Synaptiq THE HUMANKIND OF AI

Digital Transformation Trends in the Legal Industry

Summary

Artificial intelligence (AI) is now at the leading edge of digital transformation efforts across the legal industry. Law firms are exploring AI and machine learning to improve client services, internal processes, and business development.

Although there has been an increased focus on AI solutions across the legal industry, firms are approaching digital transformation—and AI's role in it—at different velocities and with different strategies.

In late 2020, Synaptiq launched a rapid research effort to analyze key market drivers, firm readiness, and other relevant factors to make actionable recommendations for legal firms to optimize their AI Led Digital Transformation approach.

We spoke with innovation, technology, and business leaders across a select group of large firms to unpack their top concerns and current initiatives. This report is a summary of our findings.

About Synaptiq

With over 75 clients in 20 sectors worldwide, Synaptiq is a full-scale AI consultancy delivering impactful solutions with applied machine learning and computer vision, natural language processing, and other data-driven techniques. The customized platforms we create are far more potent than existing off-the-shelf-tools. Our management consultants, AI researchers, data scientists, and product development experts work directly with our clients to develop AI solutions and navigate potential obstacles to AI adoption. The core tenets of our purpose-built, meaningful service offerings are integrity, generosity, ingenuity, and accountability.

Market Drivers

Throughout our discussions with legal industry experts, there was broad agreement that how firms win, serve, and retain clients is rapidly changing. New market dynamics are challenging firms to quickly evolve their thinking on business operations and staff support, including:

- **Improving Client Experience.** Client expectations for the value firms provide are increasing. These expectations are often based on the experiences they have with highly digitized industries outside of the legal space. Consequently, clients are seeking better efficiency and value from their relationships with firms. They expect law firms to have a deep understanding of their business and highly personalized delivery.

- **Fixed Fee Services.** Clients are requesting transparent and fixed-fee pricing for transactional legal services (e.g., real estate). This shift has created pressure within firms to quantify the cost of delivering their specific services and to improve the efficiency of their processes. It's also creating more competitive pressure and commoditization across the legal industry.

- **Digital Client Collaboration.** Firms are exploring new ways to integrate with client workflows to provide higher-level service and engagement. New collaboration platforms that offer shared project management, document collaboration, and automation are quickly becoming essential as a result.

- **Employee Experience.** Attracting and retaining new talent is always a top priority for any firm. Today's younger lawyers seek (and expect) top-of-the-line technology systems to streamline and improve their workflows. They perceive AI as a powerful tool to augment and enhance their work, making its presence a significant factor in choosing where to work.

- **Remote Work and Security.** With entire firms working remotely during the pandemic, managing and securing a remote workforce is necessary for firms worldwide, now and into the foreseeable future. This has inspired a new focus on improving remote collaboration, document sharing, and automation.

AI Led Digital Transformation

The legal experts we interviewed unanimously agreed that there was a need for industry-wide digital transformation. However, many also expressed an appreciation for the cultural, technical, and organizational challenges that make digital transformation difficult for firms to start, sustain, and succeed.

Preparing for Success: 3 Themes

Three themes emerged when we asked what are their firm's top digital transformation opportunities and challenges today: Digital Adoption, Document and Data Management, and Business Development and Cross-Sell.

#1 Digital Adoption

Digital transformation requires changes to firm strategy, technology, processes, and organizational structure—changes often at odds with the firm's established culture.

A cultural "resistance to change" is regularly faced by firms undergoing digital transformation and must be addressed and resolved internally.

Through our interviews with legal industry experts, we found three key questions that can help firms determine whether they are ready for digital transformation. These questions can help a firm take a clear look at their strategy, structure, and process.

Digital Adoption: 3 Key Questions on "Digital Transformation Readiness"

Strategy:

How does your firm prioritize digital innovation as part of its overall planning?

Structure:

Are there resources and roles dedicated to digital innovation?

Process:

What is the process for implementing digital innovation projects and initiatives?

Digital Adoption: Three Phases of Digital Transformation "Cultural Readiness"

Based on a firm's responses to "3 Key Questions on Digital Transformation Readiness," we found that it will generally fall into one of three categories relating to AI: "Starters", "Explorers", and "Leaders."

Starters	Explorers	Leaders
Strategy	**Strategy**	**Strategy**
• Not early adopters • Conservative AI plans with incremental piloting and implementation	• Identifies and and prioritizes new AI initiatives based on a specific practice or partner champions • Measures results	• Utilizes a developed AI strategy • Embarks on R&D initiatives • Applies a rapid test, pilot, and implementation process
Organization	**Organization**	**Organization**
• No formal role or resources for AI innovation	• Individuals or teams responsible for AI innovation are part of broader portfolios	• Dedicated AI innovation role or teams
Technology	**Technology**	**Technology**
• Technology mostly seen as cost center with decision made by IT leaders; less senior management involvement	• Technology decisions and priorities led by IT with input from senior management • Budgets are project by project	• Senior led Technology Committee drives priorities and decisions • Funds are regularly budgeted

"Starters." These firms prefer a conservative approach to AI, and they continue to use current processes and tools. They are not early adopters, introducing innovations through incremental (not radical) changes. Their digital transformation is highly IT-dependent and, as such, competes against many other technology needs for their respective firms.

