Understanding Legal AI from the Inside Out

A BENCHMARKING REPORT IDENTIFYING HOW CORPORATE LEGAL DEPARTMENTS PERCEIVE AND APPLY CONTRACT ANALYTICS

Ari Kaplan
Principal, Ari Kaplan Advisors

www.seal-software.com
## Contents

<table>
<thead>
<tr>
<th>Overview</th>
<th>3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive Summary</td>
<td>5</td>
</tr>
<tr>
<td>Beyond Legal, Sourcing and Contract Management Professionals Are the Most Likely Users of Contract AI</td>
<td>6</td>
</tr>
<tr>
<td>Privacy and GDPR Are the Primary Uses of Contract AI in Legal Departments</td>
<td>6</td>
</tr>
<tr>
<td>Users of AI and Contract AI Report Overwhelming Executive Support</td>
<td>7</td>
</tr>
<tr>
<td>Non-Users of AI and Contract AI Also Report Executive Support</td>
<td>7</td>
</tr>
<tr>
<td>About Half of Users Rate Their Use of AI and Contract AI at a Three or Four (Out of Five)</td>
<td>8</td>
</tr>
<tr>
<td>Contract AI Has Positive Momentum</td>
<td>8</td>
</tr>
<tr>
<td>A Majority of Non-Users of Contract AI Are Considering It</td>
<td>9</td>
</tr>
<tr>
<td>Non-Users Expect to Apply Contract AI to Legal and Procurement Matters</td>
<td>9</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Introduction</th>
<th>10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contract AI is Being Deployed in a Diverse Array of Areas</td>
<td>11</td>
</tr>
<tr>
<td>The Accelerated Accuracy Factor</td>
<td>11</td>
</tr>
<tr>
<td>The Influence of Legal on Contract AI</td>
<td>12</td>
</tr>
<tr>
<td>Increasing Awareness of Contract AI</td>
<td>13</td>
</tr>
<tr>
<td>The Benefits of Contract AI</td>
<td>13</td>
</tr>
<tr>
<td>Executive Support for Contract AI is Strong</td>
<td>13</td>
</tr>
<tr>
<td>The Future for Contract AI is Bright</td>
<td>14</td>
</tr>
<tr>
<td>Contract AI Misconceptions</td>
<td>15</td>
</tr>
<tr>
<td>Getting Started With Contract AI</td>
<td>16</td>
</tr>
<tr>
<td>The Future of Contract AI</td>
<td>17</td>
</tr>
<tr>
<td>Greater Understanding of Contract AI is Likely to Increase Adoption</td>
<td>17</td>
</tr>
<tr>
<td>More Organizations Will Use Contract AI for Procurement and Compliance in 2019</td>
<td>18</td>
</tr>
<tr>
<td>Accelerating Review Will Become a Key Driver for Contract AI Adoption</td>
<td>18</td>
</tr>
<tr>
<td>More Law Firms and Service Providers Will Disclose Their Use of Contract AI</td>
<td>18</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Conclusion</th>
<th>19</th>
</tr>
</thead>
<tbody>
<tr>
<td>About the Author</td>
<td>20</td>
</tr>
<tr>
<td>Acknowledgments</td>
<td>21</td>
</tr>
</tbody>
</table>
Overview
Seal Software has been providing artificial intelligence based enterprise contract analytics to corporate law departments since 2010. To bring clarity and foster a dialogue on the current state of AI within the legal community, the company engaged Ari Kaplan Advisors to study its usage, trends, applications, and developments in large corporations. Among many compelling conclusions was the overwhelming finding that the legal team in every organization represented in this report exercises influence over the adoption and deployment of this technology.

That influence has made a material impact with 37 percent of the respondents reporting that they are currently using artificial intelligence for analysis and review of contracts and agreements (“Contract AI”) and 50% of them expect their spending on Contract AI to increase in 2019. Of the respondents who do not use Contract AI, 58% have considered doing so and more than half of those who are not currently using Contract AI rated the likelihood that their organization will use it in the coming year at a five, the highest possible rating. These statistics reflect an imminent period of growth that is likely to reshape the trajectory of this sector.

In over a decade of market research focused exclusively on professional services, Ari Kaplan Advisors has emphasized qualitative interviews over quantitative survey responses to move beyond isolated statistics. This report reflects 30-40 hours of interviews with those making or influencing the decisions associated with Contract AI in corporate law departments to provide extensive breadth and depth to the key issues associated with the evolution of the general counsel's office.
While artificial Intelligence has been a topic of conversation at almost every conference in most industries, the discussion surrounding its use in legal is especially robust because while more organizations are employing it in myriad ways, it often focuses on the balance between the promise of the technology and the perceived peril in which it places highly-skilled professionals. The hype occasionally seems to overtake its potential in the collective consciousness and replace fact with fiction, but the 30 professionals from predominantly Fortune 1,000 companies that Ari Kaplan interviewed in October and November of 2018 provide a much more realistic look at their challenges and triumphs.

All but one of the respondents were lawyers. Sixty-three percent were with organizations that had more than $5 billion in revenue and 73% worked at companies with more than 5,000 employees. 17% were outside of the United States. 30% of the individuals were in technology, 20% in financial services, 13% in manufacturing, 13% in life sciences, 10% in energy and utilities, and 3% each in banking, consumer products, healthcare, and telecommunications.¹

¹ Total does not equal 100% due to rounding.
Executive Summary
Beyond Legal, Sourcing and Contract Management Professionals Are the Most Likely Users of Contract AI

91% of the respondents who use Contract AI identified risk and sourcing/contract management as the departments within their organizations that are most likely to apply this technology, followed by compliance, the business units, and procurement, all with 82%. “We use Contract AI on a project-level basis in both a reactive and proactive way to understand what our contracts say,” noted one respondent. “For legal operations, the team expects to use Contract AI to answer questions from management and other stakeholders in the company,” added another.

Privacy and GDPR Are the Primary Uses of Contract AI in Legal Departments

55% of the respondents who are using AI have implemented it for data privacy and GDPR. 45% cited NDAs, while another 45% cited procurement/vendor contracts. 36% highlighted leasing and M&A transactions, while 27% recognized Brexit, 18% referenced derivatives and trading, and 9% highlighted commercial lending. “We leverage a traffic light system that analyzes third-party paper, compares it to our corporate templates, and provides a green, red, and orange designation,” said one respondent. “That has driven some efficiency compared to prior to its usage where we had to manually review every agreement,” the individual added.

What core functions do you see as the most likely to use Contract AI in your organization?

- Compliance: 90%
- Risk: 80%
- Legal: 70%
- Business Unit: 60%
- Regulatory: 50%
- Procurement: 40%
- Sourcing/Contract Management: 30%
- Other: 10%

Where has your organization used Contract AI?

- Procurement/Vendor Contracts: 90%
- Leasing: 80%
- NDAs: 70%
- Data Privacy/GDPR: 60%
- Brexit: 50%
- Commercial Lending: 40%
- Derivatives & Trading: 30%
- M & A: 20%
- Other: 10%
Users of AI and Contract AI Report Overwhelming Executive Support

100% of the respondents who are using AI reported that they have executive support for artificial intelligence generally, while 91% reported similar support for Contract AI. “There is support for anything that will help us do our jobs faster and more accurately so there is excitement for AI, but there is only support for things that drive results,” said one respondent. “The company’s technology group has an AI task force to identify areas enterprise wide where it can be used, as well as how it can be applied to customer-facing products,” added another.

Non-Users of AI and Contract AI Also Report Executive Support

95% of the non-users interviewed reported that their executives support AI generally and 79% noted that they support Contract AI specifically. “You will not get the old school resistance about its practical application, but they want to see hard data supporting the potential results; that said, they are convinced that AI can help us do things faster, cheaper, and better,” said one respondent. “You can get the meeting because they believe in AI, but you had better back it up with support to persuade them to release the money,” the individual added.
About Half of Users Rate Their Use of AI and Contract AI at a Three or Four (Out of Five)

55% of the respondents who use Contract AI rate their organization’s general use of AI three or a four while 45% of those who use of Contract AI specifically rated it at a three or a four. “I think we are leading the industry, but we are not there yet,” said one participant. “We are only in the proof of concept phase but I hope we can climb the ladder to a higher number rapidly,” added another.

Contract AI Has Positive Momentum

64% of those using Contract AI rated their prior use of AI generally and Contract AI specifically a one out of five. Not a single respondent rated their organization’s use of AI or Contract AI in the coming year a one on that same scale. And, 73% rated their use of AI generally and 64% rated the use of Contract AI in the next year, a four or five. “To the extent there is AI that is relevant to what we do, we have a mandate from the top down to use and implement data analytics and AI,” noted one participant. “We are really hoping to be much more proactive,” added another.
A Majority of Non-Users of Contract AI Are Considering It

58% of the respondents who do not use Contract AI have considered doing so and 32% of those respondents that are not using Contract AI have considered a proof of concept. “It has been discussed in connection with the company’s growth strategy,” said one participant. “I cannot see how it is not on the immediate horizon, but it is just a matter of budget and standardization,” added another.

Non-Users Expect to Apply Contract AI to Legal and Procurement Matters

95% of those respondents that are not using Contract AI emphasized its application to legal and procurement matters. 89% noted that it would be useful in managing regulatory matters. 84% highlighted that it could apply to compliance matters and transactions within the individual business units. 74% cited risk as an area it could support. “An AI solution could be outfitted for any of those functions because AI is just a capability and any capability that allows a better way to find, sort, and draw insights from data is valuable,” said one participant. “How we roll it out will emphasize different core functions; compliance and procurement are natural use cases, but we will start with building efficiency into legal at the outset,” added another.
Introduction

Although the market is in an early stage, the fact that more than a third of the participants are already using Contract AI and half expect their spending to increase next year reflects the strength of this sector. To understand the motivations of both groups, we intentionally asked a cross-section of users and non-users for their views in an effort to provide a balanced perspective, as well as an informed outlook. The impressions of the participants convey a strong interest in Contract AI tempered by the current realities of implementation.
Contract AI is Being Deployed in a Diverse Array of Areas

91% of the respondents who use Contract AI identified risk and sourcing/contract management as the functions that are most likely to apply this technology to their work, followed by compliance, the business units, and procurement at 82%. “We use it in the analysis of distribution contracts, which represent about 20% of the contracts we evaluate annually, but our goal is to roll it out worldwide,” said one participant. “We use it to help the procurement team extract information in M&A transactions and to support the integration of newly acquired businesses generally,” added another.

Given the global focus on data protection, it was not surprising that 55% of the respondents identified data privacy and GDPR as leading Contract AI use cases. 45% cited NDAs and procurement/vendor contracts. 36% highlighted leasing and M&A transactions, while 27% recognized Brexit, 18% referenced derivatives and trading, and 9% highlighted commercial lending. Participants mentioned uses in evaluating distribution contracts, technology contracts, confidentiality agreements, and buy-side and sell-side agreements, among others. “There could be 20-40 use cases, but we are just at the beginning of discovering how it can be used,” said one respondent. “We also use it to compare the risk level of the contract in comparison to our preferred standards,” offered another.

