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Law Department Artificial Intelligence Survey Report

Introduction

In the fall of 2017, HBR Consulting (HBR) conducted a series of corporate law department roundtables in cities across the country. The roundtable discussions focused on the results of the annual [HBR Law Department Survey](#), the leading source of benchmarking data for U.S. and global law departments across legal spending, staffing, operations, technology, outside management and compensation. Participants included law department executives from more than 50 companies, the majority of whom are in the Fortune 500.

Conducted annually for the past five years, the Law Department Survey Roundtables also include a supplemental onsite survey that focuses on a key topic or trend of interest to law department leaders. In years past, onsite surveys have covered topics like legal operations issues, e-Discovery trends, information governance best practices and contract management challenges. This fall, the survey topic was artificial intelligence (AI).

AI is a broad term that defines a wide variety of solutions ranging from autonomous vehicles, natural language processing, robotics, image processing, spoken language (e.g., Siri and Alexa), machine learning and more. The potential for AI in law departments has never been greater. Although in its infancy, AI has been gaining attention (and investment) at an unparalleled pace.

As law departments face unprecedented pressures to operate as an effective business function, common optimization themes, such as proper resource allocation and exploring innovative technology as a force-multiplier, have emerged. With AI, the ability to analyze, benchmark and predict far surpasses any traditional methods of metrics and reporting.

Perhaps the most promising use of AI in the legal profession is its facilitation of changes to standard law department business processes and how the legal staff gets its job done. Ever since personal computers landed on attorneys' desks, law departments have aspired to leverage technology to provide high value legal services more efficiently. Instead, the demand for legal services and support has accelerated while inefficient processes remain largely unchanged. AI holds the promise of providing intelligent tools and problem-solving resources to transform the delivery of legal services.

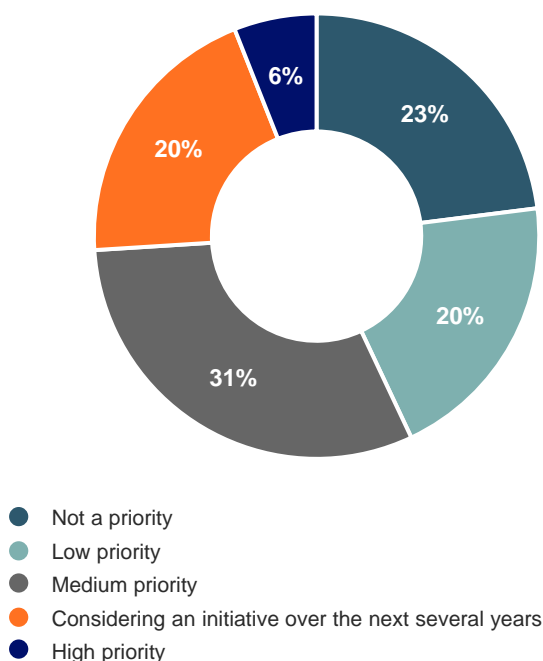
This report examines the survey results, emerging trends and their importance to law departments.

Methodology

The Law Department AI Survey (the Survey) was conducted during four separate regional roundtables from December 4-13, 2017. Survey representatives include 35 corporate law departments, the majority of whom are in the Fortune 500.

Future Plans to Employ AI

What is your law department’s level of focus on AI in 2018?

