ACC REPORT

LAW DEPARTMENT MANAGEMENT

ESTABLISHING VALUE IN AN EVOLVING BUSINESS WORLD

LEARN ABOUT the evolving role of the chief legal officer and general counsel.

FIND OUT HOW management practices and variables like spend, budget, fee structure, and technology impact outcomes in the legal department.

DISCOVER INSIGHT from nearly 300 in-house counsel, including interviews from general counsel and chief legal officers in cutting edge legal departments.

Association of Corporate Counsel
By in-house counsel, for in-house counsel®

Published by ACC, the world's largest global community of in-house counsel.

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Published by the Association of Corporate Counsel (ACC), a legal association connecting more than 40,000 in-house lawyers employed by more than 10,000 organizations across 85 countries, the ***ACC Law Department Management Report*** is a global study of corporate law departments and their operations. In an effort to reconnect the cost and value of legal services, ACC surveyed nearly 300 chief legal officers (CLOs), general counsel (GC), and legal operations professionals on specific aspects of law department budget, spend, and management practices. The report also includes insight from interviews with GC and CLOs of Global 1000 and Fortune 500 law departments.

The analysis and content in this report explore operational factors driving 21st-century law departments and the evolution of the GC/CLO role to include serving as a business partner and strategist. With contributions from GC, CLOs, and legal operations professionals in 37 industries and 25 countries, this report serves as a resource and benchmarking tool for companies and leaders looking to compare their roles, practices, and plans with others in their profession, industry, and geographic area.

Divided into sections, the full report includes excerpts from interviews with leading GC and CLOs, analysis, and data. A discussion and analysis of findings are located in the Executive Summary and individual sections that follow. Specific report sections include more in-depth discussion with relevant charts, exploratory models, and tables that address the linkages between value and practice at the law department level.

The Overall Results section includes tables and charts on topics such as spend, budget, technology, and resourcing. This section of the report contains data that illustrate the relationship among variables, for example, cost allocation by department size, average department budget by annual company revenue, inside and outside spend by revenue and by key industries. The table of contents provides a detailed outline of the data you will find in the Overall Results section and of the topics covered in the Executive Summary and Findings.

> *"The role of general counsel or chief legal officer is changing. It's evolving. If we just sit there and wait for things to happen, and we'll just deal with things as they happen, we do a mediocre job. It is a legal function, but it doesn't give the vibrancy that a legal department should have, which is creating a role for yourself so that you can deliver value to your shareholders and your colleagues."*
>
> **Head Group General Counsel and Company Secretary, Global Conglomerate, Asia Pacific**

EXECUTIVE SUMMARY

A recurrent theme has driven much discussion of in-house legal departments and their GC and CLOs in recent years. The discussion has been all about the value that we as a professional sector can deliver to our clients and, in turn, demand of our own service providers. Disruption is occurring as legal departments increasingly source work to nonlegal providers and find new ways to address the value proposition.

More than just a discussion, this focus on value has changed behaviors both in-house and among law firms. It is an ongoing and compelling trend, in which ACC hopes to have played a helpful role. The ACC Value Challenge was intended to sound an unequivocal call to reconnect the cost of legal services to their value.

In turn, the *ACC Law Department Management Report* is intended as an additional step in this ongoing effort to define and achieve value.

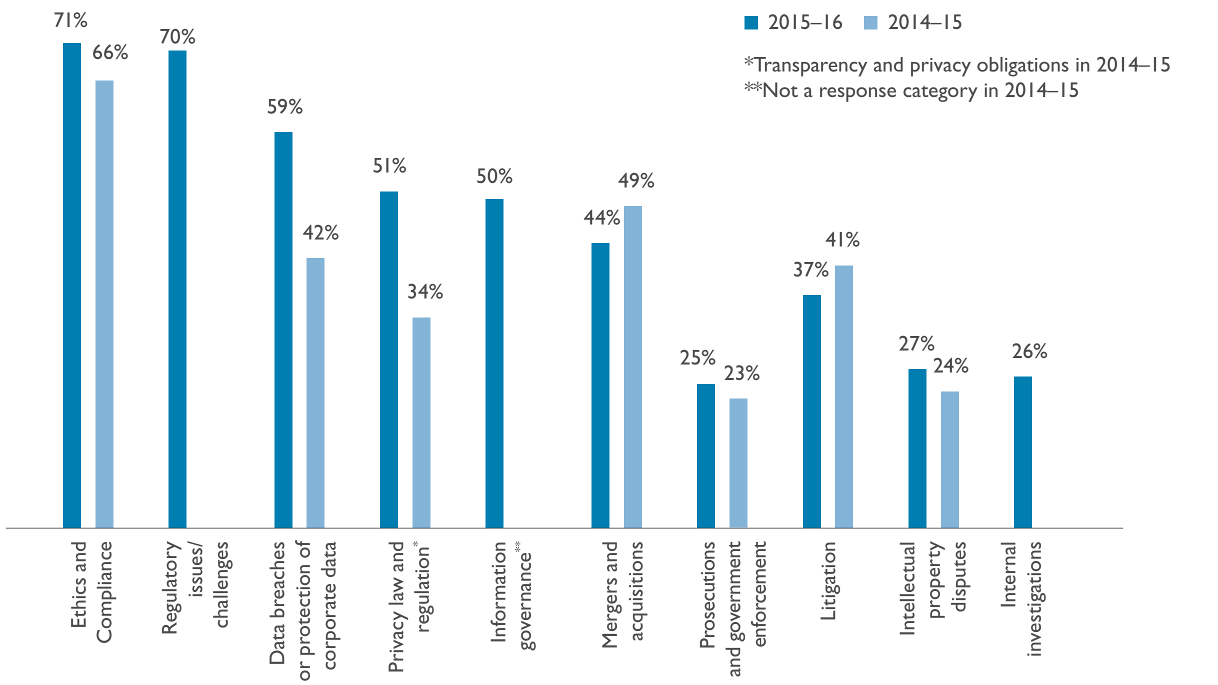
To understand these metrics in context, we first take a step back to look at a dramatically changing business and legal landscape that has driven the flight to value.

The Shifting Legal Landscape

Every major change in the business environment over the past few decades has served to increase the exposure of companies big and small. It is no longer just a question of minimizing losses.

Along with issues (intellectual property and others) governing internet business, data security is a daily preoccupation as one mammoth breach after another exposes corporations to unprecedented risk, forcing unprecedented standards of accountability. Six in 10 corporate counsel who participated in the *ACC Chief Legal Officers 2016 Survey* identified data security as a top issue they will face. More than half of in-house counsel report that their companies are increasing spending on cybersecurity, while one-third state that their companies have experienced a data breach, according to the *ACC Foundation: The State of Cybersecurity Report*.

TOP ISSUES KEEPING CLOs UP AT NIGHT (RATED ISSUE VERY OR EXTREMELY IMPORTANT OVER NEXT 12 MONTHS)
ACC CHIEF LEGAL OFFICERS SURVEY



The expansion of business across borders brings challenges such as the need to understand multiple, diverse, and even contradictory regulations and cultural environments. Sixty-two percent of in-house counsel worldwide have cross-border or transnational work *(ACC Global Census: A Profile of In-house Counsel)*. With geographic expansion comes the need to implement both business and legal strategies that make it possible to conduct operations within multiple territories.

An exponentially intensified regulatory environment driven by persistent corporate scandals, loss of public confidence, and political pressures on regulators shapes the current corporate legal landscape. Not surprisingly, regulatory issues are therefore a chief concern of CLOs *(ACC Chief Legal Officers 2016 Survey)*, with 31 percent of law department leaders reporting that a regulator has targeted their organization for enforcement or investigation of alleged violations.

An immediate consequence has been the rise of compliance as a corporate priority. These days, business growth and compliance – especially in a global marketplace where corporations must now take extraordinary steps to ensure the integrity of far-flung supply chains – are inseparable.

In discussing the great importance of compliance in a global sense, it is clear that local and foreign regulations are equally important. In order to expand into important markets and remain innovative but also comply with a vast number of regulations in a changing landscape, the legal team has adapted new and old approaches to ensure the company's success while keeping abreast of current events related to compliance. As such, it is no surprise that "ethics and compliance" continues to top the list of CLO concerns year after year *(ACC Chief Legal Officers 2016 Survey)*. The head of legal for a global IT company discussed the challenges faced in navigating compliance in a global landscape:

FOR MY COMPANY, WE BALANCE COMPLIANCE, MITIGATING RISK, AND PROMOTING INNOVATION BY CREATING LOCAL PARTNERSHIPS

"Compliance is an important area for our company. Originally, we were very worried about the US focus on regulatory issues in China and especially, for example, in an IT company or pharmaceutical company. Recently, we have seen a trend that the local law enforcement agencies seem to be very focused on foreign companies' business practice in China. For example, a company was found to be bribing and several of their senior business leaders, their HR leader, and their legal head were actually arrested and put in prison. So that really shows the importance of the legal team's role in actually maintaining compliance not only with the US law but also with the local law.

For my company, we balance compliance, mitigating risk, and promoting innovation by creating local partnerships and joint ventures, some of which have the local partners as the majority shareholder. We've renewed this approach because regardless of the risk, I think there are ways we can still maintain balance between the risks and the benefits while also being recognized as a local company. There are still ways in the governance process to make sure that mechanisms are in place to ensure our company will have a strong voice and a reasonable degree of control over legal, compliance, HR, finance, and other decision-making to ensure compliance."

Head of Legal, Asia Pacific, Global Technology Company

The legal landscape has decisively changed in terms of the outside services and resources with which law departments can now tackle their own dramatically increased responsibilities. Law firms are consolidating as never before. Mergers are creating global partnerships that, for law departments, provide all the benefits of one-stop shopping, with enhanced "platforms" to more efficiently get global deals done, to comply with local jurisdictional requirements, etc. The downside involves concerns over quality; there is more need to monitor the performance of outside counsel as law firms grapple with quality control issues simply because their tents are expanding at such breakneck pace.

Non-law service providers, such as the Big Four accounting firms, have entered the legal fray, acquiring law firms en masse in order to offer clients fresh perspectives on global corporate problems and an even broader consultative capability. More than even the largest autonomous law firms, hybrid entities such as Ernst & Young enjoy sizable footprints in Latin America, Asia, and the Middle East; Deloitte, for one, is notably strong in Australia, China, Japan, Taiwan, and Thailand. Questions as to the unauthorized practice of law persist, as do cultural issues. For example, accounting firms are charged to fully disclose, while law firms are ethically compelled to preserve confidentiality.

I THINK THE TOUGHEST THING TO DELIVER IS COST AVOIDANCE OR LIABILITY AVOIDANCE IN TERMS OF DEMONSTRATING VALUE

"I think the toughest thing to deliver is cost avoidance or liability avoidance in terms of demonstrating value. Certain organisations may choose to adopt a compliance culture based on 'Well, we'll deal with it when it happens,' which might make it easier whereas our company's compliance culture has always been around 100 percent compliance.

It's helpful if you can marry up the compliance culture with the business culture otherwise you're into selling the benefits of cost or liability avoidance which is inherently speculative.

I think being able to demonstrate that you're not on the wrong side of a regulator and you're not having lots of internal investigations relative to others is helpful but generally it's harder to demonstrate value in something that you don't want to happen?"

Telecommunications, United Kingdom

More Than Lawyers

Today's GC/CLO is more strategic in focus, more connected to other corporate departments and operating units, more involved in assuring the legal, ethical, and reputational integrity of the whole enterprise. This transformation was inevitably accelerated by the crisis in public confidence and the astronomical liabilities that presented themselves.

Increasing demand for strong protections of customer privacy heavily influences the law department's role. This has become critical in ensuring organizations' contractual commitments to customers in order to obtain a "green light" from the strictest privacy regulators around the world, which provides the client company with invaluable competitive advantage within its industry.

Data clearly show that when law departments are cost-efficient, innovative, and value-driven in their traditional functions, they simultaneously gain (and justify) even greater access to the inner sanctums where decisions are made.

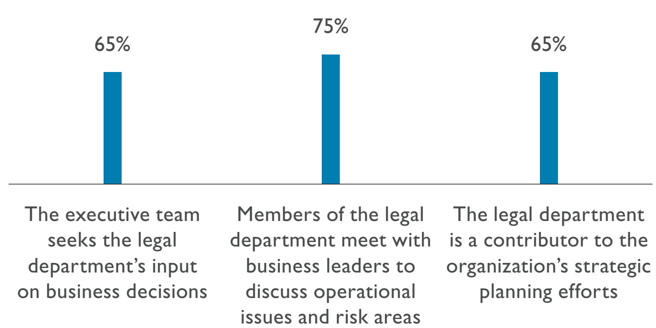
This *ACC Law Department Management Report* yields remarkable evidence that the transformation in the power and prestige of in-house counsel is neither theoretical nor anecdotal. In fact, to a degree that is likely unprecedented, ACC has found that 65 percent of respondents now say that executive teams in their organizations "almost always" seek the legal department's input on business decisions. Seventy-five percent say that members of their legal department "almost always" meet with business leaders to discuss operational issues and risk areas. Especially impressive, 65 percent report that their legal departments "almost always" contribute to the organization's strategic planning efforts. These findings align with those of ACC's *Skills for the 21st Century General Counsel* report in which 71 percent of GCs said strategic input was expected to be a top-three value driver. Equally important, CEOs and boards of directors agree with this sentiment and are expecting this enhanced role from their law department leaders. One board member stated that the chief legal officer "is the person who sits day-to-day with the senior management team and helps run the business."

This report highlights vital links between the environment and other driving factors that help explain how in-house counsel have risen in the organization and what they must continue to do to extend their ascent. In fact, the data clearly show that when law departments are cost-efficient, innovative, and value-driven in their traditional functions, they simultaneously gain (and justify) even greater access to the inner sanctums where decisions are made as to the company's future and how that future will be secured. No matter how high they climb in the corporate hierarchy, in-house counsel must never stop maximizing the value of their core departmental competencies.

More law department leaders seem to fully understand that. Indeed, a significant percentage are now evolving to professionally managed "legal operations," often hiring non-lawyers as legal department operations professionals with master's of business administration to maximize departmental efficiency and innovation. The data (provided by related ACC surveys) certainly support this perceived trend, especially among the Fortune 500. In the *ACC Chief Legal Officers 2016 Survey,* for example, the number of CLOs who say they have dedicated legal operations staff rose to 48 percent, up from 21 percent in 2015.

CLOs and GC share a strong desire to attract lawyers with the right mix of industry experience, business skills, and legal expertise. And successful leaders recognize that to retain top talent, recruitment must be followed by investment in growth and development. Today's best legal leaders know that by investing in their people they can maintain an agile legal department ready to support the company's growth while also managing risk. Providing meaningful feedback and recognition are key to building and retaining a committed legal team ready and able to meet business at the intersection of innovation and risk. However, the data show potential for disruption in today's legal department. Nearly three in 10 in-house counsel are willing to consider leaving for job opportunities at the same salary and benefit level, and six in 10 are ready to consider advancement opportunities elsewhere. It has never been more important to retain the talent needed to manage legal work in a highly regulated and constantly changing environment. Notably, millennials are focused on development and promotional opportunity with clear expectations for advancement in just a few years, while baby boomers saw the highest proportion willing to make a lateral move, making retaining top performers and managing for growth and development more important than ever. *(ACC Global Census: A Profile of In-house Counsel).*

PERCENTAGE WHO SAID "ALMOST ALWAYS"



IT'S NOT JUST THE FINANCIAL STRENGTH OF THE COMPANY THAT ENABLES US TO DO LEGAL WORK. IT IS ALSO THE PRIDE WE TAKE IN DELIVERING THE MANDATE THAT WE'RE GIVEN TO RUN WITH.

"Our chairman is very appreciative. I remember when we did "the transaction of the century." We sold a major operation in Europe. The chairman would call us up. We were in Europe during the negotiation. When he gets up in the morning, very early, it was still our late evening; he would call up and say thank you to the team for working so hard.

That went a long way, that recognition. That's why we are here. All my contemporaries are here for 20, 30, even 40 years.

It's not just the financial strength of the company that enables us to do legal work. It is also the pride we take in delivering the mandate that we're given to run with. At the end of the day, people are here not because we pay more than other companies or the magic circle firms or the very big city firms. It's also because there is a feeling of affinity.

We are responsible for growing this company. We acquire businesses. We sell businesses. We see the business grow into a much bigger empire, and we take pride in it. We are properly remunerated.

Something that I take pride in is that we are able to provide growth and development. With the legal department, it looks like the structure is quite flat because until and unless people move out, we don't have space for somebody to be promoted here. But we do give our lawyers the ability to transfer between business groups, between countries, and even between positions.

My previous deputy is now the deputy treasurer of the group, just because his special area was financing. So he had been doing all the debts, the borrowings, and the bond issues for the company to the extent that he worked very, very closely with treasury. When there was a retirement and the deputy was promoted, he was asked whether he might be interested in picking up the deputy job. I very gladly supported him because that's a development in his career path. I also have lawyers who have become managing directors of businesses. So there are a lot of opportunities within the group. When there is a need and you have the capabilities, we are always prepared to give the team a chance."

Senior Vice President and GC, Global Advanced Materials and Agriculture Conglomerate

Demonstrating Value

The data in this report underscore the point that to qualify for a seat at the strategic table and to keep it – as a member of the C-suite planning team or as a trusted adviser to directors – the legal team itself must first define and deliver maximum value.

If that fundamental connection between defining and delivering maximum value has to some extent been neglected in discussions of the in-house role, the *ACC Law Department Management Report* connects the dots, providing metrics and data as to the specific assets of effective legal department operations. Uniquely, the research goes further by earmarking specific indices effective legal department operations that appear to drive the likelihood that GCs/CLOs will achieve a greater profile and strategic responsibility beyond a strictly legal function.

