# AI in contracting: untapped revolution to emerging evolution

Insights from the global contracting community
February 2024

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World Commerce & Contracting

# Contents





# Foreword

## Artificial Intelligence (AI) is not new, but in November 2022 it emerged from the shadows, no longer a technology used exclusively by specialists, but accessible in the public domain.

This immediately raised a multitude of issues – political, ethical, regulatory. This WorldCC report, kindly sponsored by Icertis, explores the impact of AI in the field of contracts and contract management and answers the questions:

**How it would be used to conduct business?**

**What is the current nature and level of adoption and use, and how does this vary across sectors and major geographies?**

**What are the benefits that come from the use of AI in this field?**

**What are the barriers or constraints on adoption and use?**

The public launch of ChatGPT generated over a million users of AI. While ChatGPT grabbed headlines, it is certainly not the only AI platform making waves in the field. Other notable language models and forms of AI, such as BERT, OpenAI's Codex, and Google's T5, have also been garnering attention for their advancements and applications in various domains. Each of these platforms has its own unique capabilities and applications, contributing to the diverse landscape of AI technologies available today.

In July 2023, WorldCC released its first study dedicated to exploring the impact AI is having on the contracting community. This expanded report, based on input from 513 organizations, is the most comprehensive look yet on how AI is impacting the contracting community. The detail tracks current adoption and use and offers insight to future plans and expert predictions on how AI will change the practice of contract and commercial management over the next few years.

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President,
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# Definitions

### Algorithmic Accuracy
The accuracy of AI systems depends on the algorithms they use. Flaws in algorithm design can lead to incorrect predictions or decisions.

### Artificial General Intelligence (AGI)
Also known as ‘strong’ AI. Hypothetical AI, that possesses general intelligence and excels at any intellectual task that a human being can, including reasoning, problem-solving, and learning across disciplines.

### Artificial Intelligence (AI)
The ability of machines to mimic human cognitive functions, such as learning and problem-solving. This includes a range of techniques, from simple rule-based systems to complex machine-learning algorithms. In the context of contracting, AI can be used for tasks like contract review, drafting, negotiation, and compliance monitoring.

### Artificial Narrow Intelligence (ANI)
Also known as ‘weak’ or ‘narrow’ AI. They are AI systems designed to perform dedicated tasks and excel at specific functions rather than general intelligence.

### ChatGPT
A large language model chatbot developed by OpenAI. It gained significant attention for its ability to generate human-quality text.

### Computer Vision
A field of AI focused on enabling computers and systems to identify, process, analyze and understand visual data such as digital images and videos. It powers applications like image recognition and analysis.

### Contextual Misinterpretation
AI might struggle with understanding the nuances and contexts of complex contracts and legal scenarios, leading to misinterpretations.

### Data-Driven Errors
AI models depend heavily on data for training. Inaccurate, outdated, or biased data can lead to erroneous outcomes.

### Data-Driven Decisions
Decisions based on insights extracted from data analysis, using AI algorithms.

### Error Propagation
Inaccuracies in early stages of AI analysis can propagate through the system, leading to compounded errors in decision-making.

### Generative AI (GenAI)
A type of AI that focuses on creating new content, like text, code, or images. Examples include ChatGPT and Large Language Models (LLMs) used for drafting contracts or analyzing visual data in compliance and risk monitoring.

- Public GenAI: Utilizes open data, providing wider accessibility and innovation, but raises concerns about data privacy and bias
- Private GenAI: Accesses proprietary data, enabling control and customization for specific needs, but may be limited in scope
- Hybrid GenAI: Combines public data with private organizational information to connect the benefits of both.

### Large Language Models (LLMs)
A class of natural language processing AI models that are trained on massive text data sets to generate coherent, human-like text. LLMs like ChatGPT are a type of generative AI.

### Metadata
Metadata refers to data that provides information about other data. In other words, metadata is ‘data about data’. AI can gather and analyze data about contracts and legal documents.

### Natural Language Processing (NLP)
The ability of AI systems to understand, process, and generate human languages, including analysis of text data and extraction of information. Enables natural human-machine interaction.

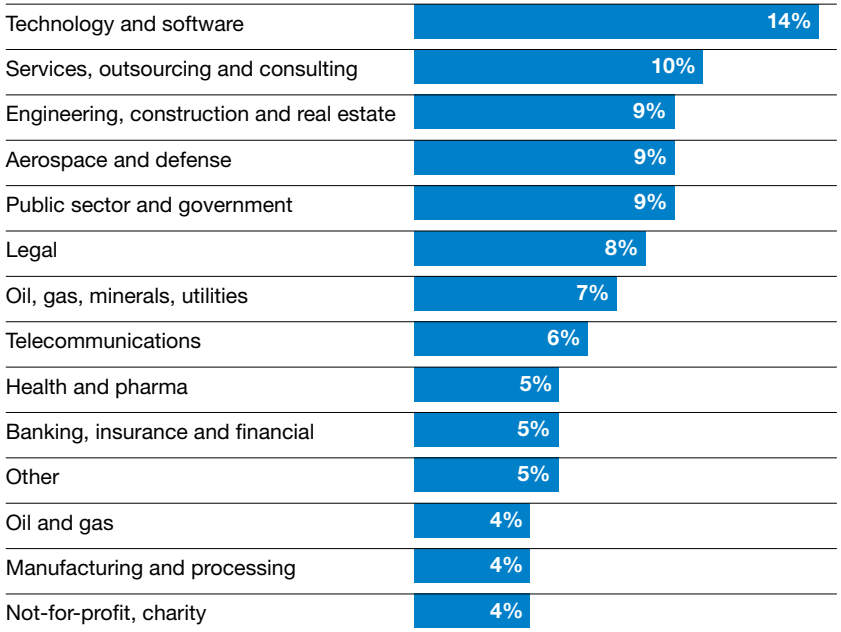
### Predictive Analysis
Using AI to forecast future events and trends, like supply chain disruptions.

# Our survey audience

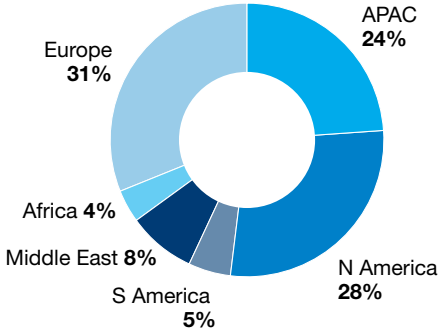
## Responses to our survey came from a wide range of commercial professionals involved in the contracting process – legal, procurement, commercial and contract management, with a small proportion from finance and operations.

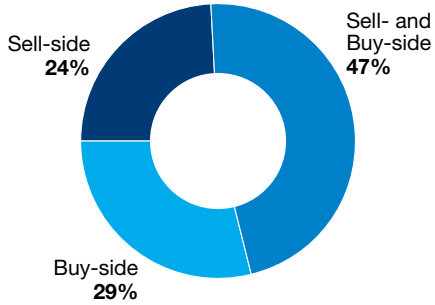
As indicated by Figure 1, input was cross-sector and also cross-geography, with geographic participation in particular somewhat reflecting levels of adoption or use. At a sector level, the extent of engagement showed an interesting variation. Among those with the greatest number of participants, some show interest because they see AI as an important source of competitive advantage or product enhancement (Technology / Software / Services / Outsourcing / Consulting) while others (Aerospace and defense / Public sector / Government) lag the market and are motivated by both a sense of curiosity and a fear of being left behind.

**Figure 1: Survey participants by category**




Data for this report came from 513 organizations



# Introduction: AI in commerce and contracting

A wonderful feature of AI is that you don't need to spend hours working out what purpose it may have – you can ask it to tell you. It responds in just a few seconds. This is what it says about its role in the world of commerce and contracting:

*"AI in procurement, legal, and contract management streamlines transactional tasks through automation, enhances strategic contracting through analytics, optimizes risk assessment, and improves decision-making by analyzing vast data sets, leading to more efficient and informed contract negotiations and compliance monitoring."*

A useful summary, but we need to know more. A good place to start is to recognise there are different types of AI, which can be categorized by capability, learning approach or application.

