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# Digital innovation in law firms: The dominant logic under threat

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This paper focuses on the impact of digitalization in the legal industry. The legal industry is highly institutionalized and has for long been unaffected by external changes. This has enabled the development of a strong institutional logic that has dictated homogeneous practices in law firms and limited their room for innovation. However, this seems about to change. Through a qualitative case study of the Swedish legal industry, this paper shows that new practices, enabled by digitalization, challenges common practices and puts the dominant logic under threat. By applying an institutional logics perspective to recent changes, this paper contrasts the enactment of the dominant logic with innovative practices and shows that digitalization has created institutional complexity, where digital pioneers respond to digital opportunities differently than incumbents. This paper also explains why and highlights the emergence of hybrid firms that successfully combine elements of the dominant logic with innovation. Consequently, this paper contributes to our understanding of digital innovation and digital transformation within highly institutional industries.

**KEYWORDS**

digital innovation, dominant logics, hybrid firms, institutional complexity, law firms, practices

## 1 | INTRODUCTION

Digitalization is currently transforming industries and societies across the globe with massive impact on all parts of the economy (Kagermann, 2015). It entails an increased use of different digital technologies and solutions (Manyika et al., 2013), and carries the combined effects of a variety of digital innovations and implementations. As digitalization transforms the external context of firms, digital innovation and digital business model innovation have become fundamental for their value creation, and competitiveness (Bouwman, Nikou, Molina-Castillo, & de Reuver, 2018; Ferreira, Fernandes, & Ferreira, 2019; Nambisan, Lyytinen, Majchrzak, & Song, 2017) and the ability to adapt to the changed context have become crucial for firms that want to stay, or become, on top of the game (Jarzabkowski, 2004; Johansen, 2017; Teece, Pisano, & Shuen, 1997).

This, however, seems to pose particular challenges in traditional industries, particularly for incumbent firms (Crittenden, Crittenden, & Crittenden, 2019; Warner & Wäger, 2019). While digital technologies stimulate innovation and enable new actors, structures, and practices, they also challenge, change, and replace existing practices, values, and beliefs (Hinings, Gegenhuber, & Greenwood, 2018).

The legal industry is an example of a traditional and highly institutional industry with a homogeneous workforce and institutionalized practices (see, for instance, Cooper et al., 1996; Empson, Cleaver, & Allen, 2013; Sherer & Lee, 2002; Thornton, Jones, & Kury, 2005). However, law firms operate in increasingly digitalized contexts and are increasingly exposed to new technologies and practices (Kronblad, 2020; Susskind, 2010; Susskind & Susskind, 2015). Moreover, the legal industry is, along with other professional service industries, particularly primed for digital innovation since its value

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creation builds on intellectual input (Løwendahl, 2009) where digital technologies such as information and communication technologies (ICT) and technologies for automation, artificial intelligence (AI), big data, and blockchain (Susskind & Susskind, 2015) can be implemented in the production to improve efficiency and quality, and where digital technologies can also be used to bundle, package, and deliver the services to the market in new ways (Christensen, Wang, & van Bever, 2013). Digital innovation therefore carries a particular transformative power for professional service firms ("PSFs") (Brynjolfsson & McAfee, 2014; Smets, Morris, von Nordenflycht, & Brock, 2017; Susskind & Susskind, 2015). PSFs have also enjoyed a recent growth in research interest, which follows the increased digitalization and expansion of intellectual industries (Barton, 2014; Brescia, 2016; Christensen et al., 2013; Susskind & Susskind, 2015). Despite this interest, however, there has been a lack of empirical studies that target the impact of digitalization, particularly in relation to institutional change (Carlborg, Kindström, & Kowalkowski, 2014; Hinings et al., 2018; Smets et al., 2017). We therefore do not know much about how digitalization has impacted PSFs, in terms of impact on their practices and their room for innovation. Moreover, it has not yet been explored *if* (and *why*) different firms in the same industry behave differently: the reasons why some firms innovate while others do not, and what logics drive or restrict their practices. This paper seeks to enable such knowledge and targets the variation within a highly institutionalized industry by looking at contradictions and complementarities (Meyer & Höllerer, 2014). Using the case of the Swedish legal industry, this paper empirically explores different ways in which firms have responded to digitalization and uses institutional theory to understand *why*. In essence this paper sets out to explain what has happened in this highly institutional industry at the onset of digitalization by examining innovative practices and contrasting them with common practices building on the dominant logic. By applying a lens of institutional theory, we gain knowledge of how institutionalized logics motivate different responses to digitalization. This adds to our understanding of the dynamics of digital transformation on firm and industry level and provides practical insights of how to utilize institutional complexity to empower digital innovation within different firms.

With empirical data from 35 professionals from 22 law firms (including incumbents and digital pioneers), this paper shows that digitalization has caused institutional complexity, where it has sparked innovative practices among new firms but has had limited effect on incumbents. The findings show that the practices of the incumbent law firms continue to build on the dominant logic (with association membership, family name as trademark, hourly billing, *up or out* and rotating management), while the digital pioneers show a large variation of innovative practices, building on logics that deviate from the dominant one. This suggests that digitalization has prompted a divide between incumbents and digital pioneers, where pioneers have taken an innovative lead which increasingly challenges the dominant logic and common practices. The findings also show that hybrid firms have emerged that successfully combine practices of the dominant logic with innovation. The institutional complexity stemming from digitalization has enabled these hybrid firms to become digital pioneers

simultaneously as they rely on some successful practices of the past. These firms seem to be particularly important for institutional change as they are able to inspire change among both sets of firms (incumbents and pioneers).

The theoretical frame is presented in the next section. Thereafter methods and methodological choices are described, and the findings are presented. The findings are thereafter discussed and concluded, and some key implications are pointed out.