"**Explorers.**" These firms prefer an opportunistic approach to digital innovation, often driven by a partner or practice champion with specific requests. Their implementation of AI is characterized by opportunistic projects and led by existing technology teams with input from senior management.

"Leaders." These firms prefer a comprehensive approach to AI, requiring a firm-wide strategy led by dedicated digital innovation roles. Their AI work is well-funded and prioritized, guided by an independent and influential in-house committee.

AI Led Digital Transformation (cont.)

#2 Document and Data Management

Not surprisingly, most firms highlighted their ongoing challenge managing documents and data across their organization as one of their top issues. This issue was also seen as a top area to explore using AI-based solutions.

Firms already use a portfolio of available software tools to better manage documents and data for workflows such as due diligence, legal research, and contract review.

However, for many firms these tools are often siloed or limited in scope and are not able to support the efficient end-to-end processes typically required.

Firms have generally implemented "data marts" and document management solutions to solve specific business function needs. Most have not pursued a central management platform that connects internal and external documents and data across the organization.

#3 Business Development and Cross-Sell

Led by a focus on client experience (CX), firms are exploring how AI-based solutions help drive personalized client service and business development opportunities - including cross-selling services and assessing retention risk.

Firms are aggregating client-focused datasets to create profiles of their relationships to test two areas:

- Modeling and predicting opportunities and risks. AI can help firms predict when opportunities and risks will arise—both for themselves and their clients. For example, matching a client's risk profile with the right business development efforts.

- Anticipating client demands. AI can help firms anticipate what services their clients will require in the near future. For example, legal AI can analyze news, regulatory announcements, and more to identify potential legal risks for a client.

Organization Journeys

The legal experts we interviewed remarked that firms today are pursuing unique digital transformation journeys. Indeed, there is so much variation between firms (in terms of culture, structure, technology, etc.) that no single digital innovation approach suits all of them.

However, we did isolate three approaches with proven, frequent success:

Firm-Wide Fundamentals. This approach focuses on improving firm-wide capabilities first. It requires that firms establish the systems needed to leverage AI solutions. Firms then use these basics to deploy new tools for streamlining broad workflows, producing firm-wide improvement.

Practice-Based Workflows. This approach focuses on leveraging high-ROI tools that address specific needs. First, practices determine their most critical pain points. Then they purchase or develop, pilot, and deploy AI-enabled solutions.

Client-Focused Innovation. This approach starts with client-focused needs. They use AI to create more personalized and valuable experiences for clients - for example, collaboration platforms - and include innovative relationship management tools.

These approaches do not need to be mutually exclusive. Many of the experts we interviewed indicated that their firms were working on AI Led Digital Transformation initiatives across more than one area.

AI Led Digital Transformation Journey

Themes	Firm-Wide Fundamentals	Practice-Based Workflows	Client-Focused Innovation
	Establish the basics needed to better run the business and leverage new AI-based solutions.	*Optimize key Practice's supporting workflows next.*	*Client experience focused workflows and collaboration.*
Document & Data Management	• Enterprise document and data platform • Predictive analytics	• Intelligent document processing (e.g., patent/trademark) • Due-diligence	• Client-specific workflow scaling • Personalized collaboration
Business Development & Cross Sell	• Data aggregation • Firm, practice and client dashboards	• Performance analytics • Client service journeys	• Client/prospect opportunity and risk scoring • Optimal client team composition

Key Takeaways

Through this research and our experience serving legal firms, we identified three key recommendations that will assist any legal firm pursuing an AI Led Digital Transformation strategy:

1. Engage business stakeholders and develop a roadmap.

Forward-thinking business and technology leaders must sponsor digital transformation efforts together. Their combined expertise is imperative to shaping a new, modern firm culture: one which unites next-generation technology with exceptional legal expertise. Any successful AI Led Digital Transformation efforts have humans in the loop. Business and technology leaders must:

- Provide all firm stakeholders (from the bottom line to the top of the pyramid) with a consistent education on what AI really is.
- Determine which of their firm's pain points can be solved with AI in order of urgency, impact, and viability.
- Create a digital transformation roadmap that sequences projects based on urgency, impact, and viability.
- Develop quantitative goals and methods to measure progress.