Overall, the perception that a law department delivers value begins with the perception that it is cost-efficient.

There are many ways to define how aspects of operational success help to predictably transform the role of the in-house legal officer. That said, the *ACC Law Department Management Report* has identified several key qualities that typically distinguish the well-run law department based on value ultimately delivered to the client:

1. Management practices that drive efficiency. These can include risk measurement, people management, and dedicated technologies.
2. Innovative approaches that enhance results and control costs. These can include alternative fees and creative staffing strategies.
3. Overall budget and spend.
4. Organizational influence.

ACC Law Department Management Report data in the sections and appendix ahead also offer exploration of the various internal factors that may influence each of the key qualities listed above. Such relevant metrics as company revenue and law department size are included.

The last item listed can be viewed in part as a direct result of the first three. Organizational influence increases as management practices drive efficiency. It increases as innovative approaches enhance departmental performance. And it increases as the overall budget and spend numbers meet expectations.

Overall, the perception that a law department delivers value begins with the perception that it is cost-efficient. Legal departments that consistently hit their budgets are much more likely to say they "almost always" meet with business leaders to discuss operational issues – statistically more often than those that do not meet their budget.

DEMONSTRATING VALUE IS NOT ONLY LOOKING AT LEGAL ISSUES BUT LOOKING AT THE WORK WE DO

"Demonstrating value is not only looking at legal issues but looking at the we do that naturally falls within our areas of expertise and represent our centers of excellence – that we can help direct from a strategic standpoint.

For CEOs, unless they happen to be lawyers by training, the legal function is often mysterious. They understand that we protect the company against risk, we manage risk, manage litigation, handle legal issues, and execute transactions. But they don't know, for understandable reasons, how you approach cutting cost in a legal function because they are justifiably concerned that they may be clipping the green wire if they just say, 'I want you to take 20 percent out of your budget.' They don't know if that increases risk to the company or not. And oftentimes, where in-house counsel may have a relatively limited role – and are not seen as truly an equal member of the business team – general counsel tend to measure their own worth by the size of their budget and the size of their legal department. That, of course, has very little or nothing to do with adding value to the company and truly being a strategic partner to the business."

Senior Vice President and General Counsel, GlobalAdvanced Materials and Agriculture Conglomerate

The attributes studied as part of our research are closely interrelated. For example, among the possible "innovative approaches," alternative fee arrangements (AFAs) – that is, fees for professional services not based on an hourly rate – loom large and have done so for years. Departments have a high probability of hitting their budget if they regularly and systematically use alternative fee arrangements compared with a lower probability for those that do not.

One can then extend the point to extrapolate a positive relationship between the use of AFAs and the extent to which in-house counsel have access to business leadership and seats at the strategic planning table. In other words: Hitting the budget and using AFAs are statistically related in that hitting the budget is driven by AFA use, and those who hit the budget and use AFAs are more likely to have a seat at the table.

Progress Report

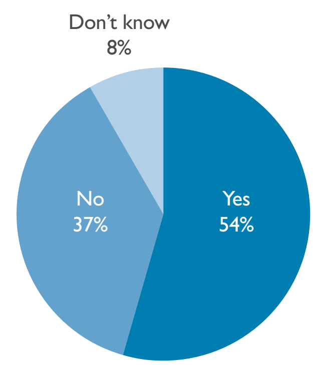
ACC Law Department Management Report data also provide something of a scorecard on how well law departments in general are actually doing in achieving these efficiencies. The good news is that 54 percent of respondents said that their departmental spend fell within 5 percent of the budget. These substantive data suggest (absent comparative data to prior time periods) that an overall increase in in-house efficiency, plus a simultaneous rise in the access of law departments to their companies' inner business circles, has indeed occurred.

We might also note that law departments in the energy industry were most likely to report spending within 5 percent of their budget. That seems a rather encouraging surprise, given the controversies wracking that industry and the volume of regulatory matters embroiling it. This report also found a strong correlation between departments that keep spending within budget and departments that have fewer regulatory investigations.

The energy industry seems to be bucking that trend. In fact, legal departments in this sector report the second-highest average number of regulatory actions: 27 annually. That tally is dramatically eclipsed by the insurance industry with an average of 170 reported, but it is still notably more than the 18.7 average reported by CLOs across all participating industries. It is important to note that these numbers vary dramatically by department size, with some large companies reporting as many as 2,000-plus regulatory actions, while some CLOs in smaller departments report none. Bear in mind too that respondents from large departments in highly regulated industries are likely to have bigger budgets in expectation of larger regulatory workloads.

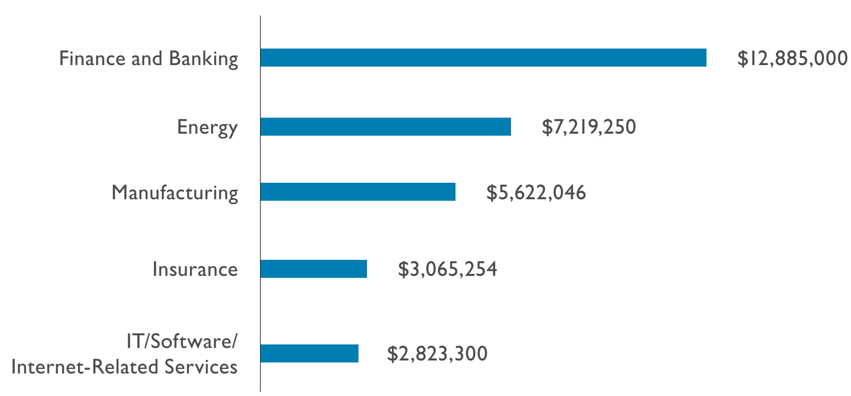
The numbers do at least suggest where the heavy spending happens. Not surprisingly, the same dynamic applies to litigation. Here too, spend – which averaged $5,010,826 for litigation/arbitration throughout our sample – varies widely by department size. In-house lawyers at companies with larger annual revenues tend to spend significantly more on litigation matters than those in companies with smaller revenues, which is hardly surprising because bigger companies tend to have proportionately bigger caseloads.

DEPARTMENT SPEND WITHIN BUDGET?



Note: Percentages do not total to 100 percent due to rounding.

AVERAGE ANNUAL SPEND ON LITIGATION/ARBITRATION MATTERS BY INDUSTRY



Our definition of AFAs includes a wide variety of non-hourly fee arrangements such as flat fees, retainers, contingency fees, performance-based holdbacks, and others. See Section II for the full listing.

It is important to note that several respondents in the insurance industry reported an incredibly high number of regulatory actions, thereby dramatically raising the average for that industry.

Most often, litigation is the area where law departments have the greatest dependence on outside counsel, and those outside fees are typically the main expense. At the same time, large companies are the likeliest to use AFAs; respondents in departments with 500 or more employees report the highest (49.4) percentage of outside spend on alternative fee structures. An encouraging conclusion is that while litigation spend will always represent a lion's share of cost, the demonstrably salutary effect of AFAs (again, departments regularly using AFAs have greater than 90 percent chance of hitting their budgets) suggests that nearly half of large law departments are effectively managing that cost to some significant extent.

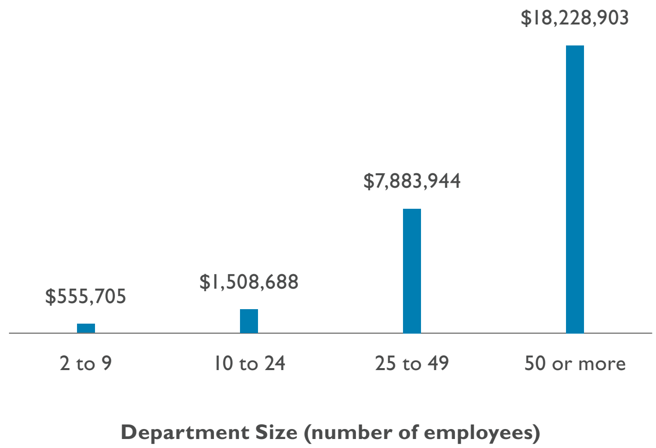
Yet AFAs still pose a challenge for law departments. Fifty percent of respondents anticipate an increase in the use of alternative fees next year, while 30 percent anticipate a decrease and 11 percent expect their use to stay the same. On the one hand, as a statistical measure, that seems encouraging in light of the large percentile differential between departments that anticipate increasing and those that anticipate decreasing their usage.

On the other hand, at a more practical level, the question seems unavoidable: Why would 30 percent of departments anticipate a decrease in usage of AFAs considering the demonstrable and tangible economic benefits? At a time when legal service buyers enjoy almost unprecedented leverage, one should probably not attribute this projection to stubborn resistance on the part of outside counsel.

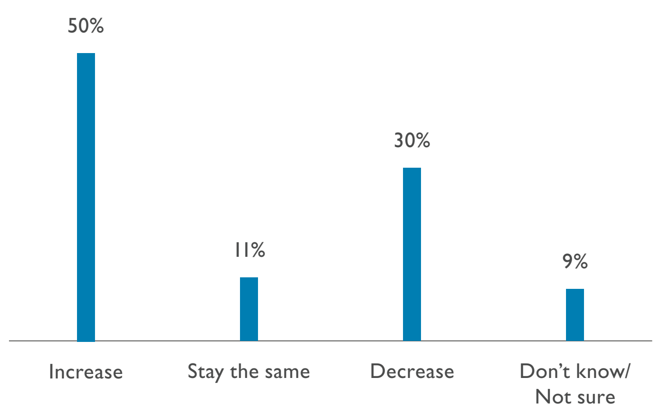
More likely, AFAs present some challenge in terms of design, setting the appropriate fee amount, and demonstrating the overall benefit to the client. AFAs entail at least as much art as science. With caseloads we can expect to increase in volume or severity – as well as immediate urgency – a fairly sizable minority of departments may now be falling back on an easier if ultimately more expensive reliance on traditional hourly rates.

Industry metrics for litigation/arbitration generally track with those for regulatory matters. Respondents in the finance and banking industry report the highest average spend, $12,885,000, followed by those in the energy industry reporting an average of $7,219,250. One can assume that the energy industry is setting bigger budgets in anticipation of such heavy caseloads because that industry is, as mentioned, the likeliest to report spending within 5 percent of budget.

TOTAL AMOUNT SPENT ON LITIGATION/ARBITRATION MATTERS IN 2014 BY SIZE OF LAW DEPARTMENT



USE OF ALTERNATIVE (VALUE-BASED) FEES NEXT YEAR



Degrees of Power

If we are able to posit a direct line between the value that law departments deliver – using indicators such as cost-efficiency, innovative billing, and technology – and the increased access of law department leaders to the corridors of power, we need to qualify what that power entails on a day-to-day basis.

There are nuanced differences implicit in our three questions concerning executive teams (1) seeking the legal department's input on business decisions, (2) meeting with business leaders to discuss operation issues and risk areas, and (3) contributing to the organization's strategic planning efforts.

Of the three, data would suggest that strategic planning is the most telling. "Input on business decisions" may in some instances entail in-depth discussions regarding the potential top-line and bottom-line advisability of a business venture as well as its legal probity, the regulatory dimensions, or even the political complexity (including the ramifications of, say, investing in an unstable foreign venue). However, in other instances it might be a far more perfunctory consultation or simply a "run it past legal"-type check-in.

Such participation in strategic planning cuts a significantly wide swath. Invariably, it will entail or directly lead to intensified relations with the board as well as the C-suite – not just making requisite presentations but working indissolubly with directors to ensure that their oversight is comprehensive and that the questions they ask, and the recommendations they make, speak advisedly to the future of the enterprise.

As a recognized member of the strategic planning team, the GC/CLO achieves another highly beneficial goal of full corporate integration. Those who chart the company's future can do so only in close consultation with information technology (IT), human resources, corporate communications, government relations, and so on. If, in the past, law departments were isolated back-office functions, today they (or a robust 65 percent of them, according to the data) are strategic planners inextricably woven into every function that feeds the organizational bloodstream.

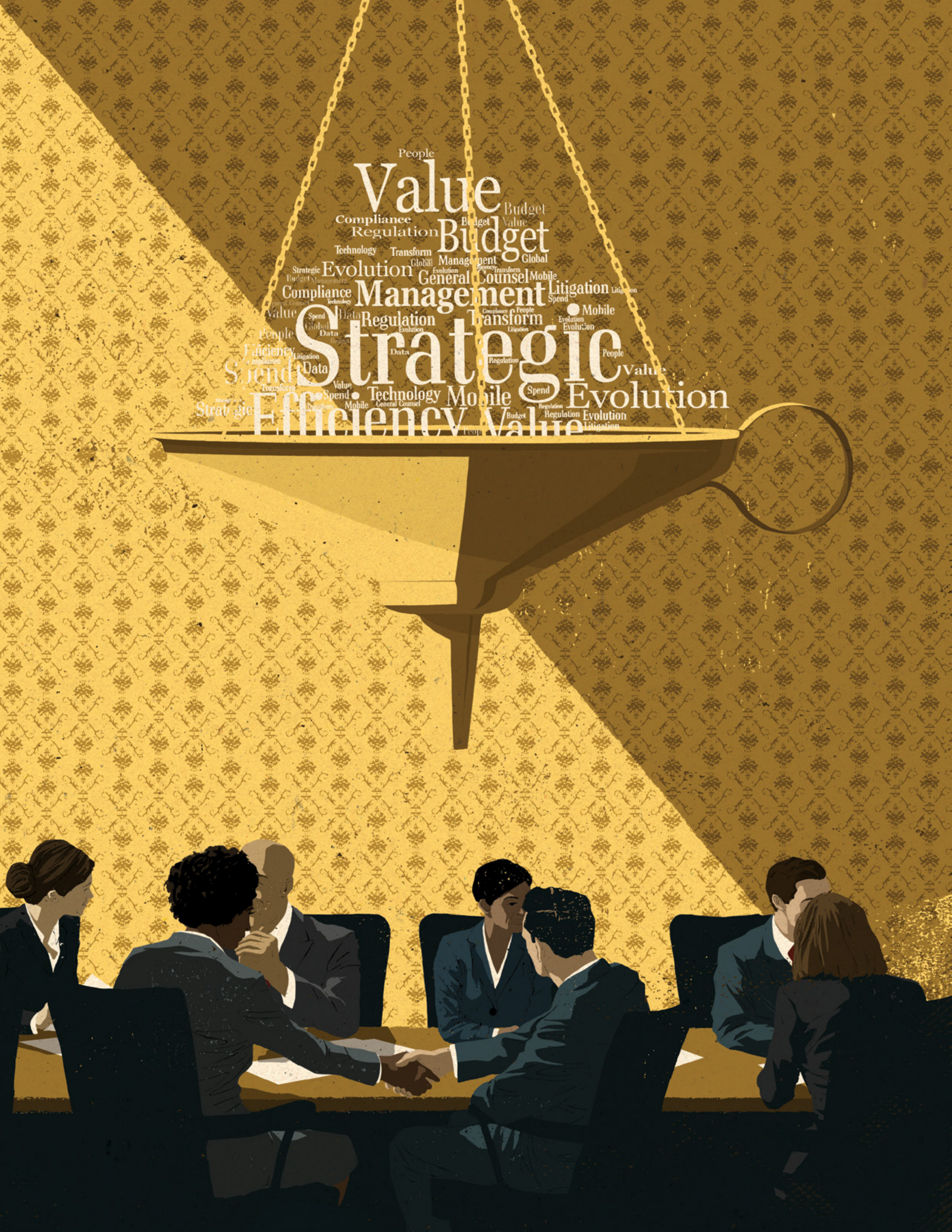
Data security, for example, involves the law department with IT as never before. Regulatory matters likewise join in-house lawyers to the government relations team, with the goal of not just complying with the law but helping to enact business-friendly legislation. As noted, in the current environment general counsel must work in tandem with compliance chiefs if they are not also filling that position.

As the efficient law department achieves such strategic integration, further benefits accrue to the department. It achieves closer interactions with IT, government relations, compliance, and so on. Having already presumably established its value as a law department, it can go on to provide more value because of what it learns from those interactions. We have indeed come full circle.

This extended introduction should usefully suggest why this *ACC Law Department Management Report* is important for both large and smaller departments – while offering critical clues for departmental leaders in multiple industries who enjoy salient opportunities to further emerge as leaders not just of a single sphere of activity but enterprisewide.

Each of the following sections takes a more detailed look at the actual data with deeper dives into the statistics themselves. Though compelling, these metrics are by no means final sections. Inasmuch as these trends are ongoing, we anticipate that future ACC reports will show a continuing voice for in-house leaders and underscore the best practices for achieving it.

> *"My C-suite values me, and I can tell by the way I work with them every single day, whether I am at a board meeting or a strategy meeting."*


People
Value
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Technology
Transform
Evolution
Management
General Counsel
Global
Compliance
Management
Litigation
Mobile
Regulation
Transform
Strategic
People
Spend
Value
Technology
Mobile
Spend
Evolution
Regulation
Evolution
Efficiency
Value

I HAVE AN EQUAL VOICE AT THE TABLE, AND OTHERS DON'T JUST VALUE MY LEGAL OPINION, THEY VALUE MY BUSINESS OPINION TOO. THEY UNDERSTAND THAT PART OF MY ROLE IS TO HELP THE BUSINESS ALONG AND BE A PARTNER.