## 2 | THEORETICAL FRAMEWORK

### 2.1 | Institutional logics and complexity

In a recent paper, Hinings et al. (2018) argue that institutional theory is particularly effective to understand the current digital transformation, since it builds on the combined effect of different innovations, new actors, structures, practices, values, and beliefs that threaten, replace, change, or complement existing institutionalized patterns of norms and behavior. This paper applies institutional theory as a theoretical lens to understand *how* digitalization has impacted law firms and *why* different firms respond to digitalization in different ways. In order to understand law firms' responses to digitalization, we need to examine their practices (what they do) and the logics that drive these practices (why they do it). The practices need to be seen in relation to the established context of formal and informal institutions (North, 1987) that are specific to law firms. In this context the logics serve as cohesive guides for behavior (Powell & Colyvas, 2008) and can be seen as sets of material practices and symbolic constructions (Friedland & Alford, 1991). Logics shape practices simultaneously as they provide them with meaning (Thornton & Ocasio, 2008) and legitimacy (Nigam & Ocasio, 2010). Logics are created and re-created in relations and originate from a number of societal factors where shared experiences of culture, symbols, and practices help frame them (Thornton, Ocasio, & Lounsbury, 2012). Consequently, different logics are institutionalized in different contexts. In westernized contexts, the institutional logics generally entail strong influences from capitalistic markets, democratic and bureaucratic states, from Christianity, and immediate family bonds (Friedland & Alford, 1991). However, the specific profession, organization, and community of an individual also play into the framing of the logic (Thornton et al., 2012). Each of these factors has its own sense of rationality, but they also influence each other. For instance, religion influences professional choice and family logic can influence entrepreneurial behavior (Su, Zhai, & Karlsson, 2016).

Institutional complexity arises when different logics meet (Greenwood, Raynard, Kodeih, Micelotta, & Lounsbury, 2011). Studies of institutional complexity often address situations where a dominant logic is challenged by a new one (Amans, Mazars-Chapelon, & Villesèque-Dubus, 2015; Carlsson-Wall, Kraus, & Messner, 2016). In such situations, there is a time of confusion until one is accepted as the new (or renewed) dominant logic. During this time, conflicting logics can create more or less tension among firms, depending on the

degree of institutionalization, their uniformity, and resistance to change (Zucker, 1987). In highly fragmented industries this tension has to be addressed within firms, while it in less fragmented industries can be addressed collectively, higher up. While multiple logics can co-exist during transitional times (DiMaggio & Powell, 1983), at a certain point, a new dominant logic will be established. There is, however, also a possibility that hybrid firms emerge, that combine different practices, adhering to different logics simultaneously (Lander, Heugens, & van Oosterhout, 2017).

## 2.2 | The establishment of a dominant logic for law firms

In order to understand *if*, *how*, and *why* law firms have changed with the impact of digitalization, we need to understand their institutional context and the logics that empower their specific practices. For such understanding it is central to recognize that while law firms are quite different from most firms, they are often regarded as the most typical examples of PSFs (von Nordenflycht, 2010). As such, law firms are generally characterized by having a professionalized workforce (organized under the formal institution of the professional association of lawyers) that produce knowledge-intensive services in a low capital-intensive way (Løwendahl, 2009; Maister, 2003; von Nordenflycht, 2010). These characteristics have empowered certain practices and have also served to protect these practices over time. Consequently, particular logics that continuously build on and prescribe certain practices have emerged, gained traction, and become dominant (Empson et al., 2013; Lounsbury, 2007).

Membership in the professional association has been a key practice in the representation of the dominant logic, since being an associated lawyer has provided access to markets (Løwendahl, 2009) and has been crucial for obtaining professional respect and legitimacy (Nigam & Ocasio, 2010). The professional association has consequently been highly influential in the development of law firms and their business model; particularly in regard to how lawyers organize and how they sell, price, and market their services (Mod  r, 2012). That is, law firms act and organize in ways that are prescribed by their professional associations, which serve as agents of reproduction rather than actors of change (Greenwood, Suddaby, & Hinings, 2002). The continued use of certain practices that align with the dominant logic continuously reinforces its strength. For instance, among law firms it is common to organize as professional partnerships, that are owned and managed by the lawyers that produce the service (Maister, 2003), where the managers are appointed among the partnering lawyers on a rotating scheme (Morris, & Empson, 1998; Løwendahl, 2009). This closed professional body continuously reinforces the professional logic.

Hourly billing is another prescribed practice (Mod  r, 2012) that adheres to the dominant logic and is rooted in industry characteristics. Since value is created from the hourly input of knowledge work, and human capital is the main (and often only) capital needed, "billing by the hour" makes sense (von Nordenflycht, 2010), especially as lawyers

largely have been able to set the price for the "hour" themselves (Levin & Tadelis, 2005). Hourly billing at high profit margins has over time been important for the creation of wealth in the industry and for the building of a strong professional identity, which in effect has raised a veil of mysticism around law firm work (Barton, 2014). However, the building of this strong profitable business model has also meant that law firms have experienced limited incentives to work in cost-efficient ways (Zettermark, 2012). This may seem contrary to legal work; however, in support of this practice, and to protect the status in their professional identity, lawyers have also resorted to a trusteeship logic building on an adherence to ethical regulations of their professional associations (Lander et al., 2017; Lounsbury, 2007). This trusteeship logic was for long determinant for lawyers' behavior and self-perception. However, as law firms grew bigger and more complex, this logic was complemented with a managerial logic (Empson et al., 2013) entailing more business-oriented practices.

Many practices, connected to both these logics, have over time become formalized as myths and symbols (Meyer & Rowan, 1977), where the symbolic use of practices has enabled firms to create and maintain a perception of high quality. This has been essential for law firm success, as the high knowledge intensity of legal work has entailed an *opaque quality* to the service delivery, where it has been virtually impossible for clients to assess the quality of the work. *Bonding*, *reputation*, *appearance*, *ethical codes* (Løwendahl, 2009), and *organizational routines* (von Nordenflycht et al., 2015) have therefore been particularly important to help clients assess service quality, which is why they have also been used by the firms in symbolic ways. For instance, law firms have been able to establish a certain *reputation* and *appearance* by practicing *up or out* (with annual reviews that either promote associates or incentivize them to leave). Similarly, many law firms have used a family name as their trademark to *bond* to certain founding partners and establish an appearance alluding to traditions. This has also enhanced the identity based on legal professionalism (Løwendahl, 2009).

