

# ORELLIUM

*Advisory Services*

**Leadership:  
Special Edition**

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# In this Edition

In light of the transformative potential of Large Language Models (LLMs) and Generative AI, we argue for a significant reassessment of the traditional law firm model. We highlight the gradual embrace of digital transformation within the legal sector, accelerated by the COVID-19 pandemic, but note the industry's cautious approach to fully leveraging technology. The emergence of LLMs, particularly since November 2022, alongside global uncertainties, demands urgent attention from law firm leaders to rethink their strategies. We identify the slow pace of digital adoption, driven by lawyers' risk aversion, the partnership model, and technological fragmentation, among other factors. We assert that LLMs and Gen AI represent both a challenge and an opportunity to fundamentally alter the delivery of legal services, and we urge law firms to adopt more client-centric, technology-driven approaches. This shift necessitates a revision of firm structures, remuneration models, and the traditional leverage model, with an emphasis on efficiency, innovation, and adaptability to ensure competitiveness and sustainability in an increasingly AI-integrated legal landscape.

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A pragmatic look into the future of the legal industry.

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## A Confident Future

In a time of complexity and rapid technological evolution, our mission to guide law firms and legal departments through transformative change is more critical than ever. This edition summarises some of our strategic insights and commitment to harnessing the power of Large Language Models for the legal sector. We're dedicated to empowering our clients with pragmatic insights and solutions that drive competitive advantage. Our clients embrace the future with confidence.

Connect with me via: [robert.otty@orellium.com](mailto:robert.otty@orellium.com)

A handwritten signature in black ink that reads "Robert Otty". The signature is written in a cursive, flowing style.

Chief Executive Officer

# Correspondence



To strengthen the network of leaders within the professional service sector, we welcome your input and engagement. Your insights, challenges, and successes drive the evolution of our industry. We invite you to share your experiences, pose questions, or suggest topics for future editions of our publication.

Contact us via [www.orellium.ai](http://www.orellium.ai) if you have any questions or would like to write as a contributing author in future editions.

If you want to seek specific advice tailored to your firm's unique context please contact us directly via: [jonathan.otty@orellium.com](mailto:jonathan.otty@orellium.com)

Your input is invaluable in shaping a more connected and informed leadership community.

Let's collaborate to set new standards of excellence within our industry.

*Jonathan*

Chief Strategy Officer

# The Leadership Imperative: Redefining the Law Firm for a New Era

The arrival of substantial Large Language Models (LLMs) marks a pivotal moment in a world grappling with global uncertainty, the likes of which we have not seen in over three decades. In this time of significant geopolitical and geoeconomic flux, these uncertainties must take centre stage in the strategic planning of law firms. Leaders face a unique challenge: navigating a confluence of potentially disruptive events that, if not effectively managed, pose a substantial risk to business continuity.

But it is the impact of LLMs that in our view requires urgent attention by Managing Partners and management committees. LLMs and Gen AI more broadly will disrupt knowledge-based sectors in much the same way that digital photography disrupted the traditional film industry. Just as happened in the photography sector, we expect that the integration of Gen AI and LLMs into mobile devices will accelerate the disruption of knowledge-based work.

This technology is already empowering people in a way that did not exist 18 months ago. Previously, searching the internet was like asking a librarian to find books on a topic. Now, with LLMs, we talk to an assistant who has read all the books and can directly answer questions or help with various tasks based on that knowledge.

In August 2023, LinkedIn reported on research estimating that 84% of US LinkedIn members could have at least 25% of their skills affected by Gen AI. The research estimates that almost 70% of professional services jobs will either be augmented or disrupted by Gen AI. There are many other reports that support a similar conclusion. The more conservative reports suggest that we will see material changes to knowledge-based jobs by 2030. The less conservative suggests that 2027 is a more realistic timeline. We believe the earlier date is more probable.

**“70% of professional services jobs will either be augmented or disrupted by Gen AI”**

## Technology and the Legal Sector thus far:

Over the past decade, the legal sector has incrementally embraced digital transformation, a process accelerated by the COVID-19 pandemic. Although these advancements were ostensibly to support a transition towards a more efficient, technologically integrated service model in response to client demands for cost-effective services, many law firms have been tentative in fully implementing technological benefits. The core operational structure, comprising partners, junior lawyers, paralegals, and other staff, has remained intact.

