether the conclusions derived from the data were true representations of their impressions and what they had told me. By testing my findings on audiences beyond the sample, I was able to verify that the conclusions represented and reflected real transformations within the industry (external validity). This process involved the participation of several hundred legal professionals who were asked to answer questions similar to those used in the study, whose collective responses were noted on white boards and photographed. In addition, notes and photographs taken during industry conferences were used to validate the findings and the study conclusions. Thus, I am confident about the internal and external validity of the thesis. In addition, my findings are transferable to other geographical settings (i.e. for law firms in other countries), and to other firms in related knowledge intensive industries.

## Research Context

A general understanding of the particular research context is especially important to understand firms in relation to their institutional environment at the industry level – where the regulations of the professional association of lawyers play a major role. It should be noted that although the professional association has been highly influential in how the legal market is set up and how lawyers, and law firms, organize, produce and sell their services (Modér, 2012) Sweden is relatively liberal compared to other jurisdictions (Paterson et al., 2003). For instance, in Sweden the provision of legal services outside the regulated space (of the professional association) is allowed. A wide range of legal services and products are marketed by non-lawyers who the terms “jurist” or “jur. kand.” (titles granted in completion of Law School). Therefore, Sweden is a particularly suitable setting for a study of digital transformation and emergent responses. The results of the study are likely to reflect changes brought by digitalization rather than changes to the regulation or legislation.

### Recent History of the Swedish Legal Industry

Until the 1980s, lawyers in Sweden and most other countries worked autonomously, generally in small firms offering a broad range of legal services. As legal settings became more complex, due to the economic development and trends of globalization more generally, the need for specialization in different legal areas increased. In the 1990s, the legal industry therefore saw the emergence of big law firms resulting from elite law firm mergers and influenced by a similar trend abroad. In Sweden, there were three major mergers resulting in the firms: Vinge, Lindahl and Mannheimer & Swartling (Modér, 2012). Within these large firms it was possible to specialize in a broad range of legal areas, leading many firms to claim to offer full legal service. The mere size of these firms also made them more similar to other firms, and they established administrative-, human resource-, knowledge management-, IT- and marketing departments (Hope, 2012). The large firm culture developed fast and there was a focus on building professional and brand identity by having offices at attractive addresses in a bid to achieve differentiation. Profit sharing schemes. and in their recruitment strategies. The big firms also started to expand in geographical sense and followed their clients onto distant markets opening up international offices. As Sweden joined the European Union the potential of international firms further increased (Modér, 2012).

At the end of the 1980s there was a mergers and acquisition (“M&A”) euphoria with an increased demand for M&A services. This required the M&A departments in law firms to employ bigger due diligence (“DD”) teams which lead to the recruitment of a large number of associates. Between 2000 and 2010, turnover in the Swedish legal industry doubled, and it was the large firms with M&A departments which led this development (Wiklund, 2012). Simultaneously, the complexity of the legal content of the M&A processes increased. Whereas share transfer agreement in the 1980s might have been a 10-page document in Swedish, in the 1990s it was a 50-page document in English (Wiklund, 2012). The large law firms thrived based on these developments, and were able to achieve high margins, billing their clients at high hourly rates. During the same period, the use of technical tools within law firms increased and the computer was introduced. Cell phones arrived in the late 1990s, and in the beginning of the 2000s Blackberry phones were introduced allowing downloading of emails which became popular among lawyers and other fast-moving professional service providers (Hope, 2012). However, the Blackberry increased demand for accessibility, and the role of the lawyer started to change (Hope, 2012).

The success of the legal industry in Sweden attracted the large accountancy firms which tried to enter in 2000. However, their attempt failed, since both professions professional

associations had strict regulations about the independence of their associated professionals. These regulations made it difficult for accountancy firms to establish themselves on a broad basis within the small Swedish market and led them subsequently to withdraw. Around 2010, the legal industry experienced changes to the competitive context in the shape of in-house legal departments which were increasing in size and were beginning to do large parts of their legal work themselves (Hope, 2012). This resulted in a decreased demand for legal services and led to cost pressures. This coincided with a period of economic tightening for many clients which began to question the high charges resulting from hourly billing. This caused some law firms to launch new billing- models. At the same time, clients became more demanding and efficiency in the industry increased, for instance in DD work where virtual data rooms were implemented. Legal complexity also increased, and lawyers needed to consider increasingly complicated regulatory frameworks in a fast changing, and increasingly global, business context (Hope, 2012).

### *The Professional Association and the Influence on Law Firm Business Models*

The Swedish legal industry is governed by the Association of Lawyers (Advokatsamfundet) (“the Association”) which was established in 1887. Since 1948, this association has been regulated by the Swedish code of judicial procedure. According to the regulation, only members of the association can use the title *lawyer* (in Swedish: *advokat*) to sell legal services. However, other actors are allowed to sell legal advice using the title of *legal counsel* (in Swedish: *jurist*), which implies graduation from law school. To obtain the title lawyer requires a further three years of qualified work experience within a law firm, recommendation and success in the Association exam (Advokatsamfundet, 2016). The Association controls the market for services performed by lawyers and regulates many practices in the associated firms (Modér, 2012). For long it was by principle forbidden for lawyers to market themselves. Advertisements for law firms were not allowed to include any suggestions that the firm was better, faster or cheaper than the competitors, and the lawyers themselves were not allowed to claim to be specialists in any particular area. This ban was not lifted until 2009 when lawyers were allowed to market their services in line with other businesses (Unger, 2012).