Most AI systems in use today are ANI (Artificial Narrow Intelligence), also known as 'weak AI' or 'narrow AI'. This means they are designed to excel at performing specific tasks, unlike the hypothetical AGI (Artificial General Intelligence), which could theoretically master any intellectual task a human can. It's important to remember that these categories are not mutually exclusive, and many AI systems combine different approaches and techniques. Generative AI (GenAI) and Computer Vision are two common applications of AI in commerce and contracting. GenAI focuses on creating new content, for example, ChatGPT or other Large Language Models (LLM) being utilised to draft contracts or Computer Vision to analyze and understand visual data in compliance and risk monitoring.

Later in the report, we explore where GenAI can further support Commercial and Contract Management (CCM) activities, but first, it is important to establish the context – the broad scope of commerce and contracting.


**Artificial Narrow Intelligence is designed to excel at performing specific tasks.**


**Artificial General Intelligence, could master any intellectual task a human can.**


**Generative AI focuses on learning content in order to be able to generate new content.**

# Setting the scene: the contracting lifecycle

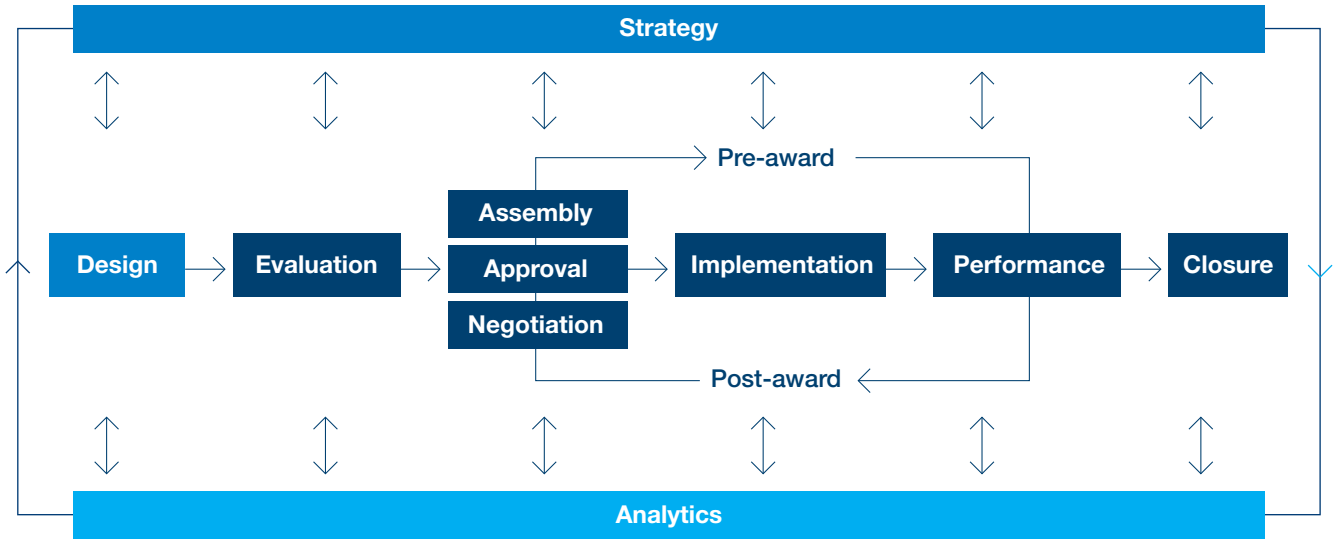
## Working with member organizations, WorldCC developed this standardized view of the contracting lifecycle and the major phases within it.

Within this framework (Figure 2), *strategy* defines the commercial models and the extent of commitments within which a business operates.

Transactional contracting – that is, the flow across the center of the diagram – is undertaken in accordance with those strategies, but also generates data for *analytics* which may confirm or cause strategies to change.

Looking back now at the role which AI described, we immediately see the strong correlation with this process outline.

**Figure 2: Contracting lifecycle**



# GenAI

## In addition to the different types of AI, GenAI has public, private and hybrid systems, each having their own strengths in commerce and contracting.

Public systems utilize open data, providing wider accessibility and innovation, but raise valid concerns around data privacy and bias. Private systems access proprietary data, enabling control and customization for specific needs, but may be limited in scope. Hybrid models combine public data with private organizational information to connect the benefits of both.

Private GenAI can efficiently automate routine tasks for contract management by tapping into internal data like past contracts, strategies, and client details. This streamlines workflows and optimizes contract operations. Public GenAI draws on extensive external data to support more strategic decision-making, predictive analytics, and risk assessment. It can identify trends not apparent from limited internal data.

In essence, current uses of private GenAI are typically enabling greater operational efficiency. Public GenAI, by drawing on a mass of external data, provides a more expansive perspective that may inform strategy and provide fresh ideas. However, private GenAI can offer strategic insights through analyzing internal contract portfolios to reveal value, success factors, and trends. The ideal approach combines the specificity and customization of private GenAI with the big picture perspective and expansive analytics of public AI's data. In combination, this promises both operational efficiency and strategic foresight for contracting. The report reveals significant and growing use of internal AI in areas such as contract review, drafting, negotiation and data extraction.

For reasons we will explain, many are hesitant about the use of GenAI, but Figure 3 looks at five things that it can potentially do for us.

**Figure 3: Five potential benefits of GenAI**

**1. Risk analysis**
AI will help us to evaluate external factors like geopolitical changes or supply chain disruptions, providing insights and suggesting techniques for risk mitigation in contracts.

**2. Benchmarking and optimization**
AI is able to compare contract terms and performance against a wide range of industry standards or templates, identifying areas where we may want to consider improvement or develop policies for negotiation.

**3. Innovative problem-solving**
AI will increasingly generate creative solutions and ideas for tackling contracting challenges by drawing on diverse data sets and learning from a variety of past scenarios and outcomes.

**4. Enhanced negotiation strategies**
AI can draw on historical data and market analysis to develop or propose negotiation strategies, including predictions of counterparty positions and responses. It will also support negotiation training through role-play and scenario planning.

**5. Fraud detection and compliance**
AI will monitor external regulations and compliance requirements, potentially alerting us to non-compliance issues or the need for contract updates, as well as supporting improved insight to possible fraud.

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## GenAI (continued)

### The go-to platform for GenAI is ChatGPT > but what else is out there? Here are some of the leading alternatives.

**Microsoft Bing >**

- Powered by GPT-4
- Supports visual input and output
- Connects to the internet
- Get the latest information on any subject
- Chat history
- Different chat modes
- Cites sources.

**Perplexity.AI >**

- Cites sources
- Actionable results
- Good for product recommendations
- Features GPT-4 mode
- Upload files.

**Gemini > (formerly Google Bard)**

- Upload images
- Chat history
- Powered by PaLM 2
- Export to Docs
- Colab
- Powerful coding and reasoning capability
- Multilingual model
- Implicit Code Execution.

**Jasper Chat >**

- Powered by OpenAI models
- Expansive knowledge til mid-2021
- Remembers conversation
- Plagiarism free output
- Supports 29 languages.

**Writesonic >**

- Offers GPT-4 model
- Image creation
- Voice command
- Translation
- Character-based chat
- Internet access.

**Claude 2 >**

- 100k context window
- Can load libraries of books
- Comparable to the GPT-4 model
- Upload PDF files
- Cheaper than GPT-4
- Safe to use LLM.

**HuggingChat >**

- Decent, general-purpose model
- Supports web access
- Good for coding
- Powered by Meta's open-source models.