Technology has functioned as a facilitator of marginal efficiency rather than as a catalyst for radical change in firm hierarchy and division of labour. Typically, the pace of technological adoption has been law firm-driven rather than client-driven. The approach has been operational, rather than strategic.

There are reasons for the slow pace of digital adoption by partners and law firms:

- Lawyers' inherent risk aversion and scepticism, make embracing change challenging.
- The partnership model's emphasis on individual partner interests often overshadows collective decision-making, slowing transformative change.
- Despite static demand levels, firms have sustained financial success without making significant technological improvements, primarily through annual rate increases, reducing the incentive for change.
- The fragmented development of displacing technologies across various platforms and vendors adds complexity to their adoption.
- Corporate clients' tolerance of slow digital adoption within law firms has inadvertently contributed to the sluggish progress.
- The slow adoption of modern technologies by corporate legal departments makes it challenging for them to set clear expectations for their preferred law firms.
- The prevailing focus on individual partner performance, often measured by billable hours, discourages substantive change that could enhance efficiency.
- A prevalent mindset in many firms equates all revenue generation with success, often at the expense of technological efficiency improvements.
- Digital transformation is frequently relegated to, and ring-fenced by, specialised innovation teams, with limited impact on the core business model.



## The New Landscape

The arrival of substantial LLMs in November 2022, has completely altered the landscape. This shift means that the digital transformation strategies, which have prevailed in the industry for the past decade, are obsolete.

We do not suggest that LLMs are currently the holy grail, or that they will replace all lawyers. The flaws in the current generation of LLMs are well known. No law firm or lawyer should be relying completely on their outputs or assuming that any output is correct.

They should, however, already be assisting in research, document reviews, data analysis, scenario testing, thinking, basic drafting, education programs, generating creative content, and automating and enhancing tasks to improve efficiency. In short, LLMs should already be augmenting humans in improving the foundational components of the traditional law firm model to enhance efficiencies and the division of labour. For leaders and lawyers to describe the flaws in the current generation of LLMs as a reason not to adopt or to delay adoption of the technology, is to miss the immediate opportunities they create to improve every aspect of a legal business.

To focus on the flaws is also to lose sight of the rapid improvements we have seen in LLMs since late 2022. From basic text generators, they have quickly become advanced tools capable of complex tasks, nuanced conversations, and integrating a wide range of knowledge.

In their recent paper "Better Call GPT, Comparing Large Language Models Against Lawyers" Lauren Martin et al. from Onit Inc.'s AI Centre of Excellence in New Zealand provide an empirical analysis comparing the performance of LLMs against junior lawyers and legal process outsourcers in legal contract review tasks. The study evaluates the accuracy, speed, and cost-efficiency of LLMs in identifying and locating legal issues within contracts, using senior lawyers' evaluations as a benchmark for accuracy.

The empirical analysis showed that:

- LLMs matched or exceeded the accuracy of human reviewers in identifying legal issues within contracts. Specific models, like GPT-4, achieved high precision and recall, on par or better than juniors and LPOs.
- LLMs significantly outpaced humans in review time, completing tasks in seconds compared to hours required by junior lawyers and LPOs, demonstrating a substantial increase in efficiency.
- There is dramatic reduction in cost when using LLMs for contract review, with savings up to 99.97% compared to traditional human-based methods.

Investment in the Gen AI space suggests that the pace of improvement and evolution of LLMs is unlikely to slow anytime soon. We believe that the pace of improvement is likely to accelerate even faster for the next 2-3 years as investors, technology companies and developers try and stay ahead of regulation and capture market-share. Furthermore, when governments see the development of the technology as creating an opportunity for them to either drive growth or avoid a social challenge, as is predicted in Japan, then the weight of their support will further accelerate the pace of improvement.

