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THE DISRUPTIVE EFFECTS OF AI ON BUSINESS MODELS IN LEGAL INDUSTRY

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Abstract

Artificial intelligence (AI) can realistically be expected to impact much - if not all - of future workplaces. Automatisation of tasks in the service industry is becoming a realistic picture, but how will it impact the legal industry that is connected to much essential legal work for businesses? In this paper, we investigate the current business models of the legal industry and examine the possible effects AI will have on it. We then inspect the possible disruptive effect the implementation of AI will have on the legal business model.

The research on theory has shown that the disruptive impact of AI on the business model has been found to be lacking studies. In order to explore this gap, we investigate current business models in the legal industry by examining a case with a modern business model. The primary data was gathered through an interview with Kristin Assaad, the founder and CEO of LegalUp. The company was selected due to its unique business model, which is considered modern and supportive of technological advancements.

The analysis of the gathered data was carried out in several steps. First, the gathered data was assembled into the business model and analyzed based on the four values distinguished by Amit and Zott (2001): efficiency, complementarities, lock-in and novelty. Then, the effect of the AI on each of the established parts was constructed, based on the current knowledge of the technology. Afterwards, to analyze whether the effect of AI on the business model of the legal firm is disruptive, the characteristics of business model disruption have been gathered in the literature and organised into following sections: product, customers and competition. Following the finding, three strategies proposed by Armour & Sako (2019) on how to implement AI were used to discuss what would happen to the business model in each case. Finally, the framework by Hang, Chen and Yu (2011) was used to establish whether the disruptive innovation will succeed on the market.

The findings show that the implementation of artificial intelligence in the legal services proves to have a disruptive effect on the business model of the legal firm. It influences product's delivery, by making it more automated and digital; enlarged economic pie, due to the efficiency, lower cost and first-mover advantage; competition, which currently considers the technology not developed enough and not trustworthy, but in the future will likely lose customers to those companies that have implemented artificial intelligence. Out of the three approaches to implementing AI, the contracting approach would bring the most benefit to the legal firm. Based on the assessment framework, the disruption is concluded to prove successful on the market.

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Introduction

The recent development in artificial intelligence (AI) has brought multiple insights into the future possibilities of the technology as seen in various contexts: (Arruda, 2017; Hasan & Rana, 2018; Keiser, 2017; Lexcellent, 2019; Sako, 2019). In this paper, we examine how AI in the context of legal services will affect the business models and discuss whether the application will have a disruptive impact. We expect AI to become a very impactful innovation in the service market especially as AI will futuristically be able to replace or augment human tasks (Lexcellent, 2019). Prior research on the legal service market has explored how legal service providers would have to modernise their business model in order to adapt to the impact of AI (Armour & Sako, 2019). We therefore examine the impact AI would have on a current business model case and explore the disruptive effects thereof as it is a gap in the literature yet to be explored.

To have a clear direction for the investigation, an overall problem statement is suggested as the main research question:

What disruptive effect does artificial intelligence have on the business model of a legal firm?

In order to examine this, sub-questions are established to focus on specific parts which in combination will provide the answer to the problem statement.

1. How are business models constituted in the legal industry?
2. How does AI impact a business model in the legal industry?
3. How does AI affect market disruption and legal business models?

The first sub-question is made to explore the common conception of what a business model is and how it is being used in companies in the legal industry. This makes it possible to analyse what impact artificial intelligence has on a company which will be done inductively by examining a relevant business model of a Danish law firm, LegalUp. The purpose of the second question is to get a fundamental understanding of the phenomenon that is artificial intelligence and the current knowledge established in the field including how far it has been developed and what the nearby future looks like. This is essential in order to explain the understanding of the term AI that is being used for analysis. It is being explored by being seen in the context of business models. The third sub-question deals with the disruptive effect of new innovations. This includes defining the term ‘disruptive innovation’, its effect on a company’s business model and the theory based on it with examples that showcase its impact on the market. The purpose of this is to explore whether artificial intelligence will

be a disruptive innovation, and if so, what does that mean for the law firm and if it will be successful on the market. With knowledge from the three sub-questions, it should be possible to analyse the main research question as they each cover an essential section of it.

The disruptive effects of AI as innovation have not yet been examined in literature in the context of legal services. Innovation can be seen as a great strength of many companies, as it can provide an advantage in the competition. Innovative ideas such as new or improved products, service, process or way of marketing bring powerful advantages to big, established companies that look to further expand and enhance their position in the market. However, smaller companies can still compete with these major companies through their own innovations and occasionally brand-new innovation can have a hugely disruptive effect on a market (Christensen, 2013). These disruptive innovations can completely change the most common business model of the market, making smaller companies advantageous or even creating a new market, possibly making the prior market redundant (Christensen, 2013).

Today, in 2020, many advancements in innovation are based upon technological progression. Technological revolutions, such as the smartphone, that not only disrupted the mobile phone market but also affected the sale of digital cameras that became more and more redundant as the camera quality in the smartphone rose (Giachetti, 2018). Companies have to keep track of their competitors' innovations, in order to maintain their market shares. AI has become a major threat to many of today's jobs, as it can reliably and successfully take over many tasks which formerly required human interaction to complete satisfactorily (Lexcellent, 2019). We can expect to see many tasks and even jobs to be solely done by the use of AI, and the future will unquestionably be affected by the continuous development of AI, as it is far from fully developed (Lexcellent, 2019). According to the report by Deloitte, 31,000 jobs in the law industry have been lost due to automation, and by 2036, this number will grow to 100,000 (LawTechnologyToday, 2019). With the continuing progress in technology, 2020 is considered to be a tipping point in the pace of changes in the law firms - client demands and external pressures are rising, so the firms are forced to develop a new strategy to survive on the market (Saunders, 2016). At the moment, AI is commonly used to perform tasks such as legal research and due diligence, document and contract review, and prediction of legal outcomes (LawTechnologyToday, 2019). The first-movers within the AI application in law firms are starting to gain maturity in the market, and some firms are even creating their own data analysis tools using AI, which is a beginning of a new movement in law (Walters, 2019). As digitalisation has already disrupted other industries, it is possible to predict that AI will go further and disrupt the business model of the legal industry (Rigotti, 2017). This prediction marks the interest of this particular study.

AI has yet to be fully explored (Wang, 2019) which makes it interesting to see what the nearby changes could be and what impact that will have. AI has the potential to be a threat to most industries since it eventually can replace jobs and tasks that are today being managed by people (Lee & See, 2004). The technology can perhaps be seen as a disruptive innovation if it meets the requirements set by the term, which will be defined and assessed later in the report. Knowledge from prior disruptive innovation phenomena will be taken into account and a relevant framework will assist in the analysis. This report seeks to explore how AI will impact the service sector, more specifically the legal service industry. It can be considered an exposed industry since it might be partially overtaken by an AI that can read, understand, reply and have awareness (Lexcellent, 2019). As AI can use all the necessary knowledge in a short amount of time and possibly with even fewer costs than an employee could, it ultimately will be able to change the service industry, which makes it very relevant as well as an interesting subject to investigate.

Technological innovations are visible in most, if not all jobs in order to optimise processes and save costs. The emergence of artificial intelligence is not different, as it will interfere with all kinds of industries by changing the business and competitive landscape (Hasan & Rana, 2018). This includes the service industry, which makes it interesting how a piece of software can advise a company in need as good as, and even better than an experienced employee. The legal services industry, in particular, is exposed to this change as they mainly act as an advising consultant to make a profit (Armour & Sako, 2019). The legal services market is one of the largest markets in the world (Toews, 2019). However, at the same time, it remains profoundly under-digitized (Toews, 2019). The change is going to happen in the near future, and more than any technology before it, artificial intelligence will transform the legal industry in drastic ways (Toews, 2019). This transformation makes the inevitable transition fascinating to investigate, as companies will have to adjust to the upcoming change. To investigate this, we take a look at the current usage of technology and AI in the legal service industry together with exploring the future potential of AI in legal services. By doing this, we expect to get an overview of the current situation while inspecting how the industry is exposed to technological advancement and the result thereof.

This inductive project provides a case study on a Danish law firm to analyse how the change would affect them and deduce it to a general idea of how it will affect the industry. In order to investigate how AI as a type of disruptive innovation affects the legal services, it is necessary to acquire knowledge on what the current status is on the development of AI. It is also necessary to investigate

how legal services use technology today as well as their current business model in order to see how AI will impact legal companies. All of this will be investigated in the case study of LegalUp to see their direct impact of the future changes caused by AI technology. The effect will be examined by analysing how the changes will alter the business model of the case company. The goal of the study is to get an understanding of how AI will impact the legal service market, using relevant knowledge on disruptive innovation and the current development of AI.

The thesis is starting with this **introduction** that introduces the subject of the investigation, presenting the **problem formulation** that defines the main research question and the justification of it to explain its relevance. The second chapter is a **literature review** that provides insight into previously established knowledge in the field. The following chapter examines the **methodological** choices that have been made to conduct the research. Then the **data presentation** is made to present the primary data gathered for this specific project followed by an **analysis** based on the knowledge gathered in the literature review and the primary data collection. The following chapter is the **discussion and conclusion** which wraps up what is found in the analysis that answers the problem formulation. The next chapters consist of **reflections** and **further research** that reflect on the limitations made, as well as describe how future research can further explore this area. The last two chapters are the **bibliography** and **appendix** that are used throughout the project to support the evidence presented.

Literature review

The first part of the literature review is about business models and legal industry. In this part, relevant business models and frameworks will be identified, as well as the parts that constitute those. The review will make it possible to distinguish the right model for the analysis of the case firm's value creation, value delivery, and value capture. Then, the knowledge on business models in the legal industry will be reviewed, providing the theoretical perspective on the first sub-question.

The second topic of investigation for the literature review is artificial intelligence and business models in the legal industry. This part will address what is artificial intelligence, its dynamics, as well as AI's impact on the business model, particularly in the legal industry, addressing the second sub-question.

The third topic discussed in the literature review is going to be artificial intelligence and market disruption. This part dives into what is market disruption and disruptive innovation. Then it will talk about the AI and how it affects market disruption, closing in on the legal business models.

Business models and the legal industry

The definition of a business model and what constitutes it will be described in order to analyse how a business model functions in the legal industry. The business model as a concept does not have a common description agreed upon by all experts and is historically defined in many different ways (Zott et al., 2010). However, it can be defined as a tool to analyse the value creation, value delivery and value capture the company possesses. Many scholars who publish in journals have theorised on business models and this chapter will provide insight into the most important for this area of investigation and the choice of which business model to apply to the case. The business models included to be examined are the following: P^2 model (Greenwood et al., 1990), Business Model Canvas (Osterwalder & Pigneur, 2010) and Value creation in E-business (Amit & Zott, 2001).

The P^2 model is a framework of the traditional professional partnership which law firms and accounting firms often are structured as (Armour & Sako, 2019). A partner is part-owner of a firm and involved in its overall management, while also being a key production worker (Greenwood et al., 1990). In a partnership, ownership management and operations are fused among the partners, causing the firm to be decentralised in comparison to other business' organisational structures (Greenwood et al., 1990). However, large globalising law firms face pressures to move away from this traditional professional partnership (P^2) structure to a more centralised managed professional business (Armour & Sako, 2019). AI-enabled business models are more reliant on multidisciplinary teams of human capital and outside the capital where a hierarchical structure is more wanted as it opens the possibility for outside investors (Armour & Sako, 2019). This model is eliminated as a possible tool for our framework, as it fails to keep up with the current modernisation the technological development brings.

Another relevant model to investigate is the Business Model Canvas proposed by Osterwalder & Pigneur in their 2010 book "Business Model Generation". The popular model is divided into nine blocks to investigate how the company creates, delivers and captures value. The nine blocks cover the following four areas of business: customers, offer, infrastructure and financial viability (Osterwalder & Pigneur, 2010). The first area is the customer-focused area, which is the analysis of the company's customer segments, customer relationships and channels that deliver the value proposition. The second area, the offer, is the analysis of products and services a business offers to meet the needs of customers, which is the value proposition. The third area covers key partners, key resources and key activities. These are the key elements of infrastructure that drive the value proposition. The last area is the financial viability that analyses the cost of the elements (cost structure) and the way a business makes income from each customer segment (Revenue streams) (Osterwalder & Pigneur, 2010). The

BMC is a great tool to get an overview of the value creation, but can be very superficial as it is very simplistic which makes it hard to go in-depth of the value creation.

The third model is Value creation in E-business by Amit & Zott, a published entry in Strategic Management Journal year 2001. E-business refers to the business conducted over the Internet, which presently includes many tasks of legal services. The model seeks to review how value is created within the theoretical views of the value chain framework by Porter (1985), Schumpeter's theory of creative destruction (1942), the resource-based view of the firm by e.g. Barney (1991), strategic network theory by e.g. Dyer and Singh (1998) and transaction costs economics by Williamson (1975), all in the context of E-business. The model finds that the value creation potential can be analysed through the following four interrelated dimensions: novelty, lock-in, complementarity, and efficiency (Amit & Zott, 2001). It can be concluded that this model takes popular theoretical frameworks into account and viewing them in a modern business setting which makes this model by Amit & Zott the chosen one for this paper. This model is the preferred as it successfully captures to adapt to strategic changes within E-business which is relevant in the context of the adaption to AI.

In order to build the foundation of the analysis, a more in-depth explanation of the business model will provide a further understanding of the theoretical background. As previously mentioned, the chosen model by Amit & Zott (2001) suggests examining four interdependent value drivers seen on Figure 1. Each value driver derives from a theoretical framework of its own, making it possible to make a comprehensive analysis of the case in question. Amit & Zott describe a business model the following way in their paper of Value creation in E-business:

"Definition: A business model depicts the content, structure, and governance of transactions designed so as to create value through the exploitation of business opportunities" (Amit & Zott, 2001).

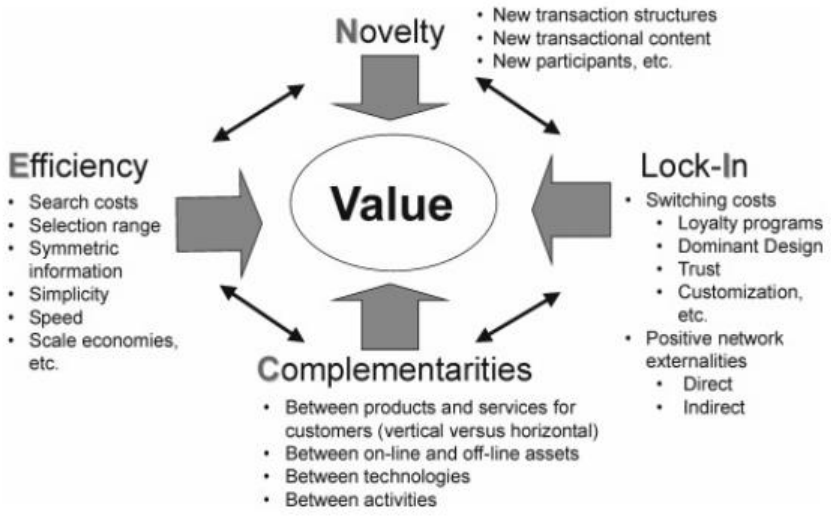

Figure 1: Sources of value creation in e-business, Model from Amit & Zott (2001)

The first primary value driver to be analysed is efficiency. The driver is based on Transaction Cost Theory (TCT) that identifies transaction efficiency as a source of value-creation since enhanced efficiency reduces costs. Value creation in TCT could derive from the fading of uncertainty, complexity, information asymmetry, and small numbers of bargaining conditions as presented by O. Williamson in 1975. The theory suggests that when the cost per transaction decreases, the efficiency increases (Amit & Zott, 2001). The greater the transaction efficiency, the lower the costs and hence the more valuable it will be. Efficiency gains can also be found within highly networked industries, where efficiency can lower the costs of transactions (Amit & Zott, 2001).