**Pi >**

- Personal AI chatbot
- Speaks like a therapist
- Engaging and conversational.

**Quora Poe >**

- One-stop platform for various models
- Supports GPT-4, Claude, and more
- Easy to use
- No downtime.

# Constraints on use

## Such a rich list of potential benefits suggests that AI adoption and use should be surging ahead. But it isn't.

Since our previous report, published in July 2023, the increase in use within business, or even plans for use, has shifted only marginally. Figure 4 shows the extent of AI implementation within the contracting process, with the percentage taking no action remaining fixed at 60%.

That is in stark contrast to the level of personal enthusiasm for AI, which has more than doubled and now stands at almost 80%.

The report confirms a range of concerns and perceived risks which continue to cause delay in realizing these benefits.The primary issues are:

1. **Data privacy and security** Given that AI systems will process large volumes of data, privacy and security top the list of potential risks, especially with regard to GenAI.
2. **Quality and bias in data** There have been many examples from early AI systems where the quality, quantity or nature of underlying data and training generates unreliable or inaccurate results.
3. **Integration challenges** Integrating AI into existing systems and workflows can be complex and resource-intensive, potentially disrupting current operations.
4. **Lack of expertise** Building from this point about integration, organizations may lack the necessary technical or subject-matter expertise to effectively implement and manage effective AI solutions or secure adoption and use.
5. **Regulatory and compliance issues** These are in many cases still to be defined and they also vary between jurisdictions, resulting in complicated and currently unpredictable risks and potential costs. While uncertainty remains, it will slow adoption.
6. **Costs and ROI concerns** As outlined in the identified issues, the initial investment to develop and implement AI technology can be significant, and there may be uncertainty about the potential return.
7. **Resistance to change** In some places this is diminishing, in others it is increasing. Employees may fear job losses or be skeptical about AI's capabilities.
8. **Accuracy and hallucination** If organizations are to rely on AI, they must find a balance with human intervention. GenAI in particular can 'make things up' and does not always interpret data correctly. Oversight is needed and this requires appropriately skilled and trained personnel.
9. **Ethical and moral considerations** The use of AI in decision-making processes may introduce ethical questions, particularly around accountability and transparency in automated decisions.

To really tap into what AI has to offer, businesses have to overcome some tough challenges. Tackling these issues is key. Organizations providing and deploying AI solutions might benefit from these areas when dealing with implementation and product development.

**Figure 4: Implementing AI in the contracting process**

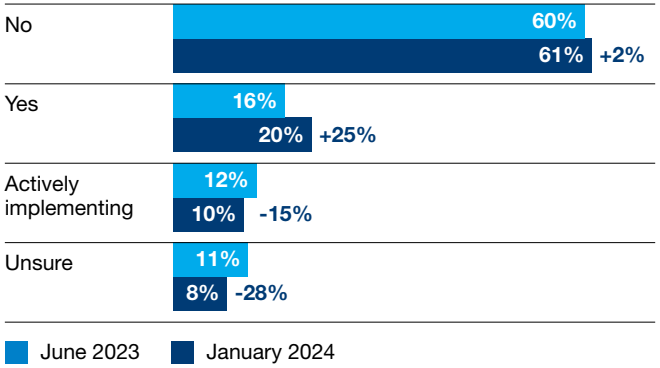
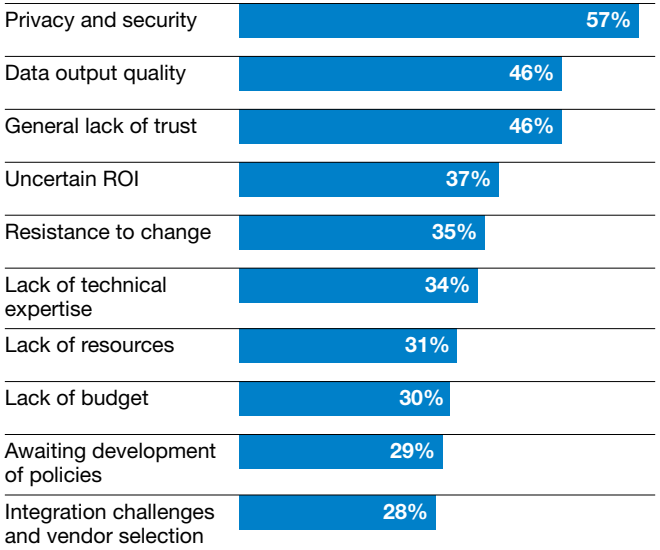



**Figure 5: Barriers for implementation**



# Issues with accuracy

## Data privacy and security is the most frequently cited concern, but issues with accuracy and hallucination are often raised and represent a strong emotional reason for push-back.

As Figure 5 (page 9) shows, this is a legitimate concern, but there are two possible reactions. One is to reject AI completely, the other is to recognize its frailties and work within them. Given the remarkable boost it can offer to our productivity and output, the latter is surely the more logical response.

The analysis of implementation barriers across two surveys reveals a notable growth in concerns regarding data output quality, with a 19.4% increase. This trend emphasizes the growing importance placed on the accuracy and reliability of data as a cornerstone of successful implementation. It appears that the more people engage with these systems, the more they're spotting data glitches. The heightened awareness of data quality issues suggests a need for organizations to improve data management practices, invest in training, and establish strong feedback mechanisms to ensure that data output meets the evolving demands of data-driven decision-making processes.

The previously discussed concerns over data output quality are further clarified when viewed in conjunction with the metrics organizations are evaluating to measure positive changes in AI capabilities in the contracting process, see Figure 6. Metrics in contract management provide critical insights into performance, yet their validity is fundamentally dependent on robust data quality. When integrated with AI capabilities, the precision and utility of these metrics are substantially enhanced. AI can process and analyze vast amounts of contract data with speed and accuracy, identifying patterns and anomalies that might go unnoticed by human oversight. This allows for real-time improvements in contracting cycle times, vigilant compliance monitoring, and pro-active cost management.

**Figure 6: Metrics being evaluated**

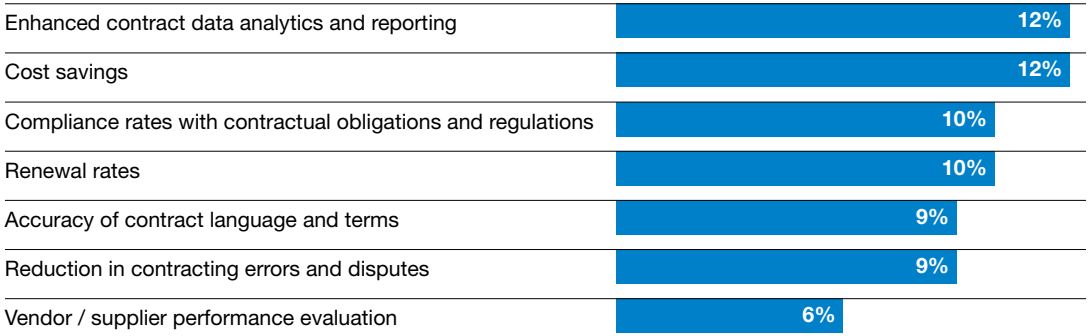



**Figure 7: Other issues with AI accuracy**

**Algorithmic accuracy**
AI systems are only as accurate as the algorithms they use. Flaws in algorithm design can lead to incorrect predictions or decisions.

**Consistency in results**
Ensuring that AI delivers consistent results across different scenarios and datasets is challenging, especially in dynamic fields like legal and contract management.

**Data-driven errors**
AI models depend heavily on data for training. Inaccurate, outdated, or biased data can lead to erroneous outcomes.

**Error propagation**
Inaccuracies in early stages of AI analysis can propagate through the system, leading to compounded errors in decision-making.

**Contextual misinterpretation**
AI might struggle with understanding the nuances and contexts of complex contracts and legal scenarios, leading to misinterpretations.