**“There is dramatic reduction in cost when using LLMs for contract review, with savings up to 99.97% compared to traditional human-based methods”**





## The Client Perspective

The integration of Gen AI into the legal sector is accelerating change in the dynamics between law firms and clients. This shift goes beyond operational efficiency. It will fundamentally change the balance of knowledge and influence. Clients, once heavily reliant on law firms for legal expertise, will increasingly be empowered with AI-driven insights and information. This will continue to drive heightened expectations for transparency, efficiency, and strategic partnerships. With the efficiency brought by LLMs, clients may increasingly demand fixed-fee arrangements or value-based pricing. They are likely to argue that since AI reduces the time needed to complete tasks, traditional hourly billing no longer reflects the actual effort or value provided.

The uptake of Gen AI and other forms of transformational technologies has been slower than expected within corporate legal departments over the past decade. This slow uptake has offered law firms some measure of protection against criticism of their own tardy adoption of the technologies. Partners and leaders would, however, be wise to avoid any conclusion that this trend will continue.

The high visibility and transformative nature of Gen AI make it an essential consideration for key business leaders like CEOs and CFOs. With many CEOs acknowledging the inherent inefficiencies in the corporate model, there is a strong incentive to adopt Gen AI to improve efficiency and reduce costs. Since current research highlights Gen AI's role in enhancing efficiency in knowledge-based services, the internal legal function is likely to be an early area of interest for a CEO or CFO. The oft-repeated mantra of "more for less" is likely to become even louder. GCs are thus likely to accelerate the adoption of LLMs in their teams to secure the benefits of efficiency, reduced cost, and improved workflow. They will expect the same from their external law firms.

As a result, law firms will need to rapidly transition from being the sole providers of legal wisdom to collaborative partners in a tech-enhanced environment. Corporate law firms will need to move more quickly to adapt to offering more client-centric, tailored solutions that align with the evolving needs of their corporate clients. This new paradigm should foster a mutual pursuit of innovative, impactful legal services, where technology and expert legal insight blend to redefine the attorney-client relationship.

**"This shift goes beyond operational efficiency.  
It will fundamentally change the balance of  
knowledge and influence"**



## Competitors, Old and New

Law firms should keep a close eye on the likely rapid and expansive incursion of Alternative Legal Service Providers (ALSPs) into more of the work types traditionally dominated by law firms. LLMs present a particular opportunity for ALSPs which are well-positioned to leverage the technology to enhance their existing services and capture larger market share from traditional law firms. Unlike traditional law firms, the characteristics of ALSPs, including their corporate structure, financial flexibility, focus on efficiency, agility, and adaptability, make them ideally suited to embrace LLMs.

We foresee ALSPs becoming the dominant legal service partners to many clients across multiple sectors and across multiple legal practice areas. Sectors like insurance, financial services, healthcare and pharma, transport, and real estate are strategic opportunities for ALSPs. All have large volumes of traditional legal work that are ideally suited to a service delivery model enhanced by LLMs. On the traditional practice side, Insurance, Banking and Finance, Contract Reviews and Due Diligence, Regulatory and Compliance, Real Estate, Employment and Labour, and Transport offer significant opportunities to ALSPs, enhanced by LLMs, to further reframe the commercial proposition to clients in the way components of these services are delivered.

Law firms should not lose sight of their traditional competitors when assessing their future strategy. Although several firms have made public pronouncements about the way they are embracing LLMs, most are being careful not to make any transformative organisational changes. That does not suggest that such a change may not suddenly emerge. The dangerous competitors are those that recognise the transformational impact of LLMs on the traditional model and move quickly to adapt at scale. The less dangerous competitors are those that approach the integration of LLMs with a conservative mindset, trying to “fit” the technology into their entrenched commercial model and traditional ways of practicing in the hope of avoiding organisational change.

**“We foresee ALSPs becoming the dominant legal service partners to many clients across multiple sectors and across multiple legal practice areas.”**

Law firms should also widen the scope of their competitor mapping. Gen AI creates an opportunity for smaller firms to vault up the tables in a way that we have never seen in the sector. Furthermore, law firms outside the traditional “premium” jurisdictions now have an opportunity to compete for work that would previously not have crossed their desks. As Gen AI rapidly levels the playing field, we expect to see some of these firms make a concerted effort to leverage their lower cost structures and rates to access markets that have traditionally been closed to them. Firms in the high cost “premium” centres should be watching these new competitors carefully and responding swiftly to any challenge to the status quo.