Thus, certain practices that build on the dominant logic—membership in the professional association, the use of a family name as a trademark, hourly billing, *up or out* and the lack of external management—have become symbolic to the practice of law and continue to reinforce this logic. Furthermore, the success of these practices has created a filter through which the professionals see the world, why they question the necessity to change (Bettis & Prahalad, 1995). Thus, there is currently a dominant logic integral to incumbent law firms that has enabled them to reach present positions and that prescribes the continuous use of certain practices.

## 2.3 | The current stage of digitalization

Digitalization has brought a bundle of technologies, at different stages of maturity, with varying relevance for, and impact on, different industries (Manyika et al., 2013). There are two key dimensions that are particularly relevant for recent digital progression: increased machine power and increased connectivity (Brynjolfsson & McAfee, 2014).

These reinforce each other and speed up the transformation process. Thus, digitalization is deployed to make communication more efficient, with faster processes and more data points available and connected for the exchange of information. Brynjolfsson and McAfee (2014) argue that we have reached a point of technological advancement where machines can increasingly replace workers in intellectual industries, such as the legal industry. They have termed this the *second machine age*, following the *first machine age* where work, and workers, in agriculture and manufacturing were replaced by machines. Huang and Rust (2018) similarly suggest that machine (artificial) intelligence already outcompetes human intelligence in relation to mechanical and analytical work tasks in service industries, whereas humans still have the upper hand on intuitive and empathetic tasks. Moreover, Jarrahi (2018) propose that we can combine humans and machines in efficient ways, where humans can provide intuitive intelligence while being supported by the superior analytical capacity of machines. Thus, digital technologies are creating dramatic opportunities for innovation in service industries (Barrett, Davidsson, Prabhu, & Vargo, 2015), particularly in industries that base their value on intellectual work (Susskind & Susskind, 2015), where it fundamentally alters previous characteristics (Kronblad, 2020).

Digitalization carries the potential to reshape the nature of service delivery (Christensen et al., 2013) with innovative changes to the means of production, communication, collaboration, and networking (Susskind, 2010). The most repetitive work, demanding mainly mechanical and analytical skills (Huang & Rust, 2018), is currently affected by this, which is evident in automation of some legal work and the introduction of artificial intelligence in repetitive and large-scale legal due diligence in mergers and acquisitions (Susskind & Susskind, 2015). The increased use of knowledge management methods for the reuse and efficient distribution of knowledge (Gold, Malhotra & Segars, 2001) has also changed how law firms create and capture value. With a rapidly increasing availability of information, vast advantages appear for firms that are able to manage “big data”, which is why firms with suitable knowledge management capabilities also enhance positive effects of big data analytics (Ferraris, Mazzoleni, Devalle, & Couturier, 2019).

There is also a critical relationship between knowledge management and innovation, where an increase in knowledge management capabilities, ensuring efficient knowledge acquisition, sharing, and application, also increases the potential for innovation (Chen & Huang, 2009). This is particularly true when knowledge management capacities are enhanced with digital technologies (Brivot, Lam, & Gendron, 2014). This prompts law firms for digital innovation (Ferreira et al., 2019; Nambisan et al., 2017) and digital business model innovation (Bouwman et al., 2018).

## 2.4 | Digitalization as a threat to the dominant logic

Despite the potential for digital innovation (Ferreira et al., 2019; Nambisan et al., 2017) and digital business model innovation (Bouwman et al., 2018), Hinings et al. (2018) argue that digitalization

can pose a threat for firms, as it changes the “rules of the game” and challenges established institutions, organizations, and their building blocks (Hinings et al., 2018). Digitalization is transforming the characteristics of legal practice (Kronblad, 2020), which is particularly challenging for incumbent firms (Crittenden et al., 2019; Warner & Wäger, 2019) that already have a recipe of practices that have proved to be successful in the past (Spender, 1989). Barton (2014) argues that digitalization should force lawyers to transcend from their established hourly businesses to become entrepreneurs, but Williams, Platt, and Lee (2015) maintain that so far, law firms have been reluctant to implement any major changes. This paper illustrates and explains why this is, by exploring and contrasting the practices of incumbent and new firms in the wake of digitalization.

## 3 | METHOD

### 3.1 | Research design

The empirical setting for this case study is the legal industry. The legal industry has been a common setting for institutional analysis (see, for instance, Cooper et al., 1996; Empson et al., 2013; Sherer & Lee, 2002; Thornton et al., 2005) and offers a potential to exemplify the digital transformation of a highly institutionalized industry. To encompass the complexity of the digital transformation, this research is guided by a qualitative approach. This offers opportunities to explore and understand practices and actions within their context. The use of a case study is particularly suitable since this research targets a complex transformation, where the case study enables us to develop both deep and broad insights (Eisenhardt & Graebner, 2007) and to compare and contrast the diverging practices (Jarzabkowski, 2004). Powell and Colyvas (2008) argue that transformations are best understood from a micro-perspective, where individual practices on a micro-level ultimately provide insight to the macro development, since it builds on actions being repeated over time. Thus, this case study, of the transformation of the legal industry, focuses on practices at the firm-level. The interviews have been conducted with different professionals to get insights into the practices of their firms. This also follows recent approaches within institutional work, where the focus is on the actual efforts that are enacted by individuals (Lawrence, Suddaby, & Leca, 2011). Being in the midst of a complex transformation process, having a set focus on what firms actually do is also appropriate as this captures the strategies that have been put into use (Jarzabkowski, 2004), instead of exploring how strategies may manifest in an uncertain future.

