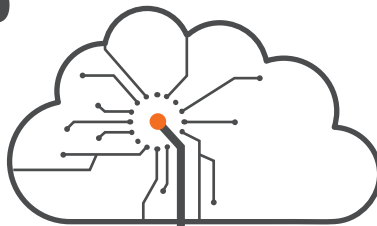


Accelerate cloud adoption: **Benefits of changing mindsets** **in law firm leadership**



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Five years ago, if mid-sized law firm leaders were discussing emerging legal technologies, many would have said their firm would not, now or in the future, buy any cloud-based legal solutions. They would have cited concerns of potential security risks and the perceived cost of transitioning to the cloud.

Fast forward to today and many of these same firms have changed course, migrating their IT to the cloud. Several factors caused this shift in mindset:

- the types of innovative cloud software applications that only exist in the cloud;
- the major cloud providers offering better data security than any on-premises solution could achieve;
- the desire of mid-sized firms to modernise their IT platforms to resemble those of larger firms; and,
- client pressure to move to the cloud for more transparent and collaborative legal service delivery.

To do their jobs, lawyers and financial professionals working remotely need more than web conferences and email. They need access to matter plans, online financial reports, and data analytics. They need the ability to answer client questions such as:

- What is the status on the matter?
- Where are we on budget-to-actuals?
- What is the WIP amount?

Moreover, modern lawyers need this information at their fingertips, not only at their desks. Be it client demands, work-life balance or COVID-19, legal professionals at mid-size law firms require remote access to their office tools and data regardless of their physical location. These needs are not evolutionary or cultural. They represent a business opportunity for law firms.

During the 2008 recession, many in-house legal departments were under directives to save up to 10 percent of the department budget. Some in-house legal departments facing discount requests cut legal fees with their major law firms or reduced/delayed payment as a short-term solution.

Other in-house lawyers sought a long-term fix by directing new work towards mid-sized firms offering lower rates or providing increased value by using technology solutions effectively. They sought firms that delivered legal services in a more efficient manner through legal project management, budget-to-actuals management, and use of enabling legal technology. In-house legal departments were looking for mid-sized firms proficient in both the practice of law—and the business of law.

Now is the time for mid-sized firms to maintain that momentum and continue to accelerate their progress towards cloud solutions. Doing so will help them gain a distinct advantage over not only their mid-sized peers, but some large law firms as well.

Understanding cloud-based technology

Before identifying some of the benefits of cloud-based technologies and how they are used among mid-size law firms, it is important to understand some fundamental definitions. Successfully articulating these terms, explaining their applications, and clarifying their advantages is often necessary to shift the leadership mindset toward cloud software.

Cloud definitions

Cloud

Cloud computing refers to accessing data and software programs over the web instead of through a firm's internally hosted hardware systems or personal computers. With a working internet connection and the proper security credentials, users can gain remote access to cloud software

applications and data from anywhere, including home or remote working locations.

Cloud computing is not limited to storing individual files. A full menu of IT resources exists that can be managed and enhanced by cloud technology, including computing, data storage, operating system and application software, and backup/recovery. Current cloud computing models are designed to share resources with the objectives of achieving operational and software coherence as well as cost management through economies of scale.

The technological infrastructure and investment needed to support a cloud computing environment can be significant. Many small businesses and enterprise-scale corporations rely on the four leading providers: Amazon Web Services (AWS), Microsoft® Azure, Google™ Cloud and IBM® Cloud, to supply that infrastructure.

Public cloud

Cloud providers serve a vast swath of businesses. AWS, for example, owns one-third of the \$111bn global cloud market. These cloud environments are public, in that many different businesses use the infrastructure and the environments are connected to the public internet. The data itself is kept separate and secure. The shared cloud computing infrastructure can be accessed by anyone with permissions.

Private cloud

When a business uses a private cloud, the technology infrastructure is not shared publicly as it is held by a single party. Private clouds can be hosted by consumers or businesses on site or in data centres owned by third-party service providers.

On-premises

In contrast to cloud, on-premises represents IT infrastructure that is hosted and managed locally. Law firms purchase and maintain their own servers, and data access is restricted to local network, VPN connections or mobile/remote desktops. On-premises systems existed before the internet and the cloud were invented and are defined by their limited remote accessibility.