Global and international law firms may need to consider their commercial models to ensure the best blend of technology-enhanced expertise and cost. They should also be alert to tension between their offices in low-cost jurisdictions and those in traditional high-cost jurisdictions. With LLMs levelling the playing field, competition between different offices for the same clients and work may need careful regulation. Clients may become increasingly adept at leveraging the international networks to secure the best of both worlds - expertise and cost. Global and international firms should act quickly to provide the necessary commercial guidelines to all international locations. This may be more complicated in firms that are not financially integrated, in which case some form of enhanced revenue sharing model may be needed.

## Partnerships, Leverage and Talent Management

By 2030, the partnership model may no longer be the dominant ownership and governance model of law firms. While the partnership model may continue to be appropriate for sharing ownership and profits, the concept of making all key decisions collaboratively, allowing partners extensive autonomy in managing their practices, and limiting control over investments and the pace of change to a select group of long-tenured partners or those invested in traditional legal practices, is becoming increasingly impractical. If a law firm is to succeed in the face of rapidly accelerating disruptions that will transform many partners' practices, the model must rapidly evolve.

A more corporate model that permits faster decision making, greater agility and different classes of ownership may be better suited to a multi-faceted business that blends knowledge and technology. Such a model may also provide opportunities to access third party funding or structure the existing business in a more efficient way, which may include subsidiaries, divisions or even spinning parts out. Furthermore, a corporate model may make re-organised law firms more attractive to Venture Capital and Private Equity funds. Both classes of funds increasingly see the legal sector as fertile ground for new investments.

Law firms should already be re-evaluating the traditional leverage model. As LLMs take over tasks usually performed by junior lawyers, law firms may need fewer juniors, or their role may shift towards more complex, analytical tasks that AI cannot currently handle. Junior lawyers will also need to adapt to new roles that require more advanced, AI-complementary skills.

As LLMs take over routine tasks, junior lawyers may lose essential learning opportunities that come from hands-on experience. These routine tasks have historically been a way for junior lawyers to develop an understanding of legal nuances, improve their analytical skills, and gain insights into the practical application of law. The shift caused by LLMs may also disrupt the mentorship dynamic between senior, skilled partners, and their juniors, impacting the professional development of future practice leaders.

Fundamental changes to education, development and mentorship programs will be required to prepare junior lawyers for complex legal challenges. These programs will also need to change to prepare senior and junior lawyers for the new, technologically integrated work environment. The use of LLMs will also necessitate a re-evaluation of performance metrics and career progression pathways for junior lawyers.

The evolution and continued advances in the capabilities of LLMs will need to be constantly monitored to ensure that a firm maintains the appropriate number of lawyers. With the high cost of lawyer salaries and consequent impact on profitability, firms are unlikely to risk having too many junior lawyers on the bench at any given time. This may have profound consequences for the traditional lawyer job market.

The impact of LLMS on the leverage model and junior lawyers ironically comes at a time of an increasing desire among lawyers for greater emphasis on training and mentorship within their firms. (2023 Law Firm Culture Survey - Major, Lindsey & Africa). This heightens the need for partners and law firm leaders to address the topics of training, career progression and mentorship as key elements of their strategy around Gen AI and LLMs specifically.

## The Thorny Issue of Remuneration

Even if one takes a conservative view of the impact of LLMs, their disruption of the billable hour model means that traditional law firms may need to reconsider their partner and lawyer remuneration models. The existing models, most often based on billable hours produced by partners and their teams, may no longer align with legal practice influenced by LLMs. A revised model should encourage the adoption and efficient use of technology, reflect the varied impact of LLMs across different practice areas, promote value-based billing, recognise diverse contributions to the firm, align with market expectations, and support ongoing professional development. Partners may also need to accept further refinement of the classes of partner, with a distinction between those providing specialised or complex services that are likely to be insulated from Gen AI, and those providing more standardised services that are likely to be more impacted by Gen AI.



## The AI Skills Gap

Law firms must ensure that they are able to attract and retain the new skills they will need in a technologically integrated operating environment. Effectively integrating AI into a firm's operations is challenging, as is deploying AI systems, and ensuring that the business continues to adapt to evolving and emergent AI technologies. Law firms will need to hire the new skills that allow them to deal with these challenges while also adapting the way their lawyers deliver their services.