Complementaries is the second mentioned primary value driver of the model. A complementary is defined as being a situation where a package deal of multiple deals is of higher value than the individual deals (Amit & Zott, 2001). This driver is connected to the resource-based view (RBV) that highlights the role of complementaries among strategic assets as a source of value creation together with the network theory that highlights the importance of complementaries among participants in the network (Amit & Zott, 2001). The emergence of virtual markets (and now AI) has been described as a new source of value creation due to relational capabilities and new complementarities among the firms' resources and capabilities can be exploited (Amit & Zott, 2001). Conclusively, complementaries can create value by enabling revenue increases.

The third value driver is lock-in which can be defined as how likely customers are to do business with you in comparison to your competitors (Amit & Zott, 2001). The value-creating potential is enhanced by the extent of how motivated customers are in repeat transactions, which will increase the volume of transactions (Amit & Zott, 2001). An example of lock-in could be a loyalty program that makes it more likely for the customer to repeat a transaction in order to receive a benefit themselves. This driver has roots in TCT, network theory and RBV as lock-in can be translated to switching costs found in TCT or network externalities found in network theory and lock-in can be seen as a strategic asset like a brand name or buyer-seller trust found in RBV (Amit & Zott, 2001).

The last value being novelty can be described as a quality of being new, original or unusual is linked close to innovative thinking (Amit & Zott, 2001). This driver has a close connection with Schumpeter's theory of creative destruction where a new product or service, a new method of production, distribution, marketing or entering new markets affects the previous market (Amit & Zott, 2001). Schumpeterian innovation underlines the importance of developing technology and considers novel combinations of resources, and the service they provide, as the foundation of new products and production methods (Amit & Zott, 2001). Having the first-mover advantage can be very beneficial in a technological setting since it makes it easier to make high switching costs, making lock-in and novelty

linked closely together in the business model (Amit & Zott, 2001). Novelty is likewise connected to complementaries as they can be the main innovation such as the resources and capabilities they combine and is ultimately also closely connected to efficiency since novel assets can enhance the company's efficiency by creating and exploiting certain features of the company (Amit & Zott, 2001).

The model is not very present in the legal industry yet. AI is expected to impact the current legal markets by putting pressure on professional autonomy and traditional forms of law firm organization (Armour & Sako, 2019). The changes in the industry is expected to intensify competition who now have to account the globalisation of companies as possible contenders on the market in comparison to the prior market situation which mostly consisted of national competitors (Armour & Sako, 2019). The move from the previous partnership models to a modernised professional model is therefore expected to happen in the near future, making it relevant to examine the model by Amit & Zott.

Artificial intelligence and the legal industry

Artificial intelligence describes the phenomenon of a piece of technology possessing intelligence as living beings does (Lexcellent, 2019). Intelligence as a term is difficult to define as there are multiple types of it, but it commonly refers to the potential of an individual's mental and cognitive abilities to problem solve or adapt to the surrounding environment (Lexcellent, 2019). The implementation of intelligence in machines is hence called artificial intelligence to describe intelligence despite the lack of a living host (Lexcellent, 2019). However, there is no widely accepted scientific definition of AI, as the subject matter is not fully explored yet (Wang, 2019). Artificial intelligence is an umbrella term like intelligence itself, as it covers several different areas of intelligence and is hence hard to define when it has not been fully explored (Arruda, 2017). These areas are intelligence within machine learning, speech recognition, visual recognition and language processing (Arruda, 2017).

Artificial intelligence involves automating tasks that ordinarily require human intelligence to perform (Armour & Sako, 2019). It can be classified into different types of AI-based on how advanced the system is. The first and most basic type can be described as "weak AI" (Lexcellent, 2019) or "narrow AI" (Hasan & Rana, 2018). This type of AI only reproduces a behaviour, but not its operation. It essentially provides educated guesses based on previously gained knowledge of behaviour (Lexcellent, 2019). An example of this is streaming platforms or trading platforms' way of providing a list of other series or products that could be interesting for the user, based on the browsing behaviour of the individual or similar users' preferences (Hasan & Rana, 2018). Conclusively, this is the basic type of AI- and will be referred to as such.

The second type of AI is in literature well described with a range of different terms but is much more advanced than the first type. This can reproduce thinking skills and intelligent interactions such as analyse and perform rational actions but also possess awareness, emotions and understand its own reasoning (Lexcellent, 2019). This more advanced form of AI is yet to be fully explored since the technology is yet to be there (Hasan & Rana, 2018) but research is already in progress and is developing at a high speed (Lexcellent, 2019). This type is relevant to include as it continues to be developed and is not yet implemented in many sectors but is the next generation of AI. The AI is expected to not only solve the automated routine tasks but also be able to automate non-routine and knowledge-based work in the legal service industry (Armour & Sako, 2019). Skills such as emotions and awareness are specifically relevant in the legal industry as customers could get emotional with handling legal matters about their company. This type will be referred to as advanced AI.

The last type of artificial intelligence can be described as a super-intelligent AI that vastly surpasses human intelligence (Hasan & Rana, 2018). This stage is hypothetical as it requires much higher technological capabilities than currently available. Computer intelligence exceeds human intelligence in all fields, including features such as creativity and social agility as well as being capable of self-understanding and self-improving itself (Lexcellent, 2019). This report will not include this type of AI since not much knowledge is available and would be a pure guess of how this future technology will function in the future society that could vastly change from the present.

Humans have always sought to improve themselves to overcome their difficulties and efficiency is of high priority in today's society (Lexcellent, 2019). The technology therefore directly affects the first value driver of the chosen business model, efficiency. The efficiency will be greatly enhanced as humans will be substituted by a piece of software that is faster and smarter in comparison. The enhanced efficiency makes the company extremely competitive in comparison to other legal companies that fail to adapt to the change. Artificial intelligence can be described as an ultra-efficient technological helper (Lexcellent, 2019) that can make automated predictions at far lower costs and higher accuracy than human decision-makers (Armour & Sako, 2019), but are humans ready for it? Will everybody be able to trust AI and make complete use of its capabilities? Take the example of driverless cars that have experienced a lack of public trust which previously has been defined as a barrier for the technology (Kaur & Rampersad, 2018). Trust can be defined as an individual's willingness to place themselves in a vulnerable position, in this case with respect to technology, with an expectation of a positive outcome (Kaur & Rampersad, 2018). Trust as a term can be disintegrated into beliefs of ability, integrity and benevolence, where ability meaning to have the skills or knowledge to accomplish the task; integrity meaning to keep a promise to fulfil a task; and benevolence meaning that the subject in question (the AI) cares for its user's interest (Kaur & Rampersad, 2018). So, when a

user develops trust, they are willing to believe in the ability of an AI, for example, to protect their information from potential misuse and problems (Kaur & Rampersad, 2018). Failing to gain trust from the customers will negatively affect the lock-in of the business models in the legal industry as they rely heavily on a good legal representative.

The current trust issues are assumed justified with the seemingly endless possibilities artificial intelligence can provide in the future. A valid explanation on the current crisis is described in the literature as the fact that technology futuristically can 'hack' people as it can understand your desires, feelings and thoughts to be able to control you (Lexcellent, 2019). The biggest concerns include privacy from autonomy, location tracking and surveillance along with the concern of security from hackers (Kaur & Rampersad, 2018). In order to gain trust, it has been found that operational safety is necessary to trust in the performance of the technology (Hengstler et al., 2016). The technology could be certified, and policies established to govern it, so users can expect a standard of technical capabilities and also deal with relevant ethical questions (Hengstler et al., 2016).

A second strategy to gain trust is trialability to enhance understanding (Hengstler et al., 2016). Trialability of innovation has been found to reduce concerns and hereby enhance the trust of potential users and the media (Hengstler et al., 2016). An example of trialability can be seen at car dealerships, where a potential buyer gets to try the car before purchase or the first driverless bus in Aalborg being tested in a two-year trial period (Smart bus: Spørgsmål og svar, 2020). Usability is also an important term to describe how accessible a piece of technology is (Hengstler et al., 2016). The technology must be understood by the user in order to be fully trusted along with the user being able to see a clear purpose for the technology's existence (Hengstler et al., 2016). If the user does not see the purpose, they will most likely not be able to take full advantage of the technology and the usability is hence lowered (Hengstler et al., 2016).

Today basic AI and big data are commonly used by companies to help understand people and in some way manipulate them without them being conscious about it (Lexcellent, 2019). Technological development has historically been effective at replacing tasks and even jobs from the working force as machines can work round the clock, is not a part of a trade union and does not go on strike unlike a human with limited working hours (Lexcellent, 2019). It has been estimated that the number of jobs lost to robotization is 2 million in France alone and this development can be expected to continue (Lexcellent, 2019). Therefore, this occurring replacement raises ethical questions. While technology makes people better, faster and more efficient as workers and makes the practice easier, more effective and more efficient it can also place the company at risk for ethical violations and expose them to malpractice liability (Allen, 2011). However, the present society cannot properly or efficiently

practice law without the use of appropriate technology, making it a necessary tool and failing to make use of available technology could violate obligations to the client (Allen, 2011).

The most basic type of artificial intelligence is today being used in many industries but is not very present in current legal service business models as well as being far too little studied (Armour & Sako, 2019). Today, artificial intelligence is capable of doing some legal tasks better than human lawyers and is augmented by multidisciplinary human inputs and AI is increasingly capable of non-routine legal tasks (Armour & Sako, 2019). This reward of the application of AI is not justifiable yet for most companies, as only large organisations with sufficient value at stake have developed AI into their business (Armour & Sako, 2019). New systems are today being developed to ease some of the lawyers' work (Arruda, 2017). An example being ROSS Intelligence, which is a cloud-based AI system that helps lawyers become more efficient in performing legal research tasks by finding answers through a database of legal research (Arruda, 2017). The implementation of this affects the companies' business model about novelty as new technology can revolutionise the industry and gain a competitive advantage on the legal market. This system is however just a basic type of AI and is just scratching the surface of the possibilities that this type of technology will bring to the future (Lexcellent, 2019). Automation of client-facing work and highly tailored work is in the literature described as some of the limits that are unlikely to make possible in the nearby future (Armour & Sako, 2019). Another relevant example is the Global-Regulation platform that aims to improve transparency and accessibility of global laws by translating different countries' legislation to English (Goltz, Cameron-Huff, & Dondoli, 2018). In order to do so, Global-Regulation uses AI to translate different countries' laws to English to create a system to identify compliance clauses and extract penalties from them (Goltz, Cameron-Huff, & Dondoli, 2018). This transparency can be seen as the globalisation of laws where citizens are not only more aware of the laws but can compare them to other countries' laws (Goltz, Cameron-Huff, & Dondoli, 2018).

In 2018 there were reportedly more than 600 legal tech start-ups operating in the United States, where many of them use AI to organise bankruptcy filings, search for new patent filings and generally help lawyers make the strongest possible case for their clients by analysing past court decision, the law itself and legal arguments (Cohen, 2018). While there have been significant changes taking place in the application of information technology regarding law-work, the results are mainly ordinary information technology processes and not entire business models (Paliwala, 2016). These ordinary processes include data processing, storage, retrieval and management in combination with the immense capabilities of the internet (Paliwala, 2016). AI is the most successful working deductively but needs data-simplicity to function optimally (Armour & Sako, 2019). The application of AI is slowed

by the big requirements of available data (Garbuio and Lin, 2018). Recently, it has been reported that AI has made massive progress using an inductive approach, which includes matters that are characterised as non-routine such as recognising human handwriting (Armour & Sako, 2019). The implementation of artificial intelligence in more complex situations has not been very successful and the application of information technology to deeper legal processes has reportedly failed (Paliwala, 2016).

The current situation is the fact that robots supposedly could take on the duties of a paralegal or a first-year associate and will most likely continue to evolve from there (Keiser, 2017). It is expected that robots in the near future will take on additional tasks and ultimately eliminate more workforce such as that of a second- or third-year attorney (Keiser, 2017). This affects companies' complementarities as AI will always be ready to complete a task and not being limited by working hours or weekends. This would affect the business model of the companies as their focus would shift towards further improving the technology rather than training new talent. Nobody knows what jobs will be like in 30 years, but artificial intelligence is certain to influence the future (Lexcellent, 2019). The nearby future workforce will be affected by AI in developing countries as well as industrialised countries where factories are started to de-globalise (Lexcellent, 2019). Technology such as 3D printers has previously shown to replace manual labour and AI will undoubtedly affect countries who themselves are not ready to make use of AI (Lexcellent, 2019).

Disruptive innovation and artificial intelligence

Disruption describes a process, where a company with fewer resources is able to challenge established incumbent businesses, with a successful outcome (Christensen, Raynor, & McDonald, 2015). To specify, when incumbents focus on improving their existing products and services, they focus on their most demanding customers, which usually bring the most profit. In that way, incumbents tend to exceed the needs of some segments and ignore the needs of others (Christensen, Raynor, & McDonald, 2015). New entrants successfully target those overlooked segments, as a result of gaining a foothold by delivering more suitable functionality, often at a lower price (Christensen, Raynor, & McDonald, 2015). That is when entrants prove disruptive. In the meantime, incumbents continue chasing higher profitability in more-demanding segments, which leads to the tendency of not responding vigorously (Christensen, Raynor, & McDonald, 2015). Entrants move upmarket and deliver the performance that mainstream customers of incumbents require while preserving the advantages that drove their early success. As soon as mainstream customers start adopting the entrant’s offerings in volume, that is when the disruption has occurred (Christensen, Raynor, & McDonald, 2015). When disruptive technologies emerge, they usually result in the worst product

performance, at least in the near term. Those technologies bring a different value proposition to the market than the one that had been available earlier (Christensen, 2013). They tend to underperform, though they possess other characteristics that are superior (Christensen, 2013). Those can include the price (typically cheaper), more convenient size, easier usage etc. (Hang, Chen, & Yu, 2011).

Disruptive innovations tend to originate in two types of markets: low-end or new-market footholds. Those markets are typically overlooked by incumbents (Christensen, Raynor, & McDonald, 2015). The low-end footholds arise from incumbents focusing provision on the most profitable and demanding customers and giving less attention to the less-demanding customers (Christensen, Raynor, & McDonald, 2015). Consequently, incumbents' offerings often tend to overshoot the requirements on performance, which opens the door to a disrupter, who is focusing on providing those low-end customers (Christensen, Raynor, & McDonald, 2015).

The second type of market where disruptive innovation can originate is a new-market foothold. In this way, disruptors find a way to turn those who were not consumers, into consumers (Christensen, Raynor, & McDonald, 2015). Christensen et al. (2015) offer Xerox as an example: when a photocopying technology was new, Xerox had large corporations as their target, charging high prices in order to provide the performance that those customers required. In the meantime, small customers had to use other tools. However, in the late 1970s, new market entrants introduced personal copiers, which were an affordable solution to both small organizations and individuals – the new market was created (Christensen, Raynor, & McDonald, 2015). Personal photocopiers began with targeting a new market, though they gradually built up a major position in the photocopier market, valued by Xerox (Christensen, Raynor, & McDonald, 2015).

Disruptive innovation usually catches up with a mainstream market when the quality of the product matches the standards of the market (Christensen et al., 2018). The theory separates disruptive innovation from a sustaining innovation, which tends to make products better in the eyes of an incumbents' existing customers (Christensen et al., 2018). These improvements can be either an advancement of a product or a major breakthrough, but the purpose of sustaining innovation does not change - it enables firms to serve more products to their most profitable customers (Christensen et al., 2018). That could be a fifth blade on the razor, or the clearer TV picture (Christensen, Raynor, & McDonald, 2015).

On the other hand, a disruptive innovation initially is considered inferior by the customers of incumbents (Christensen, Raynor, & McDonald, 2015). They are not willing to switch just because the price is lower; customers typically wait until the quality rises enough to satisfy them. As soon as that has happened, they happily accept a new product at a lower price (Christensen, Raynor, & McDonald,

2015). This is how disruption in the market brings the prices down in a market (Christensen, Raynor, & McDonald, 2015).

