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Analyzing the Correlation between Innovation and Performance in the Law Industry: A Case Study of GKJ Law Firm

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ABSTRACT

In today's business environment, innovation has become strategic for any organization to survive. This empirical study aimed to analyze the relationship between innovation and performance in the law firm industry. The sample size of this study was GKJ Law Firm based in Washington, DC. Data were collected from the organization's financial reports from 2010 to 2022. The results of the data analysis revealed a significant correlation between innovation and performance. The results indicated that using innovation theory enabled GKJ Law Firm to develop innovative strategies to sustain performance. The results also showed that innovation increases the organization's viability and credibility. The implications of this study for positive social change include the potential to enhance tax revenues for the government and improve positive social change by promoting the benefit of legal compliance in local communities.

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KEYWORDS: Innovation, Performance, correlation, strategies

I. INTRODUCTION

The role of law firms is vital and crucial for individuals, companies, and governments [1]. Afhami [2] argued that law firms play a critical role in the social and economic lives by providing (a) legal services, (b) promoting social justice, and contributing to individuals' or organizations' satisfaction. In the United States, the law firm industry comprised 436,508 firms and generated $330,4 billion in revenue and $66.1 billion in 2019 [3]. In the years from 2014 to 2019, the law firm industry steady increased their revenue by an average of 2.3% annually [3].

According to the government forecast, the number of law firms is expected to increase in the next ten years with the development of technology, entrepreneurial spirit, and innovation strategies [1].

Promoting small business growth, which includes law firms, has become a priority for the government to reduce unemployment, increase government income taxes, and promote positive social change [4]. However, managers or leaders of law firms need business skills and strategies to compete efficiently and remain active in the market [5]. Moreover, with the pressure of globalization, competition and business challenges have increased among companies. Law firm managers or leaders need to learn and understand the impact of innovation on increasing profits. Previous researchers have explained the causes of the failure of law firms [6, 7]. Hongdao et al. [8] and Ferreira et al. [9] suggested that law firms needed to leverage new technologies to meet the evolving needs of their customers and the increased competition in the market. This research focused on

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analyzing the effect of innovation on a law firm's performance when facing market competition and business challenges in the contemporary business environment.

II. LITERATURE REVIEW

II.1 Innovation Concept

The concept of innovation is paramount and crucial in the current business environment, which is characterized by the development of new technology to compete efficiently. Being the first theorist to introduce in 1935 the theory of innovation, Joseph Schumpeter described innovation as the action or processes to develop new ideas, methods, or products to increase performance [5]. Per Schumpeter, the development of all these processes should be made at all levels of business activities, such as production, transportation, and commercialization [5]. Konstantakis et al. [10] used an analytic model to analyze the implications of the Schumpeterian approach in the US economy. Konstantakis et al. [10] found that business leaders or managers must look beyond invention and more toward innovation to remain competitive and increase profits. Per Konstantakis et al. [10], innovation should be perceived as the strategy in term of research and development that contributes to reducing production costs and sustaining long-term business longevity. With the advances in technology and the impact of the internet on business activities, business managers should take advantage of using innovation concepts to manage or lead in real-time and at a low cost [4].

As stated by Luamba [11], the concept of innovation in business encompasses various activities, such as developing new technology, methods, and systems of managing or monitoring business processes. The lack of innovation may contribute to a financial crisis or business failure [4]. Luamba [11] added that innovation is about new strategies for improving products and services and complying with customers' desires. However, some organizational managers fail to assess customers' needs, ultimately threatening the organization's development. Adopting an innovative approach is crucial because the primary goal of successful managers should be to promote and sustain their business activities [11].

Understanding the impact of globalization on business activities in the competitive market has become a critical factor for promoting innovation to solve complex issues that companies may face. Luamba et al. [4] and Luamba [11] attested that globalization increases competition, and competition contributes to improving the quality of products and services that companies offer to clients on the market. However, creating new ideas is critical for an organization to increase performance, even if it may result in additional costs. Law firms' managers could use innovation as a strategic managerial tool for increasing competitive advantage and market orientation.

The concept of innovation includes many other aspects related to business activities, such as creating new services and products or entering new markets. As stated by Schumpeter, the innovative spirit is correlated to managers' abilities to understand and master market behaviors [12]. It is paramount that business managers act as innovators to maintain long-term business viability by reducing operational costs and increasing sales [7, 8]. Some researchers suggested that leaders who use innovative strategies such as the acquisition of appropriate machinery, development of new production processes, promotion of customers' loyalty, and improvement of quality and quantity of products or services have the chance to sustain the longevity and productivity of their businesses [4, 7, 12]. Vecchiato [13] used a multiple-case research design to analyze how innovation led to a long-term performance in the telecommunication industry between the 1990s and the early 2000s. In his conclusion, Vecchiato [13] found that innovation was unavoidable for small, medium, and large business managers to lead efficiently and maintain high business standards. For any organization, innovation must be a factor that increases a company's visibility, profitability, and longevity [7,12, 13]. Researchers can use many other theories to expand or develop business activities; however, innovation may be useful for law firms' performance.