The Accelerated Accuracy Factor

One participant compared Contract AI to the spell check feature in word processing noting that it enhances your skills and if you do not use it, you will unnecessarily spend more time on your work and ultimately reduce its quality. “One of our major key performance indicators is the time it takes to analyze a contract and Contract AI has helped us tremendously,” the individual said. “We are thinly staffed and so it has allowed the legal team to do the work of several people in a short period of time for less money than it would cost to hire human reviewers,” added another.

Many of the participants highlighted how quickly Contract AI enhances their ability to identify inconsistencies in their agreements, automates some element of their review, and helps them manage mergers and acquisitions more effectively. They emphasized the increased speed with which they can perform these tasks and additional intelligence they gather about their entire universe of data. “Anticipatory contracting is where you will be able to see insights and wield them towards a more digitized service,” explained one participant. “We apply the technology during the negotiation stage to influence the discussion based on prior agreements and post negotiations to ensure compliance with updated regulations, such as anti-money laundering laws and Brexit,” added another.

Additional applications include:

- Leveraging AI to answer questions from management and other stakeholders.
- Using natural language search to identify provisions in a contract.
- Evaluating third-party supplier documents that are required or prohibited by regulation.
- Identifying legal risks in the form of clauses in our contracts on the sell side so when the company sells its products to its customers, it uses Contract AI to help its attorneys analyze those contracts for risks.
- Leverage AI to answer questions from management and other stakeholders.
- Using natural language search to identify provisions in a contract.
- Evaluating third-party supplier documents that are required or prohibited by regulation.
- Identifying legal risks in the form of clauses in our contracts on the sell side so when the company sells its products to its customers, it uses Contract AI to help its attorneys analyze those contracts for risks.
The ability to holistically evaluate one’s data has advantages in sourcing, data migration, and joint ventures. “It is important for a company to go beyond tribal knowledge solely owned by the individuals responsible for negotiating the contracts,” remarked one lawyer. “We are making progress, but we have so many systems that make it harder to gain the benefit of AI, as opposed to other organizations that have a much simpler information architecture,” added another.

The law department is generally driving the use of Contract AI. In fact, the legal team in every organization represented in this study exercises some influence over the adoption and deployment of this technology. Its application can, however, be much broader than use by lawyers and align the different constituencies within a corporation with responsibility for contracts from drafting to execution.

“The lawyers will care about the discovery aspects, e.g., warranty exposure, regulatory exposure, and GDPR, procurement leaders can advise on whether Contract AI is effectively improving their service, e.g., time to value and whether contracts are affecting decision-making, and contract negotiators can inform their drafting processes,” explained one participant. “Those three items have historically competed and the technology could bring them into alignment so that they complement each other by providing access to meaningful information,” the individual added explaining that while many contract negotiations were completed vertically based on past knowledge, negotiators can now use real-time access to more information that is relevant and valuable.

Ultimately, while usage may originate with the legal department, it often expands. “It is a mixture of business people and legal department personnel, but it is most appealing to the individuals who engage with contracts and the software is currently limited to certain departments,” said one individual. “There are potential uses for everyone up and down the value chain and throughout the hierarchy; the people who deal with the actual paper (physical or digital) day-to-day are the people who deal with it the most,” added another. These may include supply chain, procurement, and compliance professionals.

The expansion beyond legal is driven by a desire to reduce the cycle time for contracts and extract key data to help professionals understand the nature of their transaction. “The challenge is to make contracts more accessible without needing attorneys to review each one,” explained one participant.
Increasing Awareness of Contract AI

Once you overcome all of the challenges associated with securing executive support, budgeting, and successfully completing a pilot, broader deployment requires marketing the technology to generate awareness. Many of the organizations that leverage Contract AI do so as part of an internal consortium. “There is a legal technology strategy initiative, which is a group within the legal department that is responsible for introducing this technology and there is also an annual conference at which the legal technology group presents its work,” said one participant.

Other initiatives include educational resources. “The legal department offers training programs and lectures on the use of Contract AI, posts its documents to an intranet, uses an internal social networking site to keep the company updated, and provides quarterly reports to the leadership team,” advised another respondent.

The Benefits of Contract AI

As you develop an awareness campaign, consider emphasizing the following benefits that the survey participants using Contract AI articulated:

- **Increased clarity and the removal of ambiguity or uncertainty in the negotiating process.** “I have historically been playing the game of perceived leverage, rather than actually knowing, which Contract AI allows me to do since there is a way to use it to understand historical behaviors.”

- **A unified approach to drafting contracts.** “Now, we don’t need to rely on a lawyer to insert an insurance clause or a limitation of liability clause because the system knows the specific provisions that are appropriate for which types of contracts.”

- **Reliably capturing information in an automated way.** “We cannot manually remain aware of all of the changes to our agreements so we would like to use AI as an assistant for contract checking to ensure that all agreements are consistent with the company’s standards; we want to use it as a monitoring tool via a dashboard for processes and obligations.”

- **Analyzing coverage and gaps within different agreements.** “It is helping to compare agreements, study different clauses, and adjust how we move forward.”

- **Saved time and improved accuracy.** “If you are saving time and ensuring accuracy, it moves people up the value chain so they can do more important things.”

Executive Support for Contract AI is Strong

100% of the respondents reported that they have executive support for artificial intelligence generally, while 91% reported similar support for Contract AI. “To the extent there is AI that is relevant to what we do, we have a mandate from the top down to use and implement data analytics and AI,” said one participant. “There is support for anything that will help us do our jobs faster and more accurately so there is excitement for AI, but there is only support for things that drive results,” offered another.
While 95% of the non-users interviewed reported that their executives support AI generally and 79% noted that they support Contract AI specifically, the challenges delaying or preventing adoption are a lack of familiarity with its functionality or application and a lower prioritization. “It is premature; I don’t think they have ruled it out, but that is something we will have to get to,” said one participant. “I don’t think they know about any of the deficiencies of our contracts process because the legal department is fully in charge of it and, therefore, the executives don’t have any visibility into it,” noted another.

**The Future for Contract AI is Bright**

55% of the respondents who use Contract AI rated their organization’s general use of AI at a three or a four and 45% rated its use of Contract AI specifically at a three or a four, which reflects positive momentum since 64% of those using Contract AI rated their prior use of AI generally and Contract AI specifically a one. And, not a single respondent rated their organization’s use of AI or Contract AI in the coming year a one. 73% rated their use of AI generally in the next year and 64% rated their use of Contract AI in the next year a four or five. “We are really hoping to be much more proactive and in 2019, we would love to have an application expanded in terms of its reach,” remarked one participant.

In the next year, 100% of those who use Contract AI are planning to expand its use both in its availability to more people and its application to a wider range of issues. “It will be fully deployed across the entire company,” said one participant. “It will expand to additional use cases and get better than it is today; we are investing more into training as we expect it to get more standardized,” offered another. Part of that expansion is the due to the development of new workflows that are designed to enhance efficiency and make the technology more user-friendly.

In five years, almost all of the respondents predicted a seamless integration into the daily routine of the organization driven by increased awareness, broad-based acceptance, and a global need to streamline the contracting process. “Once people see the power of AI as it is applied to contracts, they will wonder how the company operated without AI in the past,” said one participant. “AI is today what email was in the last century; it is the big thing today and will be used in ways that we have not even considered so progress will not stop given how much money and time companies are investing in it,” explained another.

For those who are not using Contract AI, 58% have considered doing so. “I cannot see how it is not on the immediate horizon, but it is just a matter of budget and standardization,” said one participant, but a few expressed concerns about its utility within their organizations. “The challenge is that to use an AI solution presupposes that we will have huge scale, repeatability, and large data sets to evaluate; if those issues are not the main concerns and it is more about customization, then AI becomes a less compelling value proposition,” countered a peer.
Still, more than half of the respondents that are not currently using Contract AI rated the likelihood that their organization will use it in the coming year at a five, the highest possible rating. “I think it could be used widely; we review a lot of vendor contracts and NDAs, which have enough commonality that AI would be useful,” said one in-house leader. The struggle for some is the lack of standardized agreements and using Contract AI to solve an actual problem. “It is necessary going forward, but it is a question of implementing the right capability at the right time,” explained another noting that AI implementations fail because of a misalignment of a solution to its appropriate use case. Others simply lacked a pressing need or a clear understanding of the features and functionality of Contract AI. One participant recommended finding a champion at the outset. “You will need a sponsor who will encourage others to take advantage of the cutting-edge technology,” the attorney said.

![Bar chart showing the likelihood of organization’s use of AI in the coming year](chart.png)

**Contract AI Misconceptions**

There are an array of misconceptions about Contract AI, but the two most prevalent are that you can apply it by simply pushing a button or that you will cede your professional career to a computer. “The most common misimpression is that it will work out of the box, but you need to train your team and the tool to make your use case truly viable,” explained one participant. “Another misconception is that it will replace an attorney or all review, but there will still need to be human input and human review in the system, probably forever,” added a second. “It makes a large review possible without leveraging scores and scores of bodies,” offered a third.

In an effort to educate prospective users and support teams, some organizations have formed working groups where all of the members can participate in pitches from Contract AI vendors and others are responsible for demonstrating its utility. “People need to see it in action and it needs to be tactical; they need to understand the application to their specific use cases,” advised one participant. “You should also find a description other than artificial intelligence because it is too sci-fi,” the individual added, which raised an important point about marketing Contract AI within an organization.
Getting Started With Contract AI

32% of those respondents that are not using Contract AI have considered a proof of concept. “I do think that would be helpful with the company’s management; if we don’t have perfect data, then showing them actual results would be impactful,” said a participant. For those that are using Contract AI, the median amount of time it took to secure approval for a pilot was two to three months.

Prior to beginning the process, describe and quantify to the greatest extent possible the potential return to secure the budget. “Gauge your measures of success and identify how it will produce a return on the investment,” recommended one respondent. Some participants were successful in advocating for its use by highlighting its application to reducing regulatory risk. Others pursued the tool as a shared expense with the business unit or procurement, or as part of a larger budget for a major investigation or a key M&A transaction. “The legal department alone could not afford it so we needed to convince the business partner of the advantages to encourage them to make the investment; we highlighted the increased speed at which they could obtain information and act more quickly in commercial transactions,” recalled an attorney.

One unifying recommendation was to be intentional when you begin. Start with a straightforward, but well-defined mission of how and why you will be deploying this technology. Also, assemble an inter-disciplinary group to support the pilot and ultimate launch. “Be very simple when you start; know why you are doing what you are doing and how you intend to use it,” advised one leader. “Get the right people in the room, which should not be limited to lawyers because it cannot be siloed; it needs to be truly integrated within the company’s infrastructure,” recommended another.

Select a pressing use case and identify enthusiastic champions or individuals who are directly affected by the problem you are trying to help them solve. Also, test the process and results as often as possible. “Fail early and fast,” suggested one participant. Finally, study the process that you would like to automate or improve across all functions. This comprehensive evaluation will increase the potential for success.