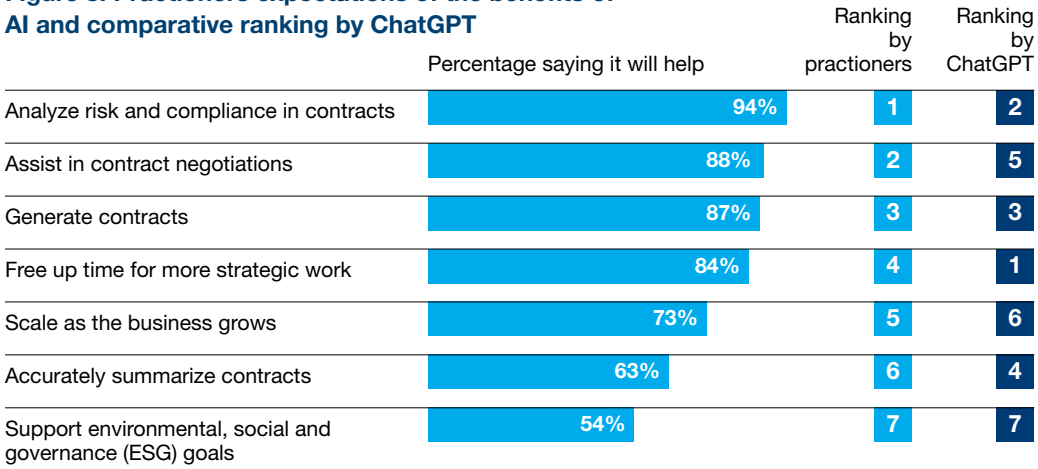
**Limitations in predictive analysis**
AI systems are only as accurate as the algorithms they use. Flaws in algorithm design can lead to incorrect predictions or decisions.

# Our expectations

## CCM practitioners have clear views on where, and to what extent, AI can assist in their work.

Figure 8 shows the list of benefits practioners anticipate and also whether ChatGPT agrees with the ranking. While the differences are not extreme, it is interesting to see that ChatGPT sees the greatest benefit as freeing up time for more strategic work and has rather lower ranking of its ability to assist in negotiations.

**Figure 8: Practioners expectations of the benefits of AI and comparative ranking by ChatGPT**



# Current reality

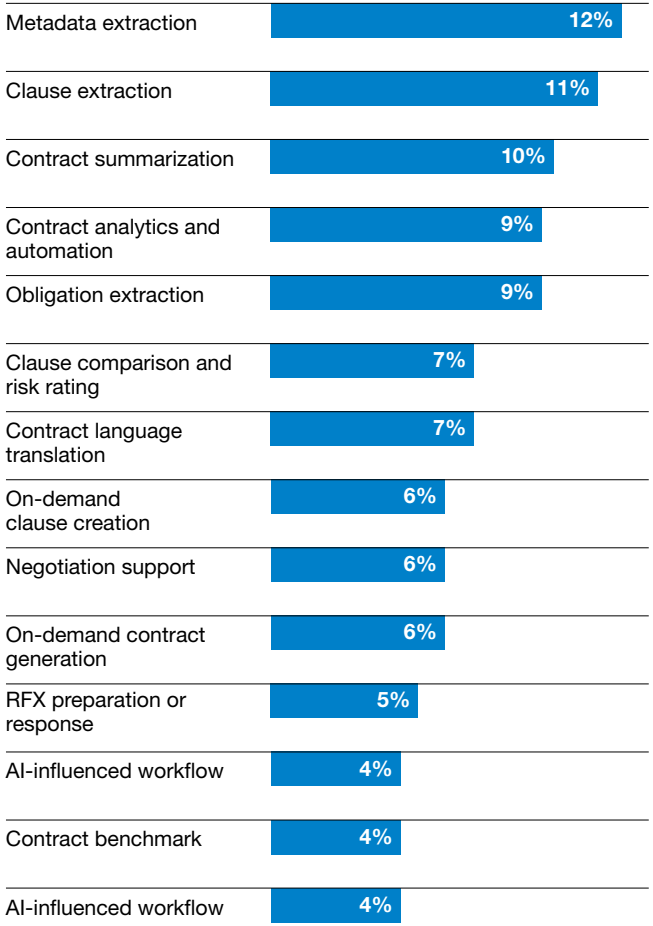
## Across the 30% of organizations with AI implemented or in the process of implementation, there is a variety of use cases, with all appearing to be based on embedded AI. Each of the top three involves some form of data extraction.

Therefore, the research confirms that while GenAI may have massive potential and is being actively evaluated for use, it has yet to move beyond ideas and experiments. Our interviews largely confirm this, indicating that individuals and groups may be testing applications such as contract drafting or negotiation support, but they have yet to implement as a standard component of their process or workload management.

*"These tools appear to be best at issue-spotting and conducting an initial review, but there is clearly still a need for the subject-matter expert 'human-in-the-loop' to determine how to appropriately address those issues or fill the gaps in a way that is consistent with the company's individual risk appetite."*

Monica Riederer, Vice President, Digital & Enterprise Operations Counsel with Northwestern Mutual

**Figure 9: Current reality of what AI is used for**




Reflecting on the survey results and the disparity between current implementations and respondents' aspirations, it's evident that there is a growing interest in expanding AI capabilities. This growing desire is due to AI's potential to enhance efficiency, accuracy, and decision-making across various operational areas.

### Most desired AI capabilities

1. AI-influenced workflow
2. Contract benchmark
3. On-demand contract generation
4. Supplier evaluation / selection
5. RFX preparation or response

### Most desired GenAI capabilities

1. Summarization, analytics and insights (individual contract or multiple)
2. Drafting contracts or clauses
3. Risk and compliance (individual contract or multiple)
4. Negotiation assistance
5. Benchmarking

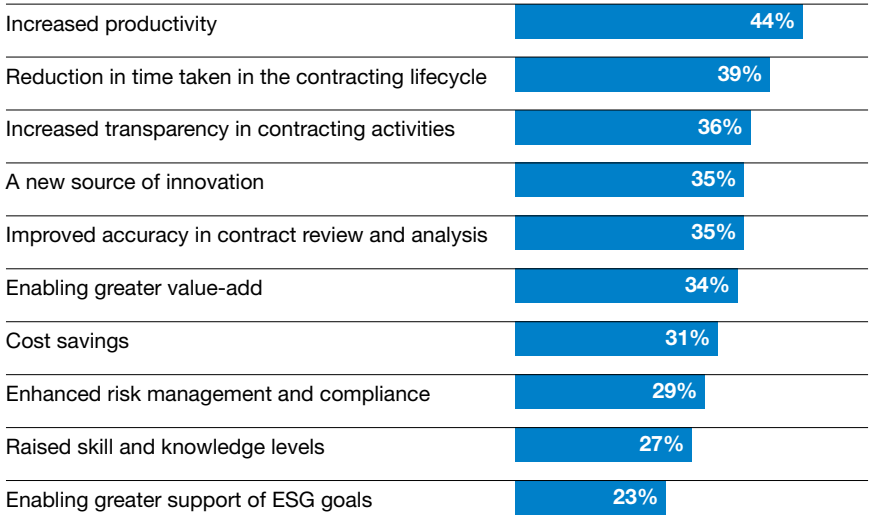
*continued over >*

# Current reality (continued)

While current adoption levels are still in the early stages, the desire for implementation is strong, signalling a significant shift towards AI in the near future.

The perception of AI's benefits in contract management has evolved in the six months between our surveys, with a striking shift away from seeing AI primarily as a new source of innovation. This expectation almost halved from 68.7% to 35.4%. While slight improvements are noted in time-efficiency and skill-enhancement, there's also a steady acknowledgment of AI's role in risk management, productivity, and transparency. These insights suggest that as AI becomes more integrated into contract management, organizations are recognizing a wider spectrum of benefits beyond initial predictions.