II.2 Causes of Business Collapsing

Efficient managers should plan and implement innovation; however, it may be challenging for a new company or firm to enter new markets [7]. Schumpeter [12] revealed that managers should have adequate resources to promote innovation and prevent business failure. According to Schumpeter [12], many organizations collapse because of a lack of managerial skills, entrepreneurial spirit, passion for business, and strategies. West and Bogers [6] analyzed how and why managers need substantial financial means to increase innovation and prevent failure. In their conclusion, West and Bogers [6] found that the main cause of organization failure is the lack of clear identification and analysis of internal and external resources that affect performance. Per West and Bogers [6], detecting on-time factors such as lack of liquidity, low productivity, high debts, and customers' deceptions lead to preventing business failures. Luamba [11] added that the causes and symptoms of small companies' failures might arise from many other sources and advised that managers should emphasize on analyzing, understanding, and conducting business fairly to avoid failure. Tursunbayeva et al. [7] echoed that managers should prevent failure by increasing business aptitude and compliance with business laws and regulations that define and guide business practices.

Similarly, Grant [14] asserted that managers should use innovation to improve their decision-making and planning capabilities. Moreover, Luamba [7] opined that business failures might also arise from employers' and employees' misconduct, which can negatively affect the company's finances. Nevertheless, managerial neglect can damage a company's innovation efforts.

II.3 Legal and Regulatory Compliance

As stated by Schumpeter [12], innovation is useful while complying with legal frameworks.

Primakov [15] argued that federal and state governments had implemented regulatory enforcement and compliance frameworks to conduct businesses reasonably and fairly. The advantages of complying with legal and regulatory frameworks are tremendous such as preventing fraud, penalization, corruption, money laundering, and other misconduct business practices which may negatively affect performance. Admati [16] echoed that complying with federal and state governance frameworks can be essential in improving business management and profitability. A legal and regulatory framework includes insights for assessing the management team's responsibility and the ability to mitigate the risk of noncompliance [11]. Nelson and Stout [17] also opined that complying with government rules, policies, standards, or laws contributes to the recognition of citizenship and the prevention of sanctions that may include company fines or employee jail terms. Because of the increasing number of regulations and the need for operational transparency, law firms should adopt compliance controls to avoid any misconduct behaviors or practices that may affect performance.

III. INNOVATION AND PROFITABILITY

Business managers need an innovative business model to sustain their activities. Luamba [11] argued that business model innovation is a fundamental change needed to realign resources, processes, and profits for organizational performance. Similarly, Schumpeter [12] stated that business model innovation should help understand the organization's nature and structural capital. The primary purpose of a business model innovation is to create and increase new resources of the organization by improving the value of products or services and showing how products or services will meet customers' demands efficiently [4,11]. Managers must create new ideas and develop new strategies through their business models to increase performance [12]. Then, successful innovative business models require an alignment between a company's inputs, outputs, and goals.

With the increasing effect of competition on the market, managers should create or develop new strategies that lead to implement performance. For law firms, managers must explore how to increase customers' value and develop price and marketing strategies to remain efficient [11]. Per Luamba et al. [4], managers experimenting with new products or services should also develop a strategic business model to face market challenges and shareholders' attitudes towards new products or services. Addressing the challenges of the market will not be easy. Still, law firm managers who understand the role of business model innovation and its impacts on operation processes may help formulate a pathway to performance. Luamba [11] added that the primary constant in business is adopting changes, and the lack of a sound business model innovation strategy could affect business development, even if competition is minimal. Like the theory of innovation, business model innovation includes strategies that may contribute to sustain any law firm's performance.

IV. RESEARCH QUESTION AND HYPOTHESIS

Our research question was: Is there a statistically significant relationship between innovation and performance?

To better respond to this research question, we have formulated two hypotheses:

H0: There is not a statistically significant relationship between innovation and performance.

H1: There is a statistically significant relationship between innovation and performance.

As stated by Obilor and Amadi [18], hypotheses are processes used to evaluate the strength of evidence from the sample of the population observed. Accepting or rejecting one or another hypothesis from this case study will have the same implication for other law firms.

V. RESEARCH METHODOLOGY

This simple case study used a quantitative research methodology with secondary data analysis. Data were collected from the annual reports from 2010 to 2022 of GKJ Law Firm, an international law firms based in Washington, DC. Financial data quality from the Research and Development Project was measured using Pearson's Product-Moment Correlation. Pearson's product-moment correlation is a statistical tool that assesses the association between two variables, X and Y, and shows how the two variables are linked [18]. Green and Salkind [19] stated that correlation determines the relationship instead of the differences between two variables. Per Green and Salkind [19], one of the most advantages of using correlation is that it provides a standardized and absolute measure of the strength of the relationship bounded by values comprised between -1 and 1. Also, correlation removes the effect of the variance on the variables analyzed.

