In an interview soon after that trip, Weber extolled Watson’s potential. “It’s developing the ability to put forth arguments in a logical way,” he says. “It will have lots of implications in the law.”

Weber, a former litigation partner at Jones Day, says Watson won’t replace the judgment of a senior law firm partner, but it could eventually handle tasks of senior associates. He sees it researching and writing a memo summarizing the law and suggesting the most persuasive arguments and precedents. Or it might quickly review stacks of contracts, looking for differences in indemnification clauses. “It would have encyclopedic knowledge and an inexhaustible work ethic,” says Weber.

IBM is backing Watson in a big way. The Manhattan-based IBM Watson Group—which is exploring a world of applications beyond the law, including medical and educational uses—has 2,000 employees and is funded with $1 billion.

Watson is just one example of an emerging technology that offers the potential to transform the delivery of legal services. From researchers at big companies such as IBM to obscure entrepreneurs, innovators are exploring ways to leverage increasingly sophisticated software, machines and devices to deliver legal services cheaper, quicker and more accurately. Some law firms are exploring technology-driven innovation initiatives. Seyfarth Shaw, for example, is developing data analytic techniques to help advise clients; Akerman has created a self-service tax compliance product for clients. But most of the cutting-edge innovation is taking place outside Am Law 200 firms, where innovation initiatives are often focused on models for pricing fees and outsourcing legal work.

Some of this creative work is targeted at the consumer market, where there is a desperate need for ordinary people to have better access to legal services. A company such as LegalZoom.com Inc., for example, relies heavily on technology to sell legal forms to the public and help customers find lawyers. The LegalZoom model may not seem to have any relevance to a big law firm, but the technology they’re using today to sell a will to a school teacher might tomorrow be used to help a major...
company complete a merger.

Perhaps Watson and LegalZoom will one day serve as case studies for how Big Law was upended by disruptive innovation, a popular theory developed by Harvard Business School professor and author Clayton Christensen. Or, perhaps large law firms will continue to do fine by following the model that’s served them well for decades. Prognosticators have long predicted earthshaking change for big law firms, and so far they’ve been wrong. Is this time different?

LAST MARCH, HARVARD LAW SCHOOL HOSTED A conference titled “Disruptive Innovation in the Market for Legal Services,” organized by Professor David Wilkins, the director of the school’s Program on the Legal Profession. The panel included John Suh, the CEO of LegalZoom, as well as Christensen himself.

Beginning with his 1997 book “The Innovator’s Dilemma,” Christensen has argued that successful, established companies making rational decisions to sustain their businesses are vulnerable to upstarts that create
new ways to do things more cheaply, often using technology. While the upstarts first make inroads in less desirable, less profitable segments of the markets, their technology eventually propels them upmarket to challenge established players, and sometimes replace them. He points to the computer industry, where mainframe companies such as Digital Equipment Corp. and Wang Laboratories were replaced by desktop computer makers Apple Inc. and Dell Inc.

Christensen also includes IBM as a disruptive innovator, even though it isn’t an upstart. He maintains that it’s fended off disruption by creating autonomous units that are free to challenge the company’s bedrock product lines.

DLA Piper’s Stasia Kelly says she’s not convinced clients are ready to accept the legal work of a machine. “It would take a huge change in human nature,” she says. “I really want to know the person giving advice.”

At the Harvard conference, Christensen largely skirted the subject of how his theory might apply to the legal field. The closest he came to discussing the legal world came when he turned to Suh of LegalZoom and suggested that companies like his that target the lower end of the market will be one of the emerging disrupters. (These talks can be viewed online at law.harvard.edu/programs/plp/pages/events.php.)

But not all the speakers jumped on the disruption bandwagon. Sarah Reed, the general counsel of the venture capital firm Charles River Ventures, bemoaned that the legal field is “uniquely impervious to change.” She also pointed out that the only law-related business that Christensen ever used as a disruption case study no longer exists. That company, eLawForum, helped clients arrange fixed-fee deals with outside counsel.