However, the regulation still prevails that only lawyers are allowed to have stakes in firms where lawyers sell their services. This rule is imposed to ensure independence and ethical conduct. Hence, it allows no possibility to raise external capital to start a law firm. Naturally this regulation has largely influenced how law firms are organized, owned, managed and governed (Modér, 2012). Also, the Association’s standing regulations require that billing shall be fair, within ordinary means of payment, and that success fees are allowable only under specific conditions (Zettermark, 2012). In accordance with the said regulation, the most common way to bill clients has been by the hour. This billing practice has also been appreciated by the clients and proven easy to keep track of, for both the lawyer and the client. Also, this billing practice has worked as price has not been the top priority for most clients, who instead prioritized delivery in terms of time and quality. This has had the effect that law firms have been able to devote themselves to the production of many hours, by staffing up matters so that the delivery can be fast while involving many persons, spending many hours on the case (Zettermark, 2012). In this set up, a high ratio of associates to partners has generally translated into higher profitability which in turn also has led to firms hiring more young associates. However only some 12 percent of associates actually become partners in the future (Ramberg, 2012), which has created a pyramid shaped organization of legal practices. Why law firms, and the legal industry is often depicted using the pyramid shape.

### *Current Status of the Swedish Legal Industry*

There are about 5200 lawyers employed in the Swedish legal industry, 3120 of them work with business law. Additionally, there are over 2000 associates (not yet qualified lawyers) employed at regulated law firms owned by lawyers (Advokatsamfundet, 2016). There are also large numbers of legal graduates working as legal counsels in unregulated law firms, and as in-house counsels in corporate legal departments. There are many professionals with legal education working within the court- and judicial systems and in public administrations. Unlike in other countries, the in-house counsels and public institution employees cannot simultaneously be members of the Association.

The legal industry in Sweden is mainly business to business. The main buyers of business law are corporations. Either the in-house legal departments functions as the purchasers, or some other actors in the case of organizations with no legal department. In these latter cases, the purchasing departments, CEOs, or firm owners are the most common purchasers. Other specifics that matter for the understanding of the research context, and the transferability of the results obtained in this setting is for instance the high level of digital maturity generally. Swedish industry and Swedish society are highly digitalized. However, there are also some specifics about the Swedish context which might limit the transferability of the findings: for instance, the limited size of the jurisdiction, the small language area, etc. However, these specifics suggest that trends identified in the Swedish context are likely to be more apparent in the global market – a view expressed by several interviewees, and that what happens in Sweden mirrors development in England, or the US a few years earlier.

## SUMMARY OF THE APPENDED PAPERS

Title of Paper 1:      *How Digitalization Changes our Understanding of Professional Service Firms*

Summary: The first paper discusses how digitalization has changed the characteristics of the professional service industries and how this challenge our previously understanding of them. The professional service industries were formerly characterized by high knowledge intensity, low capital intensity and professionalized workforces which enabled them to develop certain management practices and organizational forms. However, despite being stable and remarkably successful over time the firms in these industries are currently under pressure to change. This paper suggests that this pressure is prompted by the digital transformation of their distinctive characteristics, and draws on empirical data to analyze the impact of digitalization on each characteristic. The findings explain that digitalization has extended the range of knowledge intensity, which have enabled legal services to be produced also at lower levels. Furthermore, the findings show that the capital intensity has increased for some firms but decreased for others, while professionalization generally has decreased. The paper illustrates how these changes are promoting new behavior, showing how the changed context opens a space for new practices. The paper concludes that digitalization has transformed the distinctive characteristics of PSFs which has created a new competitive context and promoted new law firm practices. Digitalization has rendered law firms less homogenous. In light of this transformation I suggest a reconsideration of our understanding of PSFs is needed.

This paper is included in the licentiate thesis because it constitutes the backdrop to future studies of PSFs and their practices. In order to understand emerging practices among PSFs we need to acknowledge that digitalization has transformed their characteristics and obtain a current view of what a PSF is and could be.

Title of Paper 2:      *Digital Transformation of Law Firms – The Dominant Logic under Threat*

Summary: While the first paper originates from industry level changes the second paper explores what these changes entailed at the firm level and illustrates how firms in a traditional and highly institutionalized industry have responded to digitalization. The two papers complement each other and should be read together to obtain a complete view of *why* and *how* new practices interact in an industry transformation.

The second paper builds on a recognition that the legal industry has remained unaffected by external changes for some time which has enabled the development of a strong institutional logic dictating the practices of its actors. Law firm practices have therefore been homogenous and stable over time. The empirical data of this paper show that this image is shifting with digitalization. The paper show how digitalization has resulted in institutional complexity with new firms responding to the increases opportunities and behaving in new ways. The paper illustrates also how the dominant industry logic serves to preserve past practices among incumbents, where digitalization challenges their common practices and puts the dominant logic under threat. By contrasting the enactment of the dominant logic among the incumbents with novel practices in new firms, this paper contributes to our understanding of digitalization within highly institutional fields, providing an explanation for the reluctance to change. Also, this paper points to the emergence of hybrid firms which are successfully combining elements of the dominant logic with new sets of practices, and becomes key drivers of institutional change.