Hybrid cloud

A hybrid cloud is an infrastructure that includes links between a private and public cloud. Although the public and private portions of the hybrid cloud appear as a single environment to users, the component entities remain separate and distinct. Some firms maintain their on-premises systems for certain core functions (accounting and financial systems, for example) and have modular Software-as-a-Service (SaaS) solutions with those same applications (such as web-based time capture) in the cloud.

SaaS

Law Firms utilise SaaS solutions when they subscribe to or rent software for a monthly or annual fee. The software runs on a cloud network and is delivered over the web. Third-party companies with SaaS solutions host the law firm's data in the cloud and maintain the software's performance and security, whilst providing regular updates. A common example of SaaS is Microsoft® Office365.

Single tenant SaaS

A single instance of software and supporting infrastructure serving just one customer. With single tenancy, each firm has its own independent database and instance of the software.

Multi-tenant SaaS

A public cloud is considered multi-tenancy when multiple firms use it, with each firm's data housed separately, thereby remaining private, and secure. Most firms utilise a public cloud that is a multi-tenancy SaaS. The benefits of a multi-tenant SaaS solution include lower costs compared to single tenancy, easier and more standardised installation, standardised upgrade schedules, configurations instead of customisations, and inherited, best-in-class cybersecurity.

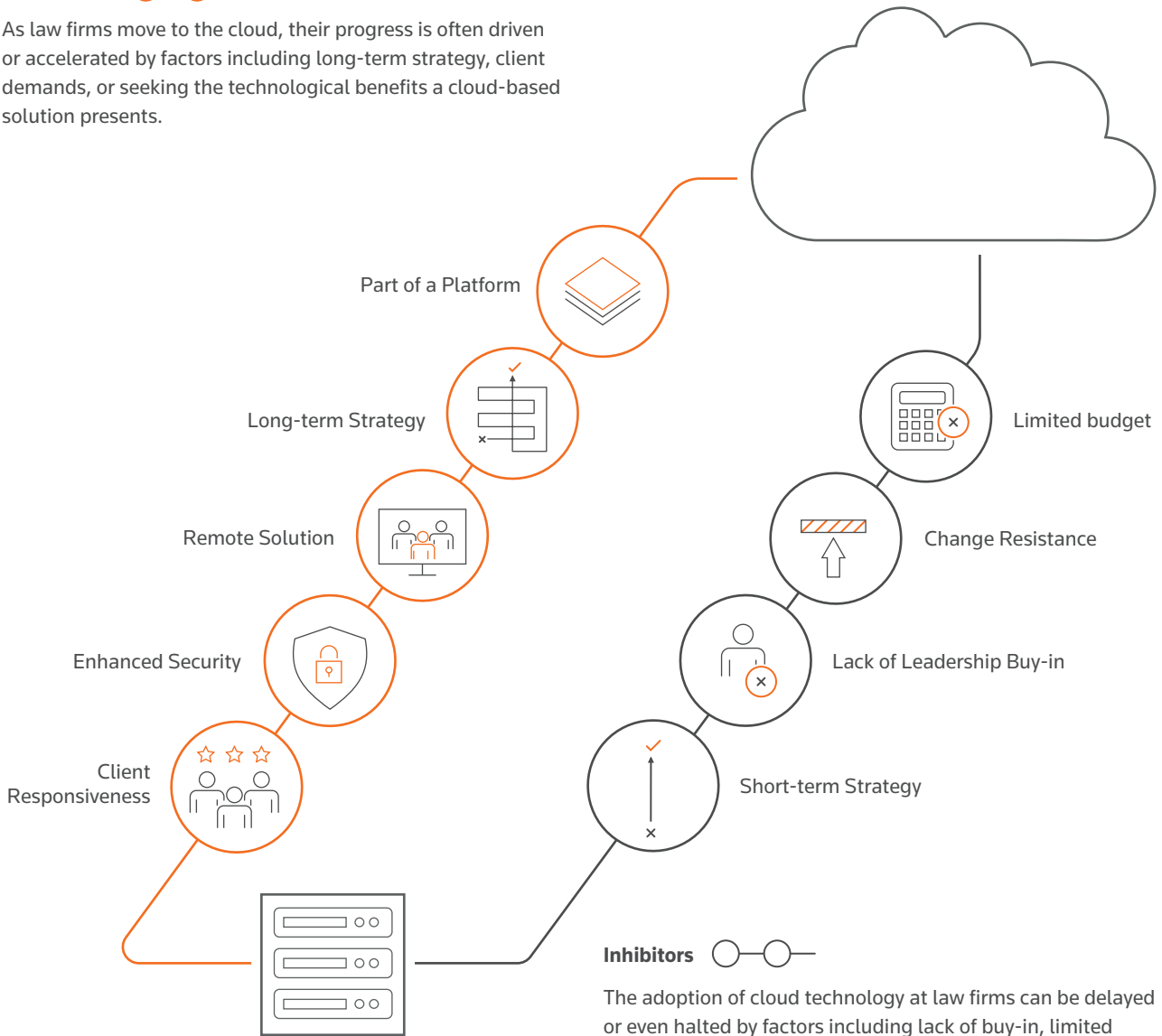
IaaS

In the Infrastructure-as-a-Service (IaaS) model, third-party service providers host hardware equipment, operating systems and other software, servers, storage systems, and various other IT components for customers in a highly automated delivery model. IaaS providers may handle tasks such as ongoing systems maintenance, data backup, and business continuity.

From here to there; Tracing the accelerators and inhibitors of a law firm’s move to the cloud.

Accelerators

As law firms move to the cloud, their progress is often driven or accelerated by factors including long-term strategy, client demands, or seeking the technological benefits a cloud-based solution presents.



Inhibitors

The adoption of cloud technology at law firms can be delayed or even halted by factors including lack of buy-in, limited budgets, and resistance to change.

Mid-sized law firms cloud migration

Mid-sized firms are transitioning to the cloud, but not necessarily swiftly nor, when they begin migrating, all software solutions at once. Many firms adopt an agile, modular approach, primarily due to budget and resource constraints. A gradual move allows firms to control costs while balancing the process against the firm's overall appetite for change, with a menu that reflects their needs. However, law firms with existing on-premises solutions often have a significant amount of time, money, and training invested into system customisations. Those customisations can be difficult or impossible to migrate into the cloud for firms who cannot find a 'perfect fit' replacement.