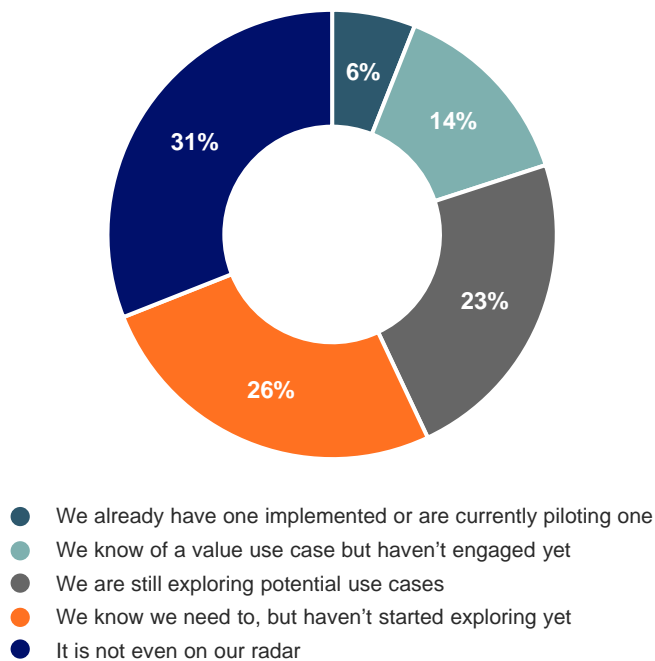


In an industry that is typically slow to embrace technological innovation, AI has gone from anecdotal use in e-Discovery to the shortlist of law department optimization initiatives in under two years. While we would like to attribute the accelerated path to embracing AI to the “cool factor” of the technology, it is more likely a result of other current business drivers influencing the legal industry. The pressures faced by general counsel to operate the law department as an effective business function has given rise to the role of legal operations. The legal operations function

has established clear ownership over optimizing resources and service delivery, measuring spend and supplier performance, and technology initiatives. Core initiatives undertaken by the legal operations function have illuminated areas ripe for introducing emerging technologies as amplifiers.

Concurrently, software companies have introduced to the legal market AI-based applications designed to enhance efficiency and, in some cases, obviate the need for brute (aka expensive) force specific to the delivery of legal services. The promise of extending or enhancing law department services while reducing outside counsel spend and internal headcount has fast-tracked AI as a priority within many corporate law departments.

What are your current plans around AI tools in your law department?



It is clear that AI has gained mind share; however, relatively few (6 percent) law departments have implemented an AI-enabled technology. This is typical of technology adoption,

with early adopters leading the way. In the 2017 HBR Law Department Survey, we asked respondents about technology areas that law departments have either implemented or are planning to implement. Respondents ranked AI in last place out of 17 different technology areas (matter management, document management, contract management, etc.) in terms of current implementations (only 1 percent of responses). However, an impressive 22 percent of participants noted that they are considering it within the next 1-2 years, which ranked 4th out of the 17 areas in terms of future focus.

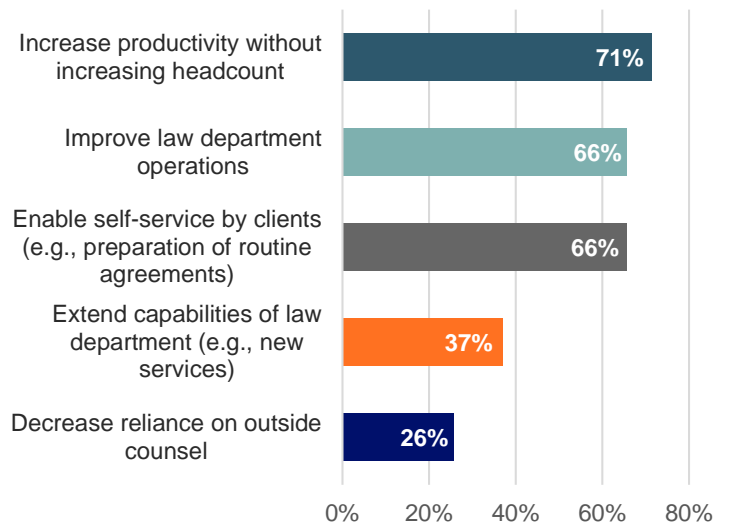
As both the annual HBR Law Department Survey and the AI Survey indicate, a significant percentage of law departments are actively exploring ways to apply AI solutions to their respective businesses, further underscoring the accelerated path to adoption that is underway. A challenge with AI is that it is an underlying technology (e.g., machine learning) and companies have embedded AI technology in applications designed to address a variety of legal-related business needs that each operate differently. AI-enabled software applications can cognate and categorize information, automate decision-making and predict outcomes. The amorphous use of the technology makes the exact application to the delivery of professional services less clear*. Furthermore, employing AI is dependent upon the software companies' interpretation of law department business needs and expertise to guide the proper selection and implementation.