“Be very simple when you start; know why you are doing what you are doing and how you intend to use it.”

Other recommendations include:

• “Perform a side-by-side comparison of humans using it and humans who are not so that you can properly measure against your KPIs. If you do not do this comparison, you will overestimate the accuracy of your humans and underestimate the accuracy of the technology. This is particularly relevant in the legal field where attorneys think they are perfect and never make mistakes.”

• “You must be willing to put the time in on the front end to build what you want and what would be useful.”

• “Don’t do it without active engagement from your legal team; you need lawyers who are involved with negotiating agreements.”
Despite all of the enthusiasm, it is also important to recognize that:

- “You need to make this practical, accessible, and easy to apply right away or else you will have a significant change management challenge.”

- “You need to understand the method by which the AI learns because some applications require much more supervision than expected.”

- “Initially, expectations are great and people are enthusiastic, but then you soon discover that this new technology will not solve all of your problems because you need human power to support it, which results in a second level of disappointment. Don’t stop after the second disappointment phase because it is a worthwhile investment.”

- “The accuracy after training was significantly better than our proof of concept period so avoid judging the system too early in the process because you might underestimate its value; in general, the pitfalls of using the AI all come down to the data quality and extent of your training.”

- “The technology needs to understand the nuances and vertical of the company in which it is being used; the people designing the specific algorithms should also have a complete understanding.”

- “It will take longer than you expect and will be a heavier lift than you would expect in the beginning so if you are not careful about the initial contracts and scoping out what you want, you could be disappointed.”

The Future of Contract AI

GREATER UNDERSTANDING OF CONTRACT AI IS LIKELY TO INCREASE ADOPTION

Many of the participants who are not currently using Contract AI were either unfamiliar with its value, studying the costs and the benefits, or waiting for their existing contract management technology to become more popular within their organizations before supplementing it with AI. Some were also sensitive to the need for cross-departmental coordination or budgeting, which was a challenge for them. “The fear is that you will end up with the proverbial treadmill in your bedroom that you don’t use and hang clothes on,” noted one respondent.

As familiarity increases and use cases become more common, more organizations will test the application of Contract AI on their documents. The changing nature of corporate and legal department leadership is also shifting the conversation. “The new general counsel does not want the company’s lawyers to work on template-type agreements,” noted one lawyer. “I’ve seen it work and know the value, but getting the general counsel and CFO to see the value will take a fair amount of work,” said another attorney, who had used Contract AI in a prior position and was advocating for testing in his new role.
MORE ORGANIZATIONS WILL USE CONTRACT AI FOR PROCUREMENT AND COMPLIANCE IN 2019

Most of the respondents that are not using Contract AI emphasized its application to legal and procurement matters. “Contract AI for procurement would be huge,” said one lawyer. 89% noted that it would be useful in managing regulatory matters, while 84% highlighted that it could also apply to compliance matters and transactions within the individual business units. “Compliance and procurement are natural use cases, but we will start with building efficiency into legal at the outset,” echoed another. 74% cited risk as an area it could support.

In fact, procurement and vendor contracts along with NDAs received the highest level of interest from prospective users with an average rating of 3.76 out of 5. M&A was in the top three with a rating of 3.41, followed by data privacy and GDPR at 3.12, leasing at 2.33, commercial lending at 2.20, derivatives and trading at 2.0, and Brexit at 1.85.

ACCELERATING REVIEW WILL BECOME A KEY DRIVER FOR CONTRACT AI ADOPTION

63% of the respondents who are not using Contract AI identified specific challenges where it would be useful, ranging from accelerating the time it takes the legal department to provide a response to contract questions to avoiding repetitive work by eliminating the need to locate unnecessary clauses in agreements during a negotiation. “It would be helpful to alleviate human beings from doing something where 90% of the result will be irrelevant; their effort should focus on what is really important and AI could ensure fewer wasted hours,” advised one law department leader. “Simplifying the complexity of the deals, managing high volumes of deals, and alleviating the pressure of turning things around quickly and accurately are all advantages,” added another.

“It would be helpful to alleviate human beings from doing something where 90% of the result will be irrelevant; their effort should focus on what is really important and AI could ensure fewer wasted hours.”

MORE LAW FIRMS AND SERVICE PROVIDERS WILL DISCLOSE THEIR USE OF CONTRACT AI

Only 21% of respondents that are not currently using Contract AI reported that their legal service providers (e.g., law firms or vendors) are using it on some of their matters. Given the appetite for this technology, this usage or at least the disclosure of this usage by law firms and vendors is likely to increase, particularly if they are already comfortable with predictive coding in e-discovery. “Our consultants are doing so because contracts get wrapped up with any other documents,” said one attorney. “They are not using it for contracts, but they are using it for e-discovery,” added another.
Conclusion
The goal of this benchmarking report is to foster an honest dialogue about the promise and pitfalls of Contract AI. It highlights how corporate legal departments perceive and practically apply contract analytics in a broad range of matters.

The research confirms that executive support for Contract AI is strong, usage is expected to grow, and as more professionals learn how to effectively leverage the technology, it could become ubiquitous in enterprise transactions.

It must, however, overcome popular misconceptions that it will completely replace human talent and serve as a proverbial easy button for all contract management challenges. Yet, with more familiarity, common use cases, and leadership champions, Contract AI is likely to continue to gain influence and acceptance in the near future.

About the Author

Ari Kaplan, an attorney and legal industry analyst, is an inaugural Fastcase 50 honoree, a fellow of the College of Law Practice Management, and a finalist for the International Legal Technology Association’s Thought Leader of the Year award. He is the author of Reinventing Professional Services: Building Your Business in the Digital Marketplace (Wiley, 2011) and The Opportunity Maker: Strategies for Inspiring Your Legal Career Through Creative Networking and Business Development (West Academic, 2nd Ed. 2016). Kaplan serves as the principal researcher for a variety of widely distributed benchmarking reports, has been the keynote speaker for events worldwide, and is the founder of the Lawcountability® business development software platform and iPhone app. He is currently teaching himself to code in python and is a two-time Ironman triathlon finisher.
Acknowledgments

Ari Kaplan Advisors and Seal Software are grateful to all of the professionals who shared their perspectives for this report, including, among others:

Nicholas D. Brady  
Assistant General Counsel  
Hallmark Cards, Inc.

Andrew Brereton  
Vice President, GCO Operations  
American Express

Struan Britland  
Senior Director, Legal Operations and Compliance  
Arm Limited

Eleanor Cabrere  
Deputy General Counsel  
Navistar, Inc.

Leslie Cox  
OCA Privacy Officer – Assistant General Counsel  
Olympus Corporation of the Americas

Marlon Cush  
Senior Associate General Counsel  
UnitedHealthcare

Paul Delson  
Associate General Counsel  
First Solar, Inc.

Robyn Goldstein  
Senior Counsel  
Transocean

Bert G. Kaminski  
Chief Commercial Counsel  
GE Digital, a General Electric Company

Amber Porter Lester  
Assistant General Counsel  
CyrusOne

Brenda Lubrano-Birken  
Deputy General Counsel  
Si Group, Inc.

Tony Owens  
Legal Counsel  
Nokia

Louis Pachebat  
Chief Operating Officer - Legal, Ethics & Business Integrity  
Sanofi

Ron Reynolds  
Director - Connected Contracts, Global Procurement Services  
Cisco Systems, Inc.

Roland Schreiner  
Associate Group General Counsel, Head of Legal Operations – Legal, Compliance & Contract Management  
Atos SE

Maurus Schreyvogel  
Chief Innovation Officer  
Novartis

Scott Trainor  
VP, Legal  
PagerDuty, Inc.

Justin Underwood  
Associate General Counsel – IP, Regulatory and Commercial  
Spectrum Pharmaceuticals

Rishi Varma  
General Counsel  
Hewlett Packard Enterprise
Welcome to the new era of corporate legal operations. What started as a niche group within the broader legal department has grown rapidly over the past decade in lock-step with the rise of legal technology to an influential office with broad responsibilities, not only in core legal functions, such as eDiscovery, but also in adjacent legal concerns, such as security and document management.
Participants

Operations leaders are transforming legal as the role becomes more holistic

Metrics have become mainstream and meaningful in strengthening legal operations

Commitment to collaboration extends beyond legal to IT, security and compliance

Concentration on security is strong, but sensitive

Emphasis on security is slowly increasing the interest in auditing outside counsel competency and systems

The GDPR is driving major eDiscovery, privacy, and security changes

More companies are spotlighting success in eDiscovery

Centralizing eDiscovery is much more common and likely to grow

Driving a brave new culture of transparency

Momentum moving to the cloud continues

Integrations with IT applications are streamlining eDiscovery

As we predicted last year, the use of artificial intelligence is growing

Predictions for 2019

The pace of law firm security audits is likely to accelerate

Migration to the cloud will continue

ECM is likely to be part of the conversation in legal department technology development

The use of AI in legal departments will continue to expand

Conclusion
A leading industry analyst, Ari Kaplan’s unique position affords him intimate conversations with legal operations professionals who share war stories, anecdotes and insights. From metrics to modernization, legal operations professionals are helping build a next-generation law department in collaboration with visionary chief legal officers, savvy in-house technology experts and an array of innovative outside providers. That team-oriented approach and strategy resonates throughout the commentary and statistics reflected in this white paper.

Participants

Ari Kaplan Advisors interviewed 35 legal operations leaders with Fortune 500 and 1000 companies between July and August 2018 (17 of whom were interviewed for the 2017 report). Eighty percent served as their organization’s director of legal operations (or in an equally senior role). Most had traditional responsibilities for outside counsel and vendor management, legal technology administration and budgeting, while others participated in or led initiatives related to e-Discovery, advanced strategic planning, talent utilization and business process improvements. Forty-nine percent were from companies with revenues of more than $10 billion and 83 percent were with organizations with revenues of more than $5 billion. Two-thirds were at companies with more than 10,000 employees and 91 percent were with organizations maintaining more than 5,000 employees.

When OpenText™ Discovery engaged Ari Kaplan Advisors to survey this community for the first time in 2015, the goal was exploratory. While legal operations leaders traditionally serve as a chief of staff who help legal departments get the most out of their legal budgets, vendors and legal technology, corporate legal operation responsibilities fluctuate dramatically from organization to organization.

OpenText wanted to identify common trends, functions and opinions:

- How is eDiscovery being handled?
- Are legal technologies moving to the cloud?
- How is AI being integrated?
- Are security and content management being driven independently from legal operations?
- How are legal operations initiatives being measured?

<table>
<thead>
<tr>
<th>Corporate legal ops groups at a glance</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Median employees supporting legal ops</td>
<td>4</td>
</tr>
<tr>
<td>Median lawyers in each law department</td>
<td>50</td>
</tr>
<tr>
<td>Median number of outside law firms used</td>
<td>100</td>
</tr>
<tr>
<td>Median number of outside eDiscovery vendors</td>
<td>2</td>
</tr>
</tbody>
</table>

Figure 1: Participant Industries
Operations leaders are transforming legal

Since 2015, Ari Kaplan has conducted nearly 100 interviews with corporate legal operations professionals to paint a picture of an evolving and dynamic role in flux. No two corporate legal operations managers share the same responsibilities and none reported stagnation. “It has expanded from basic business operations to include a range of chief of staff responsibilities,” noted one participating director of legal operations. Another added, “It has been completely overhauled from reactive to strategic; now we offer rich analysis and identify how analytics are impacting resource allocation, staffing, pricing and hiring.”