For those firms that have moved ahead, many began by subscribing to a human resource management system and/or contract management solution. Some firms wanted to eliminate tedious manual paper processes, benefit from tighter security, or were motivated by a client's request.

These third-party hosted subscription solutions were attractive because of their added security, instant accessibility, and automation of routine, manual processes.

This also led some mid-sized firms to explore other business-critical systems and, at the same time, manual processes or workflows that could be moved to the cloud. For instance, many firms adopted SaaS solutions that automate select financial processes and practice management solutions.

Although mid-sized firms vary in their approach towards cloud migration, with some being much further along the adoption continuum, a higher proportion of law firms across the board are embracing the cloud. ILTA's (International Legal Technology Association) 2019 Technology Survey results show that there has been a steady increase in law firms' adoption of cloud-based solutions. Of the participants, 72 percent predict that their firm will expand their adoption of cloud-based solutions in the coming year, up from 62 percent three years ago.

Shift in leadership mindset towards cloud solutions

What increases the speed of adoption is typically a shift in the leadership mindset. Decision makers vary from firm to firm. Leaders for cloud adoption are usually a combination of a business/practice leader and the CIO/IT Director, the CFO-COO team with the IT Director or the CMO, and the CIO. This variability means each firm has developed a certain cloud leadership mindset that evolves over time.

Sometimes a shift in the cloud leadership mindset occurs due to a specific need of the firm or client. When addressing that need, there is often a choice between an on-premises installation or a cloud solution. The benefits of the cloud (including easier software updates, security patches, data-driven AI capabilities) mean legal product vendors are likely to create cloud modules of their on-premises offerings and eventually present their best and brightest products exclusively from the cloud. If not today, then in the future, even the most reluctant law firms may find that client needs leave them no choice but to move towards cloud-based tools.

To accelerate your firm's IT modernisation encompassing cloud adoption, it would be helpful to look deeper into some of the major benefits and differences in detail. Understanding what each IT strategy offers illuminates why transitioning to the cloud is so appealing.

