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## Digital Transformation and the Legal Industry

Technology, Privacy, and eCommerce



“Digital transformation” is a phrase that is increasingly heard in legal circles. But what exactly does it mean? The term is often used to refer to a broad range of initiatives that seek to modernize the legal service model. Individual projects range from improving processes and upgrading technology to

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identifying how lawyers can leverage data to add value. At its core, however, every digital initiative involves using new technologies to address new dynamics.

Perhaps the most interesting benefit that digital transformation provides is better decision-making because it fuels vastly better outcomes. Too many lawyers still make decisions based on the “HiPPO” approach — that is, the “Highest Paid Person’s Opinion” prevails. By contrast, digital organizations make consistent, responsive, and forward-looking decisions based on facts, not gut feel.

Companies with [effective customer analytics capabilities](#), for example, have a materially higher likelihood of achieving above-average performance across the entire customer lifecycle. Indeed, they are nearly three times more likely to generate above-average turnover growth, 2.6 times more likely to have a significantly higher ROI, and almost 19 times more likely to have above-average profitability.

So, how can legal leaders digitally transform? Well, there’s good news and bad news. The bad news is that it’s not enough to buy new technology. You must also change your organizational structure, processes, behaviors, and culture. That’s a tall order. The good news, however, is that the legal industry has already embarked on a three-stage digital transformation journey. The pioneers are in stage three, while most of the industry is in the first or second stages.

## **Stage one**

Stage one begins when leaders take advantage of new digital technologies to become more efficient. This need for efficiency grew out of the “more for less” dynamic. Starting in the early 2000s, the volume and complexity of work undertaken by general counsel began to grow due to globalization.

However, rapid digitization imposed cost pressures on companies that meant fewer resources were made available for legal departments, causing GCs to seek better efficiency. The traditional market, dominated by large law firms, largely failed to respond. That caused GCs to seek new solutions via market entrants, leading to the unbundling of the legal value chain.

Most legal departments and law firms have embraced many of these “stage one” solutions, including know-how tools; best practice, insights, and technology solutions; content-enabled workflow and online legal research technologies; efficiency tools, such as cloud-based contract management, eDiscovery, and matter management solutions; transparency tools, including e-billing and online bidding systems; and AI and machine learning based technologies, including cross-disciplinary legal thinking, pattern spotting, and legal analysis capabilities.

## **Stage two**

Stage two begins when legal leaders recognize that, in order to truly yield efficiencies from these new digital technologies, they must transform their organizational structures, processes, behaviors, and cultures.

The second stage is therefore all about effecting deep change in order to capture potential efficiencies. Those organizations that have acquired a critical mass of new technologies have understood this need and have embarked on this part of the journey.

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## Stage three

The third stage comes when organizations have transformed, and the new digital technologies have begun to yield efficiencies. At this point, legal leaders realize that the true value of digital transformation lies in the data they can now harvest.

That data becomes the basis for rational decision making. It also enables the legal department to plug more effectively into the company more broadly, adding value in new ways, harnessing business and legal data together, connecting and aligning around objectives, and generating true and untapped value.

For instance, AI and predictive analytics begin to pinpoint problem areas and highlight emerging risk exposure; data lakes enable patentable technologies to be more rapidly identified, and negotiation strategies can be more effectively crafted based on precedents and patterns.

The challenge at this stage is ensuring seamless communication across silos, between lawyers and clients. This requires stage three lawyers to have skills that go beyond the law, including technology, strategy, business, communication, leadership, and organizational design.

In stage three, we begin to see the unbundled legal value chain start to come together again, reconnecting through fundamental digital transformation. It's no longer just about creating individual pockets of efficiency via the most-efficient suppliers or solutions in each link of the value chain. Rather, it's about harnessing total change and unifying efforts across the value chain to yield deep insights through data.

The digital transformation journey also has huge implications for law firms. The most forward-looking ones are embracing it. That is wise. Indeed, digital transformation could be as close to a silver bullet as law firms will get in creating a true competitive advantage.

In a digitally enabled world, those who hold the most data win. IBM CEO Ginni Rometty has put forward the notion of the “incumbent disruptor.” In her view, the [next phase of the digital revolution](#) is about who controls data lakes:

*“If we look at the amount of data which is actually being analyzed today, only 20 percent of the data we have is searchable and being used productively,” she says, noting that the other 80 percent is held inside incumbent companies. “When you learn exponentially, you become the disruptor, instead of the disrupted.”*

As the dominant incumbents of the legal industry, law firms hold enormous caches of data, much of which could be used to drive better decisions and add value. But achieving the third stage of the digital transformation journey will be hard for them to do because of the organizational and cultural changes needed to yield the effects.

## Parting thoughts

The longest journeys begin with a single step. Lawyers are already on the road — and there's value in speeding up. The yield is enormous for those that succeed first, as the tech pioneers who dominate our global economy have shown.

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