## DISCUSSION

*The purpose of this section is to describe and discuss how digitalization has transformed the firms in the legal industry. I start by presenting the effects that digitalization has had on their distinctive characteristics. This addresses the first research question of how digitalization has transformed the characteristics of the firms in the legal industry. Thereafter I describe how these changes have encouraged the formation of new practices and show how different firms have responded to the changed context. I describe how firms have responded (or not) and what new practices that have emerged and explain why different firms behave in different ways. Consequently, I depict how digital technology has caused profound changes to the distinctive characteristics and show that this has ultimately changed the conditions for firms, with some happily adjusting their practices but others remaining unchanged. This has resulted in a division at the industry level which is explained by institutional logics and complexity. By providing a complete picture of the digital transformation at the industry and firm levels this discussion section serves to connect the conclusions from the two papers and highlights some implications of our newfound understandings.*




### **Changed Distinctive Characteristics for Law firms**

The distinctive characteristics of high knowledge intensity, low capital intensity and professionalized workforces previously enabled and motivated the establishment of industry specific management practices in law firms (von Nordenflycht, 2010). It was common for law firms to organize in partner-led organizations where associates strived up toward partnerships, and where the legal services were tailored to the specific needs of the client and provided (and billed) by the hour (Maister, 2003; Løwendahl, 2009; Morris & Pinnington, 1998). This allowed law firms to follow a certain industry recipe for how to conduct their business - a recipe built on what had proved to be successful for firms of the industry (Spender, 1989). Since all firms followed the same recipe, this created a homogenous market that was protected from divergent competitive behavior (for instance, by the formal regulations as well as the strong informal prescriptions of the professional associations). According to the findings from this study, a majority of law firms still follow this industry recipe (Spender, 1989) and are employing the same business practices that has served them well in the past. For instance, all the large firms in the sample mainly use hourly billing, apply up or out promotion strategies, and organize themselves as partnerships under the professional association (see the findings in paper 2 for a thorough illustration of law firm practices). It is particularly common for incumbent firms to follow the recipe. They regard elements of their past successes as the key to future successful endeavors, and expressed *“a fear in replacing this, since it has been proved to worked so well in the past”*.

The past successes built on previous business practices also influence the behavior of new firms, and many follow the recipe that has shown success. Therefore, the legal industry still appears rather stable compared to other industries, and the largest and most influential firms seem mostly unaffected by the surrounding digital transformation. However, although law firms have been able to resist changes in the past, there is no shield protecting the legal industry from the strong phenomenon of digitalization, which in fact has already had an impact on the industry, as suggested by Hinings et al., (2018) Smets et al. (2017), Bresica (2016) and Susskind & Susskind (2015) for instance. Thus, it is relevant to look beyond firm behavior and practices, and to analyze the changes to the industry characteristics. Although most firms have not changed their practices this does not mean that the industry characteristics have been unaffected. This is evident when we analyze the empirical data related to *how* digitalization has transformed the industry characteristics (see table 3 for a summary of the effects, and paper 1

for the full analysis). The distinctive characteristics of high knowledge intensity, low capital intensity and the professionalized workforce, have all changed.

Table 3, Summary of Changes to the Legal Industry Characteristics

Industry Characteristic	Examples of Effecting Factors	Trends	
Knowledge Intensity	Division of work (new resource-mix), standardization & automatization; re-use & knowledge management	Widening scope	
Capital Intensity	IT- investments needed; virtual strategies	Diverging	
Professionalized Workforce	Less power by the professional association; new external influences (management, ownership, new professions & competencies)	Decreasing	

In case of knowledge intensity we can see that by employing digital technologies it is possible to produce less knowledge intensive legal services and products by activating technological and structural capital in the production. This is in line with the suggestions in Susskind (2010), Bresica (2013) and Smets et al., (2017), and it follows that other factors, in addition to human input, should be considered in the pricing of a service. A managing partner in a large firm expressed that “*Digitalization challenges the payment models that are connected to time*” and another explained that “*pricing goes from billing by the hour to value based pricing and also toward differentiated pricing.*” In order to be profitable when changing the resource- mix of the service production, law firms need to employ revenue and billing models which consider the actual capital used in production, and which also compensate for the necessary technological investment. However, in actual billing practices among law firms, hourly billing prevails for the incumbents and also many newly started firms. This implies that most firms still use a revenue model based on the previous focus on high (human) knowledge intensity. However, a few new firms have adapted their revenue model to new pre-requisites. “*We deliver results, not time*”, stated one founder of a newly started firm when explaining that they priced their services using either a subscription based model or fixed prices. Also, the less (human) intensive knowledge delivery enables legal advice to be marketed differently. In line with the arguments in Christensen et al., (2013) that service providers have become modular providers and legal service can be packaged and presented as products, this shifts the knowledge intensity to lower levels also. Not all legal services need to be tailored to the individual client; instead many legal services can be standardized and sold as products. Since legal advice is intellectual in nature, the production and delivery of this product can also be made more efficient via digital platforms which decrease costs. This is opening up the legal market to entirely new offerings and production and delivery models in which human capital often is replaced or complemented by structural and/or technological capital.