It is argued, however, that technology can be both disruptive and sustaining. It highly depends on the initial business model of the company (Danneels, 2004). For example, the Internet. It has been a sustaining innovation to some businesses, such as catalogue retailers, but it has been disruptive to department stores (Danneels, 2004)

Clayton Christensen, the pioneer of disruptive innovation research, as well as other authors (Danneels (2004); Markides (2006)), note the misinterpretation of a definition of disruptive innovation. The original formulation of Christensen (1997) focused primarily on technological innovation. He explored how new technologies came to surpass superior technologies present in the market. However, later on, the definition has been widened to include not only technologies but also products and business models (Markides, 2006).

The definition is often used by researchers, writers, and consultants to describe any situation, in which an industry is shaken up and previously successful incumbents falter (Christensen, Raynor, & McDonald, 2015). Those actions led to the much too broad usage of “disruptive innovation” (Christensen, Raynor, & McDonald, 2015). Ignoring the precise theoretical meaning and conflating a disruptive innovation with any generic threat creates some potential risks (Christensen et al., 2018). Firstly, when the core ideas of the original theory are concealed by unmethodical use of their terminology, it will be hard for researchers and practitioners to build on and extend that work (Christensen et al., 2018). In this case, the risk is specifically distinct, due to the widespread reference of disruptive-related terminology in academic journals, practitioner-oriented publications and books (Christensen et al., 2018). Secondly, those practitioners who rely on an incorrect and misleading interpretation of disruptive innovation theory may be tempted to “apply faulty ideas”, reducing the chances of their research to succeed (Christensen et al., 2018). Given the unpredictable nature of disruption theory, the one-size-fits-all approach is an awful mistake (Christensen et al., 2018).

To investigate this mistake and to enhance the understanding of this phenomenon, Christensen et al. (2018) have investigated the academic literature which uses the terminology of disruption theory. The research has been divided into 3 phases, where the articles have been reviewed and examined on the use of disruption theory. During the investigation, some elaborations to the theory have been discovered. Firstly, it is noted that Christensen and Bower (1996) had initially observed that established firms did not allocate resources for disruptive innovation, which would be unappealing to their existing customers (Christensen et al., 2018). However, it has been found that in some companies those resources flowed freely - it all depended on whether the management saw a new innovation as

a threat or an opportunity (Christensen et al., 2018). If disruptive innovation was viewed as a threat, then the greater amount of resources was allocated to it (Christensen et al., 2018). The second anomaly identified was that some of the incumbents were able to successfully adapt to the disruptive innovations, despite the earlier theoretical predictions (Christensen et al., 2018). Usually, the successful positions of incumbents can be maintained if the autonomous business units are set up, which are separate from their parent companies, and are granted freedom to attain their own processes and to pursue disruptive opportunities (Christensen et al., 2018). Another revelation was that 'disruptiveness' is a relative, rather than an absolute phenomenon because what is disruptive to one firm, can be sustaining to another firm (Christensen et al., 2018). Technologies and business models go together, and disruptive innovation should be evaluated relative to the firm's business model (Christensen et al., 2018).

Refinements of the theory, similar to Christensen's, have been voiced by Markides (2006). The author claims that the components of the definition of disruptive innovation have greatly confused the matters. The author notes that the phenomenon of technological innovation possesses significant differences from a disruptive business model innovation, as well as disruptive product innovation. The aforementioned types of innovation arise in different ways. They also hold different competitive effects and require different responses from incumbents (Markides, 2006). Grouping all the types of innovations together has serious implications on how disruptive innovations are studied (Markides, 2006).

Markides's work identifies several types within the definition of disruptive innovation. He distinguishes between the Business-model innovation and Radical product innovation. A radical product innovation correlates with a classic definition mentioned above. Markides puts it as an innovation which produces new-to-the-world products. Those innovations are considered disruptive to the customers because they introduce products and value propositions that shake predominating consumer habits and behaviours in a major way (Markides, 2006).

What is of the big interest though, is his distinction of Business-model innovation. It is defined as "the discovery of a fundamentally different business model in an existing business" (Markides, 2006). In order to be described as an innovation, the new business model must enlarge the existing economic pie (Markides, 2006). That can be done by either attracting new customers, or by encouraging existing ones to consume more (Markides, 2006). This requirement implies that a Business-model innovation consists of much more than the discovery of a radical new strategy on the part of the firm (Markides, 2006). As an example, Amazon is considered a business-model innovator,

because they introduced a new business model in their market, which attracted new consumers and enlarged their market (Markides, 2006).

Another important notion about business-model innovation is that the company does not have to discover new products or services (Markides, 2006). Instead, they simply redefine what an existing product or service is and how it is provided to the customer (Markides, 2006). Following up on Amazon: they did not discover how to sell books (Markides, 2006). They redefined what their service is about, what is the value that customer receives, and how the service is provided to them (Markides, 2006).

Similarly, Paap and Katz (2004), in their definition of disruption present that it is not actually an attribute of technology, but rather a description of an effect that some technologies appear to have on markets that are affected by technology-based innovation. Additionally, it affects the frequent downturn in the success of major firms that compete in those markets, when they fail to adopt technology in time (Paap & Katz, 2004). Paap & Katz (2004) further state that the disruption of the whole business model happens. It touches upon aspects such as what is the company selling; how do they make it; how do they sell, distribute and support the product; to whom is it sold; and against whom are they competing (Paap & Katz, 2004).

As innovators emphasize different dimensions of their product or service, their product inevitably becomes attractive to a customer that is different from the one attracted to what the traditional competitors offer (Markides, 2006). As a result, the markets that are created around the new competitors are filled with new customers and have different key success factors than the previously established markets (Markides, 2006). Because those markets possess different success factors, they also require a different combination of tailored activities from the firm: value chain, internal process, structures and the culture (Markides, 2006). For example, previously mentioned Amazon has those factors completely different from physical bookstores that are competing in the same industry (Markides, 2006).

The new activities required are often not just different, but also incompatible with a company's current set of activities, due to various trade-offs or conflicts existing between the two ways of doing business (Paap & Katz, 2004). It is easy to state that organizations should support both current activities and disruptive innovations in order to transform themselves (Paap & Katz, 2004). However, it is a very difficult thing to do (Paap & Katz, 2004). Usually, there is a great amount of disagreement within a company operating in a highly competitive marketplace, about how to carry out this dual path (Paap & Katz, 2004). Another piece for discussion is the allocation of resources and management attention to the range of competing projects (Paap & Katz, 2004). Often, the allocations go towards

those who benefit the company more immediately versus those that might prove profits sometime in the future (Paap & Katz, 2004). Porter (1980) has proposed that a company could find itself stuck in the middle if it tried to simultaneously compete in both strategies (Markides, 2006). Given that new business models attract customers different from those that the established companies focus on, and the new models require different and conflicting value chains compared to the ones the established companies currently have, it can be determined that initially, the incumbent firms will have little to no incentive to adopt or to respond to the changes (Markides, 2006). However, over time, the new business models improve significantly, as they are able to deliver the performance that is sufficient to the established competitors, and superior in the new attributes (Markides, 2006). At this point, even established customers bring their attention to the new ways and start finding those exciting (Markides, 2006). That is when the switch happens. Inevitably, the attention of incumbents is attracted by the growth of disruptive innovation too (Markides, 2006). As more players, both customers and organizations, bring more attention to the new business model, the established organization cannot ignore the new way of doing business anymore, and they have to come up with the ways to respond to it (Markides, 2006). That is when the aforementioned dilemma comes into play: new ways of competing conflict with the already existing model, making it extremely difficult to co-exist within the same organization.

Christensen's research (Christensen, 2013) was based on the number of successful cases in the past. However, can the success of disruptive innovation be predicted, and already at an early stage? Hang, Chen, & Yu (2011) proposed the framework to assess whether a disruptive innovation has potential. The framework consists of three parts: market positioning, technology, and other drivers (Hang, Chen, & Yu, 2011). It considers innovation as a dynamic process and offers a systematic assessment of disruptive innovation (Hang, Chen, & Yu, 2011).

First part considered in the assessment is the market positioning. The two market segments that are in focus by disruptive innovation are low-end and a new market (Hang, Chen, & Yu, 2011). The characteristics of those have been described above. Establishing the difference between the markets is important in order to establish a disruptive foothold (Hang, Chen, & Yu, 2011). This is because the degree of uncertainty in the creation of both markets is different (Hang, Chen, & Yu, 2011). After that, the theory draws on the asymmetry of motivation, which explains the likelihood of incumbents to choose the more profitable high-end segment of a market, opposite to a low-end, which would be open for the new entrants (Hang, Chen, & Yu, 2011).

The next factor included in the framework is the technology (Hang, Chen, & Yu, 2011). Disruptive innovation is attractive to the low-end or new niche market, and as soon as a market

foothold is established, the technology would face fierce competition, so the firms would constantly need R&D to improve it (Hang, Chen, & Yu, 2011). Hence, it is important to include the technology part into the assessment framework, to ask whether the disruptive technology can be improved further (Hang, Chen, & Yu, 2011). The areas of possible improvement include performance, price/performance ratio, and the fact that R&D should be affordable (Hang, Chen, & Yu, 2011).

The real-life situation is dynamic, therefore other significant drivers exist, which could influence the pace and/or the fate of innovation over time (Hang, Chen, & Yu, 2011). One of the drivers is a lifestyle change, an example being the unexpected appeal of some technology to a market - a laptop computer to anyone needing a mobile office (Hang, Chen, & Yu, 2011). Another potential driver could be a legislation change, for example, strict controls over the border, or new environmental laws (Hang, Chen, & Yu, 2011). These drivers are more general in nature, but there might be more drivers that are more specific to a particular industry where disruptive innovation is emerging. A typical example of this kind of driver would be “network effects” in the software industry (Hang, Chen, & Yu, 2011). Network effects occur when the value of the good increases proportionally with the number of its users (Hang, Chen, & Yu, 2011).

The proposed assessment framework is summarized in Figure 2. It provides “yes” or “no” questions, and an in-depth study of the case to be assessed is needed in order to answer those questions correctly (Hang, Chen, & Yu, 2011). Once the form is completed, a straightforward assessment can be made based on the following conditions:

- If the answers to all questions are “yes”, the framework indicates that the disruptions are progressing simultaneously in both low-end and new markets.
- If all the answers are “yes”, and two “no” are ticked for the low-end market (one in market positioning and one in technology), then the framework indicates that new market disruption is on its way. If the answers are “yes” and “no” are ticked two times for a new market, then it indicates that a low-end market disruption is on its way.
- If there are other ticks for “no”, then the framework indicates that some doubts exist about the eventual success of the disruption (Hang, Chen, & Yu, 2011).

A. Market Positioning	Yes	No
• Viable business in the low-end market	☐	☐
• Viable business in a new, niche market	☐	☐
• Are incumbents in the main-stream market willing to run away or ignore the initial disruptors?	☐	☐
B. Technology		
• There exists a performance overshoot in the main-stream market	☐	☐
• Adequate for a foothold in the low-end market	☐	☐
• Adequate for a foothold in a new, niche market	☐	☐
• Could be further improved in performance, price/ performance, etc.	☐	☐
• R&D needed to improve the disruptive technology is feasible, affordable, and well executed	☐	☐
C. Other Favourable Drivers		
• e.g. Favorable life-style changes	☐	☐
• e.g. Helpful legislations	☐	☐

Figure 2: Proposed assessment framework. Source: Hang, Chen, & Yu (2011)

When talking about the AI adoption, Armour & Sako (2019) argue that it is not just about technological innovation, but also of business model innovation, that will bring profound implications for the nature of the legal profession (Armour & Sako, 2019), which correlates with Paap and Katz's (2004) view on the definition of disruption mentioned above. AI makes it possible to scale aspects of legal services, in the ways that the human-only production would not be able to achieve (Armour & Sako, 2019), which would disrupt their existing business model, due to the largening of an economic pie by attracting new customers (Markides, 2006). If applied, AI enables the growth of business models by automating and lowering the costs of various steps in the legal work (Armour & Sako, 2019). Additionally, it can be used to predict pricing, which would enable for the services to be sold for a fixed fee, rather than on an hourly basis, as per traditional legal business model (Armour & Sako, 2019).

The disruption that AI will bring to the legal market is quite evident. The impact that AI is bringing to the legal market depends on how closely are the companies willing to adapt artificial intelligence and how much are they willing to change their business models (Armour & Sako, 2019). In their work, three different business models are discussed, which involve various levels of the engagement with AI (Armour & Sako, 2019).

First kind of the approach to the AI's implementation among law firms is focusing exclusively on legal work which does not involve artificial intelligence (Armour & Sako, 2019). Those firms would focus their energies on tasks where humans retain comparative advantage, taking place in the foreseeable future (Armour & Sako, 2019). This type of legal work will continue to have demand on the market, however, if AI implementation will be favoured amongst the legal market, this kind of

approach will make the firm to only serve a little subset of the total market for legal services (Armour & Sako, 2019). It will not require any innovations in the business model or organisational restructuring, however, firms pursuing this approach will abandon any influence over the way in which clients purchase and bundle legal operations and legal technology services with other aspects of legal services (Armour & Sako, 2019).

The second type of approach will cause legal firms to engage with new business models through contracting (Armour & Sako, 2019). For the firms taking this path, the challenge will stand in the uncertainty about the extent of AI's utility and associated savings, and about which platforms would dominate the market (Armour & Sako, 2019). Those challenges would innovate the business model of the legal firm, by compelling it to contract with legal technology firms in order to provide technical solutions (Armour & Sako, 2019). In this way, some operations within the workflow will get outsourced (Armour & Sako, 2019), which would influence the transactions section of the business model by Amit & Zott (2001) discussed above. Even though the contracting provides flexibility, it still leaves law firms exposed to new entrants, which are seeking to capture an increasing part of the surplus, generated over time by technology (Armour & Sako, 2019). This approach suggests that firms do not need to raise external financing, as they pay for the AI-based services as they go (Armour & Sako, 2019). Regarding the human capital, a very modest amount of new workers for multidisciplinary teams will need to be developed (Armour & Sako, 2019).

The third type of the approach is combining the legal advisory with new business models through vertical integration (Armour & Sako, 2019). That means that some law firms try to combine their existing business model (focusing only on work that does not involve AI) with new AI-enabled business models through vertical integration (Armour & Sako, 2019). That can be done through creating captive 'knowledge centers' in different locations (both offshore and nearshore), rather than outsourcing; or developing in-house technology/innovation/knowledge management teams (Armour & Sako, 2019). This new business model requires to recruit multidisciplinary teams with various backgrounds different from legal, which brings a tension into the decision-making (Armour & Sako, 2019). To deal with this problem, firms try to establish some organisational autonomy for this unit, minimising negative synergies between the business models (Armour & Sako, 2019). It is noted, however, that the long-term relationship between the two units is still unclear, however, increasing economies of scale from AI technology may lead the subsidiary to seek new clients, maximizing its value (Armour & Sako, 2019).

Research design

The philosophy of research refers to the system of beliefs and assumptions made about the development of knowledge (Saunders, Lewis, & Tornhill, 2016). Bryman & Bell (2011) state that philosophical issues can affect the quality of management and business research.

This chapter introduces the main features of the research design. Those are ontology, epistemology, and methodology. Ontology represents the basic assumptions made by researchers about the nature of reality (Easterby-Smith et al., 2018). Epistemology talks about the assumptions about the best ways of inquiring into the nature of the world (Easterby-Smith et al., 2018). Methodology explains the methods used for data collection and analysis (Easterby-Smith et al., 2018).

The perception of ontology and epistemology is obligatory for the researcher, as it is important to understand in order to have a clear sense of one's reflexive role in research methods (Easterby-Smith et al., 2018). It is also essential in order to clarify research design, as it involves not only considering what kind of evidence is required, how it is to be gathered and interpreted, but also how such a piece of evidence shall provide answers to the questions being investigated in the research (Easterby-Smith et al., 2018). Familiarity with the philosophical side also helps to recognize limitations of approaches, as well as which designs will work for the particular research, and which will not (Bryman & Bell, 2011). Usually, the realist ontology is linked to a positivist epistemology, which consequently tends to produce a quantitative study design and some numerical data collection (Easterby-Smith et al., 2018). In turn, relativist ontology is connected with constructionist epistemology (Easterby-Smith et al., 2018). It usually suggests a qualitative approach to data collection and analysis being adopted, with multiple perspectives being taken on a particular phenomenon (Easterby-Smith et al., 2018).