**Figure 10: Benefits of implementing AI in the contracting process**

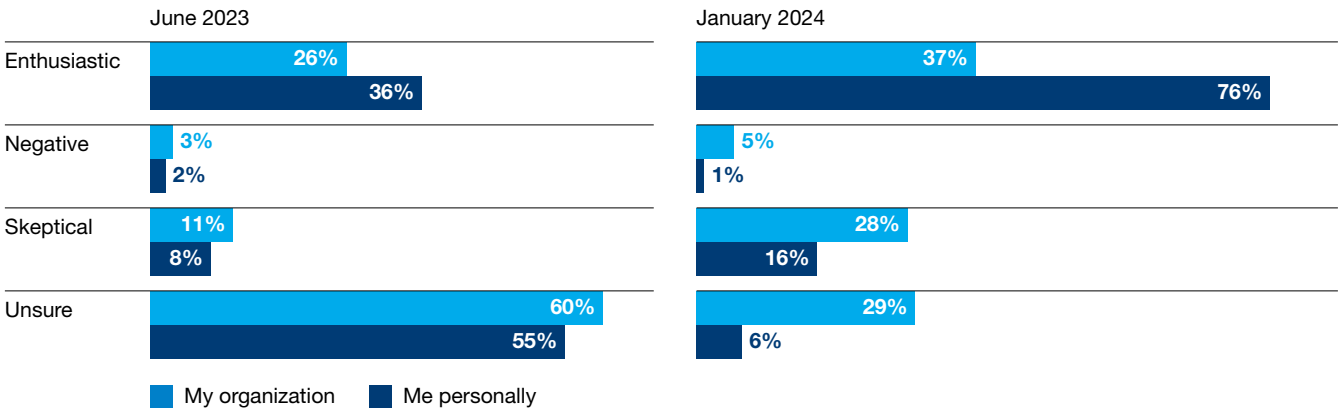


# Surge in personal attitudes

## The data in Figure 11 indicates a growing divide between organizational and personal perceptions of AI, with personal enthusiasm outpacing organizational readiness to adopt or use.

Overall, Figure 11 provides guarded support for those who predict a golden future for AI. We can reasonably assume that the surge in personal enthusiasm will translate to greater readiness to apply in the working environment. Indeed, our interviews plus anecdotal evidence suggest that experimentation and 'skunk works' are already underway, with or without management approval. This assumption is borne out by a large reduction of those who are 'unsure' from 60% to 29%. The reduction in those who are 'unsure' has translated to an increase in enthusiasm (26% to 37%) but at the same time an increase in people making up their minds to be 'skeptical' (11% to 28%).

**Figure 11: Attitude to AI**



# Nervousness remains

Facing the unknown, the reaction of some is fear or trepidation. That is the case with AI, in that a significant number are concerned about its use by a counter-party. Those fears are mostly undefined – some suggest it is somehow unethical, others believe it will lead to erroneous data or possible intellectual property exposures.

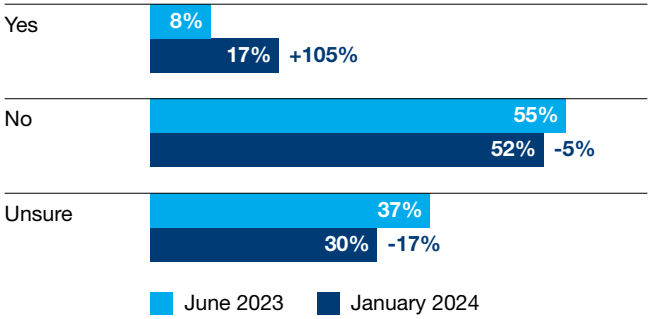
Ironically, even though they may reject AI for use within their organization, they somehow see it as providing competitive advantage to the counter-party.

As Figure 12 shows, almost 20% say that a counter-party's use of AI influences their approach to working with them. A small proportion of these (overwhelmingly from organizations that are themselves established users) view it positively and see it as a source of greater value, as well as indicating the counter-party's innovative spirit.

The fact that the number caring about this question has doubled in the last six months is interesting and 19% of respondents report that they now ask their customers or suppliers whether they are making use of AI in the process. It is unclear what they do with this information or whether they typically receive an honest answer.

The perspective that comes out this question is mixed, with a minority taking the view that they want to benefit from the potential efficiencies and reduced cycle times that AI can bring, versus those who question whether AI will introduce risks and inaccuracies.

**Figure 12: Does a counterparty's use of AI influence your approach to working with them?**



# Sector variations

There are varying rates of AI adoption across sectors, with a range of both pioneering leaders and the more cautious, emerging adopters. Here we outline details the specific AI capabilities leveraged by sector leaders and outlines strategic plans for future AI adoption.

## Leading sectors in AI adoption

These sectors are prioritizing AI capabilities such as:

- Summarization, Analytics, and Insights: Generating concise summaries and insightful analytics from individual or multiple contracts
- Drafting Contracts or Clauses: Automating the creation of legal documents to enhance efficiency
- Risk and Compliance: Ensuring risk assessment and compliance management in individual or multiple contracts.

Particularly, the Technology and Software sectors indicates that the evolution of AI has impacted its legal technology strategies by 50.8%, indicating a significant impact on operational and strategic decisions.

**Legal**

**Technology and software**

**Business services and consulting**

## Emerging sectors in AI adoption

These sectors are more cautious in their approach to AI adoption. They exhibit a slower pace in embracing AI solutions, indicating potential barriers or strategic decisions to delay adoption.

**Banking, insurance and financial**

**Public sector and government**

**Engineering, construction and real estate**

## Future plans for AI adoption

Between 5% and 20% of respondents, particularly from the Technology and Software, and Services Outsourcing and Consulting sectors, have defined plans for utilizing AI. And approximately 50% are in the stages of policy development, particularly within the Legal, Telecommunications and the Healthcare, Pharma and Chemicals sectors.

The distinction between AI leaders and emerging adopters across sectors highlights the diverse adoption timelines and integration strategies. While leaders actively harness AI for strategic benefits, emerging adopters are gradually integrating AI into their operations.

# Regional variations

## The integration of AI into the contracting process reveals varying adoption and other rates across different regions.

### Employee enthusiasm towards AI in contracting

On a scale from 1 to 5:

**Oceania** shows the highest enthusiasm at 4.1, indicating a positive reception towards AI in contracting.

**Europe** follows with an enthusiasm level of 3.8, suggesting a favourable attitude towards AI technologies.

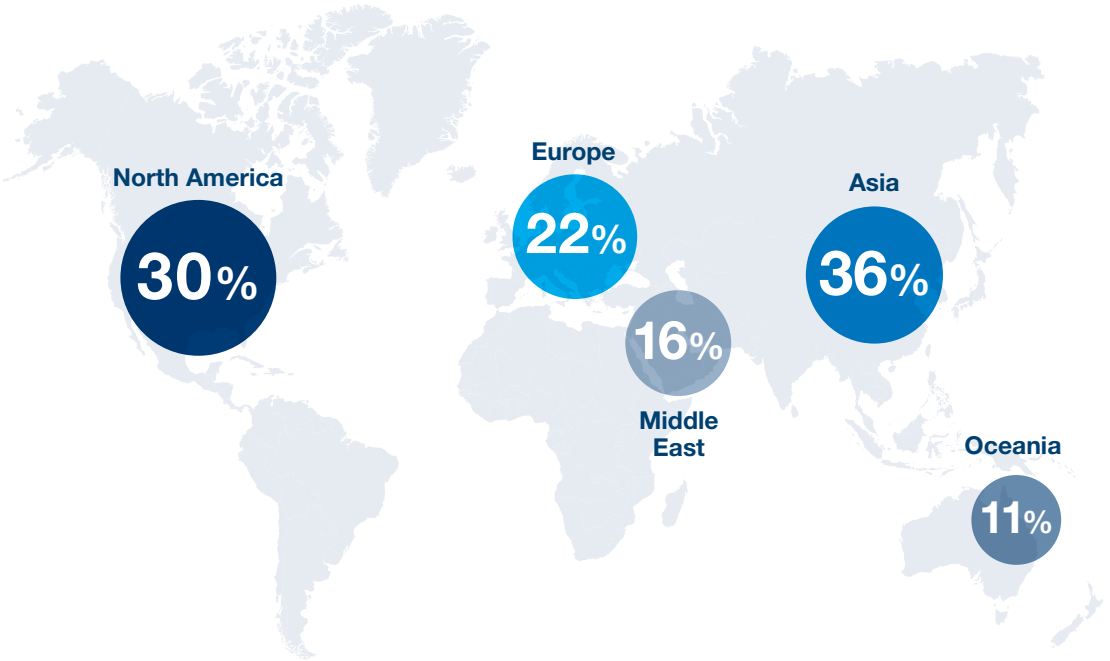
**Asia and the Middle East** both demonstrate a moderate enthusiasm level of 3.5, reflecting cautious optimism.