This increasing importance of other capital than human has also affected the capital intensity in the industry –capital investments are increasingly needed to obtain technological or structural capital. This has increased the capital demand among firms: “*It is not just buying papers and a typewriter as it once was.*” This increased capital intensity is posing a particular problem for regulated firms since many jurisdictions, and/or professional associations, have regulations on external ownership for law firms (Modér, 2012; Paterson et al., 2003). Simultaneously this benefits unregulated firms, which are able to raise such external capital through outside ownership. “*We will need this ability raising external capital since the effect of*

*technology will explode moving forward.*” explained one founder of a new firm. However, the shift in capital intensity is not only going toward higher levels, but digital technologies are enabling also legal service production of low capital intensity - where virtual networks and online delivery models are reducing the need of office space. “*At virtual firms you do not have to sit together at a fancy address*” stated a founder of a newly started firm. This is reducing the importance of professional symbolism and the weight previously placed on physical appearance (Løwendahl, 2009). In turn this is driving changes to the professionalization of the workforce and is opening the professional field for larger variation. According to the theoretical understanding of the concept of professionalization (von Nordenflycht, 2010; Løwendahl, 2009) this is diluting professional homogeneity. Digitalization has increased the need for other than legal competencies and the knowledge-bases of firms are increasing in scope with firms starting to look “*into other things when [they] hire people, if they are early adopters, used to IT, not only grades from law school*”. It is becoming more common to recruit members of new professions into law firms and to attract external management. Together these two trends have increased the external influences on law firms and burst the previously protective bubble around law firm work.

In summary the industry characteristics have shifted due to new digital opportunities making it possible to produce and sell legal services using a new resource mix (where human capital is mixed with technological and/or structural capital) – with the result that the services no longer necessarily rely solely on human intellectual capital. This opens opportunities for firms to position themselves at different locations along the knowledge intensity scale. Depending on their use of structural and/or technological capital in the production of their services, their capital demand may be either increasing or decreasing compared to the past. As regards professionalization however, the trend is unilateral; pointing toward a decreased professionalization of the workforce. This is due to new competence needs, a broader knowledge base for legal professionals, and larger variation in the professions and experience needed for and engaged in law firm work.

## **Responses to the Changed Characteristics**

The above discussion shows that digitalization has caused substantial changes in regard to the previous industry characteristics and has transformed the playing field for law firms. However, these changes and the resulting complexity says little about how individual firms have responded, and the practical implications of these changes for individual firms. While the interviewees expressed their view that the industry context has been transformed and has inspired new entrants to practice law in new ways, it seems that most firms have not really changed their practices. According to the findings from this study, this is particularly true of incumbents. Therefore, it is interesting to explore *why* they have not experienced the changed context as a trigger to change their practices. Christensen et al. (2013) argues that there is a “*temptation for market leaders to view the advent of new competitors with a mixture of disdain, denial, and rationalization*” which is evident in this study. It is not that the incumbents do not recognize that digitalization has affected their industry, rather they are denying that it will have an effect on them.

A large part of the explanation for this attitude seem linked to the strength of the dominant law firm logic (Thornton et al., 2012). The previous stability of the legal industry, combined with the strong homogeneity and societal position of legal professionals, over time reinforced these common sets of practices, to the extent that they have become almost unquestionable. Since the previous successes relied on these particular practices (hourly billing, up or out, lack of external influences, etc.), which are both shaped by and reinforce the dominant logic it is difficult to argue for and initiate change. At the core of these practices and the

dominant logic, are the tailored legal services provided by the hour. Selling legal advice by the hour enabled profitability at levels unheard of in other industries (Levin & Tadelis, 2005) and created a very strong motivation to stick to that and the related practices. An associate at a large firm explained that: *“Our level of billing is so much higher than other consultants... The reason: the clients think legal work is hard and also the clients have in the past had a lot of faith in the lawyer, respecting the profession.”* While it can be difficult to change a business model, it is particularly difficult to change one that works (Christensen, 2003). The dominant law firm logic is highly influenced by the particularities of law firms and of legal professionals. To move away from these practices and the functioning business model would call for “unlearning” (Bettis & Prahalad, 1995) – which makes no sense for most firms, as long as their current practices which are built on the dominant logic, continue to bring high profits. This means that although it is obvious to most law firms, including incumbents, that digitalization has transformed the characteristics of the industry as well as the institutional context (Hinings et al., 2018), not all law firms are convinced that this concerns them, or that they need to adapt (Christensen, 2003). A lawyer in a new firm explained that *“as long as they earn money they will continue with their model. The large firms will not change until there is an economic crisis. I do not think anyone will drive this proactively. Well possibly if they start like us, with a new sheet of paper, cause then you can draw a new model. But those that are stuck in the pyramids today, that are very profitable, they do not want to step out.”* Overall, this shows that although digitalization has opened opportunities for new practices by providing a space in the institutional complexity (Greenwood, 2011), the past practices of incumbents still determine their future practices (Sydow et al., 2009), and their behavior still seems to be dictated by past logics and practices (Bettis & Prahalad, 1995; Thornton et al., 2012).