### 3.2 | Data sampling and collection

The setting of the study is the legal industry within the national context of Sweden. Sweden is particularly suitable as a setting to study emergent responses to digitalization, as Sweden has among the most liberal legislations in this area, and is allowing for alternative service

providers in all areas of legal practice (Paterson, Fink, & Ogus, 2003). This means that the findings are likely to be indicative of changes brought about by digitalization, rather than changes in legislation, as the Swedish legislation readily allows for different practices and paths of behavior.

Data was collected from 35 interviews with legal professionals from 22 law firms. Since the aim was to explore different responses to digitalization and compare practices building on the dominant logic with innovative practices, the sample needed to contain a broad spectrum of firms. To ensure variation in the sample, the decision was made to target polar types within the industry (Eisenhardt & Graebner, 2007). As one polar type, incumbent law firms were targeted. The incumbent firms were identified based on age and size, as firms that have persisted and grown over the years were assumed to encompass the dominant logic. In Sweden there are eight law firms that employ more than 100 legal employees (i.e. lawyers and legal counsels) that were founded more than 30 years ago (in a world prior to digitalization) (Affärsvärlden, 2016). Therefore, these eight firms were sampled. At the other end of the spectrum, law firms mentioned in the legal industry press as digital forerunners or “Legal Tech” representatives were selected, to represent the digital pioneers. Snowballing techniques (Noy, 2008) were used to find relevant law firms and individuals to contact. Snowballing techniques are especially useful as the limited size of the Swedish legal industry has created a social network where most actors know, or at least *know of*, each other. Since the digital side of the industry is still in a nascent stage, the indicators for the digital polar type (the digital pioneers) were quite vague, and some sampled firms did not have an explicit digital strategy but could instead have a partner expressing an interest in digitalization in the legal press. The sample consequently contains a large variety of law firms in terms of their level of digitalization. In total 14 firms were selected on the basis of representing novelty in regard to digitalization. In order to grasp different reasoning and practices inherent to the 22 sampled firms, a mix of informants from each were approached, obtaining a sample representing a variety of professionals with different titles and experiences. The subjects are presented in Table 1.

**TABLE 1** The subjects of the case study

Type of law firm	No. of firms in sample	No. of informants in sample	Type of informant
Polar type 1: Incumbent firm	8	15	Managing Partners, Knowledge Managers, Partners, Senior Associates, Junior Associates
Polar type 2: Law firms responding to digitalization	14	20	Managing Partners, Partners, Associates, CEO
Total sample	22	35	

The empirical data consisted of interviews, that were transcribed and imported into Nvivo, and secondary data such as web page information and industry press. The firms' use of certain practices were noted, and supportive quotes and explanations were identified.

### 3.3 | Coding and analysis

In order to explore how the dominant logic continuously drives certain practices, a number of constructs were identified from the theory of how law firms are organized and work (Løwendahl, 2009; Maister, 2003; von Nordenflycht, 2010). Five constructs, representing common established practices, were identified as key to the enactment of the dominant logic. In order to capture what firms actually do, as well as to understand how professionals reason around their practices (Powell & Colyvas, 2008), the semi-structured interviews were designed to address these common practices. Questions therefore targeted how law firms were organized, managed, and owned, how lawyers worked, how legal services were sold and if and how digitalization had an effect on any of their practices. The selected constructs are presented in the top row of Table 2. Examples and illustrative quotes were coded under each construct.

To address digital innovation and the new practices that have been enabled by digitalization, constructs could not be derived from theory alone (as we currently do not have much empirically driven theory on how digitalization has affected law firms and/or digital innovation). Therefore, the coding was based on an abduction between theory and data, and the process of identifying relevant constructs was guided by the notions that digital innovation involves new means of production (Barton, 2014; Susskind, 2010), and new delivery (Christensen et al., 2013) and business models (Smets et al., 2017). Under these three general themes (new means of production, delivery and business models), open coding was used to identify five reoccurring themes. Thus, five constructs were selected, and the transcribed material was re-coded accordingly. These five constructs are presented in the second row of Table 2. Some constructs used for the new practices represent the opposite position compared to the practices following the dominant logic. *Alternatives to hourly billing* is, for instance, opposite to *hourly billing*, and the application of *external management* is in opposition to the *lack of external managers* in the dominant order. The additional selected constructs were *external ownership*, allowing for capital injections to invest in digital technology; *digital workplace*, suggesting a digitally enabled work environment (workplace or processes); and *new packaging of legal services*, including new legal services and new ways to bundle, market, and deliver services. Thus, similarly to the constructs selected to represent the dominant logic, five constructs were identified and coded for regarding digital innovation. Since two constructs apply both to firms adhering to the dominant logic and firms adopting new sets of behavior (but in opposite ways), a total of eight constructs was used to code and analyze the data (see Table 2).

The coding allowed us to map out the practices of different firms to identify patterns and compare and contrast them. Thereafter the

**TABLE 2** Constructs used in coding and analysis

Constructs	Firm size	Firm age	Association member	Family name in trademark	Mainly hourly billing	Up or out	Lack of external management	External Ownership	Digital workplace	New packaging of legal services
Dominant law firm logic	Dominant logic indicator	Dominant logic indicator	X	X	X	X	X			
New paths of behavior from digitalization					Alternatives to hourly billing/X		External management/X	X	X	X

coded material for each of the constructs, i.e. each of the coded practices, were analyzed independently and discussed against selected theory. This analysis is presented in the findings section. Several illustrative tables were created in this regard (see Tables 3–6). In these tables the firms are organized according to size, since size was used as the assumed indicator for adhering to the dominant logic. It therefore made sense to also sort and present the digital pioneers according to size.

The issue of research quality was evaluated throughout the research process with the goal to reach a high level of reliability and validity (Bryman & Bell, 2015; Flick, 2009). This means that measures were taken to ensure that the study measured what it set out to measure, and that conclusions and learnings were correctly derived from the data. Consequently, the transcribed interviews were triangulated with archival industry data, including industry press discussing digitalization and own field notes from industry conferences targeting digitalization. Also, a second researcher was invited to help in transcribing, coding, and analyzing the data.