**North America** exhibits a slightly lower enthusiasm level of 3.3, indicating a need for further engagement and understanding of AI benefits in the contracting process.

### Training and skill set in AI

The data indicates that the USA, UK, and India are demonstrating leadership in skills acquisition and development. The data offers insights into how individuals in the USA, UK, and India acquire their skills, with a notable emphasis on practical experience across all three countries. In the UK, the most significant proportion 44% of respondents have gained their skills through practical experience, while 40% in India and 33% in the USA have combined formal training with practical experience. This trend suggests a strong inclination towards experiential learning and the application of skills in real-world contexts.

**Figure 13: Organizations implementing AI in any part of the contracting process**



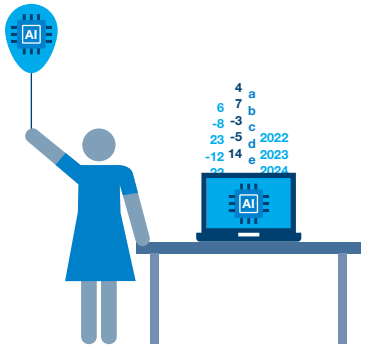
# Conclusion

## AI has potential to transform the process and value of contracting, but we are in the early stages of a journey. There is considerable skepticism to be overcome and even early adopters are reassessing their initial expectations and optimism.

The fragmented nature of the contracting process and related data availability is one limiting factor. Another is the cost associated with implementing AI, when the potential benefits remain uncertain. Then there is the innate caution of the legal and contracting community, which has never been at the forefront of technology adoption and change. Right now, there are few signs of executive intervention to overcome that hesitation.

For adoption to accelerate, there is a need for successful use cases. Many of those will only become apparent with experimentation, often undertaken on a small scale to justify the cost and disruption of wider deployment.

Perhaps the bright spot of this report is the extent of enthusiasm for personal use of AI. The experience gained must surely translate to growing ideas and enthusiasm for the efficiencies and insights that can be gained in the workplace. But perhaps those who perceive AI as a revolutionary force should scale back their aspirations: this study suggests that in the context of contracting, it will be evolutionary in nature. There are still foundations to be laid before the true potential can be realized.




**The positive takeaway from this report is that enthusiasm for personal use of AI should translate to growing use in the workplace.**

# Case study 1

## Integration of AI in the financial services sector

**by the Deputy General Counsel of a global bank**

AI offers opportunities to improve the way we work and how we serve our customers. Over the last 12 months, there has been a step change due to advancements in generative AI.

However, we are yet to see a meaningful impact of AI on legal or contracts work – at least from an immediate internal perspective. But here we can turn to the legal sector to explore AI in the services and advice they provide by helping drive its use to generate efficiencies.

From an in-house legal perspective, we need to become familiar with the tools available using our own data set to drive use case generation. Here there's an opportunity for generative AI to improve knowledge-sharing and cut down on duplication of work. There may also be a business case for creating a legal 'contract' data lake that could assist in aligning materials to a common standard – for example, a design and simplification model – or creating things like playbooks to accompany contract terms or templates.

In summary, there are firm grounds to believe AI has a compelling value point, but it first needs to be developed and used in an ethical and responsible manner before we see the tool used more commonly in legal or contracts work ●

***There may be a case for creating a legal contract data lake to align materials to a common standard***

# Case study 2

## The evolutionary impact of AI in procurement and supply chain management

**by an Executive Vice President of a leading procurement consultancy**

### Introduction

In the rapidly evolving field of procurement and supply chain management, perspectives on AI and its potential applications are continuously changing. The advent of AI tools like GenAI has sparked considerable interest in AI's capabilities, leaving professionals both excited and apprehensive. This case study explores how AI is beginning to reshape procurement and supply chain management, highlighting the benefits, challenges, and future prospects.

### AI's emerging role

**Transforming core operations** AI's ability to process and analyze vast amounts of data is revolutionizing key areas such as risk management and negotiation. Its proficiency is not limited to data analysis, AI also serves as a strategic 'copilot', enhancing decision-making processes with unprecedented precision. Furthermore, AI's capacity to generate insightful outputs and answer complex questions introduces a new level of efficiency and insight.

**Expectations and ambitions** The demand for AI in procurement is both pragmatic and ambitious. Users seek AI tools that can seamlessly integrate and analyze internal data to produce comparative reports and insights. Leaders in the field are reevaluating their entire procurement workflows, finding that AI could potentially perform tasks as effectively as human counterparts.

**The development dilemma** A critical decision is whether to develop proprietary AI tools or rely on market solutions. Despite the availability of various tools, market solutions often lack comprehensive, end-to-end capabilities. As a result, many procurement leaders are opting to create bespoke tools tailored to their needs.

### The Future of AI in Procurement

**Democratization and connectivity** The most exciting prospects for AI in procurement lie in its potential for democratization and enhanced connectivity. AI empowers individuals across organizational levels, making advanced tools accessible to a wider audience. The envisioned future is a connected ecosystem where unstructured networks and data are seamlessly interlinked, facilitating informed decisions and streamlined processes.

***The most exciting prospects for AI in procurement is its potential for democratization and enhanced connectivity***

**Navigating uncertainty** The journey towards realizing AI-driven transformations in procurement and supply chain management is loaded with uncertainty. While the timeline is unclear, the path forward emphasizes the importance of practicality and strategic integration.

### Conclusion

The integration of AI in procurement and supply chain management represents a balancing act between leveraging innovative potential and addressing the practical challenges of application in a dynamic sector landscape. As professionals navigate these waters, the role of AI will undoubtedly continue to evolve, promising significant transformations in the way procurement and supply chain operations are conducted ●

## Case study 3

# AI in contract management: In-house tools or ChatGPT?

**by head of contract and vendor management multinational energy company**


### Summary

This case study explores the journey of an organization in implementing AI to enhance its contract management processes and strategic decision-making meetings. The focus is on leveraging AI to summarize contracts, create presentations, and improve efficiency while addressing challenges such as accuracy, legal jargon, data security, and the potential for AI-generated misinformation.
The study also investigates the strategic choice between adopting a singular system versus a multi-system approach for handling diverse tasks, alongside considerations for customized versus standardized IT solutions.


> ***AI's ability to summarize complex legal documents without compromising the meaning was a challenge***

### Introduction

The organization embarked on an initiative to integrate AI capabilities to streamline its operations, specifically in summarizing contracts and preparing concise presentations. This initiative aimed to replace dense legal jargon with more approachable language, relying on technical expertise to ensure accuracy. The AI application, powered by an in-house 'Copilot' and ChatGPT, operating within a closed cloud environment, ensuring data security and compliance with sourcing strategy and governance meetings with strategic partners.