In addition to the diversity of work, operations leaders are developing an increased level of technology-related expertise. “It has become a lot more technical; like a moth to light, I am drawn to technology,” said a legal operations director in the Energy sector. “We have made a lot of progress on tools that existed like eBilling, but also on analytics, data management and document management.” A peer in Financial Services said, “There has also been a migration towards better in-house knowledge management to find information and work product more easily.”

Many respondents cited a deeper assimilation of the role within the legal team. “The level of responsibility has grown and expanded, we are more integrated than we once were,” said a director of legal operations in Life Sciences. Another in retail said, “In the beginning, the general counsel was not sure how to use the role, but now leaders in the legal department look to us for optimization, ideas on leveraging technology and suggestions for driving efficiencies.”

The operations function has evolved from focusing on a narrow set of tasks or objectives to influencing the entire approach to legal services. “I came into the company to serve as a change agent and transform the law department,” said an Insurance industry operations leader, “I wanted to help write and be a part of the story.”

Metrics have become mainstream and meaningful in strengthening legal operations

Corporate legal operations are almost universally attuned to the importance of metrics, with 89 percent of respondents tracking different milestones to strengthen legal operations and internally market their success. While many of the participants used metrics differently, there was a general acceptance of their utility in addressing critical challenges.

For instance, the numbers help justify resource allocations. “Metrics are mostly used to provide visibility into spending,” said one leader with a technology company. Another in Life Sciences said, “We use them to make a business case whenever we are spending money as it is part of the equation when we are looking at technology or improving processes.”

After studying spending, assessing outside counsel bills is a popular way that operations teams apply this strategy. “We use metrics for matter management and eBilling to ensure up-front approvals and usage of panel firms to drive down costs and track alternative fee agreements,” said a manager of legal operations in consulting. A leader in technology said the company studies the use of its tools, analyzes savings and total outside counsel spend and leverages an invoice review system to identify future savings.

Many legal teams have developed unique delivery methods for broadcasting this data internally. “We provide great dashboards of insights similar to report cards, so we know how we are spending, how we are staffing and the level of diversity, among other factors,” said one Energy sector operations professional.
A director in Insurance said, “We track information, use matter management and recently implemented a metrics and analytics tool. We have about 80 reports in the system from which it derives information, which it is migrating to dashboards.”

That said, 11 percent are not validating their work in this manner. “We don’t need to use metrics to justify legal operations. We provide metrics to the general counsel and deputy general counsel so that they can make effective decisions,” said one participant in Manufacturing. “You cannot base everything on metrics because you need a feel for people and a human touch.”

Other cited uses of metrics include:

- Identifying patterns and making decisions based on those patterns.
- Highlighting areas of risk.
- Managing the company’s panel of outside law firms.
- Deriving more value from an LPO relationship.
- Gaining better insight into the areas of the business that need the most support and paralegal allocation.

Although most of the participants reported finding success in studying their internal statistics, they found that metrics are challenging to implement. “The thing you need to do is dig ditches and install plumbing before you can run the water, much less measure it,” said a Life Sciences respondent.

Commitment to collaboration extends beyond legal to IT, security and compliance

It is no surprise that corporate legal operations are building bridges within the legal department, but new data shows they are fostering broader relationships with other key departments. As corporate legal responsibilities grow to include eDiscovery, privacy, security and information governance, so too do the responsibilities of corporate legal operations. The alliance with compliance was the strongest, but that may be because 60 percent of respondents reported that compliance professionals were part of the legal team or so closely aligned with the department that it was a fairly seamless relationship.

The relationship with IT was less established for most organizations and the comments reflected some major challenges regarding prioritization. “We work very well with our IT group, but the problem is that legal is not always a priority because it is a cost center. There are definitely more projects that are customer facing and need more immediate attention,” said one individual with a technology company. This was a common refrain. “The problem with IT is that whenever I have a new project, it is a two-year waiting list, so we end up doing things ourselves without the involvement of IT,” said a Manufacturing respondent.

Unless respondents came from an IT background, they generally struggled to develop successful relationships despite high levels of collaboration. “We spend more time working with IT than anything on the planet, but it is the single worst experience of my life in terms of productivity,” reported a Life Sciences respondent.

<table>
<thead>
<tr>
<th>Level of collaboration with Legal (out of 5)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Compliance</td>
<td>4.41</td>
</tr>
<tr>
<td>IT</td>
<td>3.91</td>
</tr>
<tr>
<td>Information Security</td>
<td>3.71</td>
</tr>
</tbody>
</table>
Concentration on security is strong, but sensitive

With respect to security, there seems to be a leadership vacuum. “We are struggling with who owns which aspects of security: IT or IS,” said one respondent in the Energy sector. “IS focuses on cybersecurity and IT focuses on security of data collection, which creates minor conflicts.” Another director in the same field noted that “legal has inserted itself more into security.”

It was not surprising that 91 percent of the respondents have data security concerns around distributing electronically stored information to multiple discovery vendors and law firms (a slight rise from the 89 percent in 2017 and markedly higher than the 72 percent in 2015).

“We have significant guidelines focused on cyber protocols. We have had vendors tell us we are a real ‘pain in the a—’ and we want to be a ‘pain in the a— in cyber [so that] we are doing everything we feel we can to intentionally mitigate,” said one operations leader with an Energy company.

Despite the near-universal security concerns, we found that almost 10 percent of respondents were using non-encrypted email as one of their transfer methods in addition to encrypted hard drives (37%) and SFTP (60%). “Using encrypted email will take a lot of change management so it hasn’t happened yet,” one individual with a technology company noted.

Others conceded that their processes are not optimal. “We haven’t actually done anything about it yet, [but] our data and technology team reviews everything so there is a comfort that they are doing all that is necessary without being cavalier about it,” said an operations leader in Retail. A real estate respondent said, “We are relatively immature in this area. We have recently implemented an information security policy.”
Emphasis on security is slowly increasing the interest in auditing outside counsel competency and systems

Since 2015, corporate legal operations have steadily increased audits of their outside counsel’s technological competency and systems. The heightened scrutiny reflects a shifting dynamic in the reputation of law firms. “We’ve always thought of our legal partners as being different from a traditional vendor, but a new audit program is currently in progress,” said one operations leader in Retail. “That is definitely in the pipeline that we want to start doing on an annual basis,” said another in Technology.

<table>
<thead>
<tr>
<th>Year</th>
<th>Respondents that audit outside counsel</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>20%</td>
</tr>
<tr>
<td>2017</td>
<td>26%</td>
</tr>
<tr>
<td>2018</td>
<td>31%</td>
</tr>
</tbody>
</table>

The feeling that law firms are “different” is not universal. Most respondents are not conducting audits because they haven’t experienced a breach yet. “We probably should,” said one operations leader who laughed when delivering the response. “We haven’t had issues so that is the only reason, but not a good reason,” said another.

But the serious implications of a breach are not lost on most legal operations professionals. One director in Life Sciences proclaimed, “It doesn’t happen to us. None of our data has been compromised and we have not been in the media [so] I don’t know what it will take to light that fire. It seems like an uphill battle when I have this conversation at the company [and] we are almost negligent in our responsibility in that area… I have been watching this area for 10 years and it hasn’t gained traction. I just don’t understand why legal departments are not doing more in this area.”

Some respondents assume their law firms are taking steps to ensure security based on reputation and size—the larger the firm, the more “passive assurance” respondents feel. “We are not the largest or biggest client of any law firm and would never ask because someone else has probably already done some type of audit,” said one leader in Manufacturing. Another respondent in Energy said, “The people who are getting the majority of our work are such large firms, we feel that if other people are trusting them, we have some level of passive assurance that they are as secure as we are.”

The GDPR is driving major eDiscovery, privacy and security changes

Eighty percent of respondents advised that data privacy concerns are affecting how they handle discovery and investigations, which is particularly important given that 49 percent reported that the volume of government or regulatory investigations has grown over the past 12 months. The General Data Protection Regulation (GDPR) has raised the stakes in the tension between eDiscovery obligations and privacy rights.

Furthermore, despite a lack of formal auditing, the GDPR is, at a minimum, requiring some legal departments to obtain data management declarations from their outside attorneys. “With the GDPR, we are now making sure our law firms sign a data protection agreement [and those] who receive personal data, now undergo a mandatory initial security assessment. What we do is pretty intrusive and could take up to three months,” said one director of legal operations in Technology.
Sixty-nine percent of respondents reported that the GDPR and other data privacy regulations have changed the roles and responsibilities in their organization around security and compliance. Although for most respondents the work is beginning slowly. “Last year, for the first time, the company sent a questionnaire to law firms focused on their security protocols, but we are still in the early stages of reviewing security at law firms,” said an operations leader in Energy. A respondent in Real Estate said, “In the last version of our policy, we added language to allow us to do it, but we have not acted on it yet.”

The new regulations are also affecting the interdependence between legal and security, with 91 percent reporting that the legal department’s influence on information security decisions has increased in the last three years. In fact, 49 percent highlighted that the legal team is much more involved in information security.

“Legal has a much stronger voice at the table, especially in data privacy and security. While there were different regulations in the past, legal was not involved in data privacy and security, but due to the increased requirements from the GDPR and other regulations, legal is much more involved and in the driver’s seat or being reactive,” said one operations director in Life Sciences.

**More companies are spotlighting success in eDiscovery**

Every respondent played some role in their organization’s eDiscovery process, and this year, we observed a dramatic increase in the number of respondents formally measuring the success of their eDiscovery practice to 54 percent (from 34 percent in 2017). One surprise was the expanded emphasis on tracking “review efficiency.” Historically, this was a statistic that law firms were tracking much more widely than corporate legal operations.

While some measure eDiscovery success by individual factors, such as processing time, the amount of data on hold and costs, others gauge it simply by outcome, data reuse potential and the speed with which the company manages its litigation docket. “Litigation support is not the tail wagging the dog. We do everything necessary to support the case team, ensure that errors are minimized and bring any [mistakes] to the attention of the lawyers for correction,” touted an operations leader in Manufacturing. A respondent in Financial Services said, “Measuring success is about cost savings and reducing the scope of discovery requests.”

Figure 3: What metrics are you tracking for eDiscovery?
A director in leasing said, “We measure success by identifying ways to use eDiscovery technology to leverage information we have to make smarter decisions. A retail respondent added, “It is an off-the-cuff conversation that takes place within the litigation team [because] e-discovery sits within litigation, yet legal operations helps to optimize the process and whittle away the legal team’s resistance to change.”