## 4 | FINDINGS

### 4.1 | The practices of the dominant law firm logic

The findings in regard to the coded practices of the dominant logic are summarized in Table 3 and elaborated on in the subsequent section. The shading in the table indicates practices adhering to the dominant logic. It is apparent that the enactment of the dominant logic is not restricted to incumbent firms but also, to varying degrees, takes place within the digital pioneers. Many informants from these digital pioneers also expressed that they were past employees of the incumbent firms, which is why they were highly aware of, and used to, their practices.

#### 4.1.1 | Being a member of the professional association

While all incumbents in the sample were members of the professional association, only 5 out of 14 of the others were. A managing partner from one of these firms stated that: “to start an unregulated firm does not have the same status ... However, I think that this will change and in time we will see a lot more different types of firms taking part in the total industry”. This implies that association membership is dominant and connected to high status, while also indicating coming changes to this dominant practice.

#### 4.1.2 | Family name as trademark

All but one of the incumbents used family names as their trademark, while only three of the others did. One informant reflected on this dominant practice: “The industry has grown over the years by individual

**TABLE 3** Key findings regarding the enactment of the dominant logic

Law firm	Firm size (+100, 10–100, –10)	Firm age (+30, 5–30, –5)	Association member	Family name in trademark	Mainly hourly billing	Up or out	External management
1	Large	Old	Yes	Yes	Yes	Yes	No
2	Large	Old	Yes	Yes	Yes	Yes	No
3	Large	Old	Yes	Yes	Yes	Yes	No
4	Large	Old	Yes	No	Yes	Yes	No
5	Large	Old	Yes	Yes	Yes	Yes	No
6	Large	Old	Yes	Yes	Yes	Yes	No
7	Large	Old	Yes	Yes	Yes	Yes	No
8	Large	Old	Yes	No	Yes	Yes	No
9	Medium	Old	No	No	Yes	No	No
10	Medium	New	Yes	No	Yes	Yes	Yes
11	Medium	New	Yes	No	No	No	No
12	Medium	New	No	No	No	No	No
13	Medium	Middle	Yes	Yes	Yes	Yes	Yes
14	Medium	New	No	Yes	Yes	No	No
15	Small	New	No	No	No	No	No
16	Small	New	No	No	No	No	No
17	Small	New	No	No	No	No	Yes
18	Small	New	Yes	Yes	Yes	No	No
19	Small	Middle	No	No	No	No	Yes
20	Small	Middle	No	No	No	No	No
21	Small	New	Yes	No	Yes	No	No
22	Small	Middle	No	No	No	No	Yes

persons with strong names having firms using that same name. This is what built the industry, and then creating those hierarchical structures under the names." It should, however, be noted that the family names may not represent the current partners, but are rather a legacy of the founders, alluding to tradition. It was expressed that these traditional trademarks were not only targeting clients, but also influential in building corporate culture and identity.

#### 4.1.3 | Mainly hourly billing

Having hourly billing as the main source of revenue was true for all incumbent firms and for most medium-sized digital pioneers. One managing partner explained that since the regulations of the professional association have always promoted hourly billing, law firms are used to it, and it has been a key element building high profitability in the industry. He also expressed that: *"It is a fear in replacing this, since it has been proved to worked so well in the past."* One associate of an incumbent firm reflected that the *"level of billing [of lawyers] 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."* The quote alludes to the protected market and opaque quality of the service delivery. Additionally, several informants discussed that a high price also worked as a sales

argument and was used as a marker of quality: *"if you get one of the most expensive lawyers then you can tell your CFO: I took the most expensive lawyers because they are the best, then no one can claim that you did not do your job."* A final explanation for the focus on hourly billing was that clients have not asked for alternatives: *"for long there have been complaints about lawyers and the billable hour, and that the end cost is usually higher than expected ... but the clients have been extremely bad at making demands, I'd say, and if you do not make any demands then the suppliers will not change."*

#### 4.1.4 | Up or out

*Up or out* promotions were also expressed as a common practice of all incumbents and in two of the digital pioneers. *Up or out* was explained as a management practice entailing annual reviews of each associate, where those that are not promoted are incentivized to leave. One expressed motivation to use *up or out* was that there is simply not room for as many partners as the number hired as associates. Another motivation was that the firms wanted to secure the best partner material to select from. One managing partner explained; *"the vast group of senior associates ... you cannot keep them without the possibility of offering partnership, they would go away, and we would lose them."* Thus, framing the possibility of climbing toward partnership is crucial

in keeping the best employees. However, it was also reflected that *up or out* brought opportunities to populate client firms with past employees to build relations and increase sales: *"The main part of the people you work with today are either future colleagues, or else they are future clients."*

#### 4.1.5 | No external management

The incumbents were all managed by partners, often on rotating schemes. Many informants referred to law firms as being *"special"*, as the explanation to why they need to be managed by lawyers. One informant discussed firms with externally sourced managers as: *"Very courageous. They realize that influences can come from other places ... and it is really a valuable input ... but even when they realize that, they do not really dare to take the step full out, so it doesn't really work."* This illustrates the reluctance to make use of external competences, even when spotting a potential value from it. The internal focus was also mentioned by several informants, remarking that they constantly monitored each other, with one picturing the legal industry as a *"duck pond"*.

### 4.2 | New practices enabled by digitalization

Looking instead at the innovative practices that have been enabled by digitalization, it appears that digitalization has sparked practices that are quite contrary to those prescribed by the dominant logic. However, such practices have been adopted differently among the digital pioneers. The findings in relation to the different constructs are summarized and illustrated in Table 4 and presented in detail below.