That said, since AI emerged in the vernacular of legal technology, expectations have evolved and are focused on providing intelligent tools and problem-solving resources to

humans. Expressed another way, AI is expected to enhance productivity and services, but not serve as an absolute replacement for attorneys.

Objectives for AI in the Law Department

If your department were to implement AI tools, which objectives do you think they could meet?



Participants have high and diverse hopes for the impact of AI-enabled technologies spanning operational, productivity and legal service delivery objectives. Consistent with HBR's experience, increasing productivity of personnel without increasing headcount – doing more with less – is the top objective cited for exploring AI.

Tied for second is the desire to improve the operations of the law department and to enable self-service by clients. These objectives reflect the emphasis on the expectation of the law department to function as an effective and efficient business unit. Those expectations include accurate resource planning, budgeting, risk identification and controlling spend, all while streamlining legal requests by providing quick

*According to McKinsey & Company report, "What AI Can and Can't Do (Yet) for Your Business, January 2018 the sectors leading adoption are in high tech and communications, auto assembly, financial services and energy sectors. Professional services were not addressed as a sector or early adopter of AI in the report.

access to common questions. To address increasing legal demands while managing outside counsel costs, 77 percent of law departments are keeping more work in-house¹. AI offers the opportunity to more efficiently examine business drivers and the impacts to the law department based on historical trend data. This enables predictive modeling to support strategic resource planning.

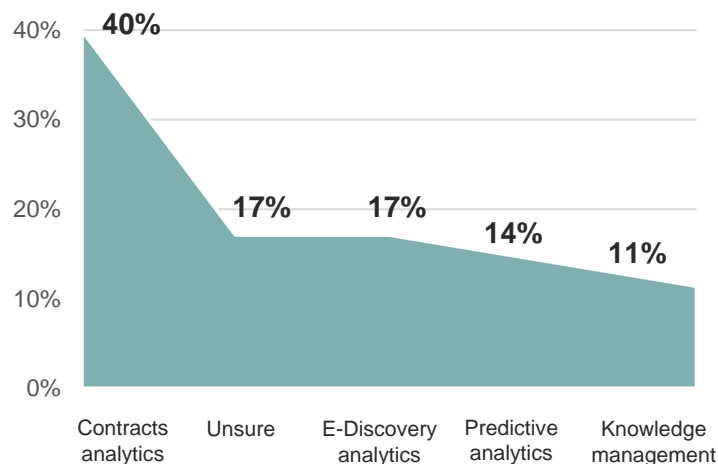
“Perhaps the question should instead be: What problems are new technologies trying to solve? It ultimately doesn’t matter what these technologies are called; what matters is whether they can improve lives and perform the task advertised.”

– Assaf Baciu, *Wired Business*

In HBR’s [AI + Evolving Legal Services Survey](#) conducted in 2016, the lack of defined business needs was cited by 44 percent of legal professionals as a barrier to investing in AI initiatives and 37 percent cited unclear benefits to the business². A few innovative law firms have seized the opportunity to assist law departments by providing self-service (online) applications. If these law firms can demonstrate return on the investments, we expect a trend to emerge. Both the client and the law firm benefit from the leverage provided by technology, and the law firm specifically also gains insight into its client’s legal portfolio, thus forming a symbiotic relationship (e.g., being one click away from a new matter). The law department reaps the benefit of the technology-enabled service without bearing the cost of the investment.