"I'm one of the first people the CEO comes to talk with every morning. At my last company, my CEO said, 'Who wants to see their lawyer every day?' It's all about the C-suite seeing your value and respecting what you bring to the table. The legal department is usually positioned as a barrier to getting things done. They are a black hole where questions go to remain unanswered and legal departments are seen as supporting the business rather than a partner to growing the business. As in house counsel, you have to demonstrate your partnership and interest in growing the business and managing risk so that the business is in a position to better serve the clients. More executives need to see the legal team as business partners rather than "those people" who sit in ivory towers, in corner offices, and tell you what you can or can't do. I think the role will continue to evolve if the GC and CLOs are seen as business partners. As a lawyer, you are in a position to be that partner and that counsel. Some companies don't have to have a lawyer; they can hire outside counsel. Show you're valuable, and you'll be respected at the table.

We have a strategy team that meets monthly to talk about direction, hiring, mission and values, etc. General counsel is invaluable to this process; we understand the risk and world we live in, and we are trusted business partners as opposed to giving legal advice in a vacuum. You have to have your business hat on all the time because you're not doing the job of outside counsel ... for example telling the client what the law is. The client, your organization, your colleagues already know what they want to do, and you're there to help them. I have an equal voice at the table, and others don't just value my legal opinion, they value my business opinion too. They understand that part of my role is to help the business along and be a partner. I have to tell them what's going on in the world around us and manage risk.... I am a manager of risk and a trusted business partner."

GC, Health-Technology, North America

PROJECT OVERVIEW & METHODOLOGY

This study was conducted between July 2015 and April 2016. A total of 299 participants completed the ACC Law Department Management Survey. The survey was fielded over a two-week period from July 8 to July 23, 2015. Of those who participated, 211 completed the entire survey while 88 completed a portion of the survey.

Between February and April 2016, ACC conducted in-depth interviews with 8 general counsel across four regions: Africa, Asia Pacific, Europe, and North America. General counsel selected for interviews represent global companies and have demonstrated significant success in integrating legal and business operations.

Of the 299 participants in the initial web-based survey, 19.6 percent of respondents are selectees from the *ACC Chief Legal Officers Survey* conducted in October 2014. Five respondents are CLOs in Private 100 companies, 30 are legal operations professionals who are members the ACC legal operations group, and 55 are CLOs in Global 1000 companies. Two-thirds of respondents are ACC members.

As part of this survey, we asked respondents to write in their department budget and inside/outside spend levels in dollar amounts as opposed to allowing respondents to select categorically from a range of budget and spend levels. Several respondents wrote in very low values and very high values that were likely incorrect. We removed all outliers and incorrect values from the descriptive statistics and the analyses.

Multivariate regression techniques were used in Sections 1 through 4 of the report to determine what specific factors contribute most to the outcomes of interest. We used logistic, ordered logistic, or poisson estimation procedures depending on the nature of the dependent variable. We also utilized post estimation techniques in order to illustrate the size of the impact of the statistically significant relationships.

It is important to note that the findings of the multivariate analyses may not be statistically generalized to the broader in-house counsel population and represent the study population only. Although the study sample aligns with key segments of the broader population, the study was not drawn as a formal probability sample as required for formal statistical modeling of this nature. We use advanced modeling to explore relationships identified using traditional analysis of these data to further extrapolate meaningful relationships in practical applications of legal strategy and operational approaches. This report does not provide an in-depth look at the role of specific people-management approaches, therefore, rather than viewing the results as the definitive model for legal operations, the findings are meant serve as a guide to what contributes to the operational success or lack of success in the law departments studied.

KEY
KINDINGS

Section I: Management Practices Driving Efficiency

In this section, we look at the percentages of law departments adopting efficiency-oriented management practices and how the implementation of these practices are related to other factors such as legal department size and the company's gross revenue.

First, we provided six categories presumably broad enough so that departments could categorize any of their existing efficiency-based management practices under an appropriate rubric. Respondents were not limited to the number of practices they could select.

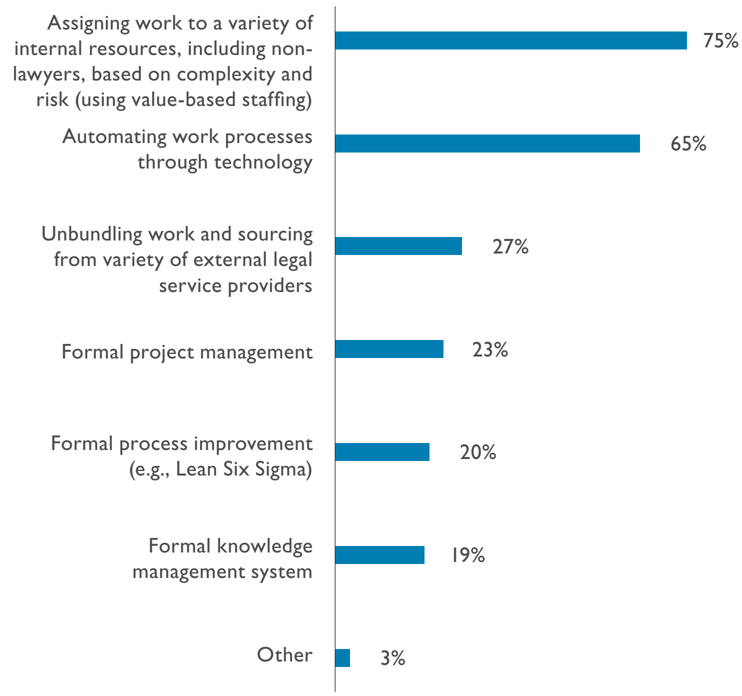
Second, we explored relationships among several factors that have potential to influence the likelihood of departments using these management practices. Department size and the state of technology in the department have a strong relationship with the use of certain management practices. As department size increases, so does the likelihood of using more efficiency-focused management practices. Similarly, as the technological capacity within a department becomes more comprehensive, the likelihood of using more management practices also increases.

It also bears mention that neither budget nor the upward pressure on budget that litigation and regulatory investigations create significantly influences the use of multiple efficiency-based management practices.

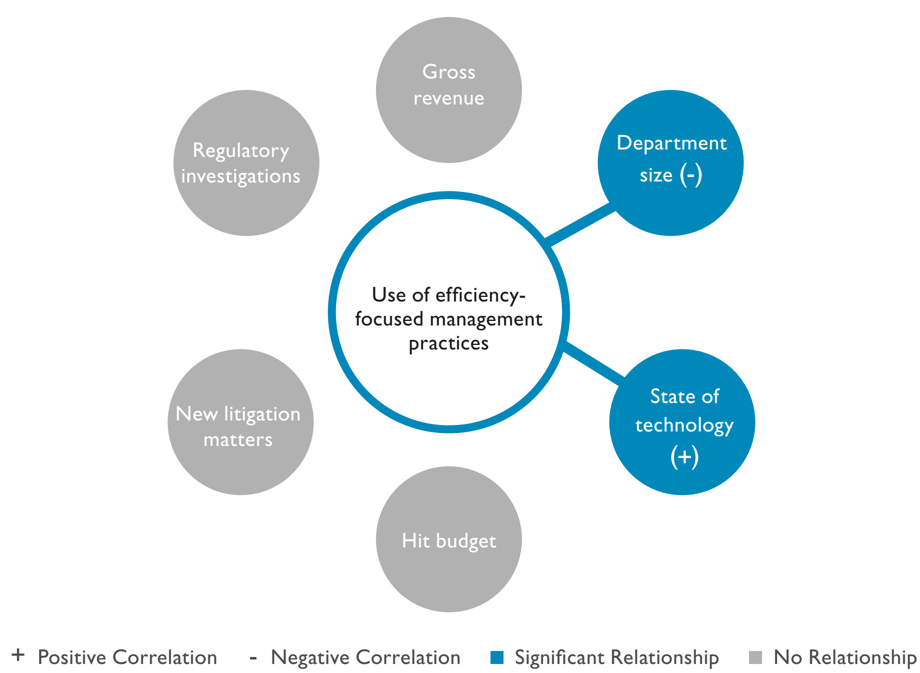
Considering all the influences we examined (as part of a regression model) including department budget, gross company annual revenue, new litigation matters, regulatory investigation, and the state of technology, the results show that larger departments are more likely to use more efficiency-focused management practices than smaller departments.

This result is to be expected: The more practitioners, and the greater the number of discrete subareas or subdepartments, the greater the likelihood that one or more such departmental units will adopt one or more practices intended to increase efficiency.

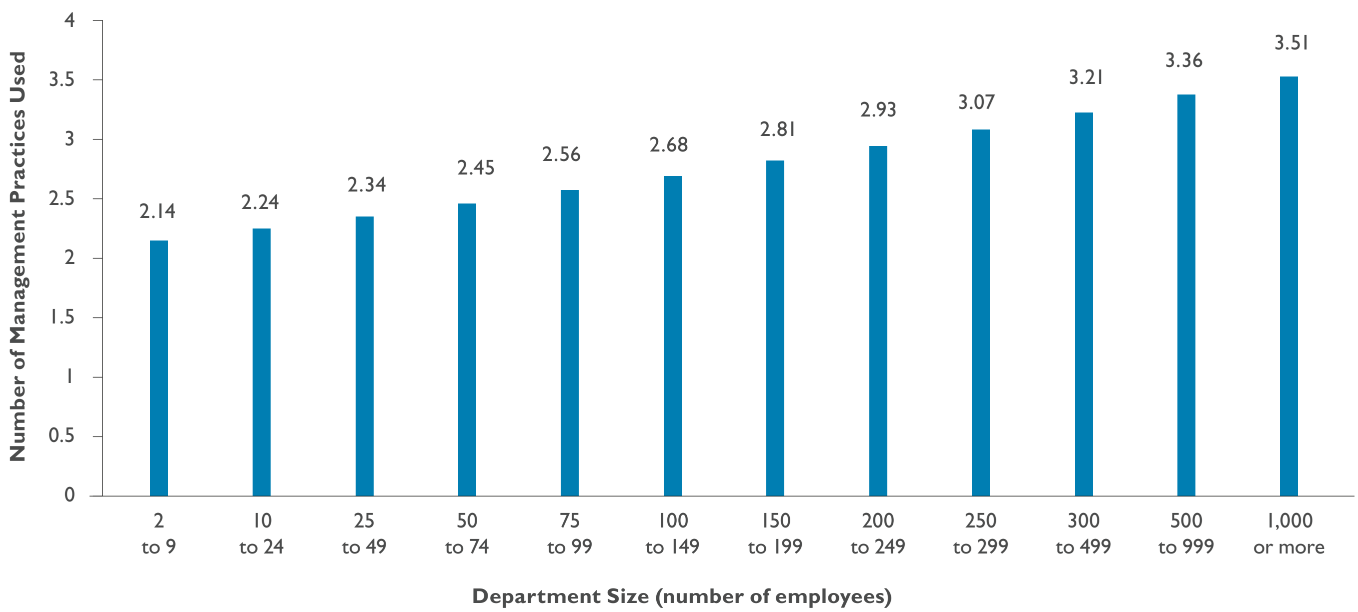
PERCENTAGE USING MANAGEMENT PRACTICES



WHAT INFLUENCES THE USE OF MORE EFFICIENCY-FOCUSED MANAGEMENT PRACTICES?



USE OF MANAGEMENT PRACTICES BY DEPARTMENT SIZE



The table to the right shows that departments with greater technological capacity are also more likely to use a greater number of management practices across the board. All else equal, departments with minimal technology are likely to use just under two management practices. For those with comprehensive technology, the expected number soars to 3.28.

Strength begets strength; departments that already have comprehensive technology will likely pursue further technological advancement.

USE OF MANAGEMENT PRACTICES BY DEPARTMENT'S STATE OF TECHNOLOGY

State of Technology in Department	Expected Number of Management Practices
Minimal	1.98
Basic	2.34
Adequate	2.77
Comprehensive	3.28

Participants were asked to rate the state of their technology using a four-point scale with descriptions. Minimal: We have Microsoft Office Suite or equivalent. Basic: We have e-billing and/or matter management only. Adequate: We have e-billing and matter management along with a few other systems, such as document management, e-discovery, etc. Comprehensive: We have the best tools available to work efficiently.

Also, it is problematic that substantially less than 50 percent of responding departments have adopted efficiency-focused management practices in four of the six categories. (The relatively low 19 percent for formal knowledge management is especially puzzling. Because knowledge management is technology-driven, one might guess that the number of departments using knowledge management systems would be driven higher by the high percentage of departments – 65 percent – that are "automating work processes.")

On the other hand, the percentage of departments that have adopted efficiency-related management practices in the most commonly used categories – "assign work to a variety of internal resources" (75 percent) and "automate work processes through technology" (65 percent) – are compelling, showing that a preponderance of departments actively pursue these enhancements.

In these lead areas, one can infer that the pursuit of certain efficiency-based management practices is now a generalized instinct among law departments, if only because departments are now operating in a more pressurized environment and, at the same time, in a more cost-constrained environment. They have no choice but to adopt whatever efficiency practices they can – be they small departments or large, technologically state-of-the-art or antediluvian, litigation-heavy or light.

Section II: Alternative Fee Arrangements

Among the various cutting-edge practices on law departments' radar today, AFAs are particularly decisive. Their usage has direct consequences for the departmental budget, and in a larger sense, AFAs are neatly symbolic of the overall progress that law departments have made in recent years. It's no accident that AFAs have also been denominated "value billing." Value is, after all, what we are ultimately talking about here as the final measure of the successful law department.

Respondents were asked to identify the fee arrangements that they currently use, choosing from a comprehensive list ACC provided. These arrangements included alternatives to hourly rates such as flat fees for entire matters, contingency fees, and collars.

The responses allow for a number of significant conclusions:

First, a healthy percentage of departments are using AFAs and, while the numbers doing so clearly skew toward the larger departments, there has been notable progress across the board.

Second, there is persistent interest among legal service buyers in further expanding on their usage.

Third, as suggested, AFAs significantly affect cost-efficiencies, which, in turn, reinforce the in-house counsel's leadership potential beyond strictly legal service parameters.

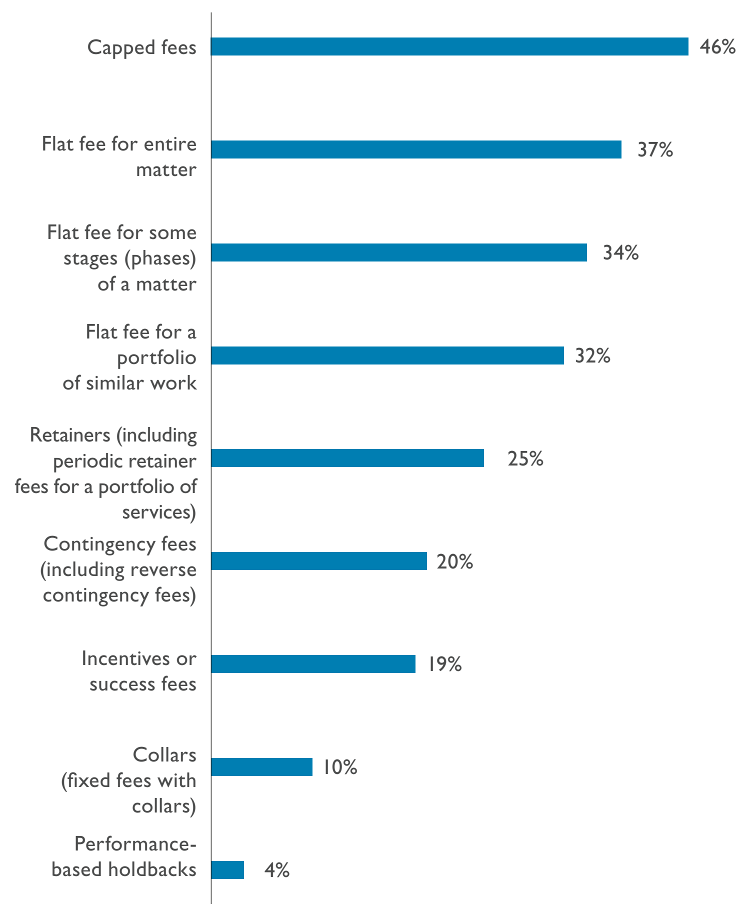
In this evolving context, ACC analyzed the likelihood of departments using at least one AFA by a number of factors. We found that department size, the number of new litigation matters, and the number of regulatory investigations all significantly influence the likelihood of using at least one AFA.

IF WE DO TAKE TRANSACTIONS, THEN WE OWN IT. WE DRIVE IT. WE'RE NOT JUST THERE AS SCRIVENERS TO THE "BUSINESS LEAD.

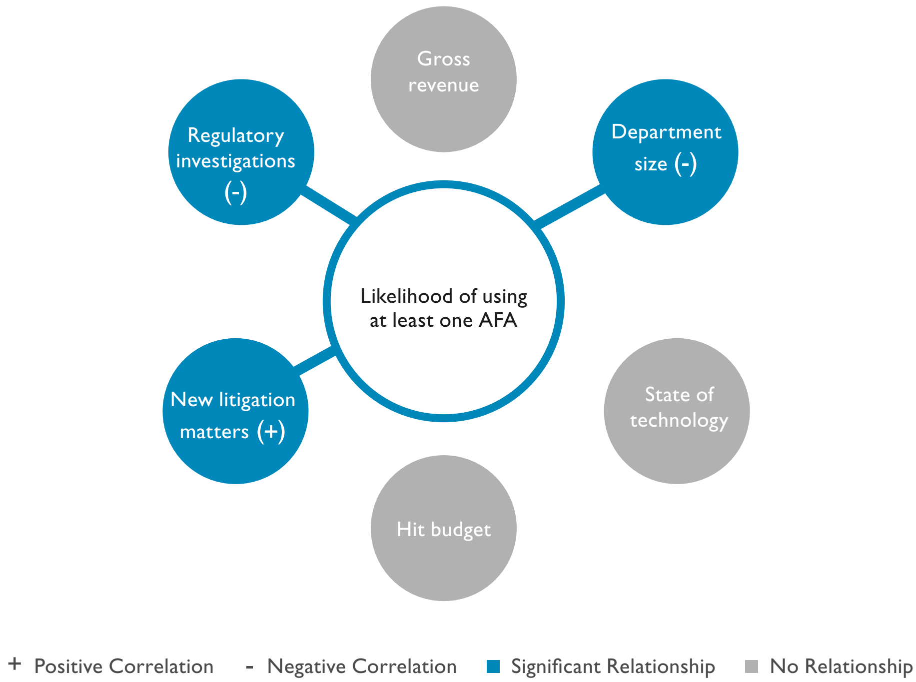
"I'll give you an example [of how we addressed efficiency]. [Regarding] customer agreements, we asked, 'Is there value added in us being involved in negotiations with customer contracts, or is it better to make sure that our businesspeople have highlighted for them the provisions that they need to care most about from a risk standpoint and let them do that'? So we went through work stream by work stream [asking]: How are people spending their time, and do we need to do it? Does our involvement really mitigate risk, or how do we best mitigate risk? Are there materials risks in this activity at all? If not, or we can't really move the needle, we shouldn't be involved. And then, on the opposite side, where can we add direct value because we've got skills that are different than those the business people have? If we have a transaction, then we own it. We drive it. We're not just there as scriveners to the "business lead.""