The findings from this study (see paper 2 for a detailed illustration) show that the practices and reasoning of the dominant logic are in obvious conflict with the new practices enabled by digitalization. While some incumbents, and some professionals within these firms, would welcome change, it has proven difficult to achieve due to the organizational forms of law firms. A few mentioned that the partnership structure brings veto powers for all the associated partners, why change can only happen if all agrees. Also, the partnership structure creates incentives for short-term economies making it hard to argue for long-term investments. One partner in a large firm explained that this limits the commencement of their digitalization journey; *“the principle in legal world is that profits are delivered out every year. There is a lot of one-year economies since it is rather hard to convince present partners on higher investment one year to take a technology leap...”* As the incumbents follow past paths, they continuously apply yesterday’s industry recipe (Spender, 1989). While we can see this in their practices, and also understand *why* it is the new firms rather than the incumbents that have taken a lead in realizing new value, it is interesting to note that the incumbent firms are not necessarily suffering. Many of these firms continue to be extremely profitable – and may very well remain successful for a long time to come since digitalization has generated a growing market for legal services in general. This is another explanation for why most incumbents are not experiencing a pressing need to change (yet).

As more and more industries digitalize, the legal complexity of the economy is increasing which is driving higher demand for legal services. This growing market concerns complex legal services in particular. The emergence of self-driving cars, robots in health care, global supply chains and e-trading solutions is requiring lawyers able to handle the resulting liability issues, sophisticated financing solutions, international multi-party contracts, and complex disputes. Thus, there is high demand for tailored legal services of a complex nature, and this demand is growing. Since this top end of the market is increasing, it has not yet been a problem for firms occupying this high-end market space that new players have been gaining positions below. There is still much room for incumbents to operate in, and even to grow. This

is depicted in figure 2 which shows the market for legal services where digitalization has sparked market growth, increasing the size of the pyramid by a shift to the left. Figure 2 depicts the growing market (caused by digitalization) for both high-end and more routine legal matters.

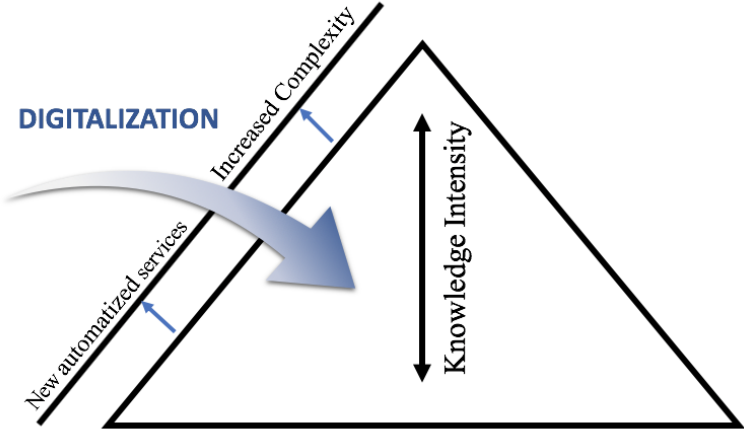


Figure 2, The Impact of Digitalization on the Legal Market

Consequently, the incumbents are experiencing a growing market for knowledge intensive services and therefore have not internalized any sense of urgency to change. Instead, many of them have adapted their market positions to the new opportunities. They have consequently moved up in the pyramid toward higher levels of knowledge intensity. In this upward transition many have concentrated their efforts on the most profitable areas, leaving bulk lower knowledge intensity legal services to new legal services providers which they regard as low-end complements rather than threats. Looking upon them with a mixture of disdain, denial and rationalization (Christensen et al., 2013). However, since the market has grown both for complex legal services and for routine or less knowledge intensive legal work, this has also led to an increase in cheaper legal services. This trend has been described as legal democratization, meaning that legal services are increasingly becoming available to those who previously could not afford, or did not prioritize, them. This is opening a new space for law firms to operate in using new and efficient means of production, delivery and marketing. In this market segment the focus on the hour has decreased and the capital employed in production has changed. In summary, the general growth in the market for legal services (of both more and less knowledge intensity), has resulted in opportunities for different firms and allowed them to position themselves at different levels of knowledge intensity.

A possible future implication of this is that the new firms currently occupying the lower spaces of legal services will utilize new technology and the size of their market, to achieve economies of scale and create competitive advantages that will allow them to climb the knowledge intensity ladder at a later stage. Several new firms in the study mentioned such strategic ambitions for the future. For the incumbents, this poses a risk; if they get too comfortable in their new positions of higher knowledge intensity, they may overlook the repositioning of the new legal tech firms until it is too late for them to change (Christensen, 2003).