Objectives for AI in the Law Department

Where do you think you have the most opportunity to leverage AI tools today?



A core purpose of the law department is to manage the contractual obligations of the company. Poor tracking of contract terms can cause problems with delivering on obligations, forecasting revenue and financial reporting and may lead to lost revenue, unfavorable renewals, lost savings and / or penalties. The key to effective management of obligations is to locate (i.e., “discover”) existing contracts, organize the clauses contained in each and enable standardization of terms. In HBR’s 2016 Contract Management Survey, 71 percent of participants indicated their ability to track and manage contractual obligations was ‘fair’ or ‘needs improvement.’



The key to effective management of obligations is to locate existing contracts, organize the clauses contained in each and enable standardization of terms.

Several applications have been introduced to the market to help organizations discover contracts, better understand contractual obligations, and enforce and measure compliance. The strong need – coupled with AI-enabled software applications designed to meet the need – makes contract lifecycle management (CLM) a suitable priority for the application of AI technology. While e-Discovery analytics has a long history of applying AI-enabled technology (e.g., predictive coding, machine learning or technology assisted review), the responsibility for managing review is less clearly defined within the governance of law departments, perhaps diluting the 17 percent reported by this survey's participants.

As law department operations mature, we anticipate that more law departments will consider AI-enabled applications to assist with predicting the outcome of matters to enhance early case assessments and to automate knowledge management to improve internal efficiency. It is encouraging that less than a quarter of respondents are unsure of a business case, indicating that the benefits of AI and potential use cases are becoming more apparent to most law departments. The participants who said they were unsure of the greatest opportunity for AI are the same group that responded that AI has yet to emerge as a key priority.

Charting your Law Department's AI Journey with HBR's AI Maturity Continuum

Technology is an enabler for achieving effective law department operations and enhancing delivery of legal services to the business. Accordingly, establishing strategic objectives and clearly defining opportunities for improvement are foundational to understanding where to apply technology.

HBR uses a unique AI Maturity Continuum (Figure 1) for law departments as a tool to identify an organization's current state relative to employing AI-enabled technology and to plan the roadmap for achieving the desired optimal state. To understand the current level of AI maturity in your law department and plot your course, the following questions must be answered:

- Have the law department operational goals and objectives been defined and documented?
- Have specific pain points and barriers to achieving the objectives been identified and priorities established?
- Have specific processes requiring optimization been identified?
- Is there clear ownership for technology-related initiatives?
- Do you understand AI-enabled technology, including how and where it can be leveraged?
- Have you defined processes for identifying appropriate opportunities to select, pilot and implement AI-enabled technologies?
- Have you identified an appropriate use of AI-enabled technology to address one or more law department goals and objectives? Have you developed or implemented a pilot of the technology?
- Have you engaged with the affected stakeholders?
- Have you considered strategies to educate the stakeholders of the value of AI-enabled technologies to their departments?
- Are you able to measure the effectiveness and quantify the impact of AI-enabled technology initiatives?