Senior Vice President and General Counsel, Global Advanced Materials and Agriculture Conglomerate

USE OF FEE ARRANGEMENTS



WHAT INFLUENCES THE LIKELIHOOD OF USING AT LEAST ONE ALTERNATIVE FEE ARRANGEMENT?



Gross company revenue and technology do not appear to significantly influence AFA usage on their own. Nor does the size of current budgets, although it can, of course, be safely assumed that flat fees will have a positive effect on departments hitting their budgets.

While the likelihood of using at least one AFA increases as department size increases – in fact, there is a near certainty that the largest departments will use at least one such alternative fee structure – that does not mean that only large departments are using AFAs. Even departments with two to nine attorneys have a very high probability of using an alternative fee structure.

AFAs are now an almost universally discussed strategy. Awareness is indeed professionwide – a marked contrast to a few short years ago when the rule of the billable hour was well-nigh absolute.

Litigation is the favorite setting. The average number of litigation matters handled by departments in this sample of respondents is just under 49. Departments with this average have about an 85 percent chance of using at least one AFA, while departments handling litigation matters that total well above the average have about a 94 percent chance of using at least one AFA .

The third factor that influences whether a legal department will use AFAs is the number of regulatory inquiries being fielded. Departments that are experiencing a very high number of regulatory investigations are slightly less likely to use AFAs than departments experiencing relatively few regulatory investigations. Regardless of the number of investigations, most departments have a high chance of implementing AFAs to some degree.

In Section 3, we will look at the relative effects of using multiple AFAs rather than just one or two.

While trend lines do point somewhat in different directions, we are still clearly seeing law departments using AFAs with significant frequency – and across the board in terms of size. Particularly in this buyer's market, the indicators do underscore inexorable progress. The benefits for law departments in terms of cost control, and for their own status within their organizations, are too significant; marketplace forces will likely not allow the progress made to be undone.

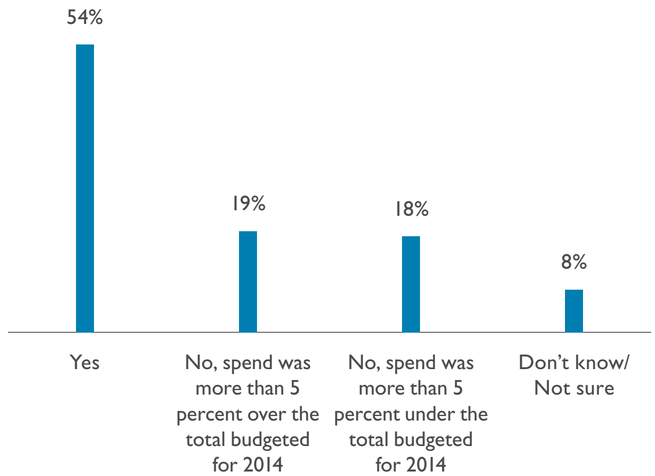
Section III: Budget and Spend

AFAs represent one of many factors affecting budget and spend, as do innovative management practices, the relative number of regulatory matters, and the size of the department. In turn, budget and spend represent a critical factor affecting the status of law departments within their organizations.

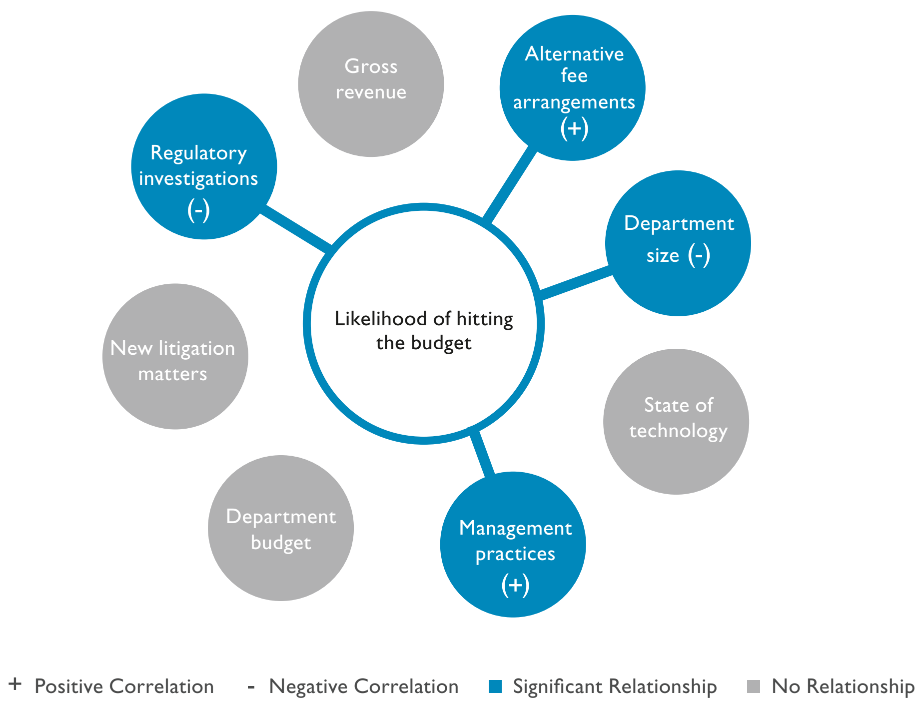
Respondents were first asked whether their departments went over, stayed under, or hit their budgets. Fifty-four of the respondents said that their total spend fell within plus or minus 5 percent of their department's allotted budget. Nineteen percent reported spending more than 5 percent over their budget, while 18 percent reported spending more than 5 percent under their budget.

We found that law department size inversely affects likelihood of staying within budget; smaller law departments are significantly more likely to spend within budget. Apparently, the larger the department, the more moving parts – which predictably makes for a tougher cost-management challenge.

DEPARTMENT SPEND WITHIN BUDGET?



WHAT INFLUENCES THE LIKELIHOOD OF "HITTING THE BUDGET"?



Larger departments may generally face more complex and threatening matters on a regular basis than do smaller departments. Where there are multifaceted issues demanding the unanticipated use or recruitment of specialized expertise, unanticipated costs naturally arise. Where particularly severe exposure looms, cost-containment naturally becomes a lesser priority. In those instances, failure is not an option; exceeding the budget is.

Departments with fewer outstanding regulatory investigations are significantly more likely to hit their budget. Though departments may not budget for unanticipated regulatory investigations, which may or may not be a cost for business units, they nevertheless influence legal resources and spend in many cases.

Factors that did not significantly affect whether a department exceeded budget include department size, company annual revenue, and the state of technology. It is of interest that budget size cannot necessarily simply be readjusted to enable the department to stay within its limits; no matter what the budget, there may be unanticipated exigencies that require overspending. Having more comprehensive technology also had little impact on hitting budgets. While superior technology usually means more cost-efficiency, the benefits of that technology in terms of cost are presumably already figured into the budget.

The number of new litigation matters also had no impact on meeting budgets. Here one might have expected an inverse relationship, meaning that an increase in litigation equates to a decrease in the percentage reporting hitting their budget, because the unanticipated costs of litigation can be significant. Yet, as we've suggested, litigation is one area where AFAs and efficiency-based management practices are particularly relevant.

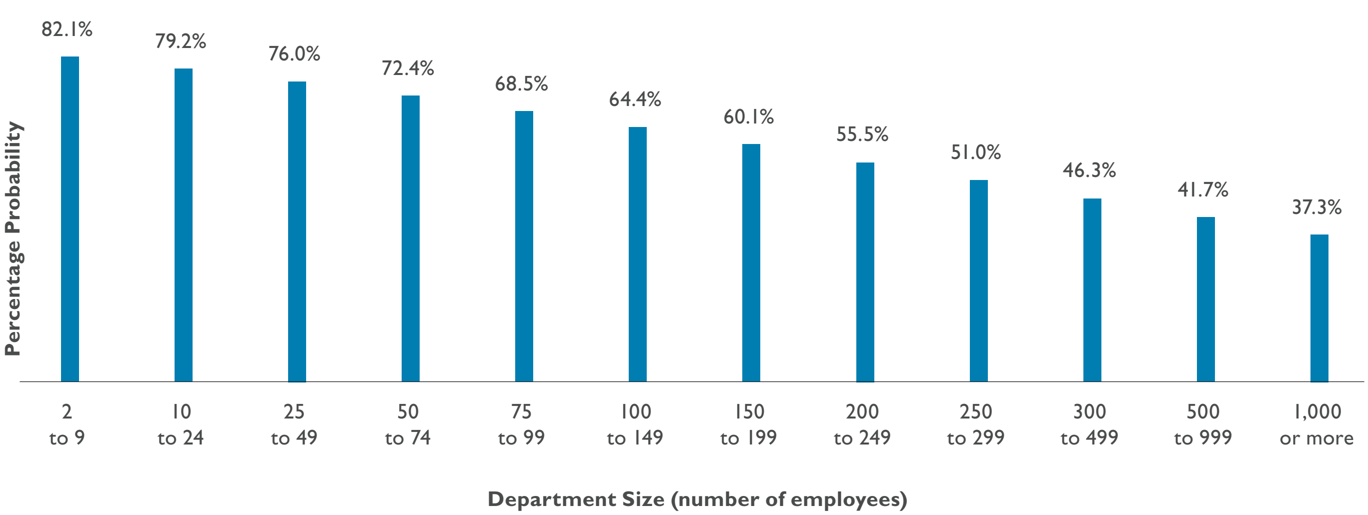
If those arrangements and practices are effectively helping to control costs – and there is every indication that they are – then we can conclude that were it not for those efficiency-related practices, litigation would, like regulatory investigations, be a budget-buster. Instead, the result is no impact – which is good news.

This conclusion is neatly in keeping with our findings as to what factors do positively correlate with hitting the budget. Regardless of size or the predominant legal activity, use of AFAs and efficiency-focused management practices are the decisive factors. Here then is where departments can focus their attention in order to hit their budgets and reap the significant broader benefits of doing so.

Digging deeper, we also found that smaller departments with fewer than 10 employees had a higher probability of hitting the budget than larger departments.

The inference is that, as management challenges increase in scope and complexity/severity, the budgetary challenges become proportionately more difficult – as does the presumed need for efficiency-related practices to meet those challenges.

LIKELIHOOD OF "HITTING THE BUDGET" BY DEPARTMENT SIZE



That point is underscored when examining the relationship between hitting the budget and use of AFAs. Here we also tracked the effect of using multiple types of AFAs. Departmental size notwithstanding, respondents that use nine AFAs have a 92.5 percent probability of hitting budget, while those that exclusively use hourly billing have a 70.5 percent probability.

Here, it would seem, we have rather compelling evidence of the total impact of AFAs. The dilettantes gain a little; the departments that use AFAs as a basic strategy gain quite a bit.

Similar results are found when we correlate probability of hitting budgets with number of efficiency-related management practices. The probability of hitting budget does increase significantly – by 17 percent – among those departments that implement all six of the aforesaid practices (assigning work to a variety of internal resources; automating work processes through technology; unbundling work and sourcing from a variety of external legal service providers and other resources; project management; formal process improvement; and formal knowledge management systems).

Presumably, some of the same dynamics apply that we found with litigation. Earlier in this section, we inferred that the number of new litigation matters had no effect on the "likelihood" of meeting budgets because the use of AFAs and efficiency-based management practices limits the negative impact of those litigation matters. Here we can infer that while there is a negative impact when there are outstanding regulatory investigations, those same best practices mitigate it.

After all, a 70.2 percent probability of hitting budget seems surprisingly high for law departments that exceed the department average for outstanding regulatory inquiries. Again, the explanation may be that many of these departments are reaping the overall benefits of AFAs and efficiency-related management practices used on a department-wide basis.

Such effects only underscore the dramatic role that innovation plays in helping law departments be successful – and, in turn, propelling them into the coveted realms of business and strategic planning. That "outcome" is the subject of our next and final section.

WE'LL REDUCE OUR COST BY 7.5 PERCENT

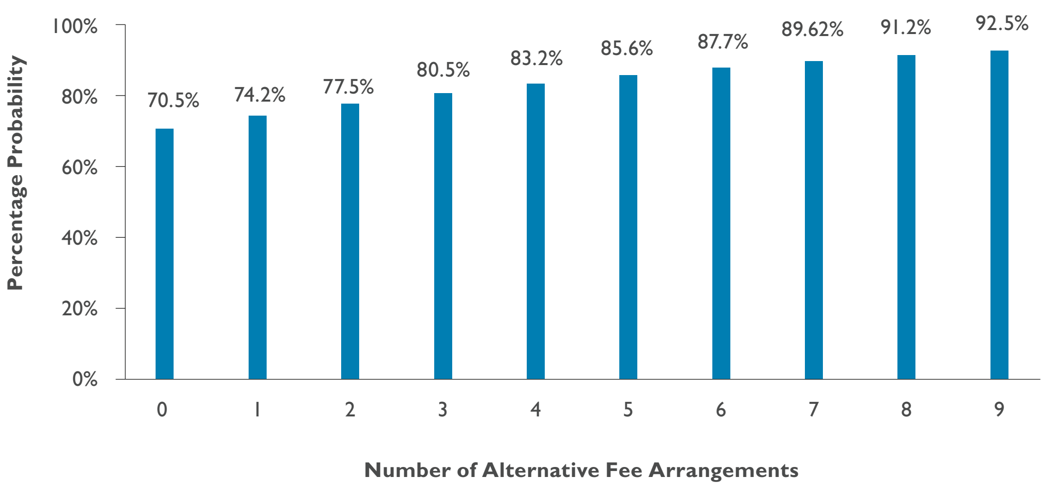
"One of the things we are doing quite actively now is taking hard objectives around cost reduction and reducing transaction time.

They're all things that go into the objectives that ultimately flow up to the group chief executive. We took on a commitment last year to reduce the total cost of legal by 7.5 percent but in addition we also tried to reduce the amount of time that we spend negotiating transactions by 15 percent by being more risk savvy, embracing technology and being consistent about what we will negotiate.

One of the things that we took on board this year was a requirement where we'll reduce our cost by 7.5 percent but we also look to reduce the amount of time that we spend negotiating, sort of the volume of transactions we do by 15 percent by being a little bit more risk-aware and also by more using technology or being a bit more clear about what we will negotiate."

Telecommunications, United Kingdom

LIKELIHOOD OF "HITTING THE BUDGET" BY THE NUMBER OF DIFFERENT FEE ARRANGEMENTS USED



Section IV: Evolving Role of the Legal Department and the CLO/GC

In our introduction to this report, we discussed the changing role of the law department and the enhanced enterprisewide positioning enjoyed by probably more GC/CLOs today than at any time in the past. Based on our data, we are led to a vital connection between the "success" of a law department and the degree to which that expanded influence has been achieved. Having now more thoroughly vetted the specific indices by which that success can be measured, we can now revisit this fundamental connection in greater depth.

As mentioned, respondents were asked to answer three questions regarding organizational influence. Respondents were able to select whether the following statements "almost always," "sometimes," "seldom," or "never" occur:

1. The executive team seeks the legal department's input on business decisions.
2. Members of the legal department meet with business leaders to discuss operational issues and risk areas.
3. The legal department is a contributor to the organization's strategic planning efforts.

We can clearly see that today's legal departments have serious influence within organizations with over 65 percent of respondents saying their department "almost always" experiences each of the above situations.

