THE DIGITAL ADVANTAGE
What Does Digital Transformation Mean for The Legal Industry?

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DSS defines digital technology as a set of capabilities, including but not limited to artificial intelligence, natural language processing, machine learning, content analytics, predictive analytics, and blockchain. The word “capabilities” is important. Within DSS, digital capabilities consist of reusable software modules that can be assembled in various combinations to reflect customers’ unique business requirements, data, and workflows. Our modular approach to digital technology makes us fast, flexible, and cost-effective.

Through a combination of strategic guidance, technical expertise, and our toolkit of highly configurable digital capabilities, Elevate Digital Strategy & Solutions (“DSS”) is the legal industry’s on-ramp for digital transformation. We provide consult-to-deploy services that help law departments and law firms envision new ways to capture and create value with technology, then help them realize that vision by designing fit-for-purpose software solutions based on digital technology.
Digital disruption is transforming the economics of the legal industry. Legaltech has achieved a critical mass of maturity, lowering barriers to entry for new law firm competitors and empowering law departments with new options for self-service and cost reduction.

Legal organizations are actively considering ways to reduce the competitive risks associated with technological change while simultaneously benefitting from it. Buying powerful technology is a step in the right direction, but it is not enough. Good technology is becoming table stakes. Increasingly, legal organizations need help configuring technology around their unique business goals, allowing them to deliver additional value to their clients and internal end-users with hyper-contextual, actionable insights.

Guided digital transformation can help legal organizations apply digital technology to fundamentally improve the client and end-user experience, with the objectives of radical cost reduction on the one hand and increased revenue on the other.

In this paper, we will explore the market conditions creating the need for digital transformation, what digital transformation means and involves “beyond the buzzword,” and how legal organizations can achieve successful transformation with the right digital strategy.
“Disruption” is one of the most hyped buzzwords in business. Today, nearly every legaltech startup and tech-savvy law firm claims to be disrupting the legal industry, where disruption is misused to invoke the concepts of innovation and change. Under the circumstances, it is hardly surprising that many legal industry leaders have developed disruption fatigue.

Buzzword or not, it is the wrong time to take disruption for granted. Without exception, digital disruption is one of the most critical and relevant phenomena in business. As we will discuss, it has consequences for the legal industry that are impossible to ignore. Legal industry leaders need a simple framework that helps them distinguish real disruption from hyperbole so they can navigate the present and plan for the future.

They need to look no further than the original meaning of digital disruption. It has a specific meaning as applied in business and warrants reinstatement. Digital disruption occurs when:

1. Tech-savvy newcomers, or existing but tech-enabled legacy players, embed digital technologies like AI, advanced analytics, and blockchain into their offerings and operations, creating and capturing new value.

2. As a result, an industry's competitive dynamics begin to change, with digitally activated competitors cherry-picking profitable parts of the value chain and creating low friction customer experiences that challenge legacy players' bottom line.

3. Exposure to new options and new value creates a feedback loop of change in customer expectations. Legacy players that do not adapt, risk reduced profits in the short term and displacement in the long term.
The Transformation Imperative

The legal industry has considered itself largely immune from the effects of digital disruption. After all, technological change is hardly a new phenomenon. Also, traditional legacy players felt protected by strong barriers to outside competition, such as industry regulation, the specialist nature of legal expertise, and established client relationships. Many legal organizations saw little downside in taking a wait-and-see approach to technological change, letting others be first to experiment with capabilities that implicated traditional revenue streams.

That was a reasonable response when digital newcomers were few and immature before they began significantly disrupting the market for legal services. The definition of digital disruption implies that it is distinguishable from technological change. It is the cumulative effect of technological change on people and their expectations, creating a shift in buying power in customers' favor. Customary responses to change are no longer adequate.

Today's digital newcomers look very different than they did even a few years ago. In 2018, legaltech companies received investments totaling $1B, up from $233M in 2017. In 2019, that abnormality became a trend, with legaltech companies receiving $1.23B. Flush with capital as well as guidance from hands-on investors, today's digital newcomers exist in the hundreds. They are successfully adding customers and collecting data, improving the quality and reach of their offerings while simultaneously making it difficult for legacy players to catch up.

Customer expectations also look different than they used to. An obvious example is AI-based review of high-volume contracts. On average, companies lose approximately 5% to 40% of the value on a given deal due to inefficient contracting. Many companies create and review a massive number of contracts, which lack uniformity and are challenging to organize for review. AI-based software helps companies identify important contract information, identify risk, and conduct fast review. For some types of contract work, it also empowers companies to rely on fewer law firms. For law departments that have come to expect a more cost-effective contract review experience predicated on faster access to actionable insights, the default response no longer necessarily involves hiring a law firm to perform manual review.