Since the competitive context has changed with the entry of new firms and new business models and practices, this will in time affect the incumbents regardless of whether or not they decide to exploit the digital opportunities. However, for the time-being there is a dividing line between the traditional, regulated, market and the new firms which constitutes the emerging field of legal tech. This market division is indicated by a dotted line in figure 3. New digital

technology has been implemented in both the traditional and the legal tech sections of the market. However, where incumbents may employ new technology to support their current business or improve their internal ways of working, the new legal tech firms are utilizing digital technology to provide completely new types of legal services which are being packaged and offered to clients in new ways. The findings in this study show that the legal tech firms innovate by adopting a new resource mix in which human capital is complemented by digital technology to build new products and services accompanied by new business models, practices and organizational forms. Thus, for these firms, the institutional complexity caused by digitalization has opened up for new ways to practice law, and to deliver legal products and services (Greenwood, 2011).

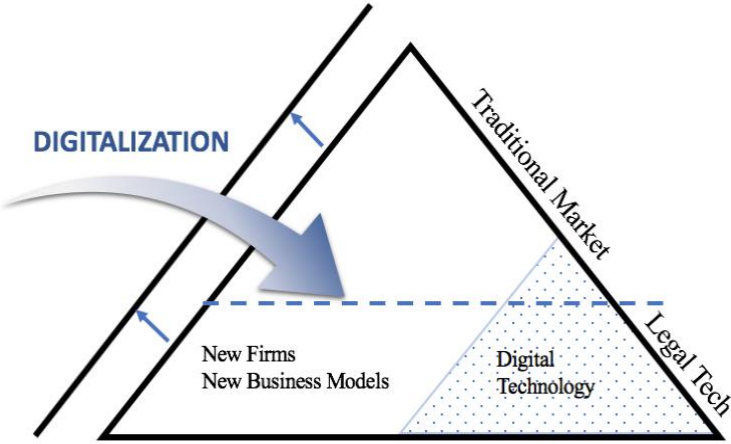


Figure 3, How Digitalization has Divided the Legal Industry

Since digitalization has transformed the industry characteristics, it has become possible for law firms to use digital technology to take on market segments of less knowledge intensity or to use digital technology to improve their high-end services. The changed context allows firms to organize in new ways (often outside of the professional self-control), to adapt to increased capital needs and to implement new business models and practices. This means that the institutional complexity arising from the transformed characteristics, opens up for variation in how to practice law. Thus, digitalization has not just enabled law firms to adopt digital technologies, but it has transformed the playing field. To use the Spender’s (1989) industry recipe analogy: digitalization has changed the ingredients – which calls for adaptations to the recipe.

An additional finding from this study is that hybrid firms have emerged which are operating close to the border between the traditional and legal tech part of the market. These firms are of particular interest since they are combining successful practices connected to the dominant logic with new practices enabled by digitalization. Being and acting close to the incumbents they are regarded as real competition by them. Being on the incumbents’ radar these hybrid firms also carry the potential to influence them, why they also have the potential to become the drivers of future institutional change.

**Proposing an Updated Taxonomy for PSFs**

Following the above discussion, it is difficult to argue that the three distinctive characteristics of PSFs in the past, which constitute von Nordenflycht’s (2010) taxonomy, still hold for all law firms. In the digitally transformed context, law firms of are no longer just representatives of the

*Classic PSFs*. While regarding law firms as *Classics* has helped us in understanding their conflicting logic as regard to digitalization, it will not help us understanding them moving forward. We need an updated view to provide a better understanding and applicability of theory and practice in the future and allow a relevant discussion of PSFs post digitalization. Consequently, I propose an updated version of von Nordenflycht’s (2010) seminal taxonomy. This update offers a simple solution to incorporate the impact of digitalization into the contemporary discussion of PSFs. The updated taxonomy is presented in table 4 (and discussed in detail in paper 1). The last two rows in table 4 present the new technology enabled service delivery at lower levels of knowledge intensity. However, this thesis suggests that the variation in terms of knowledge intensity is not the only update needed. The findings from this study show that a variety of law firms have emerged in the growing field of legal tech and that many of them have more in common with other PSFs than they have with the *Classic PSFs*. Therefore, this thesis also proposes new sub-categories for law firms. The new right-hand columns (representing the new legal sub-categories and examples from the study) present all the new positions that law firms have taken as reactions to the changed context.

*Table 4, An Updated Taxonomy for Digitalized PSFs*

	High Knowledge Intensity	Low Capital Intensity	Professionalized workforce	NEW Legal sub-category	Example from the study
<i>Technology developers</i>	X			“Legal technology drivers”	Firms investing in IT and working more like firms in other industries, not encompassing the legal culture or being members of the Association.
<i>Neo PSF</i>	X	X		“Legal networks”	Firms having even lower capital need than today, with virtual offices, not sharing the legal culture or being Association members.
<i>Professional Campuses</i>	X		X	“Professional mix”	Different professions teaming up creating a possibility for longer economies and the needed investments for IT.
<i>Classic PSF</i>	X	X	X	“Classic Law Firm”	Traditional firms: led by partnering lawyers, with surname in the firm name, hierarchical structures and mainly hourly billing.
<i>“Digital PSF”</i>	(X)			“Digi- legal”	Firms selling a standardized legal service, with a high initial IT investment in the back, not being Association members.
<i>“Virtual PSF”</i>	(X)	X		“Virtual legal”	Standardized and re-used work in the context of low capital intensity enabled by virtual strategies, not being Association members

In line with the finding that digitalization has enabled a transformation in regard to the industry characteristics, law firms can be found in any of the categories in von Nordenflychts (2010) taxonomy. Therefore the taxonomy has been complemented by new sub-categories where the new law firms are positioned according to their different responses to the changed characteristics.