#### 4.2.1 | New billing models

Eight digital pioneers explained that their main source of revenue was not hourly sales. *"We deliver results, not time"* one managing partner said. Some other billing models that were brought up were value-based models, differentiated pricing and set fees. A managing partner remarked: *"So pricing goes from billing by the hour to value-based pricing and also toward differentiated pricing."* Also, some digital pioneers (operating outside of the regulated market) targeting clients just starting up, related that they had asked for payment in ownership shares. A managing partner of a regulated firm explained: *"Then there are newly started firms ... not members of the association, but their clients do not know the difference. They can take sweat equity: you do not have to pay for the legal advice but give ownership shares of the company. I cannot do that because I need to keep independence."* It should also be noted that among the digital pioneers, some legal products and services were delivered to clients for free. For instance, one firm populated an internet site with free legal advice, and another firm supplied their clients with free templates on a digital platform. One partner expressed that, contrary to incumbents, they could reason around

and experiment with billing models without any lock-in effects: *"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, because 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."*

#### 4.2.2 | External management

While not being a particularly common practice, five digital pioneers had added external competence (and influence) by having a non-lawyer CEO running the company. One informant explained that: *"It is very exciting that we have managed to get this mix in our firm, because it creates a lot of valuable input and interesting discussions and we needed to shape up, now we work more actively with sales."* Another stated that their firm was well positioned to create closer relationships with clients: *"We are more: by entrepreneurs for entrepreneurs ... we adapt to the client and we want a closeness with them, we do not want them to stand with their hat in their hand and look up to us."*

#### 4.2.3 | External ownership

Six digital pioneers were subject to external ownership. A partner of one of them stressed that: *"Previously external investors have not been able to take part of this market, but now they can. It is both a lucrative and stable market so they should be interested in that. We will need this ability raising external capital since the effect of technology will explode moving forward."* The external ownership was often accompanied with an expressed long-term perspective on the business, while *"the principle in the 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"*.

#### 4.2.4 | Digital workplace

Six of the digital pioneers also expressed that they worked digitally as a way to cut cost. One firm mentioned that the possibility of setting up the firm in an inexpensive way, was *"actually one of the key factors that made us dare to start up."* Also, the digital workspace was discussed as an advantage enabling the sale of the service at lowered costs: *"We tell them, we do like this and it will be cheaper and better in the end and that is it: the technological part gives us the opportunity to solve their problem in a cost-efficient way and we think that is great."* The opportunity of working digitally was also used in marketing toward new employees; a more flexible workplace suiting a new generation of professionals that *"have children and love the flexibility."* Moreover, some firms working in traditional offices still used digital tools and technology to optimize space, stressing that the regular office space could therefore be reduced or used for collaborative

work. Also, two firms mentioned that they had limited the time on their office lease agreements, to be able to swiftly adjust their office space if (and when) needed.

#### 4.2.5 | New packaging of legal services

All but one of the digital pioneers used some new way to package and sell legal services. However, this is not surprising as new digitally enabled practices were key in the sampling of these firms. Apparent in the findings however, is the large variation among these practices. Some firms discussed platform-based collaboration and delivery models, while others mentioned automated software solutions. One firm explained that platform-based delivery utilized input by collaborators to offer clients easy access to documents in a transparent manner. Several discussed greater internal productivity and that they combined the new digital enabled production with new pricing models. One informant reasoned that *"the client gets a volume discount if they buy more, so the price drops as volume grows."* Others described that they used websites to sell standardized products to the mass market. Such services were often produced and sold at low costs to new market segments.

In addition to the analysis of these constructs, some additional information was followed up on. For instance, when several

informants expressed that they had previously worked for incumbents, they were also asked *why* they had left. The informants explained that they had experienced conflicts in the traditional firms, as they *"didn't fully agree with the logics and practices of the large firms to begin with"* and expressed frustration with the limited ability to influence them. One informant explained that: *"there will always be innovative individuals that want to do things differently, also at big law firms, driving their projects. But they will never be influential enough to change the direction of the entire organization. More likely they will drop off to start something new."* As a result, many innovative individuals had started new firms with the expressed strategy *"to behave differently"* with an openness to implement ideas and opportunities from digitalization, but doing so in a variety of ways (as represented in the different practices prevalent in these pioneering firms described above).

## 5 | DISCUSSION

The findings of this study show that incumbent law firms, that continuously adhere to the dominant logic, increasingly have to compete with actors that behave differently. When combining Tables 3 and 4, we can clearly see the division between incumbent law firms, that enact the dominant logic, and digital pioneers, with innovative

**TABLE 4** Key findings regarding practices driven by digitalization

Law firm	Firm size (+100, 10–100, –10)	Firm age (+30, 5–30, –5)	Pricing alternatives	External management	External ownership	Digital workplace	New legal packaging
1	Large	Old					
2	Large	Old					
3	Large	Old					
4	Large	Old					
5	Large	Old					
6	Large	Old					
7	Large	Old					
8	Large	Old					
9	Medium	Old					X
10	Medium	New		X		X	X
11	Medium	New	X			X	X
12	Medium	New	X		X	X	X
13	Medium	Middle		X			X
14	Medium	New			X		X
15	Small	New	X				X
16	Small	New	X			X	X
17	Small	New	X	X	X		X
18	Small	New					X
19	Small	Middle	X	X	X	X	X
20	Small	Middle	X		X	X	X
21	Small	New					
22	Small	Middle	X	X	X		X

practices that build on digitalization. Table 5 depicts their contradicting practices.

The following discussion targets what has happened in the legal industry with the impact of digitalization by addressing emergent institutional complexity at the firm level. First the threat—that innovative practices of digital pioneers pose for the dominant logic and related practices—is discussed, and thereafter emergent hybrid firms, that successfully combines elements of the dominant logic with innovation, are highlighted as potential drivers of institutional change.

## 5.1 | The dominant logic under threat

From the findings it is apparent that the dominant logic has influenced, and continuously influences all kinds of law firms, including the digital pioneers (see Table 3). Since the dominant logic and the associated practices and business models have been intact for centuries (Barton, 2014; Brescia, 2016; Christensen et al., 2013), they have themselves become institutions and reason not to change (Bettis & Prahalad, 1995). This was explained by a partner in an incumbent firm expressing that it “*is a fear in replacing this, since it has been proved to worked so well in the past.*”

Among the five constructs depicting how the dominant logic is enacted, it is the first—association membership—that is the most influential as it not only represents the formal institution of the field (North, 1987) but also strengthens and/or prohibits other practices. For example, it has shaped practices in regard to external ownership, management, marketing, and billing (Greenwood et al., 2002; Mod  r, 2012). The incumbents in this study expressed that the regulations of the association have shaped how they are managed, organized, and how they sell their services (by the hour). Being a member of the professional association is therefore indicative to practicing law in a way that follows and reinforces several of the practices of the dominant logic. This study thereby supports the notion that professional associations reproduce dominant norms and behaviors (Greenwood et al., 2002), which have effectively prevented change in the past.