### Copilot for contract summarization

The initiative to implement an AI Copilot focuses on transforming dense legal documents into digestible summaries. This task requires a careful review of the technology's output to ensure that while simplifying the language, the essence and accuracy of the legal documents are preserved. The goal is to make these summaries accessible to non-experts without sacrificing the depth of information, a balance achieved through continuous refinement of the AI's understanding of legal terminology.

### Secure cloud environment and information integrity

Operating within a closed cloud environment, the proprietary ChatGPT version is designed with strict data security measures, ensuring sensitive information remains protected. The organization prioritizes the control of permissible information within this secure space, vigilantly monitoring for any AI-generated inaccuracies or 'hallucinations' that could compromise decision-making or strategic planning.

### AI implementation challenges and solutions

**Accuracy and tone** The initial challenge was the AI's ability to accurately interpret and summarize complex legal documents without compromising the essential meaning. To address this, the organization focused on refining AI algorithms to understand legal terminology better and rephrase clauses in a more user-friendly manner. This requires a delicate balance between simplifying language and retaining the legal document's intent.

**Data security and information integrity** Given the sensitive nature of contracts and strategic discussions, the organization placed a high priority on data security and the prevention of unauthorized information access. The AI's operation within a ChatGPT closed cloud environment was crucial, coupled with strict firewall protections and adherence to data privacy standards.

Moreover, the potential for AI 'hallucinations' or generating incorrect information necessitated a cautious approach, emphasizing the need for human oversight and validation of AI-generated content.

**System approach: singular versus multi-system** A significant strategic decision faced by the organization was choosing between a singular or a multi-system approach. While a singular system offers simplicity and potentially lower costs, the multi-system approach provides specialized functionality and reduces the risk of information silos.
The organization recognized that dedicated systems might better serve complex lifecycle tasks, suggesting a blended strategy that leverages the strengths of both approaches.

**Customization or standardization in IT solutions**
Customized solutions offered a shorter implementation timeframe and a higher degree of personalization, crucial for meeting specific organizational requirements. This approach was found to be at least as effective as standardized solutions from large matrix companies, with the added benefit of easier integration and enhanced overall efficiency.

### Conclusion and future directions

The implementation of AI in contract management and strategic meetings has demonstrated significant potential to enhance operational efficiency, decision-making, and strategic planning. Key to success has been the careful consideration of accuracy, legal language simplification, data security, and the strategic choice between system architectures and IT solution customization. Moving forward, the organization aims to further refine AI capabilities to generate more accurate and reliable outputs, emphasizing continuous improvement and adaptation to changing needs. The open question regarding the optimal system approach remains a focus for strategic evaluation, as the organization continues to explore the balance between integration, specialization and customization to meet its evolving objectives ●

## Case study 4

# Leveraging AI for strategic organizational transformation and contracting innovation

**by a partner at a leading consulting firm focused on digital strategy, tech platforms, data and cybersecurity**

### Introduction

In the rapidly evolving landscape of technology and business, AI stands out as a beacon of potential and innovation. However, the understanding and integration of AI into organizational processes remain unclear for many. Common misconceptions associate AI merely with digitization or automation, underestimating its capacity to act as a strategic tool capable of revolutionizing operations and decision-making processes. This case study delves into the challenges of AI adoption, the strategic value it holds within organizations, and its transformative impact on the future of contracting.

### The challenge of AI adoption

Despite the promising advantages AI offers, a significant barrier to its adoption is the prevalent lack of understanding and fear of failure. Many individuals and organizations are hesitant to embrace AI, treating it as just another document or a checklist item rather than recognizing its strategic potential. This reluctance often stems from a fear of making mistakes and a lack of internal acceptance and governance structures to support AI integration.

### Strategic implementation and change management

Mature organizations demonstrate a more profound comprehension of AI's capabilities, adopting a systematic approach to its implementation. Key steps include conducting proofs of concept, fostering internal acceptance, and establishing robust governance frameworks. Determining clear responsibilities for AI implementation is crucial, as is the role of change management. Effective change management can significantly enhance organizational systems by not just improving individual features but transforming entire operational frameworks.

### Revolutionizing contracting with AI

Looking towards the future, AI has the potential to dramatically alter the field of contracting, especially in legal contexts. AI enables a more intelligent assessment of risks and application of knowledge throughout the contract lifecycle, shifting the dynamic of drafting contracts with lawyers. By focusing on data-driven decisions, AI facilitates the identification of ineffective areas, moving beyond perceptions to tangible outcomes. However, it's crucial to acknowledge that while AI can enhance speed and efficiency, its effectiveness is contingent on the maturity and strategic engagement of the organization with the technology.

### Practical insights

**Hesitance in sharing AI implementation experiences** Both clients and organizations often show reluctance in discussing their journeys with AI, delaying collective learning and growth.

**Legal involvement in AI agreement negotiations** Legal departments play a pivotal role in negotiating agreements that govern AI use, emphasizing the need for clear understanding and strategic involvement.

> ***Embracing the fear of failure is essential for growth and innovation***

**Navigating beyond NDAs with AI** The negotiation and creation of Non-Disclosure Agreements (NDAs) concerning AI usage present a good starting point; however, there are plenty of opportunities for innovation in various contract models.

**Compliance and AI playbooks** Many AI capabilities are already embedded in applications, featuring varying levels of intelligence. People are somewhat familiar with these capabilities. AI offers various ways to ensure compliance with organizational playbooks, showcasing its ability to embed intelligence within existing applications.

### Call to action

The future of AI in contracting and organizational strategy calls for a reimagined approach to participation and value creation. Stakeholders should not only engage with AI proactively but also advocate for a standardized and strategic integration of AI capabilities. Embracing the fear of failure and learning from it is essential for growth and innovation. By doing so, organizations can move beyond limited implementations and explore the full potential of AI in creating strategic value and transforming contracting processes.

### Conclusion

AI possesses the transformative power to redefine organizational strategies and contracting practices. However, realizing this potential requires a shift in perception, from viewing AI as a mere tool for automation to recognizing it as a strategic asset capable of driving innovation and efficiency. Organizations that embrace AI, manage change effectively, and engage in continuous learning will be well-positioned to lead in the future landscape of business and technology ●

## Case study 5

# Transforming legal operations with AI

**by a partner in big four legal's 'Transform to Operate' service**

### Introduction

In an evolving legal landscape, the integration of AI into legal operations is becoming increasingly indispensable. As the sector navigates through the challenges of adopting these technological advancements, a notable shift towards AI-driven processes is observed. This case study explores the multifaceted implications of AI integration in legal practices, focusing on AI capabilities such as playbook management, clause analysis, and risk assessment, and addresses the skepticism and uncertainties surrounding its adoption.

### AI capabilities in legal operations

Legal firms are progressively exploring AI capabilities to streamline operations and enhance efficiency. Key AI functionalities include:

- **Playbooks** AI-driven playbooks assist in standardizing legal procedures, offering a repository of strategies and guidelines for various legal scenarios
- **Clause upload and analysis** AI tools can read and interpret clauses from contracts, extracting and processing obligations to assist in legal reviews
- **Risk analysis** By analyzing contracts and legal documents, AI can assess potential risks from a legal perspective, providing valuable insights for decision-making
- **Metadata extraction** The ability to extract metadata from contracts facilitates a deeper understanding of contractual obligations and commitments.

### Impact on the legal ecosystem

The integration of AI in legal practices presents a dual-edged sword. On one hand, it offers the promise of enhanced efficiency and accuracy in legal operations. On the other, it introduces uncertainties regarding the delegation of responsibilities to third-party AI services versus internal implementation. The involvement of data science and IT experts in developing AI capabilities for legal operations underscores the growing intersection between technical and legal expertise.