As this study shows, some law firms have invested heavily in IT trying to become leaders of the new digital opportunities. Thus, they are abandoning low capital intensity for higher capital intensity. These firms are not necessarily developing new technology but are early adopters driving the legal industry forward. These firms are rarely members of the

professional association and they are not active in the legal professional culture. Instead they are influenced by other industries and management techniques (not being led by a partner collective). Being outside of the professional association's regulation they can also raise the external capital needed for their IT-investments. The law firms in this sub- category, labelled *Legal Tech Drivers*, have more in common with the Technology Developers in the original taxonomy than with the *Classic law firms*.

The second sub-category corresponds to the *Neo-PSFs*. Examples here are law firms that also have chosen to stay outside of the professional association, however not with the intention to raise capital but to enable alternative pricing strategies and packaging of services. These firms offer high knowledge intensive services but have lower need for capital since they do not require representative workspaces for all employees. Instead they promote working from home or from the workplaces of the clients. They encourage colleagues to meet and collaborate on digital platforms and via Skype. This sub-category is termed *Legal Network* since these firms adhere to a new type of network thinking in which work to a large extent is completed on virtual platforms. This sub-category includes many smaller law firms that capitalize on intellectual assets, but that do this in smart ways that contrasts the old logics.

Corresponding to the *Professional campuses* is the new sub-category of a *Professional Mix*. The firms in this category have the possibility to team up with other professions, retaining a highly professionalized culture, while finding other professional groups with complementary needs and goals, that is the driver. The efforts being made by the accountancy industry to find synergies with the legal industry is an example here. In the case of accountancy, these firms have not been subject to the short economies of the regulated law firms, and their already heavy investment in IT makes them well prepared for a technological transition.

The *Classic PSFs* correspond to the sub-category *Classic Law Firm*. The incumbents of the sample have the traits of this category as they continue to adhere to the dominant law firm logics (Thornton et al., 2012) and the industry recipe of the past (Spender, 1989). As both of the appended papers show, these *Classic* firms are still partner led and members of the professional association, they mainly sell their service by the hour and continue to apply management practices such as up or out to create a stronger professionalized culture.

Finally, there are the sub-categories corresponding to the new additions to the taxonomy: the *Digi-legal firm* and the *Virtual legal firm*. These are law firms which are taking advantage of the digital opportunities to diversify down the knowledge intensity ladder, often claiming to increase or complement the market, rather than being a competitive threat to incumbent firms. None of the firms in these two sub-categories have strong links to the legal professional culture or is affected by the institutional influence of the professional association. They include firms that have raised large external capital to allow major IT investments (the *Digi-legal firms*), and firms that work in virtually enabled ways to reduce their capital intensity (the *Virtual legal firms*) using for instance digital platforms in the production and delivery of legal product and services as a way to minimize capital costs.

In the proposed updated taxonomy, it is evident that the changed common characteristics are enabling different practices and business models. There are huge opportunities provided by digitalization for firms that are willing to exploit them. However, despite the general potential for digital value creation for firms in the legal industry, it is primarily legal tech firms that are grabbing these opportunities. Among incumbents, the pace of implementation of new technologies remains slow. As a result, the legal industry has become divided. New firms applying new practices have emerged, but the incumbents have mostly yet to embark on their digital journey.

## CONCLUSION

Digitalization is a phenomenon that has affected and continues to affect industries and societies across the globe. The emergence of several new digital technologies has fed the development of new products and services and new business models, new organizational forms and new ways of thinking about the economy, work, and ultimately, ourselves. The legal industry is no exception and has experienced a fundamental shift which is putting previous business models and assumptions to a test. This thesis has addressed the impact of digitalization by depicting the profound changes in law firm characteristics (paper 1) which have produced institutional complexity and opened up for new players and practices. These changes have challenged the dominant logics and the associated business models and practices, and caused a division in the industry (paper 2). Since digitalization has affected all distinctive characteristics for law firms (knowledge intensity, capital intensity and professionalization) this has empowered the development of a new divided landscape for legal services. In this new context there is increasing potential for innovation and new value creation alongside increasing risks for industry disruption and individual firm failures. The findings in this thesis show how new business practices have evolved among new players while the incumbents have remained largely the same. Their reluctance to change has created this split between the two different groups of law firms. Where the group of new firms stand outside of the professional association regulation and is less bound by the dominant logics and industry recipes than the group of incumbents, whose behavior and reasoning continues to rely on past success. Despite the incumbents' lack of change it is however evident that many recognize that digitalization has affected the industry, and they are struggling to understand what this new context implies for them, and whether they need to amend their practices of; partnerships and association membership, hourly billing and up or out. They are realizing that many of these practices builds on logics which no longer makes sense. This thesis therefore concludes that we are facing an inevitable digital transformation and that changes to common practices are overdue. In the future law firms will produce and sell legal advice in a large variety of ways, where the hourly focus of the past will decrease. In essence this implies that we are standing before the last hour of the hour.