Figure 1. HBR AI Maturity Continuum

	Under-developed	Developing	Operationally Efficient	Best-in-Class
Objectives	Law department goals and objectives not clearly defined; AI initiative(s) not on radar screen	Law department goals and objectives clearly defined; AI initiative / use case(s) identified; purpose and desired outcome(s) established	Using AI-enabled technology for one or more processes / services; AI technology strategy defined and being implemented	AI-enabled technology used to improve operations, support strategic decision-making, expand or enhance legal service delivery and for predictive modeling (e.g., outcome analysis, risk analysis, setting reserves)
Usage (Process)	Processes for improvement not identified, not well-defined or documented	Underlying business process(es) subject to AI initiative(s) are documented; data identified and assembled; pilot plan(s) created	Process for identifying and piloting opportunities for AI initiatives developed; process for vetting technology created	Process for maintaining and continued evolution of AI-enabled processes based on KPIs and ongoing feedback loop
Usage (People)	No awareness of AI-enabled tools; opportunities for resource optimization not identified	Clear ownership for AI initiative; stakeholder team(s) defined; roles and responsibilities of underlying business process(es) subject to AI initiative(s) are defined; opportunities for automation identified	Clear ownership for AI initiatives defined; pilot process developed and run in a consistent manner	“Center of excellence” in law department for AI-enabled tools and new process optimization; internal expertise to configure AI-enabled tools
Technology + Reporting	Lacking department-wide tools for measuring work, efficiency or spend; reporting not well-defined and inconstant	AI-enabled applications identified for pilot(s); approach to measuring success defined	Use of leading AI-enabled tools allow for more advanced analysis of data over time; self-service for routine legal services; predictive models are developed, serving to inform day-forward business decisions	Real-time data mining and auto-population of advanced analytics; AI or machine learning tools allow for predictive model validation and day-forward optimization of outcomes through automated decisions

Conclusion

Capitalizing on the promise of AI requires (1) identification of the key barriers to achieving the objectives and goals of the law department, (2) a keen understanding of how AI-enabled tools are being applied in law departments and, most importantly, (3) an appreciation of the limitations of the technology available. Once armed with defined business needs and a realistic understanding of available options, the next step is to develop a business case for an AI initiative, including clearly established success measures.

All technology initiatives are 50 percent about the technology and 50 percent about changing employee mindsets. Engage and educate the stakeholders with a focus on improving the personal experience for each person. Only after departments gain the support and enthusiasm of those affected will they be able to realize the promise of the use of intelligent tools and problem-solving resources to transform both the delivery legal services and law department operations. If you are interested in more information on AI or the [HBR Law Department Survey](#), or would like to learn more about how to chart a course for AI in your organization, we can help.

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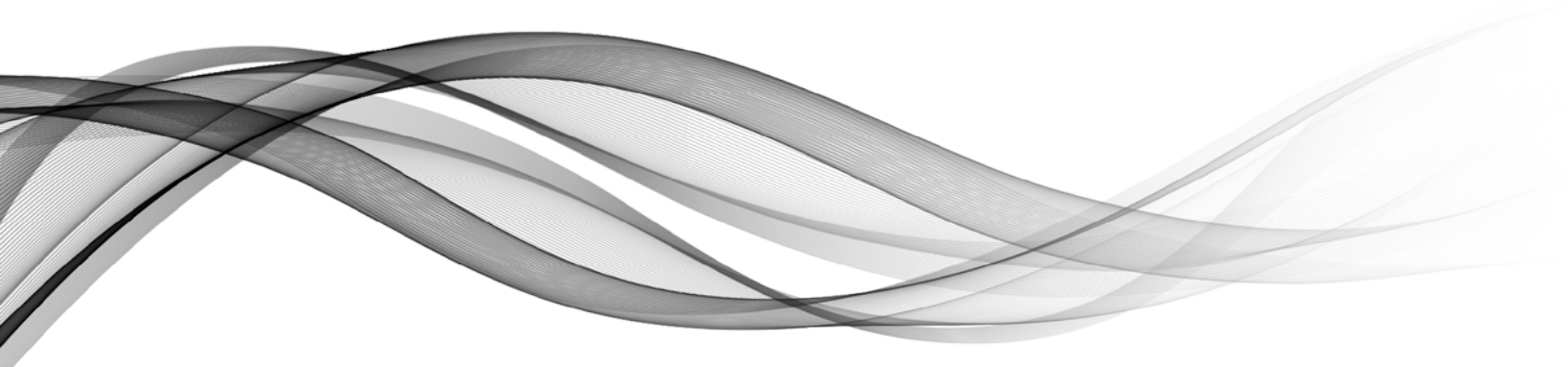
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Sources

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² "Artificial Intelligence + Evolving Legal Services Survey Report," HBR Consulting. February 2017.
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