Centralizing eDiscovery is much more common and likely to grow

The universal move to the cloud and comfort with consolidating data seem to be simultaneously influencing improvements in discovery management. Sixty-three percent of respondents used a centralized approach for hosting and managing discovery data, which is a significant jump from the 43 percent in 2017. One explanation for the dramatic change from 2015 is simply that most corporations have brought eDiscovery technology in-house, which integrates analytics at no additional cost and results in enormous costs savings.

“All of our data is hosted in the cloud. We didn’t want to deal with outside counsel with various levels of access, so our data is now web-accessible and rolls into the review software mother ship,” said an operations director in Manufacturing.

Driving a brave new culture of transparency

Only 34 percent of respondents reported receiving effective reports from their outside counsel on discovery budgets and review efficiency. In addition, most shared a general apprehension about the reports they do receive. “I’m sometimes a little skeptical of reports that I receive because I don’t know the metrics behind them or how they were compiled,” said a director in Financial Services. A Life Sciences manager said that reporting from outside counsel is sometimes difficult to track.

For others, it is the cadence with which they receive them. “The major problem I have with those things is the inconsistency with the reporting we get; one quarter you get it and sometimes you don’t. My preference is—and this is something that I am working on—to create a dashboard in which the law firms can push their data because I don’t want to receive various pieces of information in many different formats,” said a leader in Technology. “It is random. I would like it to arrive regularly,” said a respondent in the Energy sector.
Forty-three percent of respondents felt they had enough insight into the discovery processes of their outside counsel, a number which is up significantly from 28 percent in 2015. “We put a stake in the ground and now have quarterly business reviews with outside counsel to gain greater visibility into their work by demanding those conversations,” said a respondent from Life Sciences. Furthermore, the centralization trend is yielding enhanced control and transparency. “Our policy is that our outside firms review in our tool, so they don’t typically provide metrics, since we already have them as they play in our sandbox,” said a Financial Services director.

In fact, 80 percent of this year’s respondents reported that they contract with eDiscovery vendors directly—a significant rise from 63 percent in 2017. And nearly two in three dictate the specific vendor outside counsel should use. “We have an entire process set up and instruct outside counsel in how we want it done,” said one survey participant. “In order to access the company’s data, the outside firm must use its technology and providers,” added another.

Momentum moving to the cloud continues

The ubiquity of Microsoft® Office365® has heavily contributed towards cloud migration and, in general, we found a steady sentiment towards using at least some cloud-based tools. The most dramatic growth came from organizations that were heavily using cloud tools. More organizations are willing to dive deep in to the cloud than ever before.

Forty-three percent of respondents felt they had enough insight into the discovery processes of their outside counsel, a number which is up significantly from 28 percent in 2015. “We put a stake in the ground and now have quarterly business reviews with outside counsel to gain greater visibility into their work by demanding those conversations,” said a respondent from Life Sciences. Furthermore, the centralization trend is yielding enhanced control and transparency. “Our policy is that our outside firms review in our tool, so they don’t typically provide metrics, since we already have them as they play in our sandbox,” said a Financial Services director.

In fact, 80 percent of this year’s respondents reported that they contract with eDiscovery vendors directly—a significant rise from 63 percent in 2017. And nearly two in three dictate the specific vendor outside counsel should use. “We have an entire process set up and instruct outside counsel in how we want it done,” said one survey participant. “In order to access the company’s data, the outside firm must use its technology and providers,” added another.

Momentum moving to the cloud continues

The ubiquity of Microsoft® Office365® has heavily contributed towards cloud migration and, in general, we found a steady sentiment towards using at least some cloud-based tools. The most dramatic growth came from organizations that were heavily using cloud tools. More organizations are willing to dive deep in to the cloud than ever before.

<table>
<thead>
<tr>
<th>Year</th>
<th>Using cloud-based tools somewhat (3)</th>
<th>Using cloud-based tools heavily (4 or 5)</th>
<th>Were you previously very open to using the cloud?</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>80%</td>
<td>32%</td>
<td>56%</td>
</tr>
<tr>
<td>2017</td>
<td>89%</td>
<td>51%</td>
<td>66%</td>
</tr>
<tr>
<td>2018</td>
<td>83%</td>
<td>60%</td>
<td>69%</td>
</tr>
</tbody>
</table>

For many legal operations leaders, the movement to the cloud is based on an enterprise-wide campaign. “There is a mandate to use the cloud in legal. Matter management, eBilling and document management are still on-premises, but everything else is in the cloud. The company uses Office365,” said one respondent. For others, despite enthusiasm for the cloud, their teams are not able to abandon certain legacy systems.

Security and reliability are top of mind as organizations move to the cloud. “We are concerned about the predictability of cloud but are generally navigating towards more cloud solutions that are secure and reliable,” said an operations leader in Retail. In addition, organizations are less interested in maintaining the internal infrastructure necessary to support high-power applications. “We have a terrible IT infrastructure, so we are trying to get out of the IT infrastructure business,” said an operations professional in the Energy field.

Paradoxically, some professionals see these same motivating factors as cause for concern. “The general counsel is not confident that the cloud is safe and will not allow the legal department to adopt a cloud-based solution,” said one respondent.
The fact that 51 percent of participants are uncertain about these issues is critical, since 57 percent said they influence ECM-related decisions.

Integrations with IT applications are streamlining eDiscovery

Given the importance of data management in corporate law departments, it is no surprise that more respondents are looking to connect eDiscovery applications with their Enterprise Content Management (ECM) systems. Seventy-four percent of respondents said they would benefit from connecting eDiscovery and ECM, which is the same result as last year.

The first step is just understanding the ECM ecosystem—51 percent had either no idea how many ECM applications their organization maintained or could only guess. In addition, many of the responses began with “Oooh, gosh” and “I could not even begin to answer that question.” Others simply started laughing in response.

The fact that 51 percent of participants are uncertain about these issues is critical, since 57 percent said they influence ECM-related decisions, which is a material number, but a significant drop from the 80 percent who advised doing so in 2017. “Legal influences the decision due to privacy concerns and to ensure compliance with the GDPR [since] we need to know where data sits and how to retrieve it,” said one operations leader. “We are seen in the company as one of the more progressive departments technologically, so we are given a seat at the table,” added another. In fact, one said, “We can stop everything if it is a bad legal decision.”

One operations director noted however, that “Legal reviews contracts and will try to provide advice, but it is often the business units who make the decision.” Another said that “It would only be in the later stage when IT is selecting a vendor, but it does not include legal in those decisions.”

74% say it would be helpful to the entire law department if their ECM systems were integrated with their eDiscovery platforms.

“It would simplify the process for our eDiscovery specialist, rather than [require that person to] go to multiple places and use multiple tools.”

“It would allow us to access the data more quickly and pull it more seamlessly to send out to our discovery vendors.”

“It would create greater efficiencies across the organization.”

Despite the support for this integration, “You need to have context to what you are doing and in a targeted manner, otherwise, it gets out of control,” said a legal operations director in Manufacturing. “We are so big, it might just be a big mess,” noted another in retail.
66% of respondents believe that spending on AI solutions will increase in 2019.

As we predicted last year, the use of artificial intelligence is growing

Thirty-four percent of respondents use artificial intelligence in the legal department (up significantly from 23 percent in 2017) in a variety of ways, including eDiscovery and contracts. "We are investigating it more broadly in contract management, but [currently] use it for eDiscovery," reported one leader. "We are trying to embed AI into many of our tools using bots or contract clause creators to reduce risk," said another. "We use it primarily in contracts for extrapolating data from unstructured documents to ease the burden of data entry," offered a third. One participant summarized the goal, "We are looking to replace low-value work that is not fun for people with AI."

For those reasons, 66 percent of respondents believe that spending on AI solutions will increase in 2019. "We are starting a big project to use AI on contracts," said one operations leader. Another said, "Some existing vendors have AI updates on their roadmap and contract management will be the first opportunity to showcase the benefits of AI."

Openness to using AI is significantly higher this year, up by 17 percent. Nearly nine in 10 respondents rated their organization's openness to using AI at a three or higher on a one to five scale. "As a company, we are becoming so much more tech savvy than we used to be," said one individual.

The challenges and obstacles for AI generally stem from a lack of relevant use cases and cultural resistance. "I'm very open to it if I had an application for it," said one leader. Another said, "Culturally, there is some resistance because people don't understand what it means." The educational challenge is a persistent one—both in terms of what AI can do and whose job it will take. Here are some of the sound bites from conversations around the challenges:

- "The concern is that it is replacing human beings with robots because humans need jobs."
- "I need a better understanding of what it could possibly do for me and where it would provide efficiencies."
- "It is early days in terms of the effectiveness of these tools so you need to be careful before you make any major steps, but it could be quite helpful."
- "I want to make sure it isn't today's cool tool; I hope I'm approaching it with healthy skepticism but I do think there is a there there."
- "Adoption [laughter]."
- "Managing the expectations on the outcome."
- "There is a lack of confidence in AI because it gives empowerment to the business units rather than keeping that control in legal."
Predictions for 2019

The pace of law firm security audits is likely to accelerate

In the past two years, our research has highlighted a rise in the number of organizations that audit the technological competency and systems of their outside counsel. The focus on holding law firms more accountable to enterprise-wide standards is likely to rise, given that 69 percent of respondents indicated that the GDPR and other data privacy regulations have changed the responsibilities in their organization around security and compliance and that 91 percent have seen an increase in the legal department’s influence on information security decisions.

Migration to the cloud will continue

With 83 percent of respondents rating their organization’s use of cloud-based tools at a three or above on a 1-5 scale and 94 percent rating their company’s openness to implementing cloud solutions in the coming year at three or above, the rapid adoption of the cloud will continue.

ECM is likely to be part of the conversation in legal department technology development

For two consecutive years, almost three-quarters of survey participants have reported that if their ECM systems were integrated with their eDiscovery systems, it would be beneficial for the legal department. Specifically, they noted that it would increase efficiency, enhance productivity, control costs and simplify various complex processes. Given those prospective advantages, ECM connections are likely to remain part of the technology portfolio conversation.

The use of AI in legal departments will continue to expand

With an 11 percent rise in the number of participants who are using artificial intelligence in their legal departments and 66 percent expecting that spending on AI solutions will increase in 2019, legal teams are more likely to take advantage of this technology in the coming year. In fact, with 89 percent rating their organization’s openness to using AI at a three or higher, the adoption rate is likely to accelerate as leaders become more familiar with the practical application of these tools.
Conclusion
In studying the legal industry through the eyes of those dedicated to corporate legal operations over the past few years, the evolution of the role in tandem with the profession is clear. With discussions increasingly focused on innovation, efficiency and the next generation of legal practice, legal operations leaders are at the forefront of piloting new technology, executing strategic initiatives and helping senior leadership navigate a precarious landscape. The rise of the cloud and the emergence of artificial intelligence represent progress, but not completion. The year-over-year data helps predict that as the market shifts, the law department leaders who contributed to this year’s report (and those who have shared their views in the past) will consistently pivot to remain at the forefront of an industry in transition.

About OpenText
OpenText, The Information Company, enables organizations to gain insight through market leading information management solutions, on-premises or in the cloud. For more information about OpenText (NASDAQ: OTEX, TSX: OTEX) visit: opentext.com.