On the other hand, Cowls and Schroeder [20] argued that correlation presents some limitations, such as nonlinearity between variables and non-distinction between dependent and independent variables. Pearson's product-moment correlation coefficient is denoted by r and can vary from-1 to +1 [18]. However, correlation also measures the strength of linearity between variables and indicates how the data point (X, Y) best fits in the model [18].

Pearson's correlation should be used when there is a significant effect with ($p > .050$) and a relationship between two variables. Pearson's correlation can be positive or negative and cannot be used when we reject H0 and accept H1. Then, the Pearson Correlation Coefficient r is useful to analyze if there is an association or correlation between innovation and performance, the two variables analyzed in this study.

If $r>0$, there is a positive relationship between the two variables, which means that an increase in the value of one variable results in an increase of the value of the other variable.

If $r=0$, there is no association between the two variables analyzed.

If $r<0$, there is a negative association between the variables analyzed, and the value of one variable increases when the value of the other variable decreases.

Moreover, for a positive relationship, we have:
if $0 \leq r \leq 0.3$; it is a week correlation.
if $0.3 \leq r \leq 0.5$, it is a moderate correlation.
If $0.5 \leq r \leq 1.00$, it is a strong correlation.
This may also be applied to a negative correlation.

VI. RESULTS AND DISCUSSION

In this subsection, we presented descriptive statistics, discussed testing of the assumptions, and presented inferential statistic results.

Descriptive Statistics

Based on the data collected, we tested the assumptions of normality, linearity, and homoscedasticity, and no significant violations were noted. Table 1 depicts descriptive statistics, and Table indicates the correlation between the two-variable analyzed.

Table 1

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Performance	13	4932774.91	14214237.34	8693480.0631	2387411.5208
Innovation	13	116824.82	203622.35	150654.0246	26507.42035
Valid N (listwise)	13				

Table 2

Correlations

		Performance	Innovation
Performance	Pearson Correlation	1	.697**
	Sig. (2-tailed)		.008
	N	13	13
Innovation	Pearson Correlation	.697**	1
	Sig. (2-tailed)	.008	
	N	13	13

**. Correlation is significant at the 0.01 level (2-tailed).

Inferential Results

A Pearson Product-Moment correlation test (two-tailed), a=.05, was conducted to assess whether there was a statistically significant relationship between innovation and performance. The results from Pearson Product-Moment Correlation Test using SPSS IBM software indicated that $r=0.697$, this value is >0, which means that there is a positive relationship between the two variables analyzed performance and innovation. As shown in table 2 at $p<0.01$, there is a statistical relationship between innovation and performance. Moreover, the results of this study showed that performance is highly associated with innovation. A variation in one variable, such as innovation, predicts at least 70% of the variance in another variable, such as performance. The company's performance which includes the increase in profits, number of clients, and revenue, was reached by using innovation strategies while facing market challenges and competition. The company's performance was also achieved by using innovative technology while going international or entering the global market. This led to conclude that we rejected the null hypothesis (H0) and accepted the alternative hypothesis (H1).

VII. IMPLICATIONS

As predicted by the innovation theory, the results of this study indicated that using an innovation strategy enabled GKJ Law Firm to be successful for many years. As stated by Salamzadeh et al. [21], innovation increases the company's value, productivity, and longevity. Law firm managers or leaders could use innovation as a strategic tool to increase profitability. Increasing law firm performance may positively impact increasing tax revenue and creating a peaceful working and living environment. Law firms and local government leaders should work together to sustain the benefit of companies' performance and promote positive social change for the welfare of the local community members. This study's findings could help law firms' managers to be proactive in using innovation to remain competitive and profitable.

VIII. CONCLUSION

In the competitive market, innovation has become unavoidable because it helps maintain and sustain performance. Using Schumpeter's innovation theory or being an innovator manager in business helps increase success. Law firm managers should look at their business practices and procedures to ensure appropriate strategies to sustain performance. The findings of this study revealed a positive and strong relationship between innovation and business performance. The results may also promote positive social change by increasing customer satisfaction and income tax for the government.

IX. RECOMMENDATIONS FOR FUTURE RESEARCH

This study focused on a sample case of one law firm based in Washington, DC, that has been in business for more than 20 years. The primary limitations of this study resulted from using only the theory of innovation, geographical location, and law firm. Further researchers may use or explore other strategies to sustain performance by expanding the location area to multiple states. Secondly, researchers may use different theories and methodologies to analyze law firms' performance. Finally, future researchers should explore the impact of innovation using an appropriate and specific technology tool.

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