A shift among law firm leadership to a forward-thinking mindset involves understanding the differences and accepting the movement from:

PHYSICAL ▶

- Owning/buying servers and hardware
- Maintaining data on premises
- Handling all security threats
- Complex customisations
- Scheduled disruptive annual/quarterly patch updates
- Costly linear capital expenditures

CLOUD

- Renting and paying for what you need
- Vendor hosted systems
- Vendor cyber experts constantly watching
- Configurability
- Seamless auto-updates
- Operating expense model

Advantages of cloud versus on-premises solutions

Security

When the cloud was in its infancy, security was a significant concern. The cloud was new and to have someone else host and manage your data with the firm's IT oversight seemed like a frightening concept. The perception of the cloud and its security has changed, as evidenced by the high cloud-adoption rate and the amount spent safeguarding security. The global cloud computing market is expected to reach \$623.3 billion by 2023 with over 20 percent of European companies' IT budgets going towards cloud services. Meanwhile, Microsoft reportedly allocates more than \$1 billion a year just for cybersecurity.

In a broad sense, this spending addresses application security, monitoring, identity and access management (two-factor authentication, third-party authentication), data encryption in use, transit and rest, governance, network security, host and storage security, and an army of best-in-class security experts.

Microsoft Azure employs 3,500 cybersecurity experts to work around the clock, 365 days a year, proactively identifying security threats. Within this group, there are 200 security experts working against one another. One group is focused on compromising their own system while the other works to defend it against their peers. In contrast, few law firms have even one internal security expert to identify emerging security risks, let alone a team. Even among those firms actively involved in their own data security, many choose to outsource the security responsibility to a third-party security consulting firm.

The need for professional support stems in part from the inherent challenges of a locally hosted solution. Many on-premises systems do not have the latest security patches and updated software. Some of these systems are so heavily customised that any updates take careful planning and considerable time. Another risk is that many firms do not have automatic data backup. Some firms still store a significant amount of data in physical files on site or on individual hard drives that can easily be lost, stolen, or damaged.

On the other hand, storing data in a SaaS solution typically offers as standard automatic backups, security updates and a team of cloud security professionals identifying and protecting against the latest security threats. These measures contribute to protecting against cybersecurity breaches in a considerably more robust and thorough manner than most firms and companies are able to achieve independently.

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Security breaches

When a law firm security breach happens, the vast majority involve ransomware attacks of on-premises systems. Many cybersecurity attacks are phishing emails designed to trick lawyers and legal professionals into opening malicious email attachments. In February 2020, five law firms were victim to a ransomware attack with three of them targeted in just 72 hours. In 2019 it was reported that over 100 law firms, some global, were victims of ransomware attacks. However, very few ransomware attacks are reported publicly, so we do not know the full extent of this risk.

These attacks illustrate that the weakest area of cloud security remains the end user. Even the smartest lawyers and support staff can be manipulated into sharing confidential or sensitive data that creates an opening in an otherwise secure system. Preventative training for lawyers and staff on the dangers of ransomware, especially email phishing attempts and malicious attachments or websites, is needed whether your system/s are on-premises or in the cloud.

If security breaches do occur, storing your data in a secure cloud with automatic backups in various geographical locations helps mitigate issues such as infected laptops and compromised programs. The result is a law firm that gets back on its feet faster than its on-premises counterparts.

Client cloud resistance

Understandably, there will always be a few clients who do not want law firms to put their data in the cloud. However, this need not be a barrier to cloud adoption within the law firm. Some SaaS solutions allow the firm to bifurcate its data. Many firms have a hybrid solution where they utilise a private cloud system with a public cloud option depending on the requirements of each client.

Cost

One perceived barrier of a SaaS solution is the anticipated cost. Indeed, there are three types of costs to consider when exploring cloud-based legal technology: hard or fixed, variable, and opportunity cost.

Hard costs

From a financial accounting perspective, on-premises systems involve an allocation of capital expenditures, whereas using a cloud solution is an operating expense.

For on-premises systems, a firm must invest in numerous hard costs, such as:

- initial servers to host the data, along with maintenance, performance monitoring, and back-ups;
- additional servers as the data grows, and for further storage and back-up capabilities;
- network bandwidth and administrative costs;
- real estate costs including utilities like climate-controls or security for dedicated server space; and,
- security experts or third-party security consultants.

One on-premises cost issue for law firms is that as your data and/or firm grows, more IT infrastructure resources will be required, including: servers, storage, cabling, routers/ switches, and operating system and application software. If there is not enough hardware, computing, or storage resources to meet the demand, the firm will suffer from errors, performance issues, or lockouts.