Law firms face a skills gap that will be hard to close in an increasingly competitive skills market. Law firms are not competing just with peers in the sector for these skills. 68% of corporate executives surveyed by Deloitte report a moderate-to-extreme skills gap. This gap is evident across all countries and runs as high as 73% in the United Kingdom. (Talent and workforce effects in the age of AI, Deloitte).

Law firms are notoriously conservative when it comes to hiring and paying premium salaries for "non-billing" professionals. Unless this mindset changes quickly, and law firm partners recognise the need to sometimes pay a premium rate to secure the right skills, law firms are likely to fall further and further behind non-traditional competitors, new entrants and, indeed, their clients. Given the scarcity of the current AI resource pool and the balance sheets that law firms are competing with, partners may well need to accept that, in some circumstances, non-lawyer professionals will be compensated at levels that exceed those of many equity partners.

Partners may also need to accept changes to traditional management structures and authority matrices if they wish to retain some of the senior talent that will be required. The sometimes-prevalent model of hiring experts only to tell them how to do their jobs, or treating them as less than equal, will not work. Moreover, the idea that a firm should test something by hiring just one or two "cheap" experts and then expect to see an immediate return on investment will need to be reconsidered.



## Leadership

Against this backdrop law firm partners will need to consider whether their traditional leadership and governance structures and mindset, focused as they tend to be on short-term profitability, and often resistant to change, are best suited to dealing with the need to rapidly adapt to the disruption of LLMs. The rapid pace of change demands an agile, forward-thinking, technologically informed and business minded approach. Law firm leaders entrenched in traditional models and focused only on more profit in a particular year may struggle to adapt quickly enough. This may mean a firm loses its competitive edge.

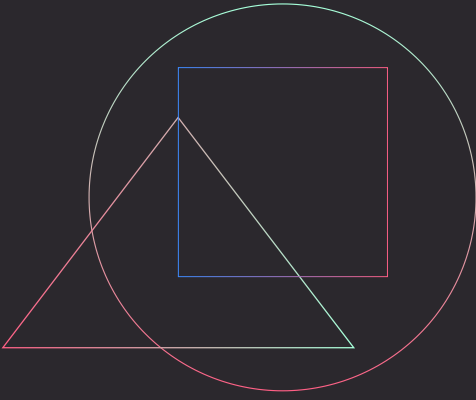
If partners acknowledge the need for transformation to ensure their firm's relevance, competitiveness, and sustainability, they may need to carefully evaluate their expectations of their leadership. This evaluation should determine the extent of authority they are willing to confer on their leaders, identify the requisite skills and competencies their leaders must possess, and establish clear metrics for their performance evaluation. Furthermore, the adequacy of a 3-4-year term may need to be assessed in the context of achieving the desired outcomes.

Partners should also consider their appetite and willingness to invest in and allocate the necessary resources, time, and capital to support a strategic direction aimed at future-proofing their firm. Any evaluation of this sort should ensure that the interests of all partners are considered. It may be that older, more senior partners, are instinctively focused on short-term profit, whereas younger partners are more likely to focus on the longer-term success and sustainability of the firm. The potential tension between these different philosophical approaches to the future will need to be debated honestly and openly. In certain cases, a firm may need to create some form of commercial or voting "pressure release" mechanism to avoid irreparable damage to the partnership.

## Conclusion

Partners and law firm leaders are facing a difficult and intricate task - much like threading a needle - as they navigate the challenges and opportunities presented by Gen AI, and LLMs specifically. They must balance changing client relationships, securing and retaining talent, rethinking remuneration and performance management, staying competitive while, at the same time, ensuring profitability. The way legal services are provided is already changing. The pace of change will accelerate. Law firms should already be responding to the changes. The incremental approach to technology adoption that we have seen historically in the legal sector is no longer an option. For law firms to secure the benefits of Gen AI and remain relevant requires a fresh approach to some fundamental and entrenched issues. Just as the photography sector continues to flourish, so too can the legal sector. All that is required is a willingness to adapt. Given the exponential evolution and improvement of LLMs the firms most likely to succeed may be those willing to consider a complete transformation.





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