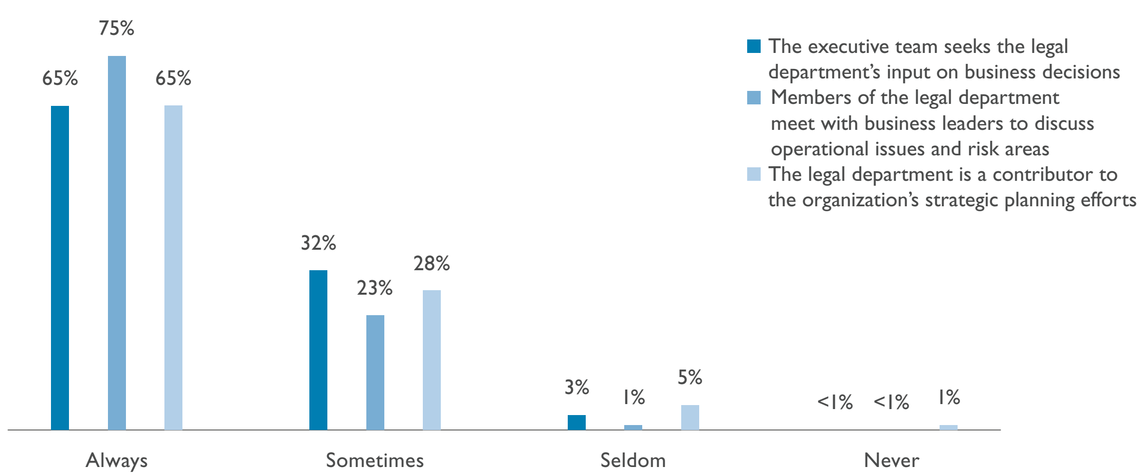
I DON'T GO INTO ANY MEETING WITHOUT MY LAWYER ON MY ARM, AND WE DO NOT START ANY OF OUR STRATEGIC THINKING OR PLANNING ON MARKETING AND ADVERTISING WITHOUT HAVING A LAWYER IN THE ROOM

"In terms of working with business units and questions they typically ask, our team often gets the question 'Can we do this?' It's almost an easy question. If it's illegal, of course we can't do it. The more difficult question is 'Should we do this?' Yes, it's within the law, but could it open us up to a claim from someone else, or could it open us up to regulatory scrutiny or could it have a reputational impact? You can never be certain of outcomes in any sort of litigation or claim.

As an example, the head of our media or marketing area has been very forthright in saying, 'I don't go into any meeting without my lawyer on my arm, and we do not start any of our strategic thinking or planning on marketing and advertising without having a lawyer in the room,' for a number of reasons: One, they do bring an innovative way of thinking because it's a different way of thinking, but they also ensure that we don't get ourselves down to the door of launching an ad or a commercial or going to an agency to get something worked up and then the lawyer says, 'No, you can't do this because ….' So I would say the question we get asked most is 'Can we do this?' whether from an anticompetitive perspective, whether in breach of an undertaking we've given, whether because of a whole lot of regulations that an incumbent telco finds itself facing. You can get executives to come in from different industries or from different countries who don't really understand how many restrictions we have on our business and on the way we do things."

Group General Counsel, Global Telecommunications and Technology, Australia

LEGAL DEPARTMENT'S INFLUENCE WITHIN THE ORGANIZATION



IN OUR COMPANY, THE LEGAL DIMENSION IS AN INTEGRAL PART OF THE GROUP STRATEGY FROM A BUSINESS PERSPECTIVE

"We are based in Switzerland – continental Europe – and it's very interesting to see that to a large extent continental Western Europe is following the trend that the United States general counsel started 20, 25 years ago: moving from a competent legal services unit to a business partner. Now we're taking this to what Ben Heineman from General Electric used to call statesman lawyer, and that means essentially that beyond the classic practice areas, the general counsel in this continent and particularly here in our company are getting more and more involved in regulatory, in compliance, in creating shared value, in external stakeholder engagement. To some extent, we are partnering very closely with public affairs, so we're becoming true advocates. That is an evolution that has started to pick up quite some momentum five years ago, particularly now in the industry as it's becoming heavily regulated.

My role evolved into a strategic role. When I took over in June 2011, the first thing I wanted was to establish a group legal strategy, endorsed and aligned with the executive board, which I did basically five months after taking my position. Now that has become a regular feature with the executive board, and I go every single year with the group legal strategy where we touch the key areas, the way we are organized, and our ambition, particularly in terms of engaging with the external world.

In addition to that, I go four or five times a year with specific legal topics to the executive board to touch typically on marketing, on a group antitrust competition law strategy, and on a favorite for this kind of industry, of course, intellectual property. I like going with a mix of the way the function is organized and where it's going and then substantive burning legal issues where I need the board aligned behind it to take a position.

The benefits are that in our company, the legal dimension is an integral part of the group strategy from a business perspective first but also equally from a risk and compliance perspective. So now that's a regular feature in every board meeting we have- policies or projects that have a big legal component. That's a huge benefit. And that percolates down to organizations in the legal department because our lawyers feel like an integral part of the strategy, they feel more engaged, and they feel they have a direct impact on the way the company operates.

The downside is the workload. I like saying that we're victims of our own success, which has meant basically that we have literally doubled the practice areas of our function. Just to give you one example, and maybe from a United States perspective this will sound bizarre, this legal department didn't have an employment law unit five years ago. We had to create that from scratch, hire people from the outset, and I will run things properly for their unit. Another example would be procurement. Every commercial lawyer thought that he or she knew about procurement law and trade law. Well, now that has changed, and I just created a new unit with eight lawyers dealing with all these matters groupwide.

One driving force behind the evolving role is that it requires the chief legal officer's passionate engagement. These things take a lot of energy to get them started. Then you need an extremely good team of direct reports who believe in this vision and are willing to execute it, to execute the strategy with equal amounts of passion. The flip side is there must be a pull, and the pull is coming inside and outside. Inside is the business needs. As this company is expanding in these new areas I mentioned, for instance dermatology, it brings a new whole dimension of legal needs. The external one is the obvious regulatory pressure, legislative pressure, and to some extent let's call it litigation/investigatory aspects, which in so many countries have increased dramatically, so there's a pull from the outside to step up our game.

In a company so varied like ours with so many portfolios and countries in which we operate, the questions we get are very, very varied and different. It's very hard to choose the most recurring one, but we're getting more and more the obvious one, which is, 'Is it legal?' 'I'm very pleased to say that now it's becoming more and more coupled with the sister question, "Is it the right thing to do?' I like that because it means our clients are getting the message or getting our constant training that it is not only about complying with the law but being compliant with ethics, with our own policies, and with the expectations our many stakeholders have about our company."

CLO, Food and Beverage (including healthcare sciences, pharma, and dermatology), Global - Europe

ONE DRIVING FORCE BEHIND THE EVOLVING ROLE IS THAT IT REQUIRES THE CHIEF LEGAL OFFICER'S PASSIONATE ENGAGEMENT

"I see that the role has changed from being a legal advisor to being much more an integral part of the decision-making. My CEO says to me things like, 'It's a given you'll keep me out of jail, but what I really value is your judgment, your cross-company perspective,' and the report he says he reads every week that gives him a true insight into what's happening in the company is the legal report because it tells it how it is right across the company from a very independent perspective. I read an ACC report that said we're being required to see what's coming around the corner, and that's exactly the same way as I describe it. We are being depended upon to see what's coming over the hill at us. We really have a valuable role in being able to contribute to decision-making and risk-taking.

I have seen the expectation and the encouragement for me to not just be the lawyer but to bring what's been described to me as a unique voice to the table. That expectation is due to a combination of factors: It depends on the nature of your CEO and board, on the confidence they have in their group general counsel and in receiving legal advice, on the environment that you're working in. We find ourselves at the moment having come out of a very litigious and transaction-focused period where my predecessor would've spent most of his time either defending actions in court from regulators or third parties or negotiating very large transactions. As we've gone through that and built relationships, my role has become more focused on being the trusted adviser and business partner."

Group General Counsel, Global Telecommunications and Technology, Australia

WHAT FACTORS AFFECT THE ORGANIZATIONAL INFLUENCE OF THE LAW DEPARTMENT?

	Hitting the Budget	Gross Revenue	Department Size	Number of Efficiency-Focused Management	Number of New Litigation Matters	Regulatory Investigations	State of Technology
The executive team seeks the legal department's input on business decisions		(+)	(–)		(+)		
Members of the legal department meet with business leaders to discuss operational issues and risk areas	(+)				(+)		(+)
The legal department is a contributor to the organization's strategic planning efforts	(+)	(–)		(+)		(–)	(+)

Note: Circles indicate a statistically significant relationship between the variables on the horizontal and vertical axes. (+) indicates a positive correlation and (-) indicates a negative correlation.

These findings are in marked contrast to our Section 3 data on hitting the budget where we highlighted that size, but not gross revenue or litigation matters, was a factor in predicting that outcome. One explanation may be that larger gross revenues likely entail more voluminous business activity; more litigation matters suggest that operating units are more directly affected by legal issues. It would thus make sense that executive teams under such circumstances would have more reason, and more opportunity, to seek input from the law department.

Departments that hit their budget, have a more comprehensive state of technology (an important concomitant of "efficiency-focused management practices"), and have a larger number of new litigation matters filed are likelier to say that members of their legal department "almost always" meet with business leaders to discuss operational issues and risk areas.

Here, we begin to see how the "success" of a law department, apart from size and revenue, affects perception. On the one hand, business leaders will naturally meet with law departments if there is a greater number of occasions when their business activities require legal involvement or risk management. But on the other hand, they will more likely choose to meet with those law departments that are perceived to also be well run – they hit the budget, are efficient, and are technologically state-of-the-art.

In this study, respondents in departments that hit their budget tended to be in companies with lower total company revenues, use a greater number of efficiency-focused management practices, have more comprehensive technology, and have fewer regulatory investigations are far more likely to report that their legal department is seen as a contributor to the organization's strategic planning efforts.

As noted, "strategic planning" represents a next level in terms of departmental prestige. It does not happen as a matter of chance; strategic planners are chosen not just because business leaders may need to meet with counsel to discuss a troublesome lawsuit but because they perceive in-house counsel as well qualified to contribute.

Again, the success of the department in terms of the efficiency with which it delivers its traditional services, and the value it thereby provides to the enterprise, directly and positively affects perceptions that in-house counsel are suitably equipped to join the strategic team. Only annual revenue varies here as smaller companies are likelier to engage in-house counsel as strategic planners. Inferentially, we would suggest that smaller companies have fewer executives; there is a greater likelihood that each of those executives may naturally be wearing more hats than in a more complex organizational structure.

As with the other outcomes in this study, we looked at "predicted probability" results for "executive team seeks the legal department's input," "members of the legal department meet with business leaders to discuss operational issues and risk areas," and "the law department is a contributor to the organization's strategic planning efforts."

1.The executive team seeks the legal department's input on business decisions.

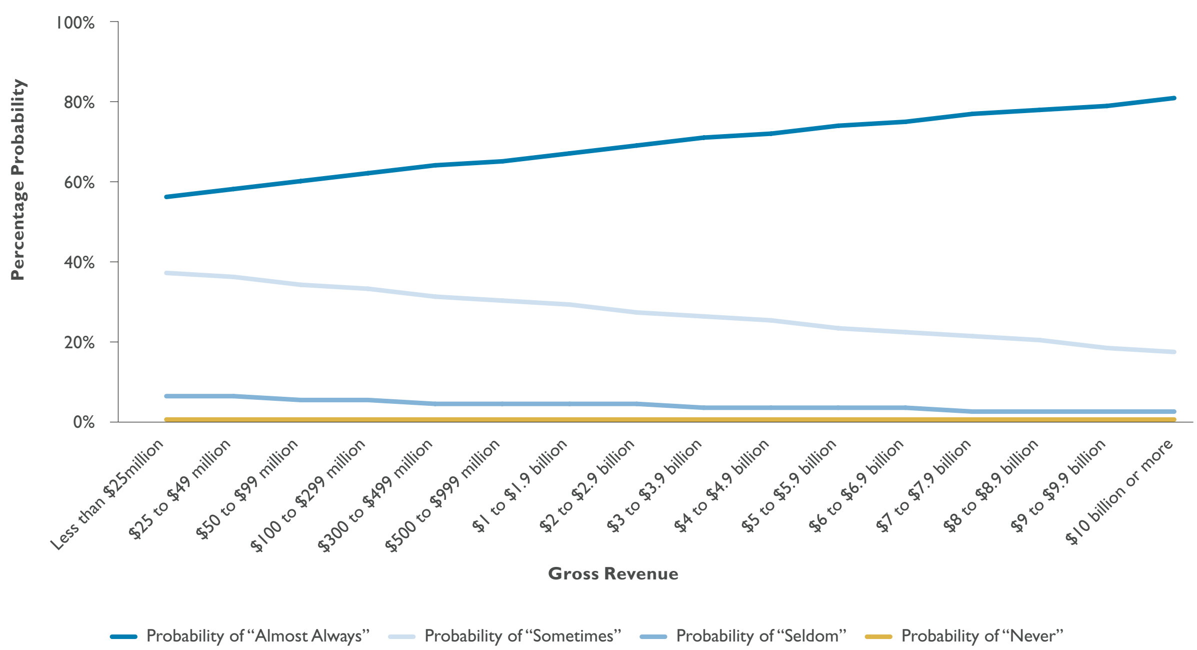
The chart below shows that respondents at companies with larger revenues are more likely to say their department "almost always" provides input on business decisions. Departments with $25 million or less in revenue have a 56.2 percent probability of providing such input compared with an 80.5 percent chance among those at companies with $10 billion or more – a substantial differential indeed.

The chart below shows that respondents at companies with larger revenues are more likely to say their department "almost always" provides input on business decisions. Departments with $25 million or less in revenue have a 56.2 percent probability of providing such input compared with an 80.5 percent chance among those at companies with $10 billion or more – a substantial differential indeed.

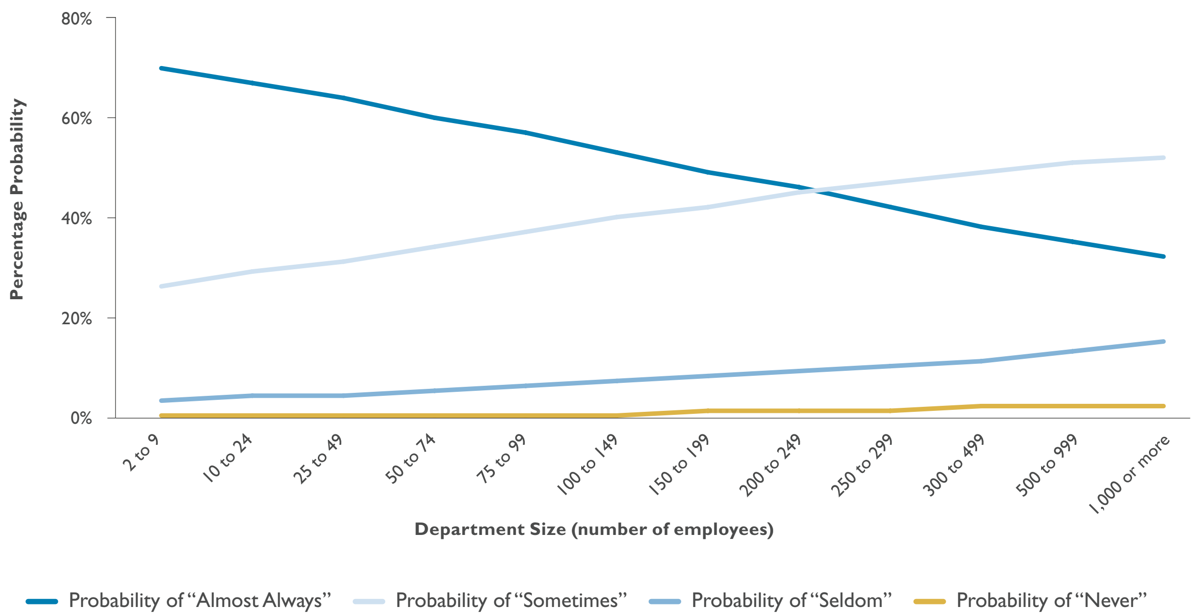
By contrast, respondents in smaller departments have a higher probability of believing their input is "almost always" sought for business decisions. The difference is relatively large across department size categories. Those in departments of two to nine attorneys have a greater chance of saying "almost always" compared with those in the largest departments.

> *"I wouldn't say my input is "primary," but I would say the strategy wouldn't be put forward if I didn't endorse it. So I think if I had an issue with the strategy, that's not to say it wouldn't go ahead because I don't pretend to be the expert on all the commercial parts of the business – there are people employed, experts in those particular fields – but certainly my endorsement would be a fundamental requirement for that strategy to go forward."*
>
> **Group General Counsel, Global Telecommunications and Technology, Australia**

LIKELIHOOD OF EXECUTIVE TEAM SEEKING LEGAL DEPARTMENT'S INPUT ON BUSINESS DECISIONS BY GROSS REVENUE



LIKELIHOOD OF EXECUTIVE TEAM SEEKING LEGAL DEPARTMENT'S INPUT ON BUSINESS DECISIONS BY DEPARTMENT SIZE



The contrast in results between revenue and department size is consistent with our previous findings. Executives at companies with larger revenues will likely have more numerous reasons to talk to a lawyer, while lawyers at smaller departments may already be wearing more hats than a strictly legal one.

An examination of the effect of new litigation matters on departmental input on business decisions revealed that when litigation involves their own operating units, business leaders want to talk to a lawyer.

2. Members of the legal department meet with business leaders to discuss operational issues and risk areas.

Among those who work in departments that hit their budget, there is a fairly high likelihood of saying that they "almost always" meet with business leaders to discuss operational and risk issues compared with those whose departmental spend was over budget. The gap here may be smaller than expected; one explanation is that with serious "risk areas" at play, there is some greater probability that even departments that don't hit their budgets believe they are likelier to be consulted regarding the company's risk exposure.

Departments with a more comprehensive state of technology are likelier to say they "almost always" meet with business leaders to discuss operational and risk areas. Those with minimal technology have a 75.2 percent chance of making this claim compared with an 87 percent chance among those in departments with comprehensive technology. This finding is obviously consistent with all other related data on efficiency-focused management practices in this report.

Similarly, those with more new litigation matters filed are likelier to say they meet with business leaders to discuss operational and risk issues. This finding is consistent with the effect of new litigation matters on "executive teams seeking the legal department's input on business decisions."

PEOPLE HAVE COME TO RELY ON AND HAVE CONFIDENCE IN OUR ABILITY TO GUIDE THEM.

"From the start, our legal team always demonstrates a commercial sense to our advisory role [with business units]. The manner of our engagement with all the other departments and other groups is a collaborative approach to let people see that we are partners in arriving at a decision. They can see how we arrive at any decision through our collaboration and of course the results. We bring to bear a sense of partnership.