Capital expenditure for on-premises solutions is often large, and almost always increases over time. Even when demand for on-premises services decreases, the firm still has the fixed capital expenditure of hardware, computing, and storage—resources that go under-leveraged, or possibly even unused.

Cloud solutions carry their own cost considerations, many of which are beneficial to the firm;

- reduced IT costs for set-up, maintenance, and back-ups of the system;
- flexible costs allowing firms to only purchase the amount of subscriptions needed, and to adjust according to planned (and unplanned) needs;
- eliminated hardware purchases due to obsolescence; and,
- expenses when onboarding staff to new SaaS solutions.

One of the most attractive features of a SaaS solution is the scalability. As the firm and/or data needs grow or recede, the firm can alter its subscriptions. SaaS providers track usage analytics which can be used to predict or anticipate changes in need— either by your law firm or your SaaS provider. This pay-as-you-go approach helps insulate law firms from the risk of overbuying or, in the case of an on-premises solution,

paying for technology that is not being used. In effect, your firm is renting the solution for its current needs only.

Studies from as far back as 2016 show that the Total Cost of Ownership of the cloud is less than that of continuing with on-premises. Some cloud companies, such as Microsoft, have online cost calculator tools as do some of the SaaS solution providers.

Variable costs, on-premises

Variable costs are by nature difficult to generalise, with each law firm and service provider having their own needs or solutions. That said, some of the variable costs associated with on-premises solutions include ongoing server maintenance along with additional hardware purchases for storage and server backup / redundancy.

Calculating comparison costs for cloud offerings is trickier still. The costs depend upon the type and volume of systems a firm wants to move towards the cloud. Also in play are the price of subscriptions, whether legacy systems can be eliminated, and whether any costly manual processes can now be automated.

Shut down/migration costs

Independent of the ongoing expenses of both on- and off-premises solutions are the costs to transition your data to or from the cloud, and the various financial implications of shutting down your previous environment. These can vary from firm to firm but are something that must be accounted for in addition to the forward- looking expenses listed in this paper.

Flexible costs allow firms to only purchase the amount of subscriptions needed, and to adjust according to planned (and unplanned) needs.

Opportunity cost

This is analysed in two ways. First, how a solution investment will return value over time. If a firm reaffirms its allegiance to its existing, on-premises solution, the firm must commit significant spend for a five to 10- year period. This is a capital expense for an asset that will depreciate over time. Firms need to ask if the choice to keep the existing on-premises environment is a long-term, strategic solution, or a short-term tactic. How long will this purchase last before another upgrade is needed? How long until the services required by the firm are cloud-based anyway?

Second, there is the potential cost of not having some of the most innovative legal SaaS solutions that exist. What new opportunities could a firm miss by sticking with what they already have?

Firms need to ask if the choice to keep the existing on-premises environment is a long-term, strategic solution, or short-term tactic.

Performance

Some firms believe that the performance of cloud SaaS solutions will not be as good as that of on-premises systems. The answer depends upon the SaaS solution and the provider the firm chooses. In the past five years, an abundance of companies with new, cloud-based legal solutions have emerged. Choosing between these vendors requires firms to consider: Is it a reputable company, one that has been in business for many years and one you can trust to survive in a bad economy? Is there a detailed Service Level Agreement (SLA) indicating levels of performance metrics and tracking? Is this SaaS solution part of an integrated portfolio set and/or platform? Firms should consider the performance of a software product in a number of ways.

Implementation

SaaS products have a much quicker and less costly implementation, providing configurable settings rather than fully customised ones. Configurable settings offer options a firm or end user can choose easily that are built into the standardised code of the application. Customisation means that a programmer works outside the application to add novel code, which takes extra time and makes future support more difficult. In addition, the best SaaS vendors provide training materials, a straightforward onboarding process, longstanding industry experience of implementation best-practice, and network opportunities with existing customers who can provide additional support and advice if needed.

Updates

With SaaS solutions the updates are periodic, regular, and most often seamless. Many SaaS updates are small, intuitive software modifications on the backend of the program, which users may not even notice. In contrast, on-premises system updates are often disruptive as they can contain numerous and large scale changes. These updates usually need to be scheduled far in advance, especially when the application is highly customised, as the customisations are more likely to result in update errors. Some on-premises system updates might also need to be made on individual computers.