Connect with us:
• OpenText CEO Mark Barrenechea’s blog
• Twitter | LinkedIn
Responsive
"Responsiveness and project management abilities are where we feel the most pain."

Attentive
"It is important that our vendors do not pretend to listen to the company's representatives; we want them to focus on our special needs and partner with the team."

Familiar
"The better they understand us, the better they can advocate and partner with us."

Transparent
"Be candid about your strengths and weaknesses; we expect the problems, but how we handle the solutions is always key."

Collaborative
"We want to make sure that everyone is on the same page so that we know the direction and don't head down the wrong path."

Proactive
"We are pushing our vendors to be more vocal as they are the experts, and our eyes and our ears; we want them to be our advocate to help save the company money."

Dedicated
"It is important to build a relationship and be a business partner rather than merely a vendor; the company is constantly growing with its business partners."

Consultative
"Our prior vendor was just an order taker and would do what the law firm instructed even if it was dumb; we want to work with a vendor who is a partner and provides an opinion on law firm strategies."

Source: E-Discovery Unfiltered: A Survey of Current Trends and Candid Perspectives, Ari Kaplan Advisors, 2017

FOR MORE INFORMATION OR TO OBTAIN A COPY OF THE REPORT, CONTACT: Ari@AriKaplanAdvisors.com or (646) 641-0600.
THE BUSINESS OF LAW:
A Market Research Study to Explore Opportunities for New York Law School Students
A Letter from Dean Anthony W. Crowell

INTRODUCTION
Dear Colleagues,

It is no secret that the legal profession is undergoing profound change. More than ever, lawyers at firms and corporate legal departments must be fluent in the technical and operational needs of their clients and organizations.

New York Law School (NYLS), which in 1904 built one of the nation’s first evening J.D. programs, has always sought to adapt its educational programs to the real-time needs of the legal job market. Doing so is critical to helping our graduates thrive professionally.

With that goal in mind, in fall 2017 we commissioned a comprehensive market research study on the feasibility of establishing a Business of Law Institute at NYLS. The study—which drew on the insights and recommendations of New York City’s legal and corporate leaders—is a core part of our strategic planning process for the next five years.

The study results laid out in this report have given us a wealth of information on which to base our programming decisions. They have illuminated the areas of skill and expertise that law firm and corporate leaders most value in their employees, prospective employees, and outside law firms. These findings now guide the development of our Business of Law Institute, which will launch in fall 2018.

I am grateful to Ari Kaplan Advisors for conducting this thorough research. I also wish to recognize the immense contributions of Steven Harber, a leader in legal tech, an executive responsible for legal partnerships at Seal Software, and 1992 graduate of NYLS who was a central part of this effort. In addition, this initiative would not be possible without the dedicated stewardship of Assistant Dean for Academic Programs Erin Bond.

Finally, I thank the NYLS faculty members whose contributions to this effort and whose relentless interest in ensuring that our curriculum aligns with the modern legal marketplace and continues to advance access to justice have been invaluable. In particular, I appreciate the incisive comments provided by our faculty Strategic Planning Subcommittee on the Future Role of Lawyers and Legal Education.

Please enjoy learning more about our findings.

Anthony W. Crowell
Dean and President
Professor of Law
EXECUTIVE SUMMARY

“Law has traditionally been taught to the final or the bar exam; the Business of Law Institute could teach to the job, the career, and the evolution of the legal profession.”

–Survey respondent
Technology continues to profoundly impact the practice of law. NYLS remains fundamentally committed to leadership in developing innovative programming that serves the needs of a quickly evolving profession.

Law firms are becoming more adept at meeting the rapidly changing needs of their clients. Many have expanded their focus beyond traditional legal work to encompass growing specialty areas that intersect with the law, such as cybersecurity, compliance, privacy, and e-discovery. Accordingly, educational institutions must work quickly to ensure that the next generation of lawyers has the hybrid business and technology coursework, practical training, and certifications to succeed.

NYLS’s history of educational innovation and its location steps from Wall Street give it a unique foothold in this emerging market. In the winter of 2017–18, NYLS engaged the research consulting firm Ari Kaplan Advisors to assess the feasibility of launching an academic institute dedicated to training students in the business of law. The multilayered research study conducted by Ari Kaplan included interviews, online surveys, and focus groups with a substantial pool of stakeholders, as well as broad industry analysis.

**Major Findings**

- There is strong market demand for a Business of Law Institute.
- Most (68%) of the law firm leaders reported that coursework in e-discovery/Technology Assisted Review would give employees or prospective employees a competitive advantage; this was followed by cybersecurity coursework (64%).
- Law firm leaders would most like their new associates to have experience in advanced legal research (68%), e-discovery/Technology Assisted Review (67%), cybersecurity (65%), and legal technology selection and operation (56%).
- Most (64%) of the corporate law department leaders said that the best way law schools can prepare their students to take advantage of changing market opportunities is to encourage them to learn about how technology is used beyond the law firm setting.
- Corporate law department leaders said it was most important for their outside law firms to understand the applications and implications of privacy (73%), risk and compliance (71%), and cybersecurity (63%).
- Law students in two different focus groups were most eager to learn about artificial intelligence, cybersecurity, and privacy—and were unanimously interested in attending technology learning labs.

Informed by the study’s findings, NYLS will launch its Business of Law Institute in fall 2018. Rather than concentrate on one area of law, such as mergers and acquisitions, or a primary theme, such as corporate responsibility, NYLS’s Business of Law Institute will align substantive exposure to cutting-edge legal topics with market demands and in-depth practical experience. It will feature hands-on learning labs, holistic integration with the corporate community, and adaptability—guided by consistent and earnest communication with corporate partners—with the goal of providing NYLS students with strategic advantages upon graduation, including new tools to bridge the access-to-justice gap.

This report provides in-depth detail on the study’s methodology and findings.
Development of the Institute is guided by data from a comprehensive market research study.
In October 2017, NYLS received a private grant to undertake a market research study that would help the School understand the landscape and opportunities related to the business of law.

Rather than build a traditional program rooted in general perceptions of market conditions, NYLS’s Business of Law Institute will be developed by faculty utilizing extensive new market data derived directly from law firm leaders and corporate counsel, as well as significant and ongoing input from industry leaders and NYLS students.

Ari Kaplan Advisors researched the range of relevant programming and instruction provided at American Bar Association (ABA)-accredited law schools, the current market conditions for legal services, and key business of law concerns.

In addition, to obtain direct knowledge and real-time insight from legal services professionals, Ari Kaplan Advisors conducted the following research from November 2017 to February 2018:

- In-depth interviews with 29 leaders at law firms and corporations
- A survey of 114 lawyers at law firms and within corporate legal departments
- Two focus groups of NYLS students (Day Division and Evening Division students)
- Interviews with several NYLS faculty members
Those interviewed serve as senior or general counsel to international financial institutions, Fortune 500 companies, or international accounting firms; managing partners or chairs of Am Law 200 law firms; and executives in the alternative legal services provider industry.

IN-DEPTH ANALYSIS
THE RAPIDLY EVOLVING AND EXPANDING MARKET

The size of the legal market and the growth of the legal technology space support the establishment of a Business of Law Institute.

The value of the U.S. legal market alone, estimated at $437 billion, including revenue from law firms and legal process outsourcing firms, as well as corporate legal department budgets, supports the viability of a Business of Law Institute.

In addition, the continuing growth of the legal technology and alternative legal services communities provides further support for this initiative. In the fall of 2017, Crunchbase reported that legal tech startups had received about $1.5 billion in cumulative funding for 610 deals since 2010. In fact, the sector received nearly $200 million in new investments in May and June 2018 alone. According to a 2016 study from the software provider Mitratech, the estimated market for law department and law firm software is $15.9 billion annually, and law departments spend $1.5 billion annually on 11 types of non-discovery-related software, including matter management, compliance, and legal analytics. Mitratech's study predicted further that in-house budgets would become heavily weighted on governance and compliance and contracts management.

Spending in the electronic-discovery market for 2017 was estimated at $9.24 billion, with an expectation that it will increase by over a billion dollars by the end of 2018 to $3.17 billion for software and $7.47 billion for services. In fact, the compounded annual growth rate of the e-discovery market is expected to be about 15% through 2022, with software spending rising to $5.71 billion and services increasing to $13.22 billion.

In a further indication that the market is shifting, Thomson Reuters found, based on data from the World Intellectual Property Organization, that there has been a 484% increase in new legal services patents globally in the past five years led by the United States, but with China as a close second. Additionally, 579 patents associated with legal services technology were filed in 2016, up from 99 patents in 2012.

The nature of legal services is rapidly changing.

The 2017 Chief Legal Officer Survey highlighted that greater use of technology to improve law department efficiency was the most common response for more than half (58%) of the participants, followed by greater use of paralegals and paraprofessionals (45%) and outsourcing to non-law firm vendors (19%), among others.

---

3 Id.
5 Id.
7 Id.
In its “Future Trends for Legal Services” global research survey of CEOs, CFOs, and in-house counsel, published in June 2016, Deloitte found that demand and spend for legal services was growing, with 49% highlighting an increase in spending on regulatory compliance.9 In fact, 26% of respondents advised that global compliance is the biggest challenge within their legal departments.10 While 18% noted that technology is used for in-house legal tasks, 52% expected that it would be by 2021.11 And, 52% of in-house legal departments at the time were considering buying legal services from a non-traditional law firm entity.12 If realized, this prediction could directly impact the employment prospects for future law graduates.

ANALYSIS OF ONLINE SURVEY RESULTS AND INTERVIEWS

From November 2017 through February 2018, 114 individuals responded to a quantitative online survey designed for NYLS by Ari Kaplan Advisors. Of the total respondents, 58 were from law firms and 56 were from corporations.

Of the law firm respondents, 62% were partners. 40% were with firms of 100 lawyers or more, while 19% were with firms of fewer than 50 lawyers.

Of the respondents from corporations, 23% were in financial services, 11% in technology, 11% in manufacturing, 7% from banking and credit institutions, 7% in media, 7% in accounting, 5% in education, 4% in consulting, 4% in health care, 4% in telecommunications, 2% in construction, 2% in transportation, 2% in e-commerce, 2% in gaming, and 2% in pharmaceuticals. The remainder were unspecified.

20% of the corporate respondents served as assistant general counsel, 15% were the general counsel, 9% were associate general counsel, 9% were senior counsel, 5% were deputy general counsel, and the remainder were in a variety of titles, including chief litigation counsel, director of legal affairs, and director of contracts, among others. 27% worked in law departments with over 100 lawyers, 11% had 51 to 100 lawyers, and 7% had 25 to 50 lawyers. 52% were with organizations of more than 5,000 employees.

In addition to the online survey, Ari Kaplan Advisors conducted one-on-one interviews with 29 professionals, including those serving in leadership roles in large law departments, international accounting firms, AmLaw 200 law firms, alternative legal services providers, and at NYLS.