People see that we have provided thought leadership in guiding and providing a framework. It's generally getting to the place where we are seen as a trusted adviser. People have come to rely on and have confidence in our ability to guide them."

Head of Legal, Finance, and Banking, Nigeria and West Africa

Among those who work in departments that hit their budget, there is a 79.6 percent likelihood of saying that they "almost always" meet with business leaders to discuss operational and risk issues compared with a 74.8 percent likelihood among those whose departmental spend was over budget. The gap here may be smaller than expected; one explanation is that with serious "risk areas" at play, there is some greater probability that even departments that don't hit their budgets believe they are likelier to be consulted regarding the company's risk exposure. Participation in strategy development may be an enabling factor for meeting budget. GC can anticipate the legal impact strategy will have and will then be able to use that knowledge to prepare a better budget.

Departments with a more comprehensive state of technology are more inclined to say they "almost always" meet with business leaders to discuss operational and risk areas compared with those in departments with less comprehensive technology. This finding is obviously consistent with all other related data on efficiency-focused management practices in this report.

Similarly, those with more new litigation matters filed are likelier to say they meet with business leaders to discuss operational and risk issues. This finding is consistent with the effect of new litigation matters on "executive teams seeking the legal department's input on business decisions."

3. The legal department is a contributor to the organization's strategic planning efforts.

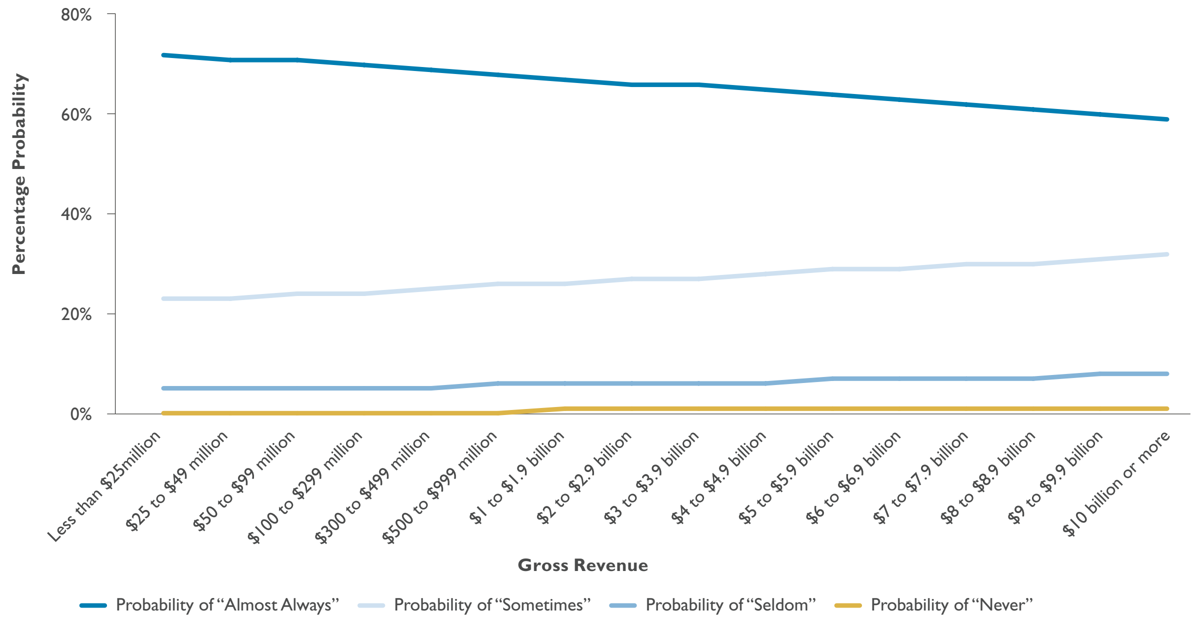
There is a significantly higher probability of perceiving one's department as a contributor to the organization's strategic planning efforts among companies with smaller overall gross revenues. Those at companies with less than $25 million in annual revenue have a 72.0 percent probability of saying they are "almost always" a contributor compared with a 59.4 percent chance among those at companies with $10 billion or more in annual revenue. Again, at smaller companies, the GC is likelier to be playing multiple roles from the outset and is therefore likelier to have a seat on the business planning team.

THE GENERAL COUNSEL IS VERY MUCH INVOLVED IN THE STRATEGY OF THE COMPANY.

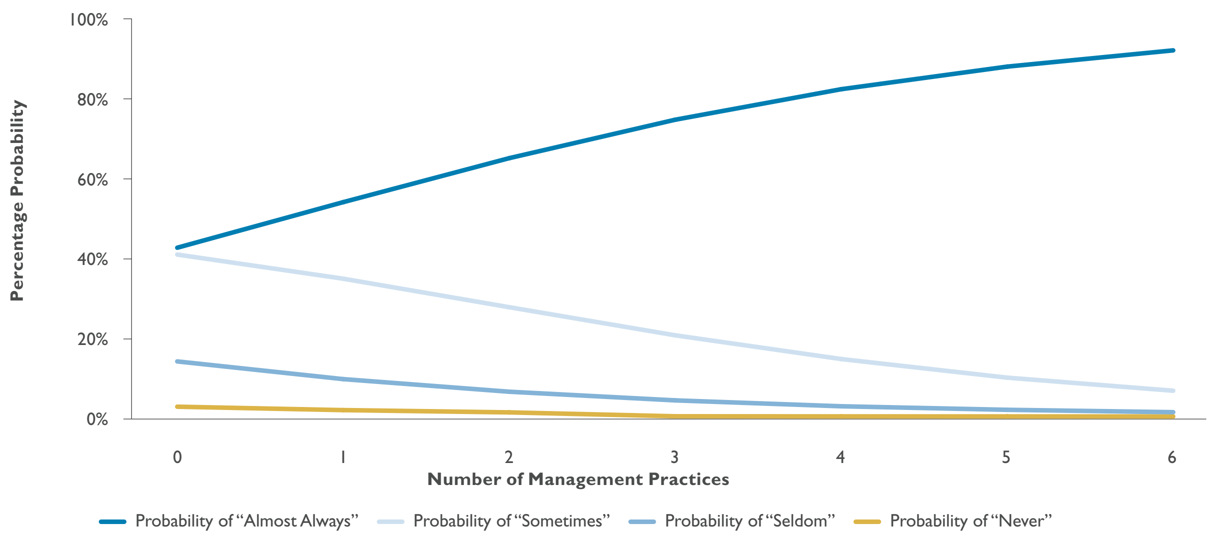
"Every year, in October and November, I am part of the review team of the budget. We have about 160 different business unit presentations over that two-month period. The subgroups come and give us a review of their performance over the previous 10, 11 months and then present their budget for the next year and five years looking forward. I am a part of this team that comprises the executive director, the legal person (me), and the finance department. We are very well versed in what's going to come up within the subgroups before the year ends so we can be properly providing necessary advice as well as ensuring that we staff our teams properly to cater to the needs of the subgroups."

Head Group General Counsel and Company Secretary, Global Conglomerate, Asia Pacific

LIKELIHOOD OF PERCEIVING ONE'S LEGAL DEPARTMENT AS CONTRIBUTING TO THE ORGANIZATION'S STRATEGIC PLANNING EFFORTS BY GROSS REVENUE



LIKELIHOOD OF PERCEIVING ONE'S LEGAL DEPARTMENT AS CONTRIBUTING TO THE ORGANIZATION'S STRATEGIC PLANNING EFFORTS BY THE NUMBER OF MANAGEMENT PRACTICES EMPLOYED



Respondents in departments that hit their budget are far more likely to say they are a contributor to the organization's strategic planning efforts. The probability of saying one's department is "almost always" a contributor is 72.2 percent among those that hit their budget compared to 49.6 percent among those that spent over budget.

Second, departments that use all of the efficiency-management practices tested are far more likely to be strategic contributors than departments where the CLO reports no use of efficiency-focused management practices. There is likewise a clear increase in the "almost always" probability as the number of practices used rises.

The inevitable conclusion is that the most important measure of the law department's interface with the company's business leadership – namely strategic planning – is overwhelmingly connected to the success of the law department.

> *Departments that use all of the efficiency-management practices tested are far more likely to be strategic contributors.*

Group General Counsel, Global Telecommunications and Technology, Australia

The overall message is clear in any event: Law departments that struggle to deliver value may go no further in the corporate hierarchy. Those that do deliver value have an exponentially better chance of doing so.

There is strong evidence that a law department that is perceived to be successful has a greater chance of joining the strategic planning team. Those with a "minimal" level of technology have a 63.5 percent probability of saying their department is "almost always" a strategic contributor compared with a 78.8 percent chance among departments with comprehensive technology.

The final factor from our analysis that has a clear impact on whether a law department is viewed as a contributor to strategic planning efforts is the number of regulatory investigations fielded. When a department is handling only one regulatory investigation, the probability of reporting that the department is "almost always" a contributor is 67.2 percent. When a department is handling a higher than average number of investigations, this probability rises to 70.5 percent.

Here the numbers contrast to the data on how regulatory investigations affect budgets. On the one hand, as we've seen, they decrease the likelihood of hitting budget numbers. On the other hand, regulatory investigations are linked to the very bloodstream of a company: the products and services that it sells and how it sells them. There can be no strategic planning without a focused eye toward regulatory viability. Those lawyers who are overseers on the regulatory front will therefore have something significant to contribute at the planning table.

WHAT THEY WANT IS A LEGAL MIND WHO WILL ADDRESS THE WHOLE PICTURE

What CEOs want is somebody who will work with them to find the solution. There'll be many regulations and ethical values of a company. Anybody can tell them what the problem is. What they want is a legal mind who will address the whole picture, creating results, solving the problem – that's from the business point of view. The business is no longer just going be interested in 'Give me a legal opinion and the usual legal advice.' No, they want you to provide pragmatic and commercial sense in what you are advising.

Today you find chief legal officers becoming business executives. At this point, you can't just be narrow. So we find ourselves evolving to fit the role; legal leadership is stepping up and stepping into leadership roles to fill. CLOs can be very, very important participants in achieving strategic objectives.

Head of Legal, Finance, and Banking, Nigeria and West Africa

LIKELIHOOD OF PERCEIVING ONE'S LEGAL DEPARTMENT AS CONTRIBUTING TO THE ORGANIZATION'S STRATEGIC PLANNING EFFORTS BY THE STATE OF TECHNOLOGY

State of Technology	Probability of "Almost Always"	Probability of "Sometimes"	Probability of "Seldom"	Probability of "Never"
Minimal	63.5%	28.7%	6.7%	1.1%
Basic	69.1%	24.7%	5.3%	.09%
Adequate	74.2%	20.9%	4.2%	.07%
Comprehensive	78.8%	17.4%	3.3%	.05%

Section V: The Legal Operations Linchpin

The emergence of professional management at the law department level is all the more significant when considered in the context of the data and the conclusions reached in this report. We have seen that efficiency and innovation are the keys to value. In turn, we have seen that perceived value is a requisite concomitant in the transformation of the in-house legal role. So the conclusion to infer: By effectively deploying professional legal operations management, law departments achieve the efficiencies that increase perceived value and lead to broader enterprisewide strategic responsibility.

Who are these professional managers? Many are lawyers; some have a master's in business administration. All are seasoned business veterans. They do not practice law. Their job is to ensure that the legal services delivered have value, to handle managerial issues, and to manage expenditures as effectively as possible, which enables lawyers to focus more on contributing to company strategy. They have a direct effect on all of the "attributes" discussed in this report; their involvement equates with increasingly positive results in terms of efficient practices, innovation, and budget/spend.

Presumably, the positive effect that these emergent managers have apparently had will only encourage more law departments to adopt such legal operations strategies. And emergent they are! According to the *ACC Chief Legal Officers Survey,* CLO/GC with departments of at least 25 employees and who made staffing adjustments in the past year were more likely to add than reduce legal operations staff. Seventeen percent increased legal operations staffing. Among CLO/GC who plan staffing level changes in the next year, 14 percent plan to increase legal operations staffing.

These law department operations professionals are specifically charged to:

- Oversee budgets and spend.
- Identify and track performance indicators that will inform decisions on such matters as in-sourcing, major technology purchases, and risk assessments.
- Manage processes and relationships. Specifically, how they are retained and how their performance is overseen, but not including the substantive legal aspects of cases or deals – again, these operations experts do not practice law. But they do create the conditions for optimal inside/outside interactions. For example, they run convergence programs to distill down to an optimal mix of panel law firms. In that context, they negotiate fee arrangements. They conduct performance reviews of outside counsel and provide departmental attorneys with tools and training to better manage outside counsel from a process perspective.
- Select and deploy technology systems and/or outsource to maximize control of all departmental processes with a specific eye toward cost control and risk management.
- Handle talent development initiatives. The law department operations professionals often run recruitment, onboarding, performance review, and training programs. He or she also spearheads initiatives to better integrate far-flung departmental personnel.
- Spearhead initiatives such as setting up knowledge management systems and conducting data security audits of law firms and vendors.
- Run pro bono and diversity programs.

Powerful examples abound in the current legal marketplace of how operations experts officer have led major law departments to critical next steps in efficiency and innovation. To name just a few: Bank of America Corp. moved 80 percent of its litigation to fixed fees while sponsoring roundtables to disseminate best practices among its retained firms. United Technologies Corp. reached a 70 percent mark in the use of AFAs, in part because professional managers were able to apply compelling metrics to sell the idea internally and to law firms. At Marsh & McLennan Cos., the chief operations officer ran a convergence program, along with conversion to AFAs that led to a 56 percent cut in outside legal spending even while overseeing new technology systems that saved $10 million annually.

At global legal departments, they are valued participants on the GC's executive team, in charge of growing legal operations functions. Legal ops professionals, in turn, ensure control and are empowered to communicate departmentwide.

Section VI: Conclusion: Lever of Change

The significant mass of data in this report along with additional metrics in the charts that appear in the appendices present significant degrees of consistency. We unearthed telling correlations between the size of law departments, as well as the gross revenues of the company, and the likelihoods of departments achieving the definable traits of a high performing law department. We likewise correlated those likelihoods with the work these law departments perform – specifically, relative volumes of litigation and regulatory investigations.

The qualities of high performing or value-added law departments were operationally defined as management practices that drive efficiency; innovative approaches that enhance results and control costs, especially alternative fees; and overall budget and spend, plus the consistency with which departments hit their budgets or come in lower.

One of the most prominent signals of the evolving role of the GC or CLO is attaining a seat at the business table, particularly as strategic partners working indissolubly with top officers and directors. If there is one way to summarize the importance of this study – for smaller companies and departments as well as the world's biggest – it is in the direct connection between prowess in managing the law department and its ability to achieve such an enhanced profile enterprisewide.

We saw that circumstantial factors like size and revenue naturally affect this status but not with the appreciable impact that law departments have when they are efficient enough and innovative enough to provide unambiguous value to the entire enterprise. We saw too a decisive step in the progress toward value: the deployment of highly skilled executives functioning as operations professionals to ensure efficiency and innovation.

The lesson is that core law department competencies cannot be skipped over on the road to enhanced authority and leadership. To be in a position to provide value to C-suites and boards at the highest strategic levels, the law department itself must be well run and continue to deliver tangible, measurable value.

Where then do these conclusions lead us in terms of a blueprint for the future? As long as there are no 100 percent positive correlates, there will be room for further effort by law departments of all sizes and in all industries. Three examples, among the many suggested by our data:

- AFAs have a positive impact on law department success – certainly at the budgetary level. Our findings should offer only further incentive to work with outside counsel to help them help us.
- Efficiency-driving management practices correlate with departmental access to the strategic planning process – yet we found that fewer than 50 percent of responding departments have implemented four of the six such practices we assessed. Our findings should help motivate many more departments to identify and implement those best practices.
- Regulatory work is a consistent challenge in the quest for maximum cost-efficiency. Perhaps a rethinking of how this work is carried out, or of a more efficacious work balance between inside and outside counsel, is in order.

All that said, those who use this data as inspiration to fortify their departments with empirically demonstrable best practices will be very well positioned.

YOU NEED TO MAKE SURE YOU'VE GOT THE RIGHT PIECES OF INFORMATION TO HELP YOU IN THAT RISK-TAKING DECISION-MAKING, AND THAT'S WHERE LAWYERS COME INTO THEIR OWN

"In large part, the driving force behind the changing landscape or evaluation of our profession is the fact that we, as in all corporates, can't stand still. Change and disruption are affecting every industry. So senior management, CEOs, and boards need to be moving more quickly, which means they need to take more risks. When you're taking more risks, you need to make sure you've got the right pieces of information to help you in that risk-taking decision-making, and that's where lawyers come into their own – lawyers who are valued in the in-house environment. It's no point being the best lawyer in the world who can give the black-letter advice if you're not able to say, 'Here are the risks as I see them because I know the law and I know the business and I know what you're trying to achieve, and I'd recommend you do X.' It's that additional independent, measured advice that I think is crucial to enable companies to make decisions faster and the right decisions faster.

It is innovative in that lawyers are not just there doing the traditional legal work, they are there to think of commercially focused solutions – innovative ways of doing things that will probably involve a bit of risk. But they can give advice on what that risk might be and ensure that it's informed risk-taking. This approach has translated itself into a great comment to me about a team of my lawyers being the secret weapon which really helped them win deals."