SaaS products have a much quicker, less costly implementation with configurable settings rather than fully customised ones.

Integrations

Many SaaS products have their own application programming interfaces (APIs), which enable flexible connections to numerous applications or platforms, whether legal-specific or otherwise. APIs provide a set of definitions and protocols for building and integrating application software.

Data analytics

SaaS solutions tend to offer better data analytics because they can draw information from multiple databases and provide analyses in a unified system, no matter from where the data originated. With on-premises solutions, often firms are limited to the specific system in which data are stored.

Disaster recovery/continuity

For SaaS products, if there are computer failures or natural disasters, team members can get back up and running on new computers as quickly as they can be connected to the internet. The leading cloud service providers operate from geographically distributed data centres protected with backup generators and equipment providing redundancy and high availability. This reduces the need for classic backup and disaster recovery/business continuity functions. With on-premises solutions, some firms lack an off-site backup that can protect their data in the case of an emergency and will struggle to restore normal functionality with the same level of speed and efficiency.

Many SaaS products have their own APIs – a set of definitions and protocols for building and integrating with the software your firm already uses.

Accessibility

Many would argue that accessibility is the number one reason why law firms are increasing their investments in cloud solutions. The jobs of lawyers and legal professionals are no longer confined to a physical office. They need to be able to work anywhere: in court, before a client, in another city, at home, on the move, or at a conference. They want to be able to work with their laptop, tablet, or smartphone in any location with a working internet connection. Lawyers want the convenience of sharing documents and status reports with their clients or other lawyers remotely. Beyond that, legal professionals need to collaborate on work, not simply pass files around via email. Cloud-based solutions facilitate the type of collaboration across teams and locations that on-premises solutions cannot match.

Innovation

What has helped accelerate cloud adoption is the variety of innovative cloud software alternatives that function better than on-premises solutions. Most companies providing legal technology products are migrating their existing on-premises solutions to the cloud and developing new solutions as SaaS-only products. Unless the firm has a strong IT development team and the budget to customise the systems, it is considerably more challenging to innovate with on-premises systems.

Additionally, many on-premises systems were developed for different segments, with some capabilities remaining out of reach for mid-sized firms.

Cloud-based systems democratise legal technology and close the innovation gap between mid-sized and large firms.

By sharing the same features and functions, cloud solutions level the playing field for previously outmatched firms.

Becoming a client-obsessed law firm

After the 2008 recession, in-house legal departments changed the way they viewed 'value'. Some asked for deep discounts on existing matters and rate-slashing on future matters. Others cut back on rates, set role permissions for certain tasks, and created lists of activities that could not be billed.

Now, clients will be analysing outside counsel expenses and making data cross-comparisons between law firms and lawyers for future legal work. Clients will ask the pivotal question: "Do we have the right firms handling the right type of legal work in the most efficient matter?". They will also analyse whether the firms are client-obsessed in their legal delivery model. Being client-obsessed entails, in part, using the best technology to create the most productive legal service delivery model possible and passing these efficiencies on to your clients.

Clients are accustomed to conducting global business online, collaborating with remote colleagues, and having access to real-time actionable data and insights via tech portals.

Accordingly, clients are impressed with lawyers who can immediately and accurately answer questions such as "When is the hearing?", "What is the next major matter task?", and "Where are we with budget-to-actuals?". They notice the firms whose lawyers consistently respond, "I'll get back to you on that after checking in with Finance".

Accurate, timely answers come from law firms that employ collaborative and transparent cloud solutions. Clients are likely to shift new work from large law firms to mid-sized firms that consistently demonstrate responsiveness, deliver high-quality work and ultimately provide greater client value. In order to do so, however, they must be confident that a mid-sized firm has the same enabling legal technologies as its larger counterparts. Now is the time for mid-sized firms to increase their adoption of the cloud and modernise the way they deliver legal services.

How can Thomson Reuters help you embrace the power of cloud technology to reduce cost and complexity, and boost productivity and performance?

The legal landscape is challenging, with infrastructure costs and changing work patterns increasing the demand to move to cloud-based technology. To thrive in this environment firms need to simplify their processes and work in more agile ways so that lawyers can quickly respond to client needs, tracking and managing activity on any scale – whether that’s a single-office, multi-office or multinational. **Thomson Reuters 3E Cloud** financial practice management solutions connect the critical areas of your business to enable growth and innovation.

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