### Challenges and fragmentation

Despite the potential benefits, the adoption of AI in legal practices faces several challenges:

- **Return on Investment (ROI)** Firms investing in Contract Lifecycle Management (CLM) tools have reported mixed outcomes regarding the tools' efficiency and impact on ROI
- **Workflow adaptation** The effectiveness of AI tools is contingent on their alignment with existing workflows and processes
- **Security concerns** Data privacy and security remain significant concerns, with some firms hesitant to share sensitive information with AI systems.

### Future outlook

The role of AI in transforming legal operations is undeniable, with a potential shift towards data-driven legal practices. The adoption of AI can redefine contract management, moving from an adversarial to a relational approach and fostering negotiation-friendly environments. Furthermore, AI's ability to handle diverse data formats and identify misinformation paves the way for innovative legal services.

### Conclusion

The integration of AI into legal practices signals a transformative era for the sector, promising increased efficiency, accuracy, and novel approaches to traditional challenges. However, this transition is accompanied by skepticism and operational uncertainties. As legal firms navigate these changes, the collaboration between legal and technical experts will be crucial in achieving the full potential of AI technologies ●

> ***AI in legal operations presents the promise of enhanced efficiency and accuracy but with the uncertainty of delegating responsibilities to third-party AI services***

## Case study 6

# The impact of AI in retail: An executive perspective

**by a partner of a SRM and commercial contractual management organization**

In the rapidly evolving retail sector, AI is starting to gain ground in key operational areas, including contracts and Supplier Relationship Management (SRM). Over the last six months, there has been significant progress in this domain.

A notable development is the use of predictive analysis for assessing supply risks and evaluating supplier performance. This approach enables retailers to anticipate and mitigate potential disruptions in the supply chain, ensuring smoother operations.

In collaboration with Microsoft, a 'Copilot' initiative has been launched, representing a synergy between technology and strategic decision-making.

One of the standout applications of AI in retail is evident in 'Greenplan', a DHL spin-out focused on distribution. Here, AI has substantially optimized last-mile delivery processes, cutting down delivery times by 25-30%. This improvement in efficiency is a testament to AI's capability in enhancing logistical operations.

Moreover, AI is influencing areas like human resources, where startups are emerging with solutions to match CVs with open job positions. This advancement could significantly impact decisions related to insourcing versus outsourcing. In another example – not directly linked to SRM or contracting – our IT strategic architect is working with heads of risk and security to enhance intruder detection systems.

The year 2024 is poised to witness a considerable disruption in SRM, driven by AI. A planning group has been established to navigate this transformation, aiming to harness AI's potential to its fullest.

AI's growth in the retail sector is undeniable. Retail executives are now challenging suppliers to rethink their strategies, such as in application maintenance services, moving from a reactive to a proactive service model. Though the exact savings from such a shift are yet to be quantified, the potential is clear.

Another innovative application of AI is in contract management. AI tools are being employed to conduct predictive comparisons between contracts. This helps in identifying weaknesses, comparing performances, and planning proactive measures to strengthen contracts and handle disruptions faster and more effectively.

In summary, AI is making progress in the retail sector, starting to reshape traditional practices in contracts and SRM. Its ability to predict, analyze, and optimize promises to set new standards for efficiency and innovation in the sector

***A standout application of AI in retail is distribution where it has cut last mile delivery times by up to 30%***

## Case study 7

# The rapidly changing landscape of commercial contracting

**by Kirk H Samson, Senior Director at Nexdigm (extracts from an article published by the State Bar of Wisconsin)**

Northwestern Mutual is one of many companies that accelerated the shift to electronic signatures and cloud-based storage solutions during the pandemic and has continued to embrace them even after its workforce has moved to a more hybrid environment, says Monica Riederer, Vice President, Digital & Enterprise Operations Counsel with Northwestern Mutual. “The pandemic gave us all a unique opportunity to rethink how we were approaching the in-house practice of law and recommit to going paperless. Now that many of us have experienced a much more digital practice, we’re committed to exploring and embracing technologies that can make us more effective and efficient.”

Key pieces of the legal technology revolution are already well accepted in legal practice. Electronic discovery (sometimes referred to as eDiscovery) systems have become widely accepted; the sector is valued at over $11 billion globally and will continue to grow. Applications that do document comparison and term comparison on complex documents are invaluable tools for legal offices and have been embraced for years.

***AI text models are now capable of mid-level legal work freeing up attorneys for more challenging tasks***

Particularly intriguing is how these tools can interact with AI to be faster and offer more thoughtful insights into documents. Companies such as Walmart have worked hard to fully eliminate contract negotiation for lower-complexity agreements by partnering with an AI negotiation software and chatbots that free their procurement staff to focus on higher-end (and higher-value) contracts. Pharmaceutical companies are leaning on AI-drive software programs to do initial negotiations for highly complex contracts such as clinical trial agreements. Companies such as Lawgeex, Legal Robot, and Casetext have been building legal text models for years that are now capable of doing mid-level legal work that would have been done by associates in previous decades. More important, they do it at a better price point and free up attorney time to do more challenging tasks.

According to Riederer, “We’ve been exploring generative AI tools that could help drive efficiency in the contract review and negotiation process. While we’ve seen the potential value for less complex contracts, so far they are less effective with more sophisticated contracts. We’ve found that many of these tools do a reasonably good job accurately summarizing contract provisions and identifying gaps, but in order to be truly effective, these tools need to be trained and fine-tuned so they can reflect a company’s individual risk profile and suggest the best alternative language or create an actual redline. At this stage, these tools appear to be best at issue-spotting and conducting an initial review, but there is clearly still a need for the subject-matter expert ‘human-in-the-loop’ to determine how to appropriately address those issues or fill the gaps in a way that is consistent with the company’s individual risk appetite.”

Riederer says, “We’ve also been experimenting in a very limited and controlled way with the use of generative AI through various copilot tools for tasks like summarizing content and helping lawyers be more concise in their writing. While some of what we are seeing is interesting and may have potential, existing AI copilot tools still very much need a human ‘captain’ to do quality control and ensure accuracy.” The regulatory environment is trying to catch up to AI’s potentially incredible breadth of use, but legal technology advancements are already well embedded in contracting processes and legal firms.

Changes in technology and global business practice can be daunting for attorneys to keep up with, but the advantages they present are substantial. As many commentators in the legal technology field have said, AI is not going to take attorneys’ positions, but attorneys who can effectively use AI might be the ones who take their competitors’ clients. Given the continuing concerns regarding automation and issues such as AI hallucination, which is when generative AI creates outputs that are nonsensical or false but are presented as fact, the involvement of an expert human in the loop is going to continue to be crucial to ensure accuracy and appropriateness of any AI-generated output or content.

The effective use of these technology tools allows for global collaboration and improved transparency in the commercial contracting process and can free legal experts to focus on the most interesting and challenging work for which their experience and education are crucial. No slowdown is on the horizon for these transformations.

Elevating one’s comfort level with the technology and globalization of legal services will be as important as continuing legal education for attorneys working in the contracting environment. They represent a great opportunity for commercial contracting attorneys to adapt, expand, and provide innovative and comprehensive legal solutions in an increasingly interconnected and fast-paced global business environment ●

## About WorldCC

World Commerce & Contracting is a not-for-profit association dedicated to helping its global members achieve high-performing and trusted trading relationships. With 75,000 members from over 20,000 across 180 countries worldwide, the association welcomes everyone with an interest in better contracting: business leaders, practitioners, experts and newcomers. It is independent, provocative and disciplined existing for its members, the contracting community and society at large.

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## About Icertis

Icertis is the global leader in AI-powered contract intelligence. The Icertis platform revolutionizes contract management, equipping customers with powerful insights and automation to grow revenue, control costs, mitigate risk, and ensure compliance – the pillars of business success. Today, 30% of the Fortune 100 trust Icertis to realize the full intent of millions of commercial agreements in 90+ countries.

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