Group General Counsel, Global Telecommunications and Technology, Australia

QUESTIONAIRE

Survey Questions

BUDGET AND SPEND

1. How is the cost of your law department allocated for (cost) accounting purposes?

2. What was your total department budget in 2014?

3. What is your current department budget in 2015?

4. Please enter your total inside legal spend in 2014.

5. Please enter your total outside legal spend in 2014.

6. Please indicate the total dollar amount spent on litigation/arbitration matters in 2014.

7. Did the department's total spend for 2014 fall within 5 percent of the annual budget for that year?

FEE ARRANGEMENTS

8. Which of the following fee arrangements do you use?

9. What percentage of your outside legal spend was based on alternative (value-based) fees?

10. Do you anticipate your department's use of alternative (value-based) fees to increase, decrease, or stay the same in the next year?

LEGAL OPERATIONS MANAGEMENT

11. Select your most accurate response for the following: 1) The executive team seeks the legal department's input on business decisions, 2) Members of the legal department meet with business leaders to discuss operational issues and risk areas, 3) The legal department is a contributor to the organization's strategic planning efforts.

12. What management practices are you employing to improve efficiency in your department?

13. Please indicate the total number of new litigation/arbitration matters filed in 2014.

14. Please indicate the total number of regulatory investigations outstanding in 2014.

15. Compared to the same time last year, what changes, if any, have occurred to the following: 1) Cycle time for contracts, 2) Number of new litigation/arbitration matters, 3) Settlement costs, 4) Number of compliance related investigations.

16. Where do you primarily direct the following functions/responsibilities?

17. What factors do you consider when determining whether the department should employ in-house lawyers (insource) or outsource work to a law firm and/or legal service provider?

PROCESSES, SYSTEMS, AND TOOLS

18. Which of the following best describes the technology (systems and software) in your law department?

19. What key metrics do you rely on most to manage legal operations and make decisions about the legal department?

20. What metrics are most effective in demonstrating the value of the legal function to your organization's leadership (i.e., what three or four metrics are you most often asked to share with executive leaders)?

21. What data/metrics would you like to have in order to make decisions, manage law department operations and/or demonstrate value?

STAFFING

22. Which of the following do you currently have in your department?

23. What corporate functions does your legal department oversee?

24. In which geographic locations does your company currently have in-house lawyers employed?

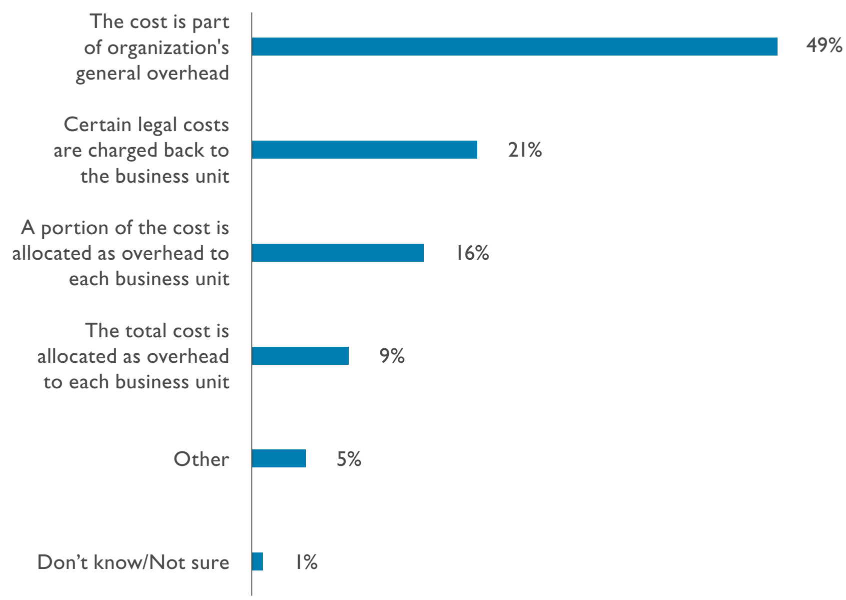
25. What is the most important criterion for qualified candidates seeking employment in your law department?

26. Where does the compliance function report in your organization?

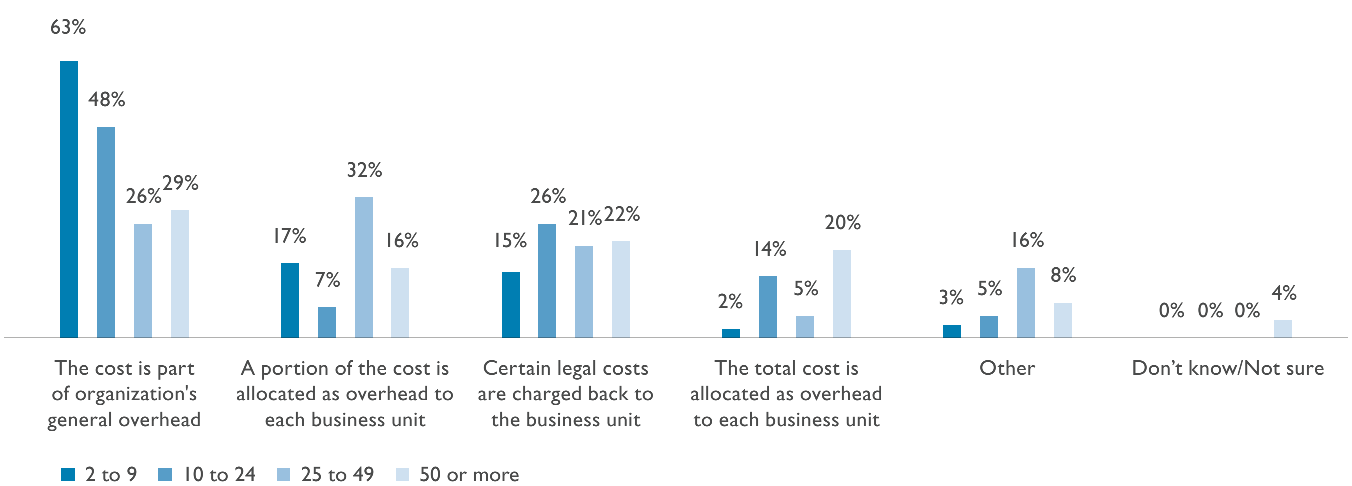
27. Which of the following alternative staffing arrangements do you use?

OVERALL SURVEY RESULTS

1. How is the cost of your law department allocated for (cost) accounting purposes?



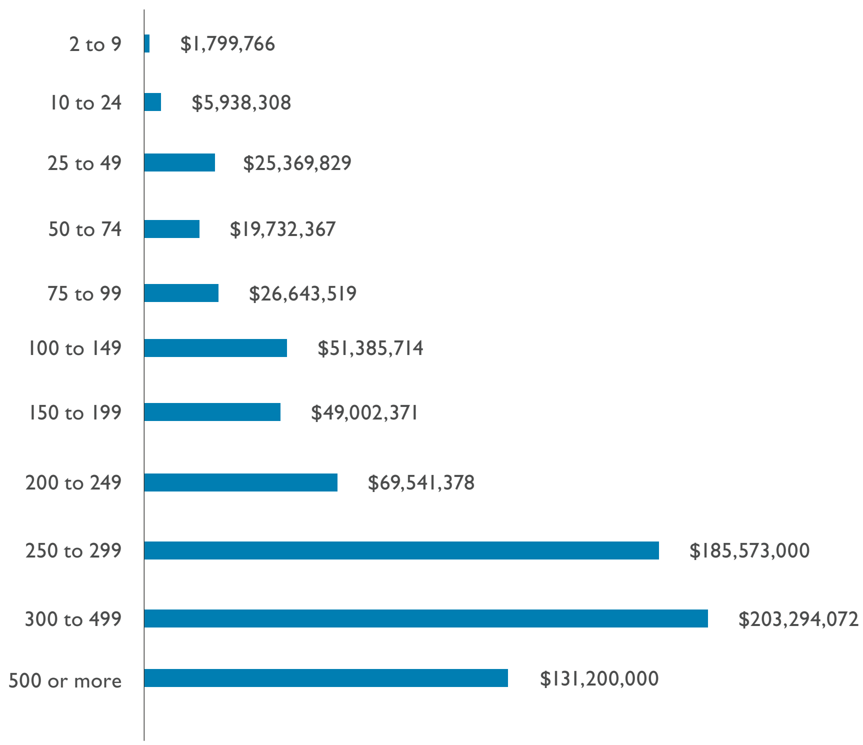
COST ALLOCATION BY DEPARTMENT SIZE



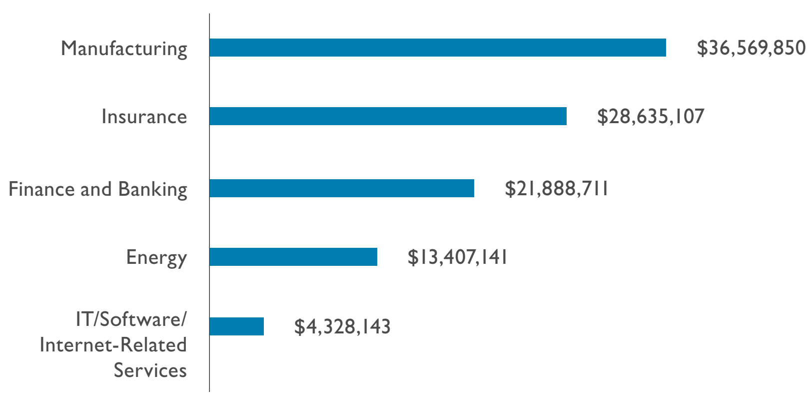
2. What was your total department budget in 2014?

n	median	mean	std. dev.	min.	max.
211	$2,500,000	$20,070,819	$45,798,773	$30,000	$277,000,000

AVERAGE 2014 DEPARTMENT BUDGET BY DEPARTMENT SIZE (ALL EMPLOYEES)

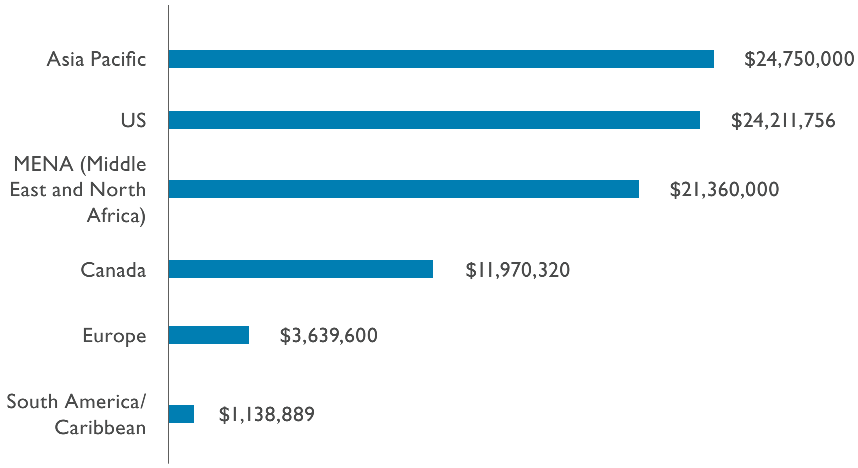


AVERAGE 2014 DEPARTMENT BUDGET BY INDUSTRY



Note: Chart excludes industries with fewer than 10 respondents.

AVERAGE 2014 DEPARTMENT BUDGET BY REGION

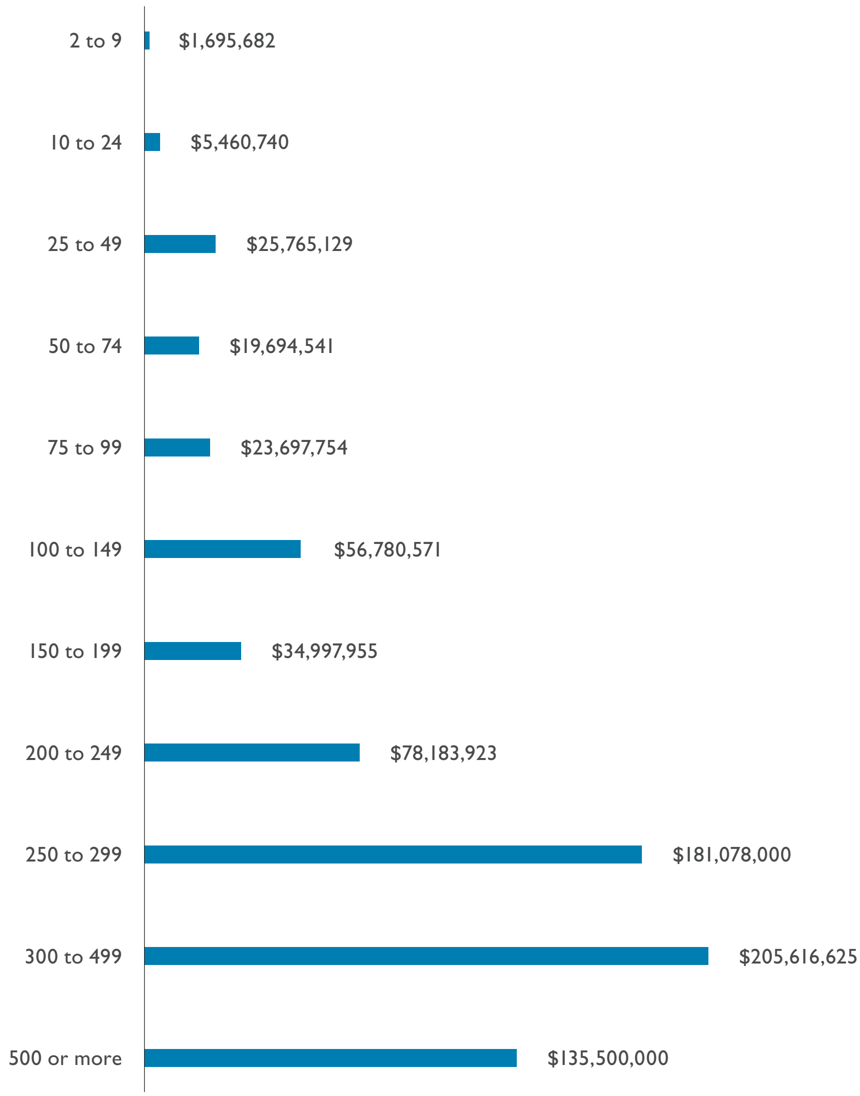


AVERAGE 2014 DEPARTMENT BUDGET BY ANNUAL GROSS COMPANY REVENUE

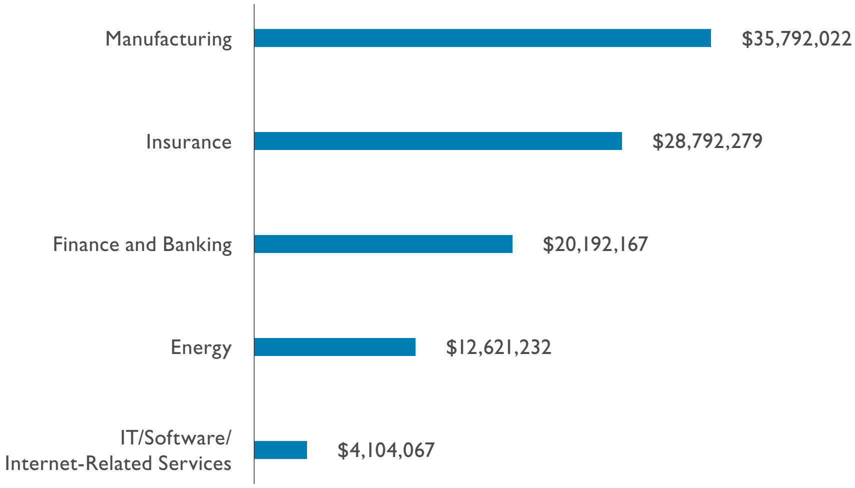
3. What is your current department budget in 2015?

n	median	mean	std. dev.	min.	max.
214	$2,500,000	$19,494,297	$45,612,189	$30,000	$270,000,000

AVERAGE 2015 DEPARTMENT BUDGET BY SIZE OF LAW DEPARTMENT (ALL EMPLOYEES)

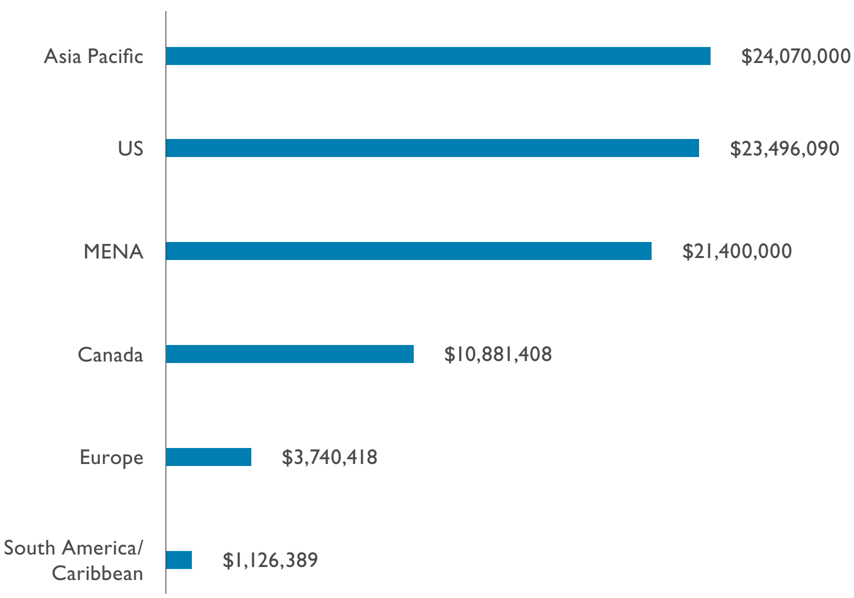


AVERAGE 2015 DEPARTMENT BUDGET BY INDUSTRY



Note: Chart excludes industries with fewer than 10 respondents.