One practice that has been deeply anchored in the dominant logic and gained a spread beyond the incumbents is hourly billing. Historically, time spent on matters and billing by the hour has been the main value-creating factor (Zettermark, 2012) and high prices have signaled quality (L  wendahl, 2009). This study, however, shows that this billing practice is currently being challenged as digital pioneers show innovative practices in regard to pricing, where they have introduced fixed and value-based prices, success fees, subscription models, and getting paid in shares. These new pricing practices also change the notion that time spent on a matter (human intellectual input) is the sole value-creating factor. As efficiency, re-use, and automation have been incorporated into legal work (Barton, 2014; Brivot et al., 2014; Chen & Huang, 2009) and value goes from being based solely on human capital to being based also on technological and/or structural capital (Brynjolfsson & McAfee, 2014; Jarrahi, 2018; Smets et al., 2017; Susskind, 2010), the importance of time as the sole value-creating

entity is lost. This new line of reasoning was evident among the digital pioneers that motivated their new practices as “*we deliver results, not time*”. The incumbents, however, still motivated their practice of billing by the hour with concerns toward the client, claiming that the alternatives: such as getting paid in stakes or success fees, would risk their independence from the client and would not be in line with the prescriptions by the professional associations, in effect articulating the trusteeship logic (Lander et al., 2017; Lounsbury, 2007). Also, one informant from an incumbent firm explained that hourly billing is used because it works, and the clients accept it. He explained that lawyers will continue to bill by the hour simply because they “*can, and want to*”. Few incumbents saw any compelling reasons to change this practice, and as long as digital technologies for law firms are mainly deployed to make processes more efficient and save time, it is likely that their reluctance toward new billing practices will remain. The successful history of their business practices serves as a filter for their current perception of the necessity to change (Bettis & Prahalad, 1995). It is, however, likely that this position needs to be revised as the digital pioneers sell their services in vastly different ways (see Table 5), with motivations that contradict the dominant logic—for instance, claiming that their clients would ultimately benefit from deliveries where the prices are not decided by the time spent in production. This shows that digitalization has caused institutional complexity within the legal industry by opening up for innovation where digital tools and technology can be used to create new value and deliver legal services in new ways. This has resulted in new practices that exist alongside the common practices. As the digital pioneers have adopted new ways of work and new means of communication, marketing, and offerings (as well as new billing practices), the competitive context for the incumbents has changed, which continuously adds to the threat to the dominant logic and its associated practices.

While this threat to the dominant logic is amplified with increasing digital opportunities, it is interestingly enough not only digital opportunities that have spurred the innovative practices among digital pioneers. Instead, one important driver originates from the incumbents themselves: through their practice of *up or out*. This practice has over time served to create and re-create the dominant logic and has itself become a formalized myth, symbolic to professional identification (Meyer & Rowan, 1977), and the findings show that *up or out* is still practiced among all incumbents in the sample. However, the use of *up or out* has also meant that the individuals that challenge the dominant logic have been made available to the labor market; i.e. have been *out* (either by their own choice or by being incentivized to leave). In essence, *up or out* has been an effective way for incumbents to avoid, or limit, conflicting logics in the past. This was also expressed by numerous informants from the digital pioneers stating that they “*did not agree with the logic*”, which had motivated them to leave their previous employments to set up firms where they could practice law in alternative ways. One informant explained that innovative individuals within large firms “*will never be influential enough to change the direction of the entire organization. More likely they will drop off to start*

**TABLE 5** Institutional complexity among law firms

Law firm	Firm size (+100, 10–100, –10)	Firm age (+30, 5–30, –5)	Association member	Family name in trademark	Mainly hourly billing/alternatives	Up or out	External management/lack of	External ownership	Digital workplace	New packaging of legal services
1	Large	Old	X	X	X	X				
2	Large	Old	X	X	X	X				
3	Large	Old	X	X	X	X				
4	Large	Old	X		X	X				
5	Large	Old	X	X	X	X				
6	Large	Old	X	X	X	X				
7	Large	Old	X	X	X	X				
8	Large	Old	X		X	X				
9	Medium	Old	X		X	X				X
10	Medium	New	X		X	X	X		X	X
11	Medium	New	X						X	X
12	Medium	New						X	X	X
13	Medium	Middle	X	X	X	X				X
14	Medium	New		X	X			X		X
15	Small	New								X
16	Small	New							X	X
17	Small	New					X	X		X
18	Small	New	X	X	X					X
19	Small	Middle					X	X	X	X
20	Small	Middle						X	X	X
21	Small	New	X		X					
22	Small	Middle					X	X		X

**TABLE 6** Hybrid firms combining the dominant logic with digital practices

Law firm	Firm size (+100, -10)	Firm age (+30, -5)	Association member	Family name in trademark	Mainly hourly billing/alternatives	Up or out	External management/lack of	External ownership	Digital workplace	New packaging of legal services
1	Large	Old	X	X	X	X				
2	Large	Old	X	X	X	X				
3	Large	Old	X	X	X	X				
4	Large	Old	X		X	X				
5	Large	Old	X	X	X	X				
6	Large	Old	X	X	X	X				
7	Large	Old	X	X	X	X				
8	Large	Old	X		X	X				
9	Medium	Old	X		X					X
10	Medium	New	X		X	X	X		X	X
11	Medium	New	X						X	X
12	Medium	New						X	X	X
13	Medium	Middle	X	X	X	X				X
14	Medium	New		X	X			X		X
15	Small	New								X
16	Small	New							X	X
17	Small	New					X	X		X
18	Small	New	X	X	X					X
19	Small	Middle					X	X	X	X
20	Small	Middle						X	X	X
21	Small	New	X		X					
22	Small	Middle					X	X		X

*something new*", indicating that these individuals differ from common lawyers as they disagree with the dominant logic and are open to other practices. Additionally, the practice of *up or out* has served to reproduce the dominant logic within organizations, by mainly promoting those individuals that agree with it, while pushing innovative individuals *out*. This practice of *up or out* also implies insecurity for the employees which creates a culture which in itself prevents creativity and innovation (van Hooftgem, Niesen, & De Witte, 2019).