The amount of money being invested in legaltech is part of a larger, cross-industry trend to capitalize on disruption through digital transformation, which we will discuss shortly. The net is that going forward, the pace of change is certain to accelerate. For example,
Legal industry leaders may be shocked to learn just how much money is being poured into digital transformation generally. Global spending on digital transformation projects equaled $1.2 trillion in 2019. According to IDC, that number is projected to grow to $2.3 trillion by 2023 and represents 53% of total IT spending globally. In other words, more than half of every dollar spent on IT by 2023 will go toward digital transformation.

Disruption may be the most underrated buzzword in the history of business. The need to change – to transform – has never been more urgent. While growth from $1.2 trillion to $2.3 trillion represents a remarkable 17% compound average growth rate, the professional services industry, if broken out individually, is expected to outpace the overall market with an 18% CAGR.

The Silver Lining

While the competitive risks associated with digital disruption are notable, so are the benefits. These are often cited as improved efficiency, which drives cost takeout, and improved customer satisfaction, which increases revenue.

Legal organizations seeking to benefit from digital disruption should focus on these fundamentals. They should endeavor to take out operational costs through customer-focused process enhancement and grow revenue by leveraging insights from their own data to improve customer experiences.

To do so, they first need to envision what these kinds of “digital transformation” initiatives might look like based on their unique business priorities. They also need to formulate a strategy – a structured process that first helps them define a starting place in their digital transformation journey, then helps them bridge the divide between their current-state and their digitally-enabled future state.

What is Digital Transformation?

Like “disruption,” “transformation” is another buzzword that suffers from misuse. Also like “disruption,” it has a specific meaning that is worth revisiting. Digital transformation involves:

An incremental journey that involves the strategic and prioritized application of technology to organization-specific business goals and customer-specific needs, with the objective of creating and capturing more value.

The Foundations of Digital Transformation

The best way to explain digital transformation is to unpack each of the concepts in the definition, beginning with the most important one. Digital transformation is not about technology. It is not an updated term for application modernization, implementing AI-based software, or using more powerful technology. Instead, digital transformation is about people, and how technology changes the conditions under which people conduct business.

1. An Incremental Journey

Transformation does not happen in isolation. Digital transformation initiatives can and often do begin by targeting a single project, but they cannot end there. Digital Transformation
entails a journey along a roadmap of prioritized projects towards an ultimate, overarching objective. To put it differently, digital transformation is less about “we want to use AI,” and more about, “we need to capture more revenue while reducing costs, and we need to do so quickly by creating immense value for our clients, sharpening our competitive edge, and improving our internal processes.”

2. **Strategic and Prioritized**

We will discuss digital strategy in detail below, but the key takeaway is that a digital strategy creates your transformation by getting you from where you are today to where you want to be.

Remember that digital technology can be highly configurable. In addition to pre-built products, it can consist of configurable and reusable capabilities – including machine learning, natural language processing, and advanced analytics – that can be used to create digital solutions that address organization-specific data, workflows, and KPIs, shifting conversations away from features and benefits towards underlying business objectives.

To successfully apply digital technology, legal organizations need a strategy that frames “what,” “why,” “how,” and “who,” in the context of their goals. What do they need or want to transform? Why that? How will they get from their current state to their envisioned future state? Who are their end-users and stakeholders? No matter the answer, it must tie back to business value.

3. **Application of Technology**

Digital technology is not plug-and-play. That is one of its advantages. Plug-and-play solutions tend to produce generalized insights. The application of digital technology to organization-specific goals and customer-specific needs turns on the promise of producing contextual and actionable insights.

And that depends on data. Data lies at the heart of digital transformation. Specifically, enterprise data – containing dormant insights into what organizations did in the past that worked, what they did that failed, what their customers need, and what outcomes they can predict.

Enterprise data, together with advancements in technologies like natural language processing, machine learning, and predictive analytics, provides the ability to extract meaning from information to create customer value.
Legal organizations store high volumes of enterprise data, rich with organization-specific and client-specific insights. For law firms, that can represent a competitive advantage based on activating institutional knowledge. For law departments, it can represent a cost takeout opportunity based on repurposing stored work product. In both cases, enterprise data can be used to fuel custom-configured solutions that surface contextual, actionable insights.

4. **Organization-Specific Business Goals**
   We suggested above that organizations seeking to digitally transform should and often do focus their first digital initiatives on operational cost takeout through process improvement. Like organizations in most industries, legal organizations have tended to execute process and workflow improvement projects within rather than among organizational silos. From the organization’s perspective, the consequence is cost. From the client's perspective, it can be complexity and create a negative experience.

   Client problems and needs do not exist across siloes, even if data about them and processes related to them are distributed among the front, back, and middle office. A more holistic approach to process enhancement represents a competitive advantage, and potentially a good target for a quick win.

5. **Customer-Specific Needs**
   From a digital transformation perspective, every project a legal organization undertakes must relate back to a specific improvement in client or end-user experience. To help ensure it does, it can be useful to work with a select group of clients or end-users to understand their current-state – everything that happens to them throughout their entire journey with the organization. Doing so helps legal organizations envision a digitally-enabled future-state that produces measurable improvement in value (as defined by the client or end-user).