The theory of disruptive innovation, largely revered as gospel in Silicon Valley and other tech hubs, has attracted lively debate lately. Harvard University American history professor Jill Lepore took on Christensen in a critical article in The New Yorker in June, attacking the validity of his theory, and triggering an eruption of counterattacks. While Christensen’s premise has an intuitive appeal, Lepore points out that his writings rest largely on the anecdotal evidence of hand-picked examples.

Some Am Law 200 firms have also been pondering the notion of disruptive innovation. Reed Smith invited futurist Richard Susskind to speak at its partner retreat in April. The Scottish author has predicted in a series of books that advances in technology will radically change the delivery of legal services. Akerman chose disruptive innovation as the theme of its retreat last year.

Still, most of the law firm managers interviewed for this article sounded skeptical that Big Law can be disrupted. A few weren’t even familiar with Christensen’s concept.

Stasia Kelly, U.S. comanaging partner of DLA Piper, says a system like Watson could be incredibly disruptive, but she’s not convinced clients are ready to accept the legal work of a machine over a human. “It would take a huge change in human nature,” says Kelly, who has been general counsel of four major companies, including American International Group and Sears Roebuck and Co. “I really want to know the person giving advice.” But, she adds, “I could be old-fashioned. My kids might say this is terrific.”

One believer is Cooley partner Craig Jacoby, who chairs the firm’s emerging companies group. “Am I worried about disruption in the legal services market? Absolutely. I’m terrified of it,” he says. “I think it absolutely applies to the legal space.”

Jacoby heads a group that in June launched a new product called Cooley GO. It’s a website, cooleygo.com, that automatically generates free documents for startups and entrepreneurs, such as articles of incorporation and nondisclosure agreements. (Goodwin Procter started a similar site, called Founders Workbench, foundersworkbench.com, four years ago.)

“One thing that is abundantly clear is that there are things that lawyers have traditionally done that can be automated,” says Jacoby. “There’s no sense fighting that.” Jacoby hopes that by investing in projects like Cooley GO, the firm can avoid being overtaken. “We’d much
rather be the disrupter than the disrupted,” he says. One of the strongest advocates of disruptive innovation in Big Law is Ralph Baxter, who stepped down last year after 23 years as chairman of Orrick, Herrington & Sutcliffe and is now studying innovation. “The innovation that is needed is unlikely to come from Big Law for all the reasons Clayton Christensen teaches,” he says. “This is a moment of great opportunity for the disrupters. … You have these very successful entities that are really great at what they do, and you have the disrupters who are making progress. The progress is modest now, but you can see disrupters aiming higher and higher. And at some point the lines intersect.”

Robert Dell disagrees. Dell has led Latham & Watkins for 20 years and is retiring at the end of this year. He believes in innovation and change, but not in disruption that threatens law firms. “I’m comfortable with the idea of the need to innovate, but I can’t get comfortable with the idea of disruptive innovation,” he says. “If history is any indication, there will not be disruption [of the major law firms].”

Dell maintains that unlike some disrupted industries, such as steel manufacturing, most law firms have done a good job adapting. “Demand [for legal services] has not dropped. The need for associates has not declined. Leverage has remained static for years,” he says. In fact, in the 10 years from 2003 to 2013 leverage has increased to 3.10 from 2.54, according to Am Law figures, showing an increasing use of lawyers below the equity-partner ranks. Leverage is calculated by taking the number of equity partners and dividing it into all other lawyers at a firm.

But Dell makes sure that Latham carefully tracks advances in technology. Its chief technology officer, Kenneth Heaps, reached out to IBM to learn more about the Watson project and asked if Latham could help develop applications. Heaps says the firm is in discussions with IBM about potential projects, and he notes that the company appears to be talking to several other unidentified law firms about collaborations. IBM declined to reveal any of these firms, saying that information is confidential.

**IN A RECENT INTERVIEW, HARVARD’S WILKINS** says he believes Christensen’s disruption theory has a lot of power, but points out impediments to this kind of innovation in the legal field. “For one thing, computer makers don’t write the rules [for their business],” he says. “Lawyers make the rules and put up barriers to innovation.” Those barriers include bans on people who aren’t lawyers getting too involved in the practice of law. But, he adds, “There are lots of reasons to think the law is ripe for disruption. There’s a huge unmet legal need.”