Ontology

The starting point in the debates among philosophers is ontology. As mentioned, it represents the philosophical assumptions about nature and the reality of existence (Saunders, Lewis, & Tornhill, 2016). The questions asked by ontology are – what is reality? What types of beings are there? How do the different 'types' of beings exist? What is a 'type'? (Easterby-Smith et al., 2018). The scientific community has been debating methodological issues for much longer than social scientists, however, there are strong parallels within the natural and social sciences (Easterby-Smith et al., 2018).

In social sciences, the research is interested in the behaviour of people, rather than inanimate objects (Easterby-Smith et al., 2018). So, the primary debate between the social science researchers

has been between the three positions: realism, relativism and nominalism (Easterby-Smith et al., 2018).

The position of realism has several varieties. Those include transcendental and internal realism; however, the main idea is that the world is real, concrete and external (Easterby-Smith et al., 2018). The science is based and progresses through observations that have a direct correspondence to the phenomenon investigated (Easterby-Smith et al., 2018). Transcendental realism sees investigated objects existing and acting independently of scientists and their activity whereas internal realism sees the world as real and casually independent of the human mind (Easterby-Smith et al., 2018). It is impossible to observe it directly. It is because the human understanding of the structure of the world (types, kinds, categories, etc.) is a function of the human mind. In other words, truth exists, but it is obscure, facts are concrete, but cannot be accessed directly (Bryman & Bell, 2011).

Relativism sees scientific laws as they have been created by people who are embedded in a context, meaning that there are many 'truths' and facts depend on the viewpoint of the observer (Easterby-Smith et al., 2018). Relativistic point of view suggests that scientific laws are not just out there to be discovered, but that they are created by people. The 'truth' of the idea or theory is reached through discussion and agreement between the main protagonists (Bryman & Bell, 2011).

Nominalist ontology sees reality as created by humans, so it does not exist independently of our perception (Easterby-Smith et al., 2018). There is no truth and facts are all human creations (Easterby-Smith et al., 2018). As mentioned earlier, researchers within the social sciences are interested in the behaviour of people, so the standpoint depends on the phenomena and the preferences of the individual researcher (Bryman & Bell, 2011).

This research concerns the disruptive innovation of the business model by Artificial Intelligence, in the field of legal services. The approach to investigating a problem formulation with that many elements should be chosen in conformity. In order to approach different areas of the problem formulation with adequate attention, relativism as an ontological point of view is believed to be the best choice. The reasoning behind this choice stands on the multiple 'truths' that relativism offers. The same phenomenon can be experienced distinctly by different people, depending on what is their context and the position they are standing at. In the case of this research, that can be a business model view, Artificial Intelligence or disruptive innovation standpoint. The truth generated as a result of this research is based on the discussion and the agreement between the three fields, as well as their overall correlation with each other. Relativism as a point of view suggests that scientific laws are created by people, and that is exactly what is happening in this research when the new framework is generated.

Epistemology

Epistemology refers to what is assumed about knowledge, and what composes acceptable, valid and legitimate knowledge, as well as how is this knowledge communicated (Saunders, Lewis, & Tornhill, 2016). The questions asked by epistemology are: what is knowledge? How do we know what we know? How is the knowledge acquired? (Easterby-Smith et al., 2018). The ways to answer those questions have formed a ground for the debate about how social science research shall be conducted (Easterby-Smith et al., 2018). The two opposite views are positivism and social constructionism (Easterby-Smith et al., 2018). However, there is not one researcher who has been associated only with one view (Easterby-Smith et al., 2018). Although there has been a gradual trend towards positivism, there are many studies that deliberately combine methods from both views (Easterby-Smith et al., 2018).

Positivism displays the idea that the social world exists externally, and that the properties of it can be measured through objective methods, rather than being subjectively deducted through sensation, reflection or intuition (Easterby-Smith et al., 2018). To achieve that, the observer must be independent of what is being observed and act in accordance with the following implications (Easterby-Smith et al., 2018). The choices of what to study and how to do it should be made based on the objective criteria, instead of human beliefs and interests (Easterby-Smith et al., 2018). The aim of the study should be to identify causal explanations and fundamental laws which explain regularities in human social behaviour (Easterby-Smith et al., 2018). The research proceeds through hypothesizing and then deducting what kinds of observations will demonstrate the truths or false of the hypothesis (Easterby-Smith et al., 2018). Concepts stated in the research need to be defined in a way that enables the facts to be measured quantitatively (Easterby-Smith et al., 2018). The research shall as well be able to be generalized from more specific to the general, the samples should be selected randomly, which can show prediction for the wider population (Easterby-Smith et al., 2018). Those regularities can be identified by making comparisons of variations across samples (Easterby-Smith et al., 2018).

As a result of positivism not being so successful in adopting it to social sciences, the new paradigm has been developed during the last half-century (Easterby-Smith et al., 2018). Social constructionism stems from the view that 'reality' is not objective, but instead socially constructed and is given meaning by people in their daily interactions with others (Easterby-Smith et al., 2018). The idea focuses on the ways that people make sense of the world, with an emphasis on sharing their experiences with others via the medium of language (Easterby-Smith et al., 2018). The task of the scientist in the idea of social constructionism is not only to gather and measure patterns but also to appreciate the different constructions and meanings that people place upon their experience

(Easterby-Smith et al., 2018). In this situation, the researcher is a part of what is being observed, and human interests are the main drivers of science (Easterby-Smith et al., 2018). The research shall progress through gathering rich data, from which ideas are induced (Easterby-Smith et al., 2018). The concepts of the research should incorporate stakeholder perspectives, and units of analysis may include the complexity of a situation as a whole, rather than being reduced to the simplest terms, like in positivism (Easterby-Smith et al., 2018). The generalization is made through theoretical abstraction. A sampling includes small numbers of cases chosen for specific reasons (Easterby-Smith et al., 2018).

The review of the epistemological views above makes it clear that in order to fully investigate the problem formulation of this research, social constructionism is the most appropriate as a view for conducting research. That is because this research is going to investigate the effect of one construction on another (business models in the legal industry and AI on business model), and those can be captured the best by gathering rich data, incorporating different perspectives and theoretical abstraction, as AI is not very well researched yet. The research could have taken the positivist epistemology, and went with sampling that tends to be measured quantitatively. Leading the research in the quantitative direction would have potentially produced a representation of AI's effect on the whole legal market. However, we believe that for this research, the better results will be achieved with the constructionist view and a data collection within the small sample. Measuring patterns and meanings placed upon the experiences are believed to be a better way of investigating a business model in the legal industry with the influence of AI, which has not been measured yet. Therefore, a social constructionist approach will guide the methodological implications of the research.

Methodology

The constructionist research design normally starts from the assumptions that verifiable observations can potentially be interpreted very differently, and the job of the researcher is to illuminate different truths and to establish how those become constructed in everyday life (Easterby-Smith et al., 2018). This part will reveal the choice made about how this research will be approached and carried out. The decisions about how to gather all the necessary data will be described, in order to answer the research question and sub-questions. This research is defined as an explorative study. It intends to explore the research question, as opposed to offering final and conclusive solutions to the problem (Saunders, Lewis, & Tornhill, 2016). This research of artificial intelligence and its effect on business models in the legal industry is conducted with the purpose of explaining the said effect, as it has not been investigated before.

The most suitable approach for developing theory in this study is believed to be an inductive approach. With this approach, the logic of the study uses the gathered data to generate theory (Bryman & Bell, 2011). The process of collecting data is a tool to explore the phenomenon, to identify themes and patterns, and to create a conceptual framework, which results in a theory generation and building (Saunders, Lewis, & Tornhill, 2016). This kind of research will be particularly concerned with the context, so the small sample is more favourable (Saunders, Lewis, & Tornhill, 2016). This approach clearly fits the notion of artificial intelligence, which is a constantly developing phenomenon. It has been noticed that it is lacking the academic inquiry and understanding of its patterns, when it comes to the interaction of AI with different concepts, in this case - business model.

The methodological choice for this study is a qualitative research design, which is often associated with an inductive approach, as it is used to develop a richer theoretical perspective than the one that already exists (Saunders, Lewis, & Tornhill, 2016). The qualitative methodological choice stands in line with the social constructivist epistemology. It will help to get an understanding of the world through words, as well as to get the social constructions formed by people through collecting their experience (Easterby-Smith et al., 2018).

The strategy for this research is chosen to be a case study. This choice will ensure an in-depth dive into the topic (Saunders, Lewis, & Tornhill, 2016), which is essential for this research, in order to assemble a full business model of the case examined. The case addressed can be a person, a group, an organisation, or a process (Saunders, Lewis, & Tornhill, 2016). This particular research will focus on one company, which will provide a capacity to generate insights from intensive and in-depth research into it, leading to rich, empirical descriptions and the development of the theory (Saunders, Lewis, & Tornhill, 2016). As this study has a constructivist epistemology, it is much less concerned with validity, compared to positivism, but rather with providing a rich picture of life and behaviour in the organisations and groups (Easterby-Smith et al., 2018). The methodological choice of a case study for investigating the problem statement is favoured over other qualitative strategies, such as ethnography, action research, grounded theory or narrative inquiry. That is due to the abilities of a case study to examine the dynamics of the topic being studied, which exceeds the abilities of those aforementioned strategies. As this study requires a building of a comprehensive business model structure, taking a company as a case study for this aim is seen as the best strategy, resulting in the best girth of all the aspects of the model.

The time horizon of the research will be cross-sectional, involving the study of the particular phenomenon at a particular time (Saunders, Lewis, & Tornhill, 2016). This choice is based on the limited time frame set by the university guidelines.

The technique for collecting data used in this research will be semi-structured interviews. This will provide direct observation and personal contact, which is implied by selecting a case study (Easterby-Smith et al., 2018). Semi-structured interviews are non-standardised, and the researcher has a list of themes and some key-questions to be covered (Saunders, Lewis, & Tornhill, 2016). The qualitative interviews assist in gathering rich and detailed information on the respondent's experiences and understandings of those (Easterby-Smith et al., 2018). As this study is qualitative, now it can be specified that it is a mono method qualitative study, because it uses a single data collection technique (Saunders, Lewis, & Tornhill, 2016). This method has been chosen for the study in order to complement and assist the data collection. Due to this research being a case study, the semi-structured interview will help to gather detailed information, though if the interviewee will mention something worth going in-depth for, the structure allows to go off the course in order to explore the detail in question. That is of great advantage when discussing the business model, due to its complexion and various details included.

Data selection

In order to investigate the formulated problem and sub-questions, the research has been decided to be a case study of a company called LegalUp. This company has been chosen because its Headquarters are located in Aalborg, which makes it a local company with easily accessible data. The founder and CEO of the company, Kristin Assaad, a well-known entrepreneur in the Aalborg business community, and her work within the legal community raises interest among the researchers. Moreover, this legal company represents a unique and modern business model in comparison to the traditional model, which is worth investigating. In order to get a good sample, a semi-structured interview was chosen as a source of collecting data from the company. Kristin Assaad has been chosen as the interviewee, because of her position as the CEO and the founder of LegalUp, which makes her the right person for such an interview. She has a great overview of the firm's operations, and what it offers to its clients, as well as the insights into the business model, which will come in handy for this research.

Data collection

Data collection is an important part of the study, as it is an effective mean to gather valid and reliable data, relevant to the research question and sub-questions (Saunders, Lewis, & Tornhill, 2016). For this study, the semi-structured interview type has been chosen. The structure of the interview was produced based on the methodological choices established above. The questions were developed and

divided into four main components of value creation based on Amit & Zott's (2001) business model, Value creation in E-business.

The first part of the interview's structure were questions regarding the firm in general. The questions included in this part were focused on different aspects of the company, gathering the overall ground information. The answers would help to understand the structure and the background of the company.

The first question of this part was when the company was founded. This question had been included to not only get the background information but also to assess how long the firm has been on the market and how well-established it is.

The second question was about the organisational structure - what is it? The answer to this question contributes to structuring the business model of the firm.

Afterwards, it was asked about the physical location or locations of the offices, to see how far the company is spread out in the country and on which geographical markets it is present.

The next question was about the amount of the employees, which would help to assess the size of the company, its capabilities. Additionally, it will provide a different angle to the company's structure and contribute to assembling the business model as well.

The next few questions were oriented to learn more about the products and services that the company offers. First of them was general: what products does the firm offer? The answer would provide the research with the accurate presentation of the existing offerings by the firm.

Next question was about what kind of technology is used in the day-to-day work life of the company, for example, usage of computers, internet cookies etc. The answer would indicate the current level of exposure of the firm to the technology.

The final question of this part was how technology is used as a service, for example using a device for signing documents, or an online tool for meetings. The answer to this question would be an addition to the previous one, adding a service perspective on the usage of technology.

As a result, after completing this section of questions, the data received will provide a good overview of the information about the company, it's background and structure, the current role of technology, as well as it will be possible to start building on the business model of the company.

The next part of the interview was structured around the transactions of the company. The questions in this part are focused on how the products and services are provided by the firm and what are the related elements.

At first, Kristin was asked to describe the process of the usual transaction. The answer to this question is going to set up the scene and portray how communication with the client occurs and how are the services delivered. The sub-question to this was how the whole customer servicing in LegalUp is different from the competitors. The answer to the sub-question would reveal the uniqueness of LegalUp's business model, and its possible advantage, compared to the other firms.

The second question of this part was around the usage of the Internet within transactions and which part of the provided service takes part "online". The answer would be an addition to the questions placed in the first section, building upon already gained knowledge of usage of the technology in services, adding up a perspective of the Internet, and not only devices.

The next question was about the target segment of LegalUp's services. The answer would be exposing the type of clientele of the firm.

The last question of this part of the interview asked whether there are any other parties involved in the transactions of the firm. The answer here would help to characterize complementaries involved in the business model and the transactions within, adding up to the information received.

As this part of the interview comes to an end, the acquired data will help to understand the transactions of the firm, build up knowledge on the technology used within the transactions, and finally add up to the structure of the business model.

The third part of the interview talks about the sources of value creation, which would help to identify the advantage of the service provided by LegalUp, compared to the other legal companies.

The first question of this part is about whether there are any complementary products or services used, for example, bundles or special offers.

The second question seeks to find out whether there are any plans to expand a current product line and what kind of services that would be.

The answers given in this short, yet important part portray what are the factors that enhance the total value created by LegalUp, and how the company's line of services would expand in the future.

The last part of the interview is about the firm's business strategy.

First, it was asked about how the firm attracts new clients. That part of the strategy is important and will provide information on how the firm is expanding its economic pie.

The next question talks about the advantages of the firm, based on the choice of the business model. Similar questions have been asked earlier in the interview, but the direct question was asked in order to shed light on how the CEO of the firm perceives the business model.

The question concluding this part was about the future of the company, to get a feeling of where it would steer and whether the change of technology might be in place and what kind of markets it might enter.

The information received in the fourth part of the interview will help to analyse the present and the future of the company, and to fulfil the business parts of the model.

To conclude the interview, it is asked whether there are any more facts that could be relevant for the research, that has not been touched upon. This conclusion is to find out whether the interviewee believes there are other parts of the business model that are crucial but were left out of the interview for any reason.

Data analysis

In order to answer the problem statement "What disruptive effect does artificial intelligence have on the business model of a legal firm?", the theoretical perspective gained on business models, artificial intelligence, market disruption and the legal industry are brought together in a framework.

First, the collected data will be analyzed through the prism of the business model. Due to the model by Amit & Zott (2001) being chosen as the foundation for the theoretical perspective, the information collected through the interview will be assembled into the business model and analyzed based on the four values distinguished by Amit and Zott: efficiency, complementarities, lock-in and novelty.