2. Choose technologies carefully.

Whether it is cloud platforms, off-the-shelf products, or custom-built systems, defining and sticking to a consistent architecture can make or break a firm's AI Led Digital Transformation journey. To avoid problems here, we recommend that you:

- Choose products that have robust APIs and well-defined data dictionaries so that you can understand their underlying data and extract it for other purposes.
- Avoid developing two "Systems of Record" for the same type of data, as this drastically increases the complexity of aggregating data for AI.
- Use technologies to build and operate AI models that have large developer and operations support, such as Python.
- Establish a data governance strategy, which is a fundamental building block for AI innovation.
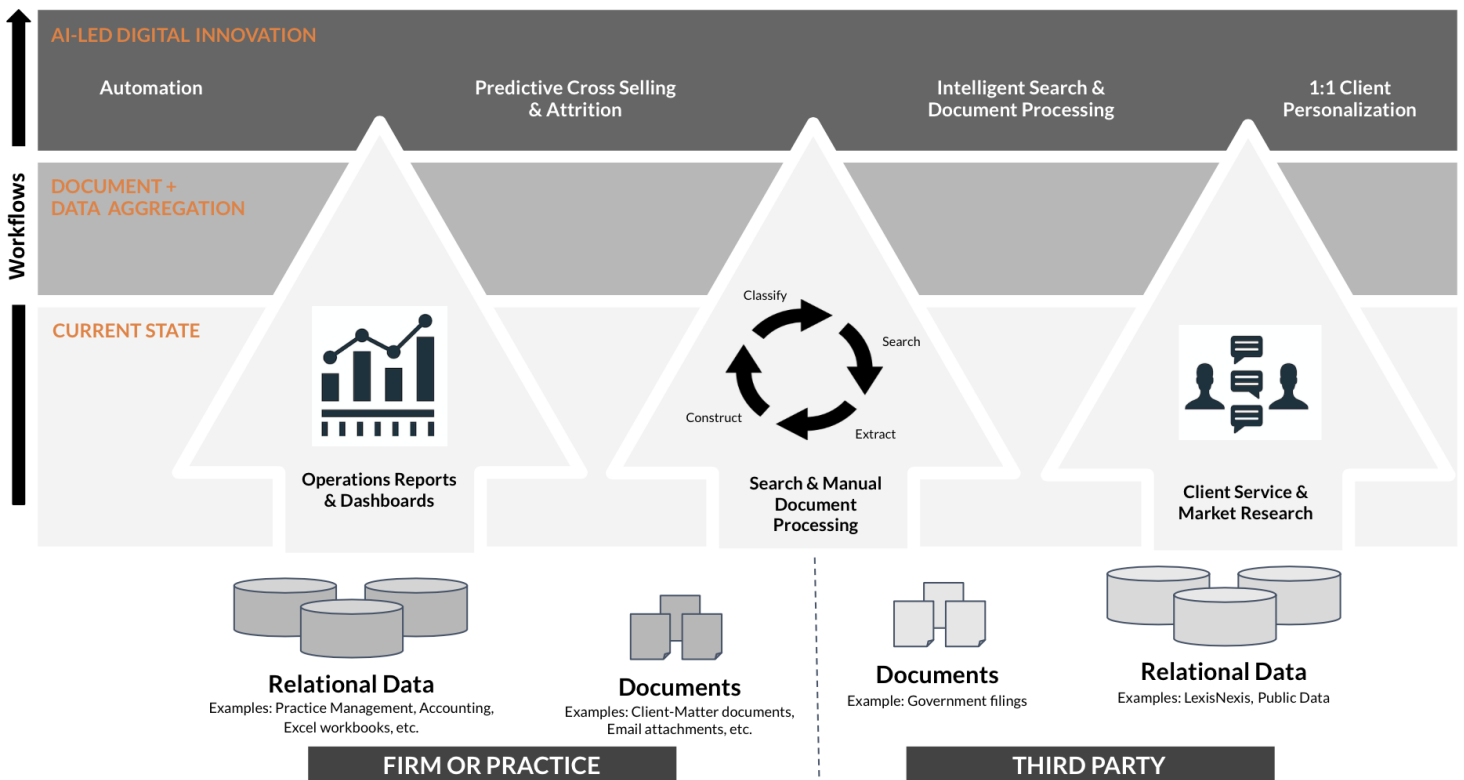
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3. Think strategically about your documents, data, and client experience.

Data is a firm's most scalable and valuable asset. Treating it as intellectual property can have significant benefits. In the interest of protecting and utilizing this asset effectively, firms should develop a strategy to aggregate important documents and data into a central platform for AI innovation as illustrated in the framework below.

Using this framework, firms will be prepared to innovate faster and stay competitive by:

- Seamlessly collaborating across practices and third parties on data and documents.
- Optimizing workflows and automating document processing within practices.
- Utilizing predictive analytics for ongoing insights that power personalized client experiences and target business development opportunities.

Workflows

AI-LED DIGITAL INNOVATION

| Automation | Predictive Cross Selling & Attrition | Intelligent Search & Document Processing | 1:1 Client Personalization |

DOCUMENT + DATA AGGREGATION

CURRENT STATE

Classify — Search — Extract — Construct

Operations Reports & Dashboards

Search & Manual Document Processing

Client Service & Market Research

Relational Data
Examples: Practice Management, Accounting, Excel workbooks, etc.

Documents
Examples: Client-Matter documents, Email attachments, etc.

Documents
Example: Government filings

Relational Data
Examples: LexisNexis, Public Data

FIRM OR PRACTICE

THIRD PARTY

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THE
HUMANKIND
OF AI

AI Services Reimagined

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