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The Promise and Reality of Legal Tech

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By **Abbott Martin** | April 12, 2018

The news is filled with stories highlighting the promise of new technologies—machine learning, AI, blockchain—for the practice of law. Unfortunately, legal department experience with technology has not continually matched the headline aspiration. In fact, less than half of legal department users think current technology, such as matter management, contract management, e-billing, etc., has provided a less impressive “somewhat high” increase in efficiency, reduction in costs or increase in quality.



If a revolution in business is coming, it hasn't reached most legal departments.

So, why do legal departments continue to experience this gap between perceived potential and actual experience?

The Promise

In the last decade, the options for legal departments outside law firms have moved from pure labor arbitrage plays with offshore LPOs offering savings on labor for highly routine, rules-based work, to technology enabled process improvement systems with software that categorizes information, routes matters or performs low-level factual analysis or discovery.

Fortunately, processing power has advanced far enough to enable automated problem solving in the form of advanced analytics and Artificial Intelligence (AI). Recent studies tout the potential automation of 25 to 50 percent of legal department work, while some academic studies (https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2701092) suggest a realistic technology adoption rate of new legal technology would reduce hours worked by lawyers by at least 2.5 percent annually, or, approximately one extra week annually for every lawyer on the team.

Now that this technological change is being matched with increased commercial investment, there is real reason for optimism about the utility of legal tech. For example:

- Over the last five years, approximately \$1.3 billion of VC investment has flown into legal.
- Grand View Research, Inc. forecasts that the global legal process outsourcing (LPO) market (<https://www.grandviewresearch.com/industry-analysis/legal-process-outsourcing-lpo-market>) is expected to reach USD 27.19 billion by 2024.
- Law firms are setting up accelerators (MDR Labs (<https://lab.mdr.london/>)), investment arms (Next Law Labs (<http://www.nextlawlabs.com/>)), work spaces (Fuse

(<http://www.allenoverly.com/advanceddelivery/fuse/Pages/default.aspx>), etc., to drive advances (<https://seedcamp.com/legal-tech%E2%80%8A-%E2%80%8Awheres-all-the-vc-money/>).

AI and data analytics will enable technology to take on more rules and judgment-based activities (ex: due diligence, contract drafting, regulatory compliance), helping legal departments become more efficient and focus time on higher-value work. At least for those in-house teams that are ready.

Where We Are Today

Despite the growing promise of legal tech, legal department investment remains low. On average, only 2 percent of legal department budgets go to technology investments (although corporate IT likely accounts for some additional investments). Some of the most commonly used legal department technology systems include:

- E-billing systems (57 percent of legal departments)
- Document management (54 percent)
- Subsidiary and entity management (48 percent)
- IP management (44 percent)
- Contract management (43 percent)
- Matter management (34 percent)

Moreover, only 8 percent of legal departments currently use AI and even then for very specific applications. Interestingly, and despite the many touted benefits, a majority of legal department don't have plans to use AI in the next three years.

The low investment is likely a function of previous disappointment and general skepticism. While results vary by technology type, less than half of legal department respondents thought their e-billing, matter management, contract and management systems met their cost reduction and quality improvement goals. So even technologies that support specific legal department needs don't always meet expectations.

Legal departments point to too many challenges with technology use such as difficulty evaluating technology products, data quality, access concerns and poor employee adoption. Without addressing these challenges, legal departments sacrifice an opportunity to use emerging new technology.

Bridging the Gap

The companies who are most satisfied with their current technologies prioritize process fit and user adoption during implementation. That means involving end users throughout the technology selection and implementation process by listening to their ideas, understanding the true technology use case, and incorporating their feedback. These tactics will make them more invested in the project and more likely to actually use the technology.

A few practical steps Legal departments can follow:

- **Start with Use Cases**—Legal technologies need to have a clear use. Review workflows to determine where legal investment would most benefit the department. You can start by creating an inventory of all collaborative legal systems in use and speak with representatives across practices (like litigation, compliance, or IP) and geographies to understand their current technology capabilities and needs. This established buy-in from end users and surfaced both critical needs and shortcomings and will inform department decisions when buying new technology systems or features.
- **Launch a Test Trial**—Legal departments should be more willing to launch test trials of new technologies. Taking a test-and-learn approach can help the department understand the capabilities of software and services while learning how they underlying software functions.
- **Delegate Process Standardization Where Necessary**—Use of software likely requires some process standardization. This requirement often puts the breaks on projects, however, legal departments can use the vendors to manage standardizing and integrating legal workflows while the legal department focuses on evaluation.

Law firms can also be a positive source of experience. As your law firms often have more incentives to invest in new technologies, legal departments should use their relationships to identify promising opportunities for in-house improvement. Asking your law firms the following four questions can help you stay abreast of change:

- In what technologies are you investing?
- How has the technology improved your efficiency?
- How does technology impact the quality of work performed?
- What data analytic and information security capabilities are required?
- What should my legal department learn from your technology investments?

Conclusion

In fits and starts, the technologies available to improve legal department effectiveness and provide more real-time compliance oversight are improving. What's missing is a firm sense of how legal departments should proceed forward. Legal departments must become better technology consumers with the ability to identify needs, quickly evaluate new technologies and remap workflows around end-user need. The legal departments that master these skills will be best positioned to take advantage of the legal tech revolution.

Abbott Martin *is a legal research leader at Gartner, a research and advisory company headquartered in Stamford, Connecticut.*

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