Law Firm Trends: From the Perspective of Partners

The Practical Application of Technology

When asked, on a scale of 1 to 5, how important it is for employees to understand the application of artificial intelligence, cybersecurity, data analytics, e-discovery, knowledge management, legal operations, privacy, project management, and risk and compliance, the overall highest scores were for cybersecurity, privacy, e-discovery, and risk and compliance. 64% described cybersecurity as very important and assigned it a 5. 55% of respondents assigned a 5 to privacy, 53% assigned a 5 to e-discovery, and 47% assigned a 5 to risk and compliance.

10 Id. at 5.
11 Id. at 6.
12 Id. at 8.
The Advantages of Coursework

68% reported that coursework in e-discovery and Technology Assisted Review would give employees or prospective employees an advantage. 64% chose cybersecurity, with privacy at 39%. “These are emerging areas of the law, and new graduates are not necessarily expected to be familiar with these topics right out of law school, so they get an automatic boost if they are,” said one lawyer. “E-discovery, knowledge management, legal operations, and project management are price-of-admission commodity skills all students need,” advised another.

“If you are a law student and you understand and know how to leverage these technologies, e.g., a suite of tools associated with search and retrieval, and can apply them to legal problems, you will have an advantage,” said a partner who leads his law firm’s global cybersecurity practice. “The people who can unlock the value proposition are those coming out of law school or new lawyers who understand the technology.”
Promising Areas for Law Firm Business Development

In terms of law firm business development, 46% of law firm respondents highlighted that flat-fee subscription pricing for commodity tasks was an area of growth, followed by e-discovery managed services for 33% of respondents, and consulting for 30%. “As the Big Four begin to practice law, law firms can start to consult; with law firms having the advantage and freedom to do both equally, it is incumbent on them to move in this direction,” said one law firm’s innovation officer.

Differentiating Factors

In terms of areas of differentiation that could increase revenue, 55% cited cybersecurity as an area of distinction, followed by e-discovery at 49%. Only 27% selected artificial intelligence, and 20% selected data analytics, which was surprising given the substantial media coverage of these areas. “The lawyer of the future will combine a legal knowledge, a comfort level with technology, and the ability to interpret and manipulate data analytics, which would be a powerful package,” advised a senior in-house lawyer with a large financial institution.

For 38% of respondents, project management and risk and compliance present opportunities to stand out. “These are just tools; the differentiator is what you do with them to solve client problems,” said one respondent. “It is possible that artificial intelligence could help automate some tasks that are now done completely manually,” another lawyer commented.
In an effort to further distinguish themselves, 75% of firms have an e-discovery practice group, 75% have one in cybersecurity, 53% have one in privacy, and 42% have one in risk and compliance.

<table>
<thead>
<tr>
<th>Practice Group</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Artificial Intelligence</td>
<td>11%</td>
</tr>
<tr>
<td>Cybersecurity</td>
<td>75%</td>
</tr>
<tr>
<td>Data Analytics</td>
<td>11%</td>
</tr>
<tr>
<td>E-discovery / Technology Assisted Review</td>
<td>75%</td>
</tr>
<tr>
<td>Knowledge Management</td>
<td>17%</td>
</tr>
<tr>
<td>Legal Operations</td>
<td>8%</td>
</tr>
<tr>
<td>Privacy</td>
<td>53%</td>
</tr>
<tr>
<td>Project Management</td>
<td>14%</td>
</tr>
<tr>
<td>Risk and Compliance</td>
<td>42%</td>
</tr>
</tbody>
</table>

Training

Law firms provide training in almost every area. 72% offer e-discovery training, and 68% offer cybersecurity training. Privacy, risk and compliance, and knowledge management follow.

<table>
<thead>
<tr>
<th>Training Area</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Artificial Intelligence</td>
<td>17%</td>
</tr>
<tr>
<td>Cybersecurity</td>
<td>68%</td>
</tr>
<tr>
<td>Data Analytics</td>
<td>30%</td>
</tr>
<tr>
<td>E-discovery / Technology Assisted Review</td>
<td>72%</td>
</tr>
<tr>
<td>Knowledge Management</td>
<td>32%</td>
</tr>
<tr>
<td>Legal Operations</td>
<td>30%</td>
</tr>
<tr>
<td>Privacy</td>
<td>55%</td>
</tr>
<tr>
<td>Project Management</td>
<td>26%</td>
</tr>
<tr>
<td>Risk and Compliance</td>
<td>36%</td>
</tr>
</tbody>
</table>

“These are important issues for our clients so we regularly communicate and train employees in these areas,” noted one lawyer. A peer added, “The firm leaves the attorneys to their own devices about what training and CLE courses they take; the firm is focused on the present and is not seeing the future of the legal profession.”
77% of firms rely on in-house trainers, and 62% work with vendors who supply their software and hardware. 30% receive training from another national CLE provider.

**Desirable Experience for New Hires**

The two most popular areas in which law firms would like new associates to have experience are e-discovery (67%) and cybersecurity (65%). 40% would like experience in privacy, 40% in project management, and 40% in risk and compliance. 31% would like experience in data analytics, 27% in artificial intelligence, and 27% in legal operations.

“New associates straight out of law school would need extensive clinical training to have experience in any of these topics,” said one lawyer. That said, the lawyer noted, “If new associates knew any or all of these areas, they would be significant assets to the firm in my opinion.”

<table>
<thead>
<tr>
<th>Area</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Artificial Intelligence</td>
<td>27%</td>
</tr>
<tr>
<td>Cybersecurity</td>
<td>65%</td>
</tr>
<tr>
<td>Data Analytics</td>
<td>31%</td>
</tr>
<tr>
<td>E-discovery/Technology Assisted</td>
<td>67%</td>
</tr>
<tr>
<td>Knowledge Management</td>
<td>25%</td>
</tr>
<tr>
<td>Legal Operations</td>
<td>27%</td>
</tr>
<tr>
<td>Privacy</td>
<td>40%</td>
</tr>
<tr>
<td>Project Management</td>
<td>40%</td>
</tr>
<tr>
<td>Risk and Compliance</td>
<td>40%</td>
</tr>
</tbody>
</table>

Most law firm leaders (68%) would like new associates to have accelerated research capabilities, followed by 56% who want proficiency in legal technology selection and operation. 42% would like to see experience with project management, 37% would like familiarity with accounting and budget, and 36% think new associates should have an awareness of legal management trends.

“Focus on meeting client needs instead of billable hour targets,” advised one respondent. “An associate should have an understanding of the threats out there and recognize what prevents them from being taken advantage of and exposing the firm to intrusion and liability,” added another.
One firm’s chairperson said that the firm “is building out a blockchain practice, so if you showed me someone who worked in a computer science lab on blockchain, then we are playing ball.” Taken on a large scale, this type of response from law firm leadership suggests that law schools committed to ensuring the best employment options for their graduates should be keeping their curriculum in step with emerging practice areas.

Although the majority of respondents were looking for tech-related skills, some countered that notion. One partner stated, “Traditional education and smart lawyers who can think are more important than trends and buzzwords.”

**Another Approach to Understanding Value: Billing for First- and Second-Year Associates**

41% of respondents to the law firm survey said that the firm would benefit if it could bill first- and second-year associates who have a specialty based on their law school experience and credentials. “It gives them a leg up on untrained similarly situated young attorneys,” said one lawyer. But, “the skills listed above that would be useful for law school training are expected of first- and second-year lawyers, so it would not result in added billing,” countered another. “Clients are only willing to pay so much for first- and second-year associates, and we are unlikely to be able to increase that based on law school experience or credentials,” added a third. Based on the range of responses to this series of survey questions, it appears that only a fraction of firms consider the billing of junior associate time as a driver in addressing new associate training or entry capabilities.
Empowering Paralegals

A majority of respondents would like paralegals with experience in e-discovery (77%) and project management (63%). Fewer would like paralegals to have knowledge of cybersecurity (37%) and data analytics (35%).

"Expertise in this area would give clients more confidence in their skill set," said one. "For paralegals, these areas could be extremely important for my firm," added another. While NYLS has no immediate plans to expand course offerings outside of the Juris Doctor population, with organic growth and effective partnerships, it appears from the study that NYLS could provide a desirable training service to paralegals and other firm professionals.

A majority of respondents want other law firm professionals to have experience in cybersecurity (76%), e-discovery (71%), and legal operations (53%).
Corporate Trends: From the Perspective of Corporate Leaders

The Practical Application of Technology

When asked to rate, on a scale of 1 to 5, how important it is for their outside law firms to understand how they apply artificial intelligence, cybersecurity, data analytics, e-discovery, knowledge management, legal operations, privacy, project management, and risk and compliance, corporate leaders assigned the highest overall scores to privacy, risk and compliance, cybersecurity, and legal operations. 73% described privacy as very important and assigned it a 5 on a 1-to-5 scale. 71%, 63%, and 38% were the percentages of respondents who assigned a 5 to risk and compliance, cybersecurity, and legal operations, respectively.

Interestingly, based on the survey responses, in-house leaders value privacy and risk and compliance ahead of legal operations; they also rank legal operations ahead of e-discovery. “Compliance in all areas is a very important focus of the legal division,” said one corporate respondent. “All are crucial areas that most business schools are ramping up,” added another.

The Advantages of Coursework

75% of respondents reported that coursework in risk and compliance would give employees or prospective employees an advantage when seeking a job or promotion. 73% chose cybersecurity, and 71% chose privacy. Data analytics followed at 54%. “We have employees (outside of the law department) who specialize in most of these things,” commented one in-house leader. “I almost left AI and data analytics unchecked, but tech is moving so fast that they’ll soon be routinely relevant,” remarked another.

“We don’t typically hire people with no experience because we don’t have the resources to train them, but if you had certain knowledge in different sectors like data analytics, it could serve as an equivalent substitute for legal experience,” said an in-house lawyer for a national retailer.
Perceived Training Deficiencies and Related Challenges Working With Outside Counsel

44% of corporate leaders perceived training deficiencies in their outside counsel. "Many are not up-to-speed on cybersecurity and privacy issues/laws, and many still struggle with basic technology," said the assistant general counsel for a media company. "They don’t understand the operational pressures on in-house lawyers and how to find ways to best support our legal needs," added a senior counsel in telecommunications.

Respondents also cited these challenges:

• Understanding the operations specific to the business in order to provide more applicable and efficient advice.

• Understanding how to match the firm’s style with the working style and personalities of the corporation.

• Cybersecurity, knowledge management, efficiency (moving away from the billable hour), soft skills in closing deals quickly, and diversity awareness.

• Project management, metrics, statistics, and reporting.

• A lack of commitment to truly understanding what is important to the corporation.

• The ability to keep up with changing trends.

• Sensitivity to e-discovery processes.

• Legal operations.

• Privacy and compliance.

In terms of training, corporate legal departments offer programming to their own employees in almost every area, ranging from 68% offering training in privacy and 61% offering it in risk and compliance to 55% providing background on cybersecurity and 48% focusing on legal operations. Only 5% offer training on artificial intelligence, while 20% offer it in data analytics and 34% offer it in e-discovery and Technology Assisted Review.
“They already have the knowledge they need or will acquire it as they need it,” reported the associate general counsel for a manufacturing company. “We have an annual compliance training process, which is not limited to legal,” said a senior vice president for a large public company. 77% of law departments have in-house trainers, 57% receive training from vendors who supply their software and hardware, and 26% receive it from another national CLE provider.