After the business model of LegalUp is established, it will be analysed on the subject of implementation of artificial intelligence. Each part (efficiency, complementaries, lock-in and novelty) will be looked at separately, to see which components of each part can be influenced by artificial intelligence and what consequences would that bring. Moreover, this effect of AI shall be also studied beyond the business model of LegalUp and on the legal industry in general by comparing it to the traditional business model of a legal firm.

Then, it shall be determined, whether the influence of the AI in the business model can be called disruptive. In order to do so, the framework is worked out, which collects the characteristics of the disruption of the business model, mentioned in the literature review. Those characteristics can be reviewed in Table 1.

Category	**The effect**
Product	Would it change/redefine the product or the service and its delivery?

Customers	Does it attract new customers?
	Would it make the existing ones consume more?
Competition	As technology arises, would the big firms be interested in adopting the technology?
	Would it influence a downturn in customers of the major firms that do not use AI?

Table 1: Characteristics of the disruption of the business model

For convenience, the characteristics are separated into three categories. The first category is product, and the question there is whether the implementation of new technology would change the product or the service offered by the company and its delivery. Here, the answer should be positive, though it does not have to be that the new product or service is discovered; instead, it can as well be the redefinition of the existing product or service provided to the customer.

The second category is customers. Here, it is important to know whether technological change attracts new customers? Or, would it make the existing customers consume more? Those questions target the market share of the company, investigating whether the implementation of the new technology has enlarged or condensed the economic pie. In this section, either one or both of the answers should be positive.

Lastly, the category investigated is competition. It touches upon the other firms, whether the innovation of the business model would influence their amount of customers if they fail to adopt the technology in time. The answer to this question indicates the switch in the market. The other question is about whether the interest of the other firms to adopt the technology exists initially. If the answer to this question is negative, that indicates that the firms see this technology as inferior, which is one of the characteristics of the disruptive innovation.

The data received by this analysis would determine whether the influence of artificial intelligence can be qualified as disruptive to the business model of the legal firm.

In order to investigate what kind of strategy should be used to respond to the innovative effect of AI, if it proves disruptive, the three approaches by Armour & Sako will be used. The business model of LegalUp will be analyzed through all three approaches, revealing what happens with a business model when AI is implemented in three different ways. Those findings will as well be generalized for the legal market by analyzing a traditional business model of the legal firm.

Lastly, if the analysis proves the innovation of the business model disruptive, then it can be also determined, whether the disruption will be successful on the market or not. This will be assessed using the framework by Hang, Chen and Yu (2011).

Delimitations

In the process of conducting the research, several delimitations have been made.

Firstly, in order to get the richest data possible and to observe all the necessary details in the established case study fashion, it has been chosen to only focus on one company, even though its business model is not "traditional", compared to the other law firms.

Then, it was chosen to interview only one representative of LegalUp. The interviewee was perceived as somebody, who possessed all the knowledge necessary to proceed with the study, because of their position in the firm. During the interview, it was revealed that the interviewee was the main lawyer of the firm, besides the student assistants, so the choice was justified.

In the literature review section about artificial intelligence, it was chosen to review the latest articles, not older than from 2016. This decision was made because progress within the industry is very dynamic, and the scientific knowledge on the topic from more than five years ago is often outdated and thus not relevant.

Other than that, it has been decided to not describe artificial intelligence and how it works in great detail. This is due to the research being of business nature, and not IT engineering, so only the information, necessary for a basic understanding of the technology, is included.

Lastly, this research does not dive into the area of AI's influence on people that would be working with the technology. Only the business model is taken into the review, without the possible effect on the humans involved.

Data presentation

The following primary data was gathered through an interview with the director of LegalUp, a Danish legal firm. The full transcript of the meeting can be seen in Appendix 1. The purpose of the interview was to get original data and pair it up with established knowledge on the fields of disruptive innovation, artificial intelligence and business models to be able to analyse how they would interact with each other.

LegalUp is a Danish start-up company founded in February 2019. The founder Kristin Assaad had worked approximately six years with volunteer legal aid for citizens within private law areas. She founded three legal aids by herself when she was a student, reporting to have helped hundreds or even a few thousands of entrepreneurs. After the companies received counselling they would usually move on to hire help at traditional law firms. Therefore, Assaad found a gap, since many small startups usually have not got the financial resources yet, needed to hire traditional law firms. She then founded LegalUp to fill this gap, with affordable legal help that focuses on small and medium-sized companies.

LegalUp is a legal firm that differs from a traditional law firm by not having any authorised lawyers, which means they can do most required legal work except, for example, going to court. This issue is fixed by collaborating with traditional law firms and accountant firms with authorised accountants. The payment model is different, as LegalUp provides several subscription packages that customers can choose from or just pay by the task. Assaad underlines that transparency is essential for startups and traditional law firms are often estimates and not a fixed price as they are at LegalUp. This means that LegalUp's payment is per contract and not per hour spent on the specific task.

The company provides a digital platform for its customers where everything can be done digitally and paperless. The platform consists of contract templates where either the customer or a lawyer will insert the required data for the contract. The bigger the subscription package is, the more content they will have access to. Assaad predicts traditional law firms will have to offer this in order to live up to the upcoming generation's impatience. She states that LegalUp is one of the only subscription-based legal companies with only a full tech having the same payment model. LegalUp differs from a full legal tech company in the way that they have lawyers, customers can meet physically as well as online, whereas the full tech competitor only offers templates and online service. Assaad states it is always going to be necessary to have a physical meeting, when a company hands over the responsibility of establishing their company, making it unrealistic for the industry to go fully run by technology, at least for the near future. For now, technology is being used a lot due to the ongoing pandemic, like Zoom and Skype meetings and is expected to be used a lot more in the future as well. Everything that needs to be signed is done digitally with NemID.

Assaad states the industry is very much about loyalty and trust, as it has been for the last 100 to 150 years, but people have changed and will demand changes to the traditional law practice. This includes digitalising where it is beneficial, like increasing the speed of completing a task or general efficiency. Assaad recognises that legal tech companies are currently producing AI that can answer many questions from the customers, based on the analysis of existing laws.

LegalUp has offices in three locations, Aalborg, Aarhus and Copenhagen. Assaad hopes to establish an office in Odense in a year as well. So far, Assaad has herself been the main lawyer on the cases and is being assisted by master students of law and business law. The future of the business model is based on the gig economy, by hiring freelancer lawyers and business lawyers for the specific tasks and not employing them into the company. Assaad identifies that millennials and generations after that highly value freedom and flexibility which is why she uses this business model. This also means she can hire freelancers with a speciality in the specific case. Right now, LegalUp offers everything within establishing a company, all kinds of commercial contracts, all types of GDPR documents as well as counselling within all these areas. The next step for the company is to offer

counselling within intellectual property and employment laws which Assaad herself does not specialise in.

In order to attract new clients, LegalUp uses Google Ads, LinkedIn and word of mouth, as well as the three legal aids Assaad founded, through collaborations with accountants and the website IVN.dk that is a network of entrepreneurs. Currently, LegalUp has 10 subscribers in the two big packages that bring the most value, aiming to reach 100 by the end of the year. Assaad hopes to be able to expand to the rest of Scandinavia in 2021 if she manages to find the right legal partners.

Analysis

The following analysis will shed a light on the case company's business model to be able to further analyse the impact of artificial intelligence and whether it is a disruptive innovation and what that implies. The investigated business model by Amit & Zott (2001) is divided into four parts that can be investigated separately and in cooperation with each other. The data presented previously of LegalUp will be analysed in the context of business model theory to map the value creation in the company. The following part of the analysis will examine the implementation of artificial intelligence on the business model. This is done in order to further analyse how it would impact the legal company's business model. Finally, the analysis will explore the disruptive effect of artificial intelligence on the business model of LegalUp.

Efficiency

The first value driver of the model, efficiency, will explore the company's transaction efficiency as a source of value creation. Based on transaction cost theory, efficiency is described as a primary value driver for e-business suggesting that when the cost per transaction decreases the efficiency and hence value increases (Amit & Zott, 2001). By comparing the E-business of LegalUp to a traditional law firm, LegalUp gains advantages by offering more technological solutions, as well as a lot of available rich online information on their website and access to templates. Customers have the opportunity to make decisions based on this information without having to contact a lawyer and make use of their time and additionally decrease processing time in case of an urgent matter. This reduces search costs for the customer, as well as consultation from the service provider.

LegalUp's main transaction channel is their website, where necessary information for the customer is found. This makes signing up for a subscription package easy and transparent as it is clear to understand what value each package possesses.

" (...) right now the traditional law firm they offer traditional counseling, traditional high prices per hour and no transparency in that regard and it's really just really expensive and really prohibited for companies with a lot of money, because they can get access to the real legal counseling. All the entrepreneurs and minor companies are forced to not get proper legal counseling because they don't have the money." - Kristin Assaad, CEO and founder of LegalUp

The online sign-up is hence very efficient and transparent in comparison to traditional law firms, where the price is harder to generalise, as it very much depends on the company. This is often a barrier for a company as legal help can diminish a company's financial buffer. The company offers a digital platform and an app to make it efficient for their customers to look up contact information or what data that is necessary for them to get a specific contract.

The online information available is additionally backed up by online consultation. The amount of consultation time depends on which package the customer has. The bigger the subscription package, the more counselling time is included. It is possible for the customer to meet physically with a lawyer in any of the three locations: Aalborg, Aarhus and Copenhagen, as well as do things through video chat. Everything, including signing papers, can be done digitally with NemID and the physical meeting is a service and way to connect with the customer if that is preferred. The service can hence be brought from and to anywhere in the world if necessary. This flexibility can be considered extremely efficient, as it succeeds to provide help while saving transportation costs and time. The business model not only tries to streamline the service but still offers a comparable service of a traditional law firm.

"(...) what we are doing now is that we are hiring, well not hiring because we are not employing them, we are gonna get freelancer lawyers and business lawyers. Their speciality will be in either contracts, company structure, GDPR, all the things that we do and they will be working on demand. They will have their own CVR, but be legal partners with us. (...) This is gonna be that business model. This is also something new, but it comes from the gig economy." - Kristin Assaad, CEO and founder of LegalUp

LegalUp's business procedures are based on the gig economy, meaning that the company hires freelancers to complete the tasks set by the customers. The freelancers get 50 per cent of the commission the task brings. This streamlines the internal administration of employees as there are fewer salary issues and vacation money, in addition to other employment-connected problems. The second purpose of hiring freelancers is to be able to have a specialised person on the given subject of

the firm. By having employees the company is forced to use them regardless, but here only the relevant people are used for the set time. This also means that in recessions there are no people to be fired, but just less hired freelancers. The model also makes it possible for the freelancer to schedule their calendar to fit his or her individual needs.

With the founder of LegalUp Kristin Assaad, also very active in the free start-up legal aid, the company is directly connected to their market segment and can follow the new company from an idea of an entrepreneur to a full functioning company. LegalUp can hence save marketing costs as the company is becoming progressively more well-known in the start-up field of the Danish entrepreneurial market. Additionally, word of mouth is very important for a company like this as trust is an important factor when dealing with start-ups.

Complementarities

Complementarities is the second value driver of the business model to examine. It is defined as the benefits that the customer gets if they buy more, ultimately providing higher value than a single task service. LegalUp's subscription packages are a unique model of the legal service industry as it traditionally is a cost per individual case. The packages are targeting entrepreneurs, small and medium-sized companies and it fits them according to what benefits that they require. The packages include complementarities based on which package is chosen. LegalUp's core products are hence including complementarities and are an important part of the subscription service. As the subscription packages are subject to change, the current bundles will be described to show how each service uses complementarities as a value driver in comparison to single tasks where they are not included in the service (LegalUp, 2020).

" (...) this way we can cover all their legal needs for a fixed price per month. So depending on what size they are and what their needs we have four packages and in all of these packages they will get access to the digital platform where they can sign and fill out the templates that also comes with the subscription. The bigger the subscription package, the more content they get in their subscription. So they get the digital platform, access to a web-app - a LegalUp app - and in here they can log on and check from their phone, check their subscription and take contact to us and all of that and they get some other services included." - Kristin Assaad, CEO and founder of LegalUp

The first package is the basic bundle aimed at entrepreneurs without employees for a monthly cost of 499 DKK. It contains a kickoff meeting to set up the future of the collaboration as well as a 10

per cent discount on all assignments. The customer also gets 15 minutes of legal sparring each quarter and the online services of access to the most needed templates of a company this size, digital contract management for an extra 150 DKK per month (optional) and access to the LegalUp web app service. Finally, the package offers a 20 per cent discount on Lunar Business the first year (a digital bank) and includes a 50 per cent discount on Billy Premium (an accounting program)(LegalUp, 2020).

The second subscription is targeted at small companies in the approximate range of 10-15 employees and costs 999 DKK monthly. It also includes a kickoff meeting, access to digital contract management, LegalUp web-app, as well as discounts on the Lunar and Billy external services. This package gives a 20 per cent discount on assignments and 30 minutes of legal sparring each quarter, which are both twice as much as the first package. It then contains a free quarterly contract review and a free quarterly optional assignment. Lastly, it provides access to 10 optional templates, based on their needs (LegalUp, 2020).

The third and last offered subscription is targeted medium-sized companies with around 50-100 employees at the monthly price of 1,999 DKK. This package has a 25 per cent discount on assignments, 60 minutes of legal sparring quarterly a monthly contract review and free monthly optional assignment. It includes 15 optional templates, access to the digital contract management, web-app, with the same Lunar and Billy discounts as well. The last complementarity of the package is a legal service check of the company worth 2,999 DKK (LegalUp, 2020).

The active usage of complementarities incentivises customers to purchase full packages of tasks, securing exclusivity on the firm's legal tasks. This is in contrast to the traditional single task payment used by traditional law firms that do not necessarily make use of complementarities.

Lock-in

The third value driver, lock-in, examines how likely customers are to make business with LegalUp in comparison to their competitors. A benefit of LegalUp's package model is much more enhanced transparency in comparison to traditional law firms, which can be a big advantage since companies can compare the prices. Even though the monthly subscription model is made without binding, you can expect your customers to continue to be subscribed as long as they are happy with the service.

I have been working for the last 5-6 years with the volunteer legal help both in legal aids for citizens within their private law areas and then I have founded three legal aids of myself while I was studying and one of them is called "Iværksætter-Retshjælpen" and this is specialised legal aid where we have helped many many hundreds if not thousands of entrepreneurs with their startup legal

problem and basically just all their legal problems and challenges being an entrepreneur." - Kristin Assaad, CEO and founder of LegalUp

LegalUp's target segment consists of entrepreneurs, smaller and medium-sized companies causing them to be able to follow a company from an idea to reality and getting a close relationship with them. If the smaller companies are used to this business model rather than a less transparent one, it might come with a higher switching cost for the company, making them less likely to join a competing company. The switching costs would not only be monetary but might also be effort- and time invested.

By specialising in the segment LegalUp does, it can appear more attractive than a major company that does not necessarily often interact with start-ups like a free legal aid does. The presence in the entrepreneurial scene brings LegalUp closer to these customers and through collaborations, they are also likely to prefer LegalUp. If a company is e.g. referred to by their accountant to sign up to LegalUp, chances are they are more loyal.

Novelty

The last value driver of the business model is novelty, where originality and innovation can be a benefit in comparison with the competitors. LegalUp's unique subscription model in comparison to the traditional per task is beneficial for the small start-ups and entrepreneurs who do not necessarily have huge financial resources and can easily handle monthly small amounts, in contrast to a more rare and bigger amount of payment. This innovative idea is used by LegalUp and a competitor in the form of a full legal tech company on the Danish legal market.

" (...) all traditional law firms have to step up to this beat because this is the future. This industry is going the same way as it did 100 or 150 years ago, but people have changed since then. They want everything yesterday, best price, best quality and they want it now.." - Kristin Assaad, CEO and founder of LegalUp

The transparency of payment that LegalUp provides is also a novel idea. Traditional law firms do not compare prices, which provides LegalUp with an edge, because companies can compare their costs with the transparent LegalUp pricing and make a choice based on that. LegalUp strives to be competitive for its target segment in a market where pricing is not the only perimeter, where trust is just as - or even more - essential for the customer. The transparency hence encourages trust in

comparison to the competitors who do not necessarily have clear pricing of their services as LegalUp does.