Wilkins isn’t talking about the legal needs of the clients of The Am Law 200, where the market is largely saturated. He’s talking about the needs of the consumer market, which has long been overlooked. In New York state alone, more than 2.3 million people try to navigate the state’s complex civil justice system each year without a lawyer, according to a 2010 report commissioned by the state’s chief judge, Jonathan Lippman, the last large-scale study of the “justice gap.” Lippman called this situation a growing crisis, and there’s no indication the situation has improved.

Under Christensen’s theory, Big Law could be disrupted by entrants into this lower end of the market. For example, as LegalZoom’s technology improves, it could increasingly aim for more sophisticated clients, and in theory at least, begin eroding the market share of some Am Law 200 firms.

LegalZoom is by far the biggest player in the consumer legal market and claims to be the most recognized legal brand in the world. “We have helped form more businesses than anyone in the history of the United States,” says CEO Suh, adding that it helped incorporate one in four new LLCs in California last year. The privately held company has about 800 employees, and “well north of a few hundred million in revenue,” he says.

The company doesn’t reveal current financial data, but two years ago it filed a prospectus with the U.S. Securities and Exchange Commission with the aim of going public and raising $120 million. Those numbers showed it was growing fast. It reported revenue of $156 million in 2011, up 51 percent from 2009, and its number of subscribers nearly quintupled in that time, to 228,000 from 47,000. Suh says the company has always been profitable; it reported a $12 million profit in 2011. LegalZoom dropped its plans for a public offering in January, after it announced a $200 million investment from European private equity firm Permira for a controlling equity stake.

Suh says he’s not interested in the Am Law 200 market—for the moment. “I’m often asked that question,” he says. “I see zero investment activity or thought [about
that], at least over the next five to 10 years.”

Still, LegalZoom is ambitious. It is looking at new markets and it has already expanded from offering legal forms online to helping customers find lawyers online through flat-rate legal plans that start at $9.99 a month for individuals and $23.99 for businesses. While offering legal forms and connecting customers to lawyers might look simple, Suh says it relies heavily on technology. “We’ve invested tens of thousands of hours to build our platform and we keep it constantly updated,” he says. For instance, adapting forms to the laws of 50 states and 3,000 counties requires the codification of huge amounts of expert knowledge. The company also uses technology to do simpler things, like enabling a customer to access the schedules of more than 1,000 affiliated attorneys to make an appointment online.

“We ourselves are paranoid about being disrupted,” Suh said at Harvard in March. “We’ve set up an R&D center on Google’s campus tasked with going after customers we don’t address and new products we don’t offer. … We’ve brought some crazy doctoral talent in-house to see what we can do.”

Suh is also intrigued by Watson. In the June interview, the CEO said he started talking to IBM employees at the Harvard conference about a possible collaboration, although nothing had been announced at press time.

“One thing that is abundantly clear is that there are things that lawyers have traditionally done that can be automated,” says Cooley’s Craig Jacoby. “There’s no sense fighting that.”

One obvious impediment to LegalZoom’s expansion are restrictions by state courts and state bar associations prohibiting the unauthorized practice of law. While they vary by state, all these rules prohibit nonlawyers from sharing fees with lawyers, a rule that has stopped law firms and other legal service groups from accessing investor capital. All but a few states prohibit nonlawyers from doing even the most routine legal tasks.

Some states, in fact, are fortifying the barriers. The State Bar of Texas announced in May that a nonlawyer can’t even be the chief information officer of a law firm, or hold any other title that contains that word “officer.” In July, the North Carolina State Bar opposed a bill that would allow nonlawyers to offer the public self-help legal materials, and the bill was pulled from a vote by the state senate.

Suh, who has been CEO of LegalZoom since 2007, is not a lawyer. He’s a graduate of Harvard Business School who previously ran other Internet businesses. His company has battled lawsuits in four states claiming it’s engaged in the unauthorized practice of law. Two of the cases have been resolved largely in LegalZoom’s favor, while two are pending.