6. **Create and Capture Value**
   Considered by itself, technology does not create value any more than a bow creates an archer. Transformative value is dependent on the extent to which the new insights, enhanced processes, and improved capabilities help the organization realize greater value than it could without them, then help it capture that value by generating revenue or reducing cost. In practice, this means defining the right success metrics for achieving the results you intend.
What is Digital Strategy?

To achieve a successful digital transformation, each legal organization should formulate its own digital strategy – a clearly defined plan of action for getting from where they are to where they want to be, taking into account their ultimate goals as well as the needs of their clients and end-users.

Driving Transformation: The Elements of Digital Strategy

Many companies move to implement the latest technologies without fully understanding why they need them or what specific problems they are meant to solve. According to an MIT Sloan Management Review survey, one of the greatest obstacles to becoming digitally mature is the lack of a digital transformation strategy, with 50% of survey participants designating it as their primary barrier to digital maturity.

What does a digital strategy look like? While each organization must formulate its own, there are a number of core principles and best practices to serve as guideposts. Specifically, we believe that there are four essential steps to consider when defining and executing a successful digital transformation strategy:
1. Establish Your Vision

- Know Your “Why”: Before you ask “how” you will approach the tactics of digital transformation, identify your “why.” Why is your current situation problematic? Why do you need to change it? Whatever the answer, it is vital to avoid an “if we build it, they will come” mentality and link digital transformation outcomes to your overall business goals.

- Success Criteria: Establish clear success criteria early on, knowing that they may change as your transformation evolves. While every organization is unique, common success metrics include improved workforce productivity, revenue growth, increased market reach, and increased client acquisition.

- Seek Assistance: Once you have determined why digital transformation makes sense for your organization, you should work to envision an improved, digitally-enabled future-state, including a road map of ranked initiatives that help you get there. Unless you have been exposed to a digital transformation in the past, you should consider seeking outside assistance. Digital consultancies can help you develop and validate an effective strategy before you invest in technology, minimizing the risk of transformation failure.

• Executive Commitment: No matter the industry, the need for executive buy-in is universal across all digital transformations. Typically, unless senior leadership feels strongly about the future-state vision, there will be no mandate for change. Without executive commitment, initial projects risk becoming isolated experiments.

• Business and IT Alignment: Successful digital strategies require the engagement of business leaders who understand the nature and impact of the problems their organization faces, as well as IT leaders who understand the technical dimensions of those problems. The digital solutions that ultimately result from digital transformation programs only bring value if people use them. In other words, they must solve real-world business problems and be technically feasible.

2. Treat Your Data Like an Asset

• Enterprise Know-How: Digital technology, particularly AI, runs on data. Like most legal organizations, you probably store high volumes of historical data. Also like most legal organizations, you probably only use between 15% - 27% of it. Your data contains hard-won insights that can provide competitive and economic advantages when used to improve your operations and augment your services offerings. As opposed to legaltech providers, law departments possess reliable historical data that can be used to repurpose past success and drive self-service. On the law firm side, firms possess the subject matter expertise, historical data, and client relationships to apply their own data-derived insights in the service of their clients' needs. The real power remains with law departments and law firms, who can use their data to provide contextual, actionable insights that 3rd parties can never replicate.

3. Build Towards Your Vision

• Rapid Prototyping: Digital strategies need to demonstrate fast success. This generally requires the agile configuration of a custom digital prototype – a partial but scalable version of a digital software solution that can prove technical viability and business value in a matter of weeks. Prototypes are typically delivered in a series of “sprints,” where each sprint represents an opportunity to incorporate user feedback, adapt, and make improvements that will ultimately inform the creation of a well-tailored digital solution.

• Digital Solution: Assuming that the prototype establishes the proof you require, you will expand it into a production-grade
digital solution – a deployed application that fully enables your use cases, is integrated with your systems if applicable and meets your security requirements. Many organizations that work with digital consultancies to help them define and plan their digital transformation journeys also use them for solution design, rapid prototyping, and production expansions. Digital consultancies help reduce risk and cost by bringing deep business and technical expertise together to build solutions around your organization-specific transformation goals.

4. Change Management

- Lead from the Top: There's a famous quote attributed to management legend Peter Drucker that, “culture eats strategy for breakfast.” By its nature, digital transformation creates change. The digital solutions that underpin your transformation can change workflows, behaviors, and responsibilities. The benefits of executive involvement during times of change are well-documented. Visible executive support signals to employees that their concerns are acknowledged and respected. Leadership's enthusiastic support for the organization's digital vision also inspires confidence.

- Communication: You can reduce the uncertainty associated with change by taking a human-centric approach to communication. A good approach is to create a detailed communication plan and regular communication cadence that follows the lifecycle of your digital transformation – one that identifies key stakeholders and describes the conditions under which they will be informed of the reasons for and advantages of change, as well as information about how the change will take place.