The choice of focusing on entrepreneurs, small companies and medium-sized companies is as well a novel innovation in comparison to a traditional law firm. By focusing on a specific group, LegalUp will be more experienced in the issues they face, which is a strength in comparison to a larger law firm where the small customer can be less prioritised.

The full business model of the case company is inserted in this table.

The business model of LegalUp based on Amit & Zott's model: Value creation in e-business	
Efficiency	• Online sign-up • Offers a subscription service and single tasks • Online digital platform with templates and a web-app • Hiring specialists for specific tasks • No permanently hired employees • Streamline business offers to the target segment • Several meeting points throughout Denmark • Everything can be done remotely with digital signatures • Find customers through voluntary legal work

Complementarities	• Discounts and free services based on that purchased subscription package
	  ○ Discounts on tasks, external digital bank and external digital accounting program
	  ○ Free services of counselling, digital platform, web-app, templates, contract review, legal service check of the company and a task of choice

Lock-in	• Subscribers renew their subscription monthly • Follows a company from start-up to growth that allows them to build a collaborative relationship • High switching costs for a company used to this payment structure and online services

	• Strong network in the entrepreneurial industry and collaborative partners
Novelty	• Modern payment option • Clear, comparable pricing • Unique target segmentation • Unique complementarities

Table 2: The business model of LegalUp

Implementation of AI on the business model

The first generation of AI has already been implemented to the point where its usage is seen in industries where it can fulfil a certain purpose with the technology's limitations. Its impact in the legal industry has been very small as it can only help with its defined functions such as researching matters, a task so easy today that barely is worth investing in. The advanced AI, on the other hand, is a developing technology in progress which is expected to revolutionise many industries by completing tasks otherwise done by employees. The implementation of this advanced type of AI will be analysed based on the business model of LegalUp to explore the impact it has on their company and how it possibly affects the market.

Efficiency

AI is defined as a technology that involves automating tasks that ordinarily require human interaction or intelligence to perform. It can be seen as a revolutionary streamlining of processes and could be compared to Ford's famous assembly line, which affected not just the automobile industry, but many more. Overall, it is expected that this advanced AI will be affecting the business model of all companies, including LegalUp, as it has a positive effect on efficiency. The addition of AI will be assessed into details of how it affects the efficiency of LegalUp's current business model and how it impacts the legal service industry in general.

If we compare the expectations of what will be possible by the advanced AI to the current efficient value drivers of LegalUp, the technology with certainty will affect their business model. Advanced AI with abilities such as possessing awareness, reproducing thinking skills and answering questions can be used in many simple problematic instances. The online sign-up is already a great time-saving feature at many companies. An AI could in the future simply be asked to sign up by withdrawing the necessary information and enter it into the system autonomously. This feature is however not important for the company, as it is not an issue and hence does not bring a lot of value

for the company. A lot of companies would potentially like to meet their legal service in person to feel important and this method further moves away from this and does not affect this part of the business model.

With the AI being able to solve many but assist even more tasks, it will with certainty interfere with how many employees the companies will proceed to have. At LegalUp they would possibly hire fewer freelancers to solve specific issues and at traditional law firms, they would simply have fewer employees. It is, however, unlikely that they would completely be dismissed in favour of the technology, at least in the near future. The legal industry offers a very important service for the companies and trust is an essential factor for customers. An error made by an AI could be more damaging on the level of trust than a human error could, but the likelihood is much lower for that to happen. The human presence in legal companies will continue for a long time, but will with certainty be lessened by this revolutionary technology.

The introduction of AI could impact the payment model of legal companies as well, as the customers could have 24/7 service. Instead of paying for consultation by the hour, the legal companies could advance to the subscription-based payment that is becoming very popular in today's businesses, including LegalUp who brought it to the Danish legal service market. The current efficiency benefits of using a digital platform with templates and a web-app will perhaps even become redundant as AI would be able to fulfil the purposes of such digital-assisting facilities. Traditional law firms would be more efficient by an easier payment model, as they would not necessarily have to charge by the hour, which also makes it more transparent for the customers. In overall, it would have a positive impact on the business models of the industry as efficiency rises.

LegalUp's product line that focuses on their target segment of entrepreneurs, small and medium-sized companies would still be relevant. This is due to the fact that the legal service beyond this is today requiring authorisation in Denmark and has to be changed by law in order for AI to accomplish tasks beyond simple contracts and proceed into challenging court cases with many variables. As it has been mentioned in the literature, AI will not be able to complete all tasks and AI would not be able to represent a client in a courtroom in the nearby future. LegalUp will hence still be required to partner up with authorised accountants and lawyers, as it would need changes to the law for AI to be able to assist in complex cases like those. It is ultimately expected that AI will not expand LegalUp's target segment and product line, as it would have to be changed by law or hiring the required people, which is not in their intentions. The traditional law firms will still be able to have a wide segment as their services will still be vital as AI will be unable to assist in very complex situations and the business model's target segment will therefore not be affected.

The locations LegalUp provide meeting facilities would also theoretically be redundant in the future as well as today, since all tasks can be done and signed digitally. Today, the need to meet a representative person of the legal service before signing a deal is indispensable, together with setting up important meetings. Futuristically, these types of meetings could become needless, as the future generations interact more through technology in comparison to today's business procedures. This efficiency affects the case company, as well as the rest of the legal service industry positively, as they can focus on solving more tasks rather than setting up meetings.

The efficient marketing strategy by assisting entrepreneurs voluntarily and continuing the cooperation could still be relevant. With the assistance of AI, the company could ideally have more time to help these entrepreneurs and recommend LegalUp's service through future collaboration. If AI becomes available to entrepreneurs, it will have a negative impact on LegalUp's business model, as they would have a harder time reaching out to new potential customers. Traditional law firms' business model would likewise be negatively affected if entrepreneurs and other customers have external access to AI that could manage their legal issues.

AI will conclusively have a positive impact on the efficiency of the companies in the legal industry that chooses to adapt their business model to the technology, while those who fail to adapt will be less competitive. The completion of all routine and many non-routine tasks will be done through the usage of advanced AI, leaving only special cases that are highly tailored to a specific client. There could be expensive start-up costs of implementing this new technology, both monetary and trust but in the long term will it be efficient for the companies in the legal industry.

Complementarities

This second value driver of the business model could very much be enhanced with the introduction of AI. LegalUp current offers of digital solutions will become further comprehensive and their current packages could easily adapt to the changes brought by AI. The current model of the bigger the package, the more is included, fits well with the technological implementation. LegalUp would still be able to offer discounts on specific tasks or free services like they do presently, which could depend on how competitors on the market charge for the tasks. Traditional legal firms could choose to change their partnership model to a more modern business model that would be better suited for a more managed professional business as was presented in Armour & Sako's paper from 2019. Complementarities are not the main part of traditional legal firm's model in contrast to LegalUp where they are centred around them. This could change with the addition of AI, in order to capitalise on the implementation of the technology.

AI opens up for new innovations regarding complementarities as compositions of transactions can occur. The discount LegalUp currently offers on external banking and accounting solutions are still relevant after the implementation and similar ideas could potentially be adopted by traditional law firms as well. As the advanced AI is being implemented in multiple service industries it could also be a package deal for the companies where legal AI and accounting AI could cooperate.

The free services included in LegalUp's complementary packages will continuously be possible after the introduction of AI. New possibilities will appear as the technology has very few limits when it comes to mentioned services like counselling and contract reviews. These services could be available for free or at a certain price with the addition of AI. LegalUp's packages are a great tool for limiting access to the AI as they can demand higher prices for more services. The traditional law firm will also have the opportunity to offer complementarities based on the possibilities AI offers.

LegalUp's business model that includes complementarities as part of the main payment model fits the introduction of AI-enabled digital solutions. LegalUp can divide features of AI into different packages based on what the firm needs. AI also has a positive effect on the traditional law firm complementarities, as it is possible to control the amount of AI-tools to the customer, based on what purchases they make. Conclusively the AI will most likely have a positive impact on which complementarities legal firms can offer their clients.

Lock-in

The ability to maintain customers is important as it determines if the customer is likely to continue collaboration or choose a competitor. LegalUp's current model of a monthly subscription locks the customer for the period which could continue with the introduction of AI. The traditional law firms can also introduce some kind of time-dependent payment option for using their AI. This opens up for the possibility for legal firms to offer longer subscription models to enhance the lock-in of the customers. Based on the payment model could AI hence have a positive impact for both LegalUp and traditional law firms.

LegalUp's collaboration with companies helped by the voluntary organisation they are attached to would continuously be relevant after the implementation of AI. Entrepreneurs will futuristically still need free legal start-up help and AI will not be free. It is assessed that this recruiting method still will be relevant. However, the bond between the customer and company might be negatively affected by AI as the lack of physical meetings or humane help lessens the relations between them.

The present high switching cost going from LegalUp to a traditional law firm could be changed with AI technology if competitors such as traditional law firms also choose to implement it. If multiple

companies use the same system, there could potentially become a price-war with low switching costs for the customers. The introduction of AI could hence reduce loyalty and ultimately lower lock-in.

Networking after AI is introduced will still be a relevant tool to find customers and create collaborations between partner companies. The automation of tasks brings time to provide greater service attendance. This includes traditional law firms who also can allocate time differently and enhance service to positively impact the lock-in.

Novelty

The traditional law firms work very conventionally as the legal market has seen very few big changes. Novelty has not been the main factor as trust is the biggest bargaining force for the competitive factor between legal firms. LegalUp' payment options, clear and comparable pricing and their inspirations from the gig economy are very unconventional actions in an effort to shake up the legal market. Novel ideas based on AI-related solutions could appear and affect the currently stagnant legal market.

LegalUp's unique target segmentation is still relevant as AI is introduced since it will not be able to fully satisfy clients who require specialised assistance in complicated scenarios and in courtrooms. AI does not impact this novel idea, however, other companies with similar segments could arise as it does not require an authorised law degree to fulfil those clients most occurring needs. There could be a first-mover advantage if the implementation is successful and customers are satisfied. It can be assessed that if the technology is applied appealingly, it will greatly enlarge the number of customers.

The subscription packages with included complementarities offered by LegalUp could see more competition from competitors finding the model interesting with the implementation of AI. This is due to it being fitting when AI can offer as much help as the customer wants without time constraint and being always available.

The new possibilities brought by AI leads to more opportunities for new innovations within the legal industry. The opportunities are conclusively up to the individual company and this is more an analysis of the possibilities that AI brings to the business model. Successful application of AI and novel ideas thereof will lead to more customers. Failing to implement it successfully will instead provide a different effect than projected by this analysis. The efficiency of a company implementing AI should ultimately go up as the tool enhances the tasks time consumption greatly. AI conclusively provides many possibilities within this novel spectrum of the business model. The technology will likewise provide the possibility of greater value delivery as new innovative complementarities and novel ideas can be discovered. The introduction of AI could bring more competition, lower switching

costs and fewer relations between the company and the customer. Overall AI can impact the business models positively if managed properly to serve the needs of the market as actors smoothly transition into more tech-requiring and tech-reliant futuristic companies of the generations to come.

The disruptive effect of artificial intelligence on business models

In order to establish whether the implementation of AI in the legal services proves to be disruptive to the business model, previously found data will be analyzed through the framework consisting of the factors that characterize the disruptive innovation of the business model.

The first category established was the product. Would disruptive innovation change/redefine the product or service that a legal firm is providing and their delivery of it?

The earlier analysis showed that AI could impact the payment model of the legal companies, changing from paying by the hour to the subscription-based payment, as LegalUp has done. AI's impact would be translated into reducing the influence of digital platforms and web apps, as it would be able to fulfil the purposes of these. Overall, automation of some tasks will provide the possibility of lowering the extent of human contact. By doing this, the product will stay the same - legal counselling, however, the delivery of the counselling would change, making it more digital, automated and perhaps even without physical meeting.

The second category reflects the customers. Would a legal firm using AI for their services attract new customers or make the existing ones to consume more?

As described above in the 'implementation of AI on the business model' section, artificial intelligence will have a positive impact on the companies in the legal industry, which will adapt their business model to technology, because their efficiency will develop. As the firm becomes more efficient, it will lead to being able to serve more customers. Those customers, in turn, would see a fast delivery of the results attractive, answering the question positively. Moreover, the new customers will get attracted by the first-mover advantage. In order to make the existing customers consume more, the traditional law firm could introduce the payment option for using their AI, opening a possibility for longer subscription models, hence the lock-in of the customers, which ensures that they continue being a client. As AI will possibly lower the price of the legal services, customers with lower income will get attracted too.

The third category is about competition. As technology arises on the market, would the big firms be interested to adopt the technology? Would the implementation of artificial intelligence influence a downturn in customers of the major law firms that do not use AI?

One of the main issues in adopting technology in the legal business is trust. At the moment, the costs of implementing the technology are high, together with the trust levels towards AI being low. So, presently, most of the firms do not see the implementation of AI as something attractive. However, as the technology advances, the costs would get lower and the trust levels should rise, as the AI should over time prove its effectiveness. Therefore, it can be predicted that the interest in adopting AI would rise with time. When talking about the downturn in customers of the major firms not implementing the AI, the findings in the section above indicate that adoption of AI would make the firms more efficient and enlarge their customer base. This means that the firms without AI will most likely experience a downturn in their customers as they will get less competitive. Though it shall be noted that there will always be some demand for the traditional law firms, which means that they will not cease to exist in the near future, but their number of clientele will drop in favour of those firms who have implemented the new technology in the long term.

In conclusion, the findings above show that the implementation of artificial intelligence on the business model proves to have a disruptive effect. The product will stay the same, but the delivery of the product will become more digital and automated. The new customers are likely to get attracted due to the higher efficiency and first-mover advantage. As the big companies are not yet interested in adapting the new technology due to the high costs and low trust level, the technology is viewed as inferior. Though, as it will progress with time and get cheaper, it is very likely to influence a downturn in customers of the major firms that are reluctant to adopt AI.

How should the legal firms adopt the innovation?

When disruption happens, with time established incumbent start to bring their attention to the new way of competing (Markides, 2006). And as that happens, the new way of competing cannot be ignored anymore and more and more incumbents get involved with it. This makes companies come up with a strategy on how to respond to the change. When it comes to the implementation of artificial intelligence, Armour & Sako (2019) offer three approaches reacting to it. They will be looked at from the perspective of the case company, and the traditional at the moment business model of the legal firm.

According to Armour and Sako, the first approach to AI's implementation among law firms focuses on legal work which does not involve artificial intelligence. This generally means that the format of the firm stays equivalent, with little to no change. This approach makes the traditional law firm stay the same and continue serving their segment. For LegalUp, that would mean that they would continue focusing on entrepreneurs and small- and medium-sized companies, without restructuring their business model.

Even though the company is quite technology-friendly with their extensive usage of online space, not following the technological advancements can result in the firm getting outdated. Of course, there is always going to be the little share of the market that wants to be served by the traditional legal firm. But already there LegalUp faces a problem, as every part of their value creation is connected to the technology, which would not be a problem for conventional legal companies. LegalUp's efficiency is based around digital tools, which can be influenced positively by the implementation of AI as described above (automating tasks, solving and assisting in them), as well as the complementarities in the form of digital bank and a web-app.

In their lock-in, it is included that the company often follows its customers from the start-up phase and then on to its growth, which can be affected if the firm does not follow technical advancement. The target clientele of LegalUp, specifical entrepreneurs, can be drawn to the firms that are modern, and use modern technology. This can be assumed due to the fact that as stated before, younger generations will be more technology-friendly (which can already be observed now with children and computers). In the further future, people will grow up with AI being around for most of their life, which will increase their trust levels, and hence will make them more likely to choose the legal company that uses AI in their services, as it is more efficient and maybe even cheaper. If LegalUp chooses this approach to implementation of AI, that can influence the number of customers negatively, and hence condense their economic pie. A similar effect will be on the traditional legal firm, though as it is not as technological, their downturn in customers will still be severe, but not as large as of the case company.