### Contributions to Literature

A key contribution of this thesis is that it showcases both *how* and *why* digitalization has transformed the firms in the legal industry. The study indicates that by transforming the firms' characteristics, digitalization has enabled a large variety of practices. However, these practices have not been equally viable for all firms. Instead, the dominant law firm logic has served as a major obstacle for change among incumbents which have led to a division of the legal field where new firms display a large variety of practices, business models and organizational forms. The theoretical consequence of this emerging variation among law firms is that we can no longer discuss all of them as *Classic PSFs*. Instead, we need to acknowledge that there post-digitalization exists a large variety of law firms whose business is built on the changes to the previous distinctive characteristics of law firms. To allow for a contemporary academic discussion about law firms, or about PSFs in general for that matter, these variations need to be included in the PSF framework. If we broaden our view of what a PSFs is and could be, we will be able to discuss future developments of professionals and their industries beyond the limits imposed by the past homogenic image of them. In essence, breaking free from our own path dependence as management scholars. This would enable us to depart from the new digital reality and discuss the best strategies and business models for professionals and their firms, applicable to the continuation of this complex digital transformation.

## Implications for Practitioners

This thesis has shown that the characteristics of the firms in the legal industry have changed, which has encouraged new firms to adopt new practices while most incumbents have remained unchanged. It might be assumed that this would have damaged the incumbents, but has it? It seems rather that the incumbents are thriving as ever before, and in the growing market for legal services there seem to be room for all. So why should the incumbents change? - Perhaps they do not need to: however, in my view, we are just seeing the beginning of the digitalization of this industry and we are approaching the last hour of practicing law in the traditional sense. No matter if all law firms want to, or currently feel the need to change, it is high time to question the common industry logics and amend certain practices (such as the strong adherence to the billable hour, devotion to the professional hierarchies and practices of up or out). When all ingredients change – it might just be a good time to also change the recipe (Spender, 1989).

Since digitalization has transformed the characteristics of the firms in the industry, no firms will be completely protected from change. Along these lines of reasoning, a practical contribution of this study is that it should enable law firms, and other PSFs, to reflect upon how changes to their characteristics translate into new practices within their and competitor firms. Also, in light of the number of unregulated law firms that are emerging, this thesis highlights the need for the professional associations to reflect on the changed competitive context and evaluate whether their current regulations hinder or enable efficient digital transformation among their associated professionals. The findings from this study seems to indicate that some professional association regulations are constraining the process of digitalization (both through formal regulation and informal influences), and unless there is a regulatory change (or there is an “*economic crises*” as stipulated by one interviewee) the digital transformation of most incumbents will likely commence at a slow pace. There are however ways to overcome these obstacles, and I have compiled some practical advice which all law firms, and other PSFs, could consider in their attempts to advance on their digitalization journeys.

- Digitalization is not just about investing in new digital technologies, but it is about reflecting on how technological advances could enhance and improve your business;
- If you decide to digitalize - change your business model accordingly;
- Develop digital products and services that meet the desires and needs of your current and potential clients;
- Create a climate that is open to change, encourage continuous improvements and allow for mistakes;
- Welcome new competencies, professions and collaborations

## Departure for Continuing Doctoral Studies

This thesis builds on a study that explores how digitalization has transformed the characteristics of the legal industry and how law firms have responded to this transformation. It concludes that all the distinctive characteristics common to the *Classic PSFs* have changed, and that the firms in the legal industry have responded to these changes in vastly different ways. However, it does not compare the digitalization journey of law firms with other PSFs (such as architecture and accountancy) and also does not explore the specifics of the emerging firms and their business models. Hence, this thesis can be regarded as the point of departure for my further research journey: that includes broader studies targeting other PSFs and deeper investigations of law firms, focusing on their institutional and regulatory context, new business models and organizational forms, and the changes to the professional roles and identities. Some of these

topics will be included in my doctoral thesis whereas others will serve as the foundation for additional papers and publications.

In my research pipeline there are already a broad range of studies and papers, of varying completeness. For instance, there is one conference paper that serves as an extension of the second appended paper of this thesis. This conference paper uses an institutional lens and compares legal industry firms with architecture firms. It explores whether and why the digitalization journey differs between the firms in these two *Classic PSFs*. In this conference paper I identify a few factors in the professional domain that differs between these industries and that explain their diverging responses to digitalization. Such a study, targeting other PSFs, can also validate that the proposed taxonomy can be used more broadly to understand the digital transformation of other industries. Another paper on the way, further explores the business opportunities and new business practices that have developed – and elaborates more on the strategic opportunities that have emerged. A third direction for future research is the examination of current institutional orders and regulatory context and an exploration of what actually hinders the effective digitalization process of the legal industry that investigates if it would be possible to amend the regulation of the professional association to enable a more efficient digital transformation of the associated firms. A final line of future research takes a broader view on the legal world and is aimed at investigating the digitalization process in the court system. Here a study is ongoing which addresses the opportunities and threats linked to the implementation of digital technologies and ways of work.

Consequently, this thesis points out different routes for continued research both in a broader sense (targeting other PSFs and Intellectual industries), and deeper studies targeting the future of law and law firms.

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