Building onto the image of homogeneity within incumbents (resulting from *up or out*) is the lack of external influences. This lack of influences builds on their common practices of rotating management and by not allowing external ownership. Since it is the owners that also manage, and work in, the incumbent firms (Løwendahl, 2009; Maister, 2003), there is no one driving for change. While, these practices have protected the homogeneity of the workforce and added to the strength of the dominant logic, it has ironically also wired their current exposure for disruption. Now these incumbents have to compete with firms that may be better prepared for the digital transformation, having access to external competence and capital. The findings show that external management and external ownership is more common within unregulated firms—why these firms are also influenced by actors with different experiences, that carry different logics and rationales for behavior, which makes them better suited to navigate in institutional complexity and empowers them to act upon the rising opportunities for digital innovation (Ferreira et al., 2019; Nambisan et al., 2017).

## 5.2 | How complexity enables hybrid firms to combine practices

While the findings effectively illustrate that digital pioneers have been able to utilize institutional complexity to adopt new practices, Lander et al. (2017) argue that such complexity can also enable hybrid firms, that use conflicting logics as opportunities to broaden the scope of action, rather than being limited to one logic alone (Greenwood et al., 2011). Analyzing the findings, we identify three such hybrid firms that have combined several practices from the dominant logic with several innovative practices. These firms (10, 11, and 14) are highlighted in Table 6.

These three are new firms that have fast grown into being medium-sized, alluding to some success as to their innovative practices. It is interesting that these firms are not particularly similar in terms of their practices. Two of them mainly sell their services by the hour, while the third has resorted to other pricing alternatives. Two firms take part in the regulated market, while the third firm does not. This firm, however, uses a family name in the trademark. Accordingly, it is evident that all of them, in one way or another, use traditional symbols and practices to legitimize their actions (Nigam & Ocasio, 2010), namely associate membership, family name in trademark, and/or hourly billing. Thus, they all use practices stemming from the dominant logic, knowing what has worked in the past (Bettis &

Prahalad, 1995). However, at the same time these firms showcase digital innovation (Ferreira et al., 2019; Nambisan et al., 2017) and a capacity to combine and complement different practices. This indicates that hybrid firms might be better suited to adapt to new conditions compared to incumbents, which is a competitive advantage in times of change (Christensen, 2003; Teece et al., 1997). For instance, one of these hybrid firms is allowing external ownership and claims that this means that they can enjoy external capital injections that enable necessary investments in digital technology. Also, two of the hybrid firms use opportunities in digitalization to cut costs, by providing the employees with effective digital tools and digital places of work.

The findings show that founders of hybrid firms are highly accustomed with the dominant logic, and the common practices of incumbents, as they have explicitly created their firms as alternatives to them, while still incorporating some of their success factors. Thus, it is apparent that these actors use institutional complexity as a strategic point of departure to innovate, to expand practices, and combine different practices to build successful businesses, without being restricted by the dominant logic. In regard to institutional change, these hybrid firms are particularly interesting: they are similar enough to the incumbents to be recognized as competition, forcing the incumbents to recognize and evaluate their innovative practices, while they are sufficiently grounded in new digital technologies to spark actual change in regard to how legal services are produced, delivered, and sold. Also, since hybrid firms demonstrate that their innovative practices are not only possible but profitable, it is likely that their values and ideas will diffuse into the industry—potentially renewing the dominant logic by influencing other firms to adopt new technologies and adapt their strategies and practices (Scott, 1998). For these reasons it is likely that future industry transformation will be prompted by them.

## 6 | CONCLUSION

This paper shows that there is a dominant logic in the legal industry that has prescribed certain practices to law firms over time, and that the practices of incumbent law firms are still largely guided by this dominant logic. This logic has been built up over decades, nurtured by particular myths and ideology (Meyer & Rowan, 1977) and supported by practices (Jarzabkowski, 2004) that enhance one another (Su et al., 2016). Incumbent firms that adhere to the dominant logic have created a filter through which they see the world (Bettis & Prahalad, 1995), which is why they have not (yet) experienced any major reason to change. Recent practices, however, show that digital pioneers have been able to utilize institutional complexity to their advantage, which increasingly puts the dominant logic under threat.

The findings show that innovation in the legal industry is driven by digital pioneers that distance themselves from the dominant logic. While these firms (and individuals) cannot be said to represent one contesting new logic based on digitalization, it seems that the current

institutional complexity has enabled them to make different strategic choices, which also indicates an increasing fragmentation of the field (Zucker, 1987). While there are conflicting institutional logics inherent in digitalization (Hinings et al., 2018), a new prescribed pattern of practices based on a new logic for digitalized law firms has not (yet) been formalized.

This paper concludes that digitalization has caused institutional complexity in the legal industry, where digital pioneers distance themselves from the dominant logic in order to innovate (in terms of service delivery, practices, and business models). This paper also suggests that hybrid firms play a major role in institutional change. This is particularly noteworthy since the founders of these firms are past employees of the incumbents, that have left or been dropped out through the promotional practice of *up or out*. This also points to the institutional order where micro-level actions over time result in macro-level change (Powell & Colyvas, 2008). Ironically, this paper shows that it is the institutionalized inability to change among incumbents that has prompted the current threat to their dominant logic, by enabling digital innovation and rising competition among digital pioneers.

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