**Skills That Make a Difference**

64% reported that skills in risk and compliance would give employees or prospective employees an advantage. 55% chose privacy, 51% chose cybersecurity, and 51% chose project management, with data analytics further down at 42%. “We see no advantage in any of these areas,” reported a deputy general counsel in financial services. “We assume recent grads have no skills, legal or otherwise,” admitted another corporate leader. This cynicism was not unique and has been widely reported in the media. NYLS believes this assumption is invalid when applied to its graduates given the practical focus of all of its programs, including the New Business of Law Institute.

**Do you currently provide training for your lawyers in any of the following areas? (Check all that apply.)**

<table>
<thead>
<tr>
<th>Area</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Artificial Intelligence</td>
<td>5%</td>
</tr>
<tr>
<td>Cybersecurity</td>
<td>55%</td>
</tr>
<tr>
<td>Data Analytics</td>
<td>20%</td>
</tr>
<tr>
<td>E-discovery / Technology Assisted Review</td>
<td>34%</td>
</tr>
<tr>
<td>Knowledge Management</td>
<td>25%</td>
</tr>
<tr>
<td>Legal Operations</td>
<td>48%</td>
</tr>
<tr>
<td>Privacy</td>
<td>68%</td>
</tr>
<tr>
<td>Project Management</td>
<td>30%</td>
</tr>
<tr>
<td>Risk and Compliance</td>
<td>61%</td>
</tr>
</tbody>
</table>

**If you hire recent graduates, would skills or experience in any of the following areas make you choose one candidate over another? (Choose all that apply.)**

<table>
<thead>
<tr>
<th>Area</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Artificial Intelligence</td>
<td>21%</td>
</tr>
<tr>
<td>Cybersecurity</td>
<td>51%</td>
</tr>
<tr>
<td>Data Analytics</td>
<td>42%</td>
</tr>
<tr>
<td>E-discovery / Technology Assisted Review</td>
<td>25%</td>
</tr>
<tr>
<td>Knowledge Management</td>
<td>25%</td>
</tr>
<tr>
<td>Legal Operations</td>
<td>40%</td>
</tr>
<tr>
<td>Privacy</td>
<td>55%</td>
</tr>
<tr>
<td>Project Management</td>
<td>51%</td>
</tr>
<tr>
<td>Risk and Compliance</td>
<td>64%</td>
</tr>
<tr>
<td>Not applicable</td>
<td>13%</td>
</tr>
</tbody>
</table>
With respect to legal operations skills, one Fortune 500 general counsel noted, “I don’t know that law firms value law firm management, but [for] in-house it is different; I would be interested in lawyers with more management and skill.”

There was a split among corporate respondents about whether applicants for non-practicing positions with a J.D. would have an advantage in their organization's hiring process. 47% said they would; however, there were a number of opposing comments. “In the legal division, we would not hire someone with a J.D. for a non-practicing position, such as a paralegal,” said an assistant general counsel. “Experience is valued greater,” added a compliance leader in financial services. “Understanding the law is always helpful in business,” countered a senior associate general counsel in technology.

<table>
<thead>
<tr>
<th>Do applicants for non-practicing positions with a J.D. have an advantage in your organization’s hiring process?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
</tr>
<tr>
<td>47%</td>
</tr>
<tr>
<td>No</td>
</tr>
<tr>
<td>53%</td>
</tr>
</tbody>
</table>

Promising Areas for New Lawyers

When asked to identify the most promising areas for new lawyers, 47% of corporate respondents highlighted globalization and the opening of new markets, followed closely by artificial intelligence, which 45% referenced. The remaining categories included managed legal services (37%), contract analytics (31%), mobility (24%), remote work environments (24%), automated e-discovery (20%), and the Big Four offering legal services (14%). Two other suggestions were cryptocurrencies and implementation of the General Data Protection Regulation (GDPR).

<table>
<thead>
<tr>
<th>What are the most promising areas of opportunity for new lawyers?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Artificial Intelligence</td>
</tr>
<tr>
<td>45%</td>
</tr>
<tr>
<td>Automated E-discovery</td>
</tr>
<tr>
<td>20%</td>
</tr>
<tr>
<td>Big Four Offering Legal Services</td>
</tr>
<tr>
<td>14%</td>
</tr>
<tr>
<td>Contract Analytics</td>
</tr>
<tr>
<td>31%</td>
</tr>
<tr>
<td>Economical Managed Legal Services</td>
</tr>
<tr>
<td>37%</td>
</tr>
<tr>
<td>Globalization Opening New Markets</td>
</tr>
<tr>
<td>47%</td>
</tr>
<tr>
<td>Mobility</td>
</tr>
<tr>
<td>24%</td>
</tr>
<tr>
<td>Remote Work Environments</td>
</tr>
<tr>
<td>24%</td>
</tr>
<tr>
<td>Other</td>
</tr>
<tr>
<td>10%</td>
</tr>
</tbody>
</table>

“In the transactional and regulatory sectors, there are opportunities to work on large projects,” said an in-house lawyer for a large bank. “In financial services, you are required to do stress testing and rate the risks, but while those people come from the business side, department leads would love to hire law school graduates,” added an in-house lawyer for a financial institution who cited financial services, compliance, health care compliance, bank regulatory law, securities compliance, and cybersecurity as the most promising areas.
“One of the things that law firms do is to drive the creativity out, but it is critical that law firms help their lawyers maintain their creativity and encourage them to express it,” remarked an international accounting firm executive. “Accounting firms are trying to use their connections to other issues, e.g., risk, control, processes, and client strategy, to make law part of a holistic service trying to embrace technology without defaulting to overstaffing projects,” added the respondent.

How Law Schools Can Prepare Students

64% of corporate respondents advised that the most important way law schools can prepare their students to take advantage of changing market opportunities is to encourage them to learn about how technology is used beyond the law firm setting, followed closely by 58% who noted that they should promote greater awareness of the diverse nature of legal practice.

To execute on these goals, 53% supported giving students the opportunity to apply legal technology to their assignments, 51% suggested offering advanced project management training, and 49% wanted schools to provide practical experience in case management. “Provide hands-on work experience for credit,” recommended the general counsel for a technology company. “Teach them how to negotiate and close contracts, as well as skills in areas like bank regulatory and cybersecurity law, where we cannot easily find hires,” added a senior counsel for a bank.

<table>
<thead>
<tr>
<th>How can law schools better prepare their students to take advantage of the opportunities referenced in the previous question? (Check all that apply.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Offer Advanced Project Management Training</td>
</tr>
<tr>
<td>Provide Practical Experience in Case Management</td>
</tr>
<tr>
<td>Give Students the Opportunity to Apply Legal Technology to Their Assignments</td>
</tr>
<tr>
<td>Encourage Students to Learn About How Technology is Used Beyond the Law Firm Setting</td>
</tr>
<tr>
<td>Promote Greater Awareness of the Diverse Nature of Legal Practice</td>
</tr>
<tr>
<td>Other</td>
</tr>
</tbody>
</table>

In addition to practical experience and targeted skills, in-house legal teams would like all of their members to have more experience with project management (79%), familiarity with accounting and budgeting (56%), proficiency in legal technology selection and operation (50%), an awareness of legal management trends (46%), an understanding of statistical analysis (46%), and accelerated research capabilities (33%).

<table>
<thead>
<tr>
<th>What additional skills would you like members of your law department, both practicing lawyers and those supporting them, to have? (Check all that apply.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accelerated Research Capabilities</td>
</tr>
<tr>
<td>Experience With Project Management</td>
</tr>
<tr>
<td>Familiarity With Accounting and Budgeting</td>
</tr>
<tr>
<td>Proficiency in Legal Technology Selection and Operation</td>
</tr>
<tr>
<td>Understanding of Statistical Analysis</td>
</tr>
<tr>
<td>Awareness of Legal Management Trends</td>
</tr>
<tr>
<td>Other</td>
</tr>
</tbody>
</table>
ANALYSIS OF FOCUS GROUP REFLECTIONS: WHAT TODAY’S STUDENTS THINK

Students expressed consistent interest in subjects associated with the business of law during two on-campus focus groups at NYLS, consisting of seven third-year students and six second-year students in the Full-Time Day Division and four first-year students, two second-year students, and one third-year student in the Part-Time Evening Division.

The discussions explored the students’ familiarity with the term “business of law,” their interest in various new courses (including artificial intelligence, data analytics, privacy, knowledge management, risk and compliance, e-discovery, legal operations, cybersecurity, and project management), the advantages of such coursework, professional roles in the legal industry other than those of a traditional lawyer, their salary goals, and the need for more practical experience.

In terms of business of law subjects, students were most eager to learn about artificial intelligence (79%), cybersecurity (74%), and privacy (55%), followed by project management and data analytics. Students were less familiar with legal operations and knowledge management and felt that e-discovery and risk and compliance were too specialized.

Students showed substantial interest in an extracurricular “Learning Lab” series. It should be noted that 100% of students expressed interest in an extracurricular learning lab, during which vendors and innovators would demonstrate their software and educate students on its basic functionality. “If I saw one of these labs offered, I would immediately sign up for it,” said a second-year day student. “I would like to take 15 per semester,” said a graduating third-year student. Seeing the lab as an opportunity to gain a competitive advantage, another graduating student commented, “I need an edge; I’m thinking about how I can make myself different and become a specialist.”

In general, the focus groups suggested that NYLS students support the pursuit of a Business of Law Institute.

ADVANCING THE FUTURE

Data from the market research study strongly supports the opportunity for, and the value of, a Business of Law Institute at NYLS. NYLS is uniquely well-suited to capitalize on this opportunity as a result of its relationships with business and law firm leaders throughout New York City, its freedom to engage in innovative new course offerings, its prime campus location, and its longstanding commitment to pioneering practical training opportunities.

To take full advantage of this timely market opening and to prepare its graduates for the best possible professional outcomes, NYLS will launch its Business of Law Institute in the 2018–19 academic year. The Institute will offer students the opportunity to engage in specialized training as part of their J.D. studies, beginning with a series of master classes, technology-based learning labs, upper-level externship placements, and related seminars focused on the above-listed growing job sectors and developed in consultation with industry leaders.

The Business of Law Institute will develop a pipeline of students who are interested in the intersection of law and technology, especially in the corporate legal counsel space, and who are trained to respond to the modern profession. Of particular note, the Institute will support Evening Division students already working in related fields who wish to build on their existing skills to further expand their professional pathways. Ultimately, the Institute will enable NYLS to be an even more powerful voice in the conversation about the future of the industry and the most productive path forward.
“If you are a law student and you know how to leverage these new technologies ... and can apply them to legal problems, you will have an advantage. The people who can unlock the value proposition are those coming out of law school or new lawyers who understand the technology.”

—Law firm partner