The novelty aspect of the business can also get influenced. This area can face a negative impact by staying traditional, though that depends on how distributed AI would be within the legal sector in the future. This applies to both LegalUp and the traditional legal firm.

If legal firms follow this approach, it is very likely that in the future it might either offer their services to a niche market or eventually not survive the change, all depending on how far in the future it is and how well AI is implemented within the legal firms.

The second approach of Armour & Sako to artificial intelligence is when legal firms engage with new business models through contracting. This approach would not disrupt the business model of the legal firm in terms of contracting with a different firm, due to LegalUp's practice of not having permanently hired employees, but working with freelancers instead. The current business model will be enhanced by hiring a legal tech firm, which would deal with the issues concerning the implementation of artificial intelligence. That would leave LegalUp with the flexibility of choosing the contractor, and there will not be any need to fire an existing department in case of the overlapping (e.g. the in-house tech hub). However, it might influence the amount of hired freelancers, due to some tasks being automated. This would also enhance the efficiency of the business model, by achieving similar results, but with fewer employees involved. By the time, the efficiency would grow, extending the possibility of capturing the surplus generated by the technological advancement of AI. For the traditional legal firm, having to adapt to contracting will not be as efficient as for LegalUp, as this concept is not traditionally used. Instead, the firm would have to use extra resources for contracting with a legal tech firm, but it will not require much as only a little amount of new workers will need to be hired.

Within the complementarities, LegalUp might diversify their offers in package services. Some of their tasks could be offered at a discounted price. This change has the potential of bringing new customers in, where each can find the subscription that fits them the most with as much exposure to artificial intelligence as desired. Thus, the firm's economic pie will get enlarged, which could also be true to the traditional law firm, as the usage of AI will allow it to control the number of AI-tools available to the customer, based on the purchase they make.

When it comes to lock-in, the renewed business model is expected to be attractive to those customers who value the technology’s implementation in the different markets, including legal services. However, it might as well restrain the customers that have low trust towards the new technology.

The novelty of the business model of LegalUp in this scenario would not be influenced too much as the business model would not see big changes, though artificial intelligence will definitely show its impact on the uniqueness of complementarities. The traditional legal firm would experience a higher influence in this regard.

As a result, if LegalUp will implement AI through the contracting, it would not disrupt the business model to a big extent. Instead, the model will get enhanced, it is likely that the economic pie of the firm would grow by attracting some new customers. The appliance to the traditional business model suggests a similar effect. The essence of what the company is selling will stay the same, though

how it is being sold will see some moderations. This approach to the implementation of AI is seen as being harmonious for LegalUp.

The third type of approach embodies vertical integration of new AI-enabled business model with traditional legal advisory. Within this approach, a firm would have to expand by creating either a knowledge centre or an in-house team that specialises in the new technology. This would require LegalUp to implement various changes, which include hiring personnel with various backgrounds that support technology; finding the new physical location (as right now it only serves for the physical meetings with clients), which comes with a lot of associated costs. Moreover, it contradicts with the idea behind the original business model of the firm, bringing a negative effect on efficiency. That is due to the idea of the gig economy being used as the foundation when hiring specialists for specific tasks and not having permanently hired employees. For the traditional legal firm, this approach will mean that they will have to disrupt their existing business model by trying to combine it with the new AI-enabled one. It would require hiring multidisciplinary teams from various backgrounds, which could influence the decision-making of the firm.

In terms of the value capture, this approach brings very similar changes in complementarities, as discussed in the contracting approach above. These include positive enhancing in terms of the subscription packages.

The lock-in in this type of approach is as well influenced the same way as in the contracting approach. However, it is possible that this approach will portray higher engagement of the company in the new technology, in the eyes of customers. Which, in turn, could possibly result in higher lock-in among the customers that value technological innovation.

The novelty of the business model of LegalUp would not change, resembling the previous approach. For the traditional legal firm, this approach will bring novelty to the business model.

It can be observed that this approach would bring some structural changes and losses to LegalUp. The business model would need to be adjusted, but the positive influence on the value creation would stay the same as in the contracting approach, besides the efficiency. That is due to the actual level of implementation of AI will stay the same, though the structure of the firm would differ, lowering the efficiency of the business model. Therefore, this approach would not be the most optimal for LegalUp, due to the costs of the changes, compared to the benefits it brings. For the traditional legal firm, Armour & Sako argue that the long-term relationship between the new tech unit and the firm will not be clear.

The success of the disruptive innovation

The implementation of the assessment framework by Hang, Chen & Yu (2011) should shed light on whether there will be any success of the disruptive effect brought by AI. In this situation, the implementation of artificial intelligence is viewed as an emerging disruptive innovation.

The first part of the analysis considers market positioning. The type of the market that the AI is going to influence can be considered as a low-end market. That is because the services of AI will likely make the job of the lawyers cheaper, but the job will still be done at the same quality level as before, just with increased speed. It is also possible that AI's influence on the price of the legal services will attract more individual customers, rather than big companies. According to the framework by Hang, Chen & Yu (2011), the last point is the likelihood of incumbents to repeatedly choose the more profitable segment, based on the asymmetry of motivation theory. At the moment, as the technology is still developing to its full potential, and the aforementioned trust issues towards AI are in place, the legal firms are mostly choosing to not implement artificial intelligence, making the answer to the last question of the market positioning part positive.

The next part of the analysis is the technology. The performance overshoot existing in the legal market is related to the customers being served with more and more expensive and customized solutions. Artificial intelligence would offer a disruption by attracting customers which, as mentioned before, have a lower income, and by offering standardized, systematized and automated solutions. Those solutions would help to establish a foothold in the low-end market. Of course, at the moment advanced AI is in the early stages of its development, and there are several areas to carry the development in, for example, performance and price versus performance. The feasibility, affordability and execution of R&D needed for the improvement of AI should not be relevant for this case, because the technology is not developed by the lawyers, but rather by engineers.

As to other drivers, for example favourable life-style changes, the overall technological progress can be counted in. It is becoming more and more common to use technology in everyday life, and now starting from an early age. With time passing, people should get more tolerable towards new technology, including AI.

Conclusively, the answer to proposed questions forms the Figure 3, which can make an assessment possible.

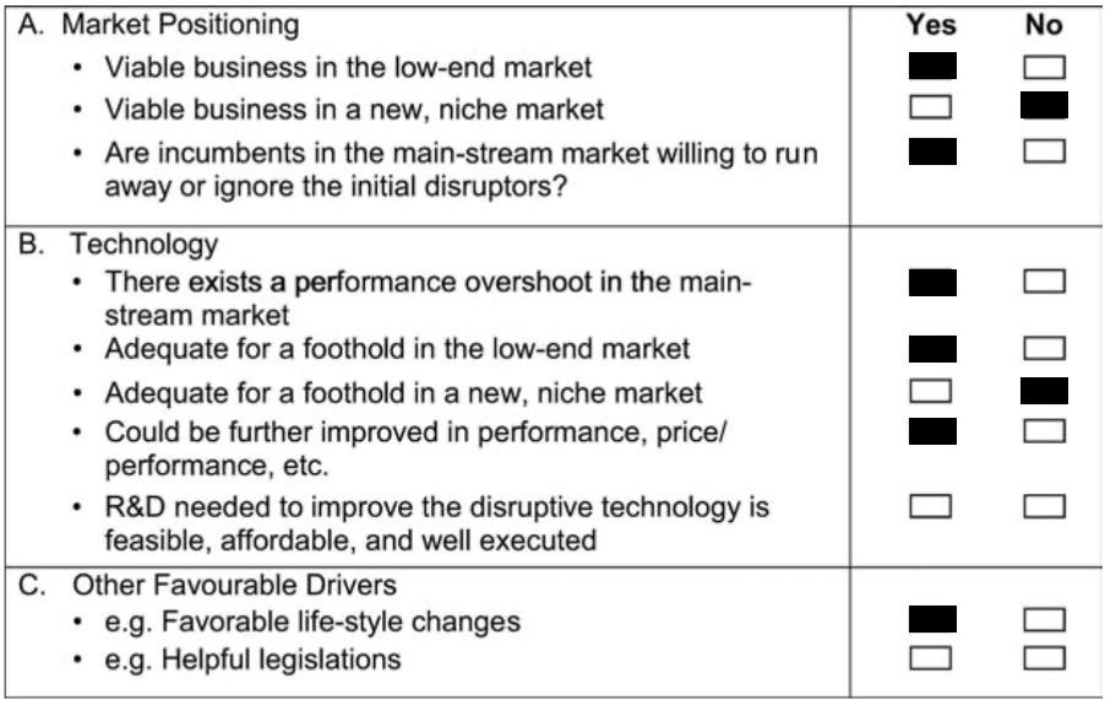

Figure 3: Assessment of the disruptive effect of the implementing AI

In the figure, a "no" option is ticked two times next to the new, niche market, whilst the rest of the questions are answered positively. According to the framework, that means that a low-end legal market disruption by artificial intelligence is on its way and it shall prove successful.

Discussion and conclusion

We demonstrate the disruptive effect artificial intelligence has on a business model within the legal service industry. Through analysis of four aspects of the business model: efficiency, complementarities, lock-in and novelty, we show the effects and possibilities AI grants. The consequent analysis of the received knowledge is generated through the framework on the subject of disruptive effect on the business model. Then, the AI implementation strategies for the legal firms are reviewed, consummating the framework by establishing the successfulness of the disruptive innovation on the market, brought by artificial intelligence.

The framework was presented in order to examine the main research question *"What disruptive effect does artificial intelligence have on the business model of a legal firm?"*. The framework divided the analysis into three parts: (1) explore the business model of a legal firm; (2) examine the possible

effects on the business model after implementing AI; (3) Assess whether the impact AI has potential to be disruptive on business models in the legal services market.

Table 1 in the analysis summarises the findings on the case company's business model divided into four aspects. The importance of mapping the business model is immense as it projects the value creation, capture and delivery. The results of the analysis show the value-creating tools LegalUp uses in comparison to the traditional law firm's business model. It is found that many efficient initiatives are made to create value for customers as the legal industry is found to be a stagnant industry with very few innovative changes being adopted. As the target segment is entrepreneurs, small and medium-sized companies, it is fitting that the value creation happens through the usage of efficient technological mechanisms. LegalUp actively uses complementarities in the subscription packages as rewards for using multiple services by buying a bigger package. The approach differs from the traditional pay-per-task system that is present in the legal industry, which LegalUp still offers without the benefits of their packages. We argue that overall, the business models value-creating mechanisms fit the target segment well.

AI is found to be a very time-efficient tool as it will be able to complete tasks at high speed and at any point of the day. We argue as a result that AI will have an overall positive impact on efficiency as it autonomously completes legal tasks. However, there is risk involved as it requires a successful implementation to achieve the maximum potential of the technology. If the company fails, the implementation of AI can be expensive and inefficient as it can be time and money consuming which is a direct opposite of the goal of implementing it. The technology makes it possible for companies to create new digital complementarities such as online counselling or online contract reviews, which can be considered positive as it provides new possibilities for the companies that choose to adopt AI. The lock-in could both be affected positively in the context of high switching cost as customers will be less likely to change to companies that fail to adopt AI and the benefits of it. AI affects lock-in negatively with the lack of physical meetings which lessens the relations between the company and the customers. If multiple companies use the same AI, the switching costs would be lower resulting in more competition and therefore a lower lock-in as a result. Conclusively, the implementation of AI provides a multitude of possibilities regarding its positive impact on the business model in the legal industry. Failing to make use of the opportunities will lead to a negative impact in comparison to competitors who succeed in implementing it.

It is assumed, based on the insights of Markides (2006), Paap and Katz (2004), that the disruptive effect on the business model can be captured, based on several features, which were sorted into three categories: product, customers and competition. The first two categories of products and customers are interdependent, as changes in the product or its delivery shall bring newly interested customers to consume. The latter category, however, touches upon the market and its reaction to the changes happening with the product and the customers. While the changes with the product happen immediately, changes with customers follow gradually, but the market change happens on a later stage, especially the downturn in customers of the major firms that did not adopt the new technology.

In our analysis, it has been found that the implementation of artificial intelligence in the legal services proves to have a disruptive effect on the business model of the legal firm, influencing its:

- product's delivery, by making it more automated and digital;
- enlarged economic pie, due to the efficiency, lower cost and first-mover advantage;
- competition, which currently considers the technology not developed enough and not trustworthy, but in the future will likely lose customers to those companies that have implemented artificial intelligence.

The happening of the events described above, in theory, seems like a natural progression of the disruptive effect on a market. Though, it has to be pointed out that it is impossible to predict how this effect will unfold in the real world. It can happen that the trust levels towards artificial intelligence could grow rapidly, influencing its implementation to become standard in the whole market, weakening the disruptive effect. Or, oppositely, the more efficient and automated work of legal firms would not be enough of a reason for the customers to change from a legal firm which they have the established partnership with. On the other side, those who are not yet customers of any legal firm might find it more attractive to engage with a firm which has enabled AI.

As implementation of AI in the legal services brings the disruptive effect on the legal firm, further analysis has shown how the firm could approach said implementation and how the business model adapts to the change. The first approach showed that the firm can focus on the traditional legal services without implementing AI, but it is likely that in the future it will have a negative impact. The business model would stay unchanged. The firm would either capture a small part of the market interested in the traditional service, or it might not survive the change. As the discussion above has shown, some of the firm's old customers might show loyalty and stay with the firm, but as the technology progresses, it would be hard for the firm to attract new customers.

The second approach offered for the legal firms to engage with new business models was through contracting with the legal tech firm. This approach proved to be favourable for LegalUp, seen

as the most harmonious for the company. When it comes to the traditional legal firm, it is expected that they will see some moderation, though the overall effect will be positive.

The third approach represented the vertical integration of AI-enabled business model. This approach is concluded to bring structural changes and potential losses to the company, bringing the same efficiency as the second approach, though elevating the costs due to hiring a new department of multidisciplinary teams. Though, this approach could be a choice for bigger law firms that want to keep their technology in-house and have resources to hire a new department available.

It is argued that the contracting approach to implementing AI in the legal services is the most favourable to apply among the firms. As it is mentioned above, the implementation of AI is a resource-consuming and complicated process, and if done wrong, can bring a negative impact. Hence, firms wanting to implement the contracting approach face a dilemma: finding a contractor that can do the work with high quality. Consequently, this choice might not fit for the firms that would prefer to not engage in search; then hiring their own unit will be a more favourable choice. This choice greatly depends on the leadership of the firm, its resources, their view on the technology and judgment on what would be more profitable: paying someone outside the firm or having them as their own employees.

The assessment framework by Hang, Chen and Yu (2011) has provided insights into the effects on the legal market. It has proven to establish that the disruptive innovation brought by the implementation of artificial intelligence in the legal services will be successful in the market. The analysis showed that the disruption will emerge in the low-end market. This is concluded based on the assumption that the product (legal services) will not change, hence the new unique market will not be created. The disruption is assumed to happen while established incumbents will still focus on their mainstream market. Within the framework, it is argued that favourable life-style changes can be expected to happen, in the form of people being more tolerable towards technology in the future, supporting the success of disruptive innovation. However, the prediction could fall short, depending on how thriving the development of artificial intelligence would prove itself, which cannot be predicted. This factor could potentially influence the successfulness of the disruptive innovation on the market.

Reflections

Advanced AI is yet to be fully developed which limits the research to examine predictions and projections of the technical impact on the legal market. It can be considered a relatively new subject with limited knowledge as literature is based on assumptions. This makes it impossible to predict the

future, whereas our focus shifted to examine what possibilities the technology brings to the legal service market.

Choosing relativist ontology and social constructionist epistemology as paradigms for this project has brought some limitations. Even though it shows its strength in the ability to understand people's meanings and in adjusting to new ideas during theory generation, there are also some weaknesses, compared to the positivist paradigm (Easterby-Smith et al, 2018). The analysis and interpretation of data might be difficult and depend a lot on the researcher, instead of being static (Easterby-Smith et al, 2018).