The American Bar Association has resisted recommending that states liberalize these rules. In 2012, the ABA’s Ethics 20/20 Commission concluded there was no compelling need to let nonlawyers play a bigger role in funding and providing legal services, as has happened in the United Kingdom and Australia. Gillian Hadfield, a professor of law and economics at the University of Southern California School of Law, who sits on LegalZoom’s Legal Advisory Council, has criticized the profession for protectionist behavior that stifles innovation. She faults the commission for neglecting the needs of ordinary people. “When the 20/20 Commission concluded there was no compelling need for reform, it didn’t research the public interest,” she says. “The only research it did was to survey lawyers and ask them if they wanted rule changes. That’s not defensible.”

Suh believes the U.S. will inevitably adopt reforms like those in the U.K.’s Legal Services Act, which was passed in 2007 and has opened up that legal market to the capital and talent of nonlawyers. But he realizes it may not be soon. “I’m optimistic, but not holding my breath,” he says.
MICHAEL MILLS WAS AT THE FOREFRONT OF LAW FIRM legal technology for 20 years when he was a partner at Mayer Brown and then led the development of knowledge management systems at Davis Polk & Wardwell. In 2011, he formed Neota Logic Inc., a software company that helps companies make routine legal decisions without consulting a lawyer. The company launched its product last year.

“We focus on high volume, relatively routine areas of the law that are often unlawyered,” says Mills. For instance, the company’s software can be customized to help companies with common workplace decisions, such as whether to let an employee take family leave. “It turns out that employees disappointed about compassionate leave are one of most frequent sources of employment discrimination claims,” he notes.

Structured as a decision tree, the software guides a manager through a set of questions and provides an immediate answer. In gray areas, the software-generated analysis gets routed to a lawyer, who can quickly review the data. Neota Logic’s typical customer is a law firm or consulting firm, which adapts the software for its corporate clients. The software has been used to answer queries on topics ranging from the European Union’s regulation of financial derivatives to Australian laws governing promotional sweepstakes.

“The general counsel can’t take the time to answer all these questions, which can arise thousands of times a year,” says Mills. “In general, if an algorithm can do it, then lawyers shouldn’t do it. A machine will do it 24 hours a day and won’t whine.”

A Seyfarth consulting affiliate used Neota Logic’s software to create its Disclosure Dragon tool, which helps prepare disclosure documents for crowdfunding. Other clients include the tax division of Thomson-Reuters Corp., Littler Mendelson and Davis Polk.

“We’re one piece of a very large innovation landscape,” says Mills. He mentions several other companies using advanced technology in the legal field. Three companies—DiligenceEngine Inc., KMStandards and Exemplify—use machines to draft or review contracts. Ravel Law and Fastcase are trying to redefine legal research at cheaper prices, and Modria.com Inc. offers online dispute resolution.

Mills believes there will always be elite firms that do “bespoke” work, a term Susskind employs to mean high-end legal advice tailored for clients. “But some significant fraction of the Amlaw 200 is doing work that is, in the minds of their clients, pretty routine,” Mills maintains. And even the most complex challenging assignments, he says, have a “bulky iceberg of routine chores below the surface.”

SCOTT FERRAIOLA IS THE LEAD LAWYER FOR IBM’S Watson project and Stephen Gold is the company’s vice president of marketing and sales operations for Watson Solutions. In a discussion about Watson, they point out that the technology has made huge advances since it was displayed on “Jeopardy” in 2011. “On ‘Jeopardy’ it read 200 million pages of data in three seconds,” says Gold. “Now [the machine] is 90 percent smaller and 24 times faster.” Ferraiola adds, “One way to think about it is that the machine used on ‘Jeopardy’ filled a room. Now it would fill three pizza boxes.”

“Computer makers don’t write the rules,” says Harvard’s David Wilkins. “Lawyers make the rules and put up barriers to innovation.” Still, he says that “the law is ripe for disruption.”

General counsel Weber says IBM won’t be rolling out legal applications in the next quarter, but he believes they aren’t far off. To encourage innovation, IBM has opened up the technology to private equity firms and small entrepreneurs. Ferraiola says Watson won’t replace lawyers, at least not most of them. “Folks who don’t understand the technology could be afraid of it,” he says. “This is not displacing, it’s enhancing.”

In talking about Watson, Weber at times sounds like a proud parent bragging about his gifted child’s potential. “I think Watson could pass a multistate bar exam without a second thought,” he says.