Unforeseeably, the time of the research fell on the global pandemic of COVID-19, which has limited some aspects of the study. Firstly, the aspect that was influenced the most was data collection. The interview was made through the app Zoom as an online meeting, instead of the meeting in real life, which was a different experience. That has influenced the study, as social constructionism implies direct observation and personal contact as being essential, but those had to be given up for safety reasons.

Additionally, the theory-building had to be made with limited resources, due to all the facilities closed down, including the libraries. It did not influence the part on artificial intelligence, as information about this topic is relatively new and therefore widely available on the Internet. However, the information on disruptive innovation and business models could have been enriched by the physical materials not available due to the lockdown.

Future research

A problem of the paper is the lack of knowledge on precisely how the technology will function as it has not yet been fully developed. As AI technology is getting progressively more advanced, it could be relevant to investigate exactly which creative skills and social intelligence it has and more importantly how those can be used to the company's advantage. Further investigation into the specific impacts of AI can then be discovered to create new value-creating tools for legal companies.

As AI will be able to solve tasks that normally require humans it can be expected that the lawyers' job functions will change as a result of the technological implementation. As the disruptive innovation will revolutionize the legal word, it is safe to assume that the starting point of all lawyers - law school - will face some changes too. Therefore, it would be interesting to research the disruptive impact of artificial intelligence on law schools.

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Appendix

Interview with Kristin Assaad, CEO of LegalUp

Date and place: 24/4-2020 over Zoom

Attendees: Olga (Interviewer), Peter (Interviewer), Kristin (LegalUp)

O: Can you please start with introducing yourself and what you do?

K: My name is Kristin and my education is business lawyer so I have been working for the last 5-6 years with the volunteer legal help both in legal aids for citizens within their private law areas and then I have founded three legal aids of myself while I was studying and one of them is called "Iværksætter-Retshjælpen" and this is specialised legal aid where we have helped many many hundreds if not thousands of entrepreneurs with their startup legal problem and basically just all their legal problems and challenges being an entrepreneur. This has really been a great pilot-project for me to realise the biggest complications and challenges for startups and entrepreneurs and in general people seeking legal counseling. What is that really makes them do a contract themselves for not really reach anywhere with - you know - a lawyer. This is where I have found a gap in the legal market and that's why I opened LegalUp. So LegalUp in addition to my legal aid - "Iværksætter-Retshjælpen" - it's clear the legal aid is run by me of course but every Monday it's filled by law-students and business law-students, all on their Master education and of course since it's volunteer they are not liable for the work they do and their work is limited and they will not do an actual contract and they will not registrate an actual company but they will help them a lot with basic legal questions for startup and running a business and all these challenges that everybody will face eventually. LegalUp is the step after that. It's what is in between my legal aid and the traditional law firm. So right now the traditional law firm they offer traditional counseling, traditional high prices per hour and no transparency in that regard and it's really just really expensive and really prohibited for companies with a lot of money, because they can get access to the real legal counseling. All the entrepreneurs and minor companies are forced to not get proper legal counseling because they don't have the money. Plus you don't really know what expense you are gonna use in advance because you can't really get a fixed price. The thing is per hour and it's always an estimate which is always 5-10.000 DKK or 10-20.000 or 20-30.000 (DK). That is a big buffer and they cannot have this big of a buffer you know, it's essential for them. That's why, and plus everything is just traditional, you get a copy in paper and yeah. So, LegalUp has no hourly price, all assignments, all contracts, company establishments - whatever we offer - have a fixed price so they can log on to our web-page and see the price and that's it. They don't have to worry about if we are gonna spend half an hour or five hours getting the job done, they just have to think about this price. We also offer a digital platform so that they can be 100 percent paperless so that all the contracts will be done digitally. We still offer digital meetings in difference to other legal tech

companies, because there is other legal companies where you can log in and you can press in all the content for your contract and you can submit and it will auto-generate your contract, but your still sitting doing that and putting all this information as a non-lawyer. In our firm we have a digital system, but we lawyers put in the data so that we help them, we guide them. We have not gone down on the service and you know physical - whatever - just in order to offer these prices that we offer, which is a quarter of a traditional law firms prices. Ask me something pinpointed because I can go on and on.
O: You mentioned this platform that you do digitally can you talk more about that? Just explain how it works, because we don't know anything.
K: So the essential part is that all bigger companies have an in-house lawyer in their company. An in-house lawyer that handles all their legal whatever - and all companies, small and middle-sized companies could also benefit from that but because it comes with a quite high salary is it the rarest of these companies that can provide that. So I offer my service for small and middle sized companies - this is my target - as a law on subscription. This is one of the only companies - there is one other company that does it, but they are purely tech, it's 100 percent digital, but we can still have the face-to-face meetings and all of that. And this way we can cover all their legal needs for a fixed price per month. So depending on what size they are and what their needs we have four packages and in all of these packages they will get access to the digital platform where they can sign and fill out the templates that also comes with the subscription. The bigger the subscription package, the more content they get in their subscription. So they get the digital platform, access to a web-app - a LegalUp app - and in here they can log on and check from their phone, check their subscription and take contact to us and all of that and they get some other services included. But essentially the digital platform is a platform with contracts. We make the contracts and we also offer templates where they can also just go and take the templates that comes with their subscription and use as many as they want. It's getting quite normal to have a digital contract-platform. This is what all law firms - also all tech, but all traditional law firms have to step up to this beat because this is the future. This industry is going the same way as it did 100 or 150 years ago, but people have changed since then. They want everything yesterday, best price, best quality and they want it now. So in order to keep up with that you really have to adjust and digitalise and you have to digitalise where it is beneficial and this is where digitalisation is really good. This industry is all about loyalty and trust. Nine out of ten of my clients want to meet me in person, because they are gonna hand over their 'baby' - their business - in my hands in order to make a contract that is really important to them or establish their company. There is so much emotion involved with this and trust so I don't think we should in this industry digitalise that away. It shouldn't be handled by robots and I don't think this industry will be, because there is the need for this trust and you can only make that if you have a physical meeting or the same person

on the phone or something like that. I really am all for using it (technology) when it can fit the speed and efficiency and all of that. They are really making a lot in the legal tech world, a lot of products for us to use like to quickly go through contracts with AI or codes to point out what should be 'blabla' based on either a law or analysation and that is really good but we should always have a person also that is included, I think.

O: So you think it's better that it is not overtaken by AI, but also that there is a person double checking?

K: I really think AI and digitalisation is a great tool and as long at it is only being used as a tool and we don't skip out on the other essential part, like the connection between customer and client and the trust then I really think the more the merrier.

O: Makes sense. Okay, so our structure (of questions). We covered a lot already. There is still some general questions about your company we will also have to cover.

K: Let me just take the things I haven't answered

O: Yeah, sure. When was your company founded?

K: It was founded February 2019 so we have just passed our one-year birthday. You were at my opening (Olga). Being a startup in this fabulous time of corona (virus) is just… well luckily I have an entrepreneur mindset that everything's gonna be okay, but yeah it's a hurdle. I needed to scale right now so it's more difficult to scale right now because the world is in corona mindset. But let's see. They say that with all crises comes better and stronger companies or death…

O: Let's hope for the best

K: For the organisational structure is founders and owners and all that?

O: Yes

K: That's me, myself and I, 100 percent owner, founder and CEO. We'll see if I get an investor eventually or something (else).

O: Where are you located at?

K: Well I have three physical offices, and since we also want to meet our clients face-to-face this is natural. The first office was when we opened in February 2019 in Aalborg, where I'm also originally from and the second office was in the same year in August where we opened in Copenhagen. All the locations are in the city, downtown. Locations are important. The second (expansion) was in February in Aarhus. My employees. So the setup on employees if a bit different. Again it has been me, myself and I for the last year and I've had two-three student helpers, all master students of law or business law so they have helped as a backoffice, but I've been the main lawyer on the cases. What we are gonna do now are what we are doing now is that we are hiring, well not hiring because we are not employing them, we are gonna get freelancer lawyers and business lawyers. Their speciality will be in either contracts, company structure, GDPR, all the things that we do and they will be working on

demand. They will have their own CVR, but be legal partners with us. They will invoice me 50 percent of the total amount when the job is done. This is gonna be that business model. This is also something new, but it comes from the gig economy.

O: Yeah I've read a lot about it, it's getting more popular and it can be the potential next industrial revolution

K: Exactly, because right now we are so many millennials and the next generation is even worse than us, so we all prefer freedom and we wanna feel special and we want our job when we want it, we want flexibility and everything. We wanna live out our life and so on. This way is easier. For me it's better also, because then I don't have salary issues and vacation issues and all of that. I can get the best people on this specific case. My plan is to have maybe 50-100 people like that in Denmark at least.

O: What products do you offer?

K: Well it's legal products, so my target are small and middle sized companies. So it's everything within establishing a company, all kinds of commercial contracts, all types of GDPR documents and counseling within all these areas as well and we're gonna also help with IP / Intellectual property and of course employment law, like hiring and firing people.

O: We touched about the in-house technology.

K: I will say technology like zoom-meetings is more used now because that's how it works right now (corona). In the future I think we will also use it a bit more because some customers - it depends on the job. If they're gonna sign up for a subscription, they would like to see me, because we are gonna hopefully have a long cooperation. If it's just for company establishment I will not use my time to go for a physical meeting, because this assignment is not that worthy, the margin will be low if I used my time for just that.

O: Yeah. You touched upon the digital platform and then we also thought just as an example signing documents like an iPad and basic things like that and Zoom and right now because of corona.

K: Contracts within this system, the platform, everything is signed by NemID. This is of course because it have to be valid and this is the most secure way to do that.

O: Makes sense

K: (internet) cookies, I use them to collect data for marketing. And how do I differ from - I'm different from the traditional law firm in the sense that I'm not a law firm so we are not authorised lawyers, we are just lawyers. In Danish: Advokater kontra jurister og erhvervsjurister, så vi er ikke advokater. The only difference is one can go to court, and 'jurister' (jurists) and 'erhvervsjurister' (business jurists) can not. We don't do cases with courts and lawsuits so it doesn't really matter. Like my company there's not any, because either its 100 percent digital or it's traditional law firm. Here I have tried to

mix the best from both worlds. So i kept service and this face-to-face possibility from the traditional law firms and put in all the digital and tech solutions in order to speed up the processes and do it more efficient and also lower the prices.

O: We move to the second part. About the process of servicing customers. Can you just describe your normal transaction with your customer, how does it happen (etc.)

K: Usually they know me by reference or saw me on LinkedIn or something so they contact me either by mail or phone. We set up a meeting, either phone or physical, whichever they prefer. Then we talk about what they need our help to and then usually we can help them. The process is - let's say they need to make an owners agreement. I will send them a link for them to fill and answer essential questions, so that I can make a draft for this contract. Then I will send it to them for them to review it and they will have some comments, perhaps, and some questions which will be answered by mail or phone meeting usually. Then I fix up whatever they have of questions or comments and then I will send them the final contract and everybody is happy.

O: Sounds good, we pretty much covered the rest of the second part. Is there anyone else involved in the company?

K: When I established the company for example, there is a capital it has to be confirmed before you can fully fully registrate this company. This has to be done by either a authorised accountant or an authorised lawyer. That's why I have a collaboration with a law firm, a real law firm, and they confirm my capitals, my clients capitals. So I use their client account to confirm and i proceed with everything. For example also I'm gonna do a collaboration with the accountant company Dansk Revision. They have obviously an authorised accountant and we're gonna do company - 'selskabsomdannelser' - so form IVS to ApS. There's so many IVS' there have to switch by next April because they took away this company form. Otherwise they are gonna be closed down. I can do the legal work and they can do the accountant work, so we are gonna do a collaboration there. That's pretty much it.

O: Good. Do you use complementary products or services?

K: What do you mean?

O: Usually it's meant about a bundle that if you buy one thing you get something together with it or something like that.

K: Kind of, my subscription packages have all these services included, so that's how it is.

O: Makes sense. The next question is whether you planning to have different or more subscriptions? Or something else different?

K: Yes, in addition to me having the legal partners, I always try to expand the products within the legal areas, so I would like to cover all the relevant legal aspects of a company. Now we're gonna add IP, which I'm not specialised at and right now we only do what I'm specialised in because I'm the only

lawyer. Also employment law and I'm not specialised in that either. I can do a bit, but I'm not specialised in it and it's not my interest. We're gonna get all of it.

O: We can pretty much move to the questions about your firm's strategy.

K: How I attract new clients.

O: Yes.

K: I should be doing a lot of PR, you can do that by Google Adwords in order to be found, but also through LinkedIn because it's a good place for us. Facebook - not so much, Instagram - no. So it's really awareness and mouth-to-mouth (word of mouth), because this industry is really about loyalty and trust. Though most of the clients I get have heard about me through someone they know who says 'she's good, contact her'. Clients I have had (previously) sent me some and other collaborative partners and I've had a collaboration with Dansk Revision also. Under them they have something called Nomia and they have 500 clients so of course they are gonna try to sell my product to their clients. And also I have a collaboration with IVN.DK. It's a platform for entrepreneurs, so it's more smaller companies and I'm the legal partner there and they have 70.000 members, so also here I'm getting exposure and another platform like that have around 5.000 members. Through all those collaborations I will get potential leads here. It's really about how you brand yourself, videos, to give knowledge to people in videos or articles, so they think 'okay they seem wise'. We have a difficult customer group. The color is blue. My clients are blue if you're into customer colors and types. For them loyalty and trust is really important and it's really important for them to see me being really representable. I'm a blue person too so it's easy for me. I like everything to look nice and be perfect. They need to see that, so that's good.I don't have to force anything but yeah it's something you can nerd into, it's kind of important.

O: What are the advantages of your choice of business model?

K: I can do my work from wherever I am. I just need my computer and my brain and I'm good to go. It's great we have this freelancers or gig-model because I will not end up have employees I could end up not having jobs to or any assignments to. I will not be wasting salary money. I will pay them when there's a job and that's it. I will not have full time workers, it's just when I need them. Everything can be handled wherever I am.

O: Great. How does the future of your company look like?

K: My goal of this year was 500 subscribers on a subscription. I think I need to lower that a bit. It was very high, but I'm an optimist. The goal is to have at least 100 of my big subscribers, LegalUp Premium or Enterprise. I have around 10 now and what I do is that I can offer legal help one time and they can move on, like just establishing a company and they will move on, single task jobs or the subscription that brings the most value for us. We would like to have relations with them. I would say many of the

single task always come back when they have something else. So now we have 3 offices in Denmark, I still need to open in Odense, hopefully this year. It's not really that important because we can service the whole country from here. Next year I really hope this corona thing will allow me to do that, I would like to go to Scandinavia and put the concept there, Norway, Sweden, perhaps Finland and who knows, maybe it's gonna be in other countries as well, EU (etc.). As long as I can get legal partners within the country, because I don't know, well Swedish law or Norwegian law are pretty much like Danish law but I'm gonna of course collaborate with people that knows the entire law there. This is the goal. To expand to the Nordics and just expand the fields within our legal areas. And expand the client group and expand the amount of legal partners.

O: Perfect. Is there anything interesting about your company that has not been touched upon?

K: I think we pretty much covered it all. We are really different and the subscription thing which I think is really smart, but also very difficult because as I told you traditional law firms have existed for hundreds of years and it's been done this way for all this time up until now, so for me to come and offer a subscription is demining the value. I just want to put down or tear apart this glorification from legal work, because yes it requires you to be a lawyer but it doesn't have to cost you 2-3-4.000 DKK per hour and you should be able to give a fixed price. Not an estimate from Australia to Copenhagen. I'm trying to disrupt this thing with my one woman army.

P: You said you have three offices, are those meant to be meeting points as you don't have any employee's or is it places for your hired freelancers to come and work?

K: I want to have student helpers in each city, so maybe there will be a fixed team of an office manager and a staff of five fixed people on each office and then we have legal partners that will come and have a physical meeting if it's needed from them.

P: Okay.

K: Right now I have my own office in Aalborg, but in Aarhus and Copenhagen I have a desk and access to meeting locations. This is my need now and I try to keep down the expenses.

O: Perfect, thank you so much for the interview.