AVERAGE 2015 DEPARTMENT BUDGET BY REGION

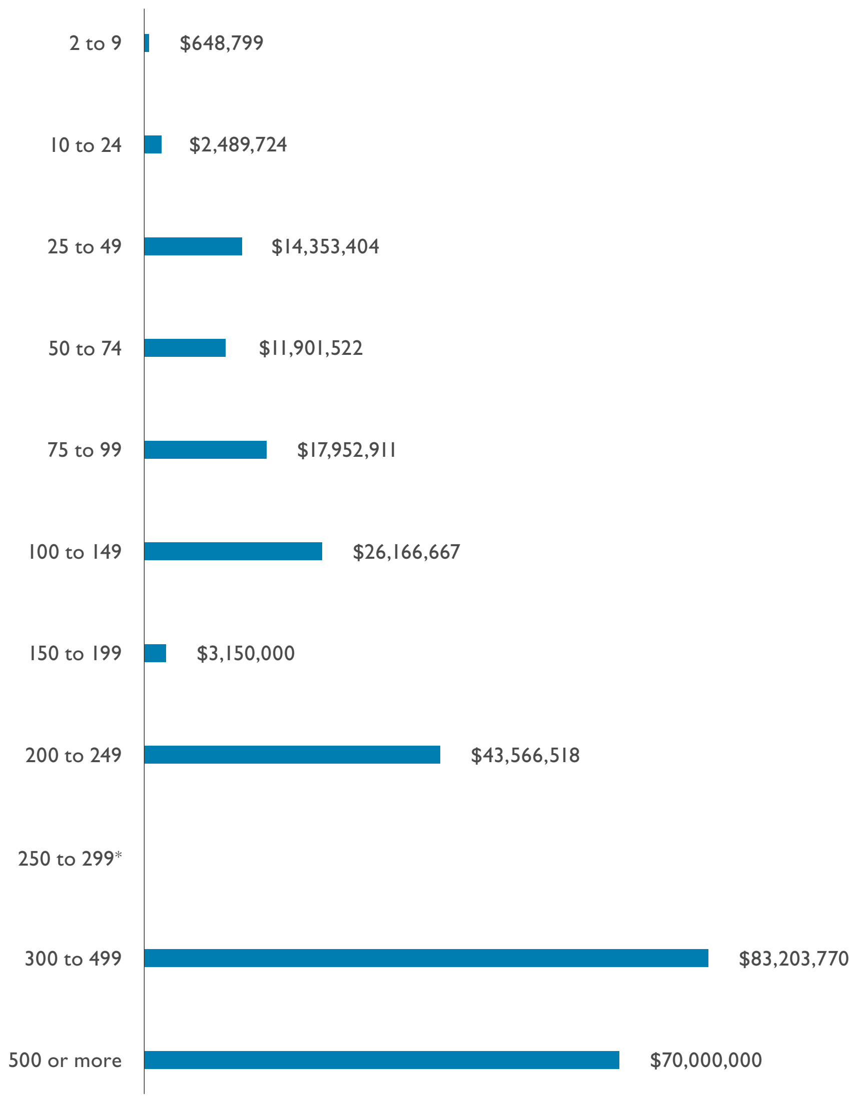


AVERAGE 2015 DEPARTMENT BUDGET BY ANNUAL GROSS COMPANY REVENUE

4. Please enter your total inside legal spend in 2014

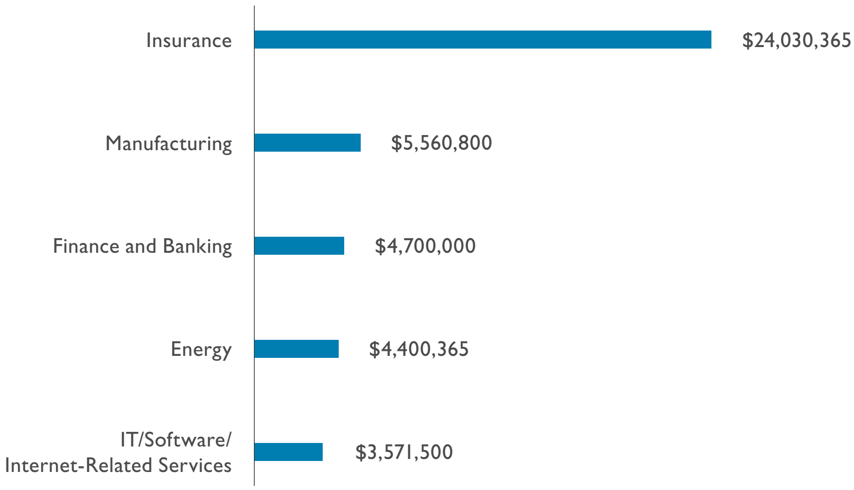
n	median	mean	std. dev.	min.	max.
114	$1,000,000	$7,810,792	$16,370,895	$50,000	$83,203,770

AVERAGE INSIDE LEGAL SPEND IN 2014 BY DEPARTMENT SIZE (ALL EMPLOYEES)



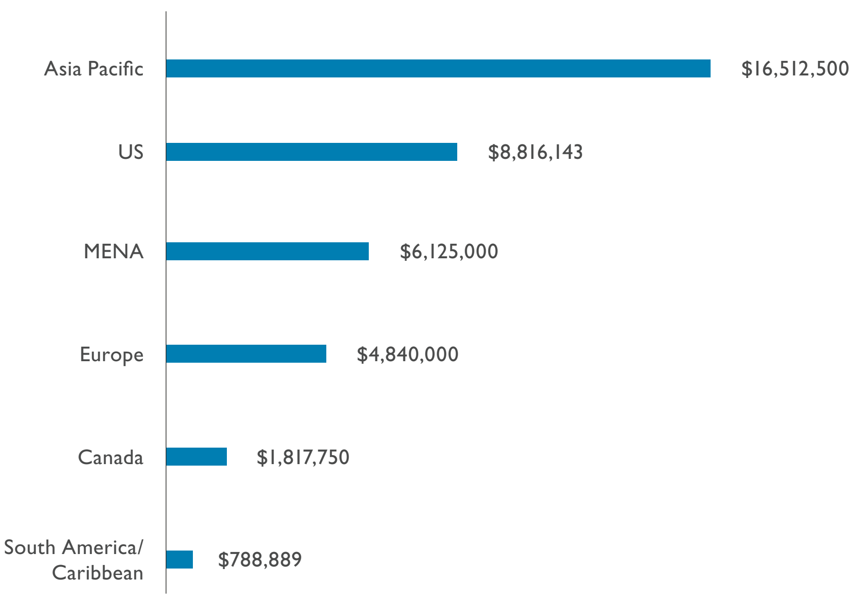
**No respondents in this category.*

AVERAGE INSIDE LEGAL SPEND IN 2014 BY INDUSTRY



Note: Chart excludes industries with fewer than 10 respondents.

AVERAGE INSIDE LEGAL SPEND IN 2014 BY REGION

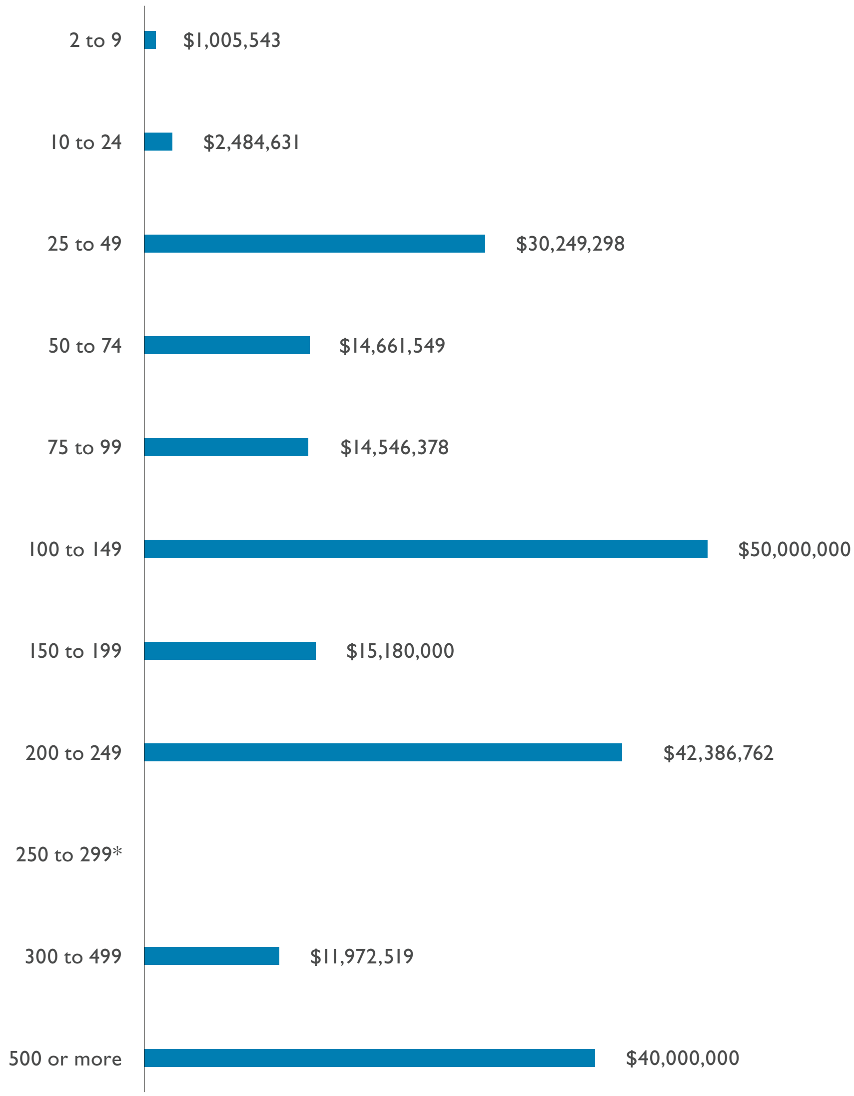


AVERAGE INSIDE LEGAL SPEND IN 2014 BY ANNUAL GROSS COMPANY REVENUE

5. Please enter your total outside legal spend in 2014

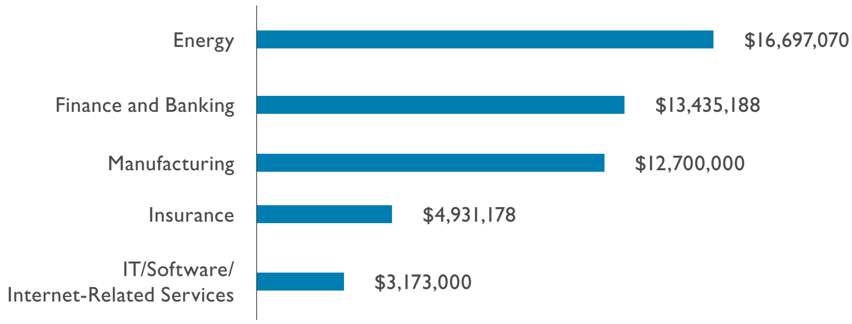
n	median	mean	std. dev.	min.	max.
129	$1,054,090	$9,451,998	$21,523,946	$10,000	$150,000,000

AVERAGE OUTSIDE LEGAL SPEND IN 2014 BY DEPARTMENT SIZE (ALL EMPLOYEES)



**No respondents in this category.*

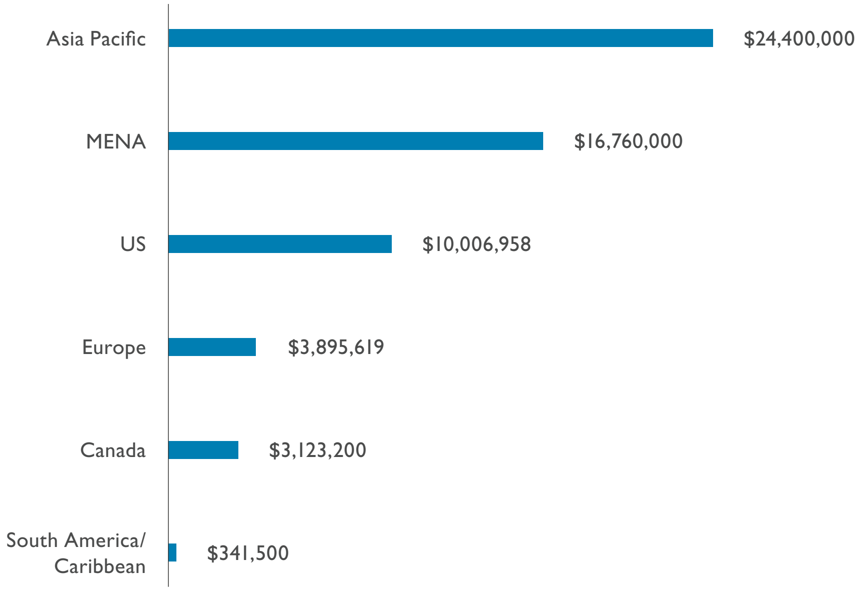
AVERAGE OUTSIDE LEGAL SPEND IN 2014 BY INDUSTRY



Note: Chart excludes industries with fewer than 10 respondents.

AVERAGE OUTSIDE LEGAL SPEND IN 2014 BY ANNUAL GROSS COMPANY REVENUE

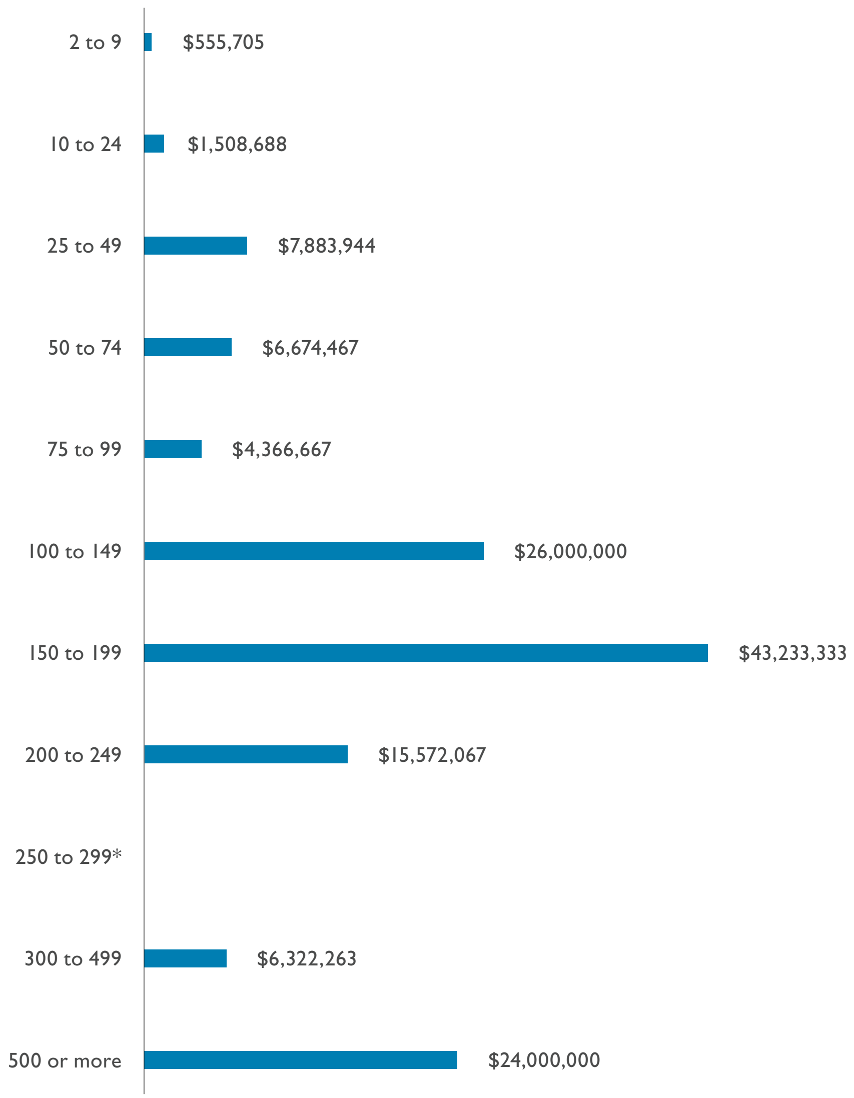
AVERAGE OUTSIDE LEGAL SPEND IN 2014 BY REGION



6. Please indicate the total dollar amount spent on litigation/arbitration matters in 2014

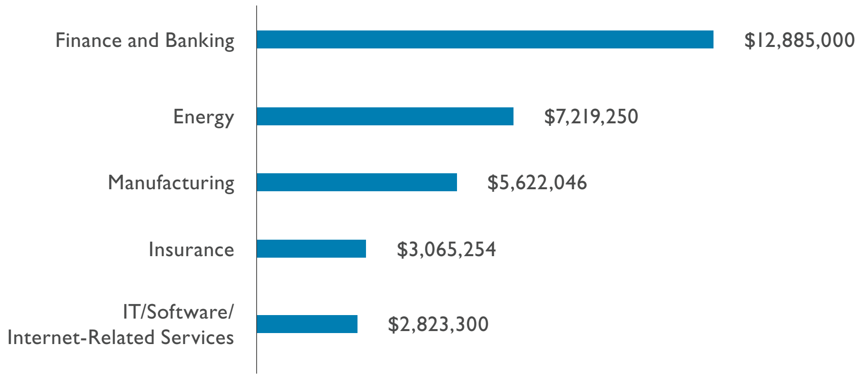
n	median	mean	std. dev.	min.	max.
109	$500,000	$5,010,826	$14,193,005	$5,000	$128,000,000

AVERAGE AMOUNT SPENT ON LITIGATION/ARBITRATION MATTERS IN 2014 BY DEPARTMENT SIZE (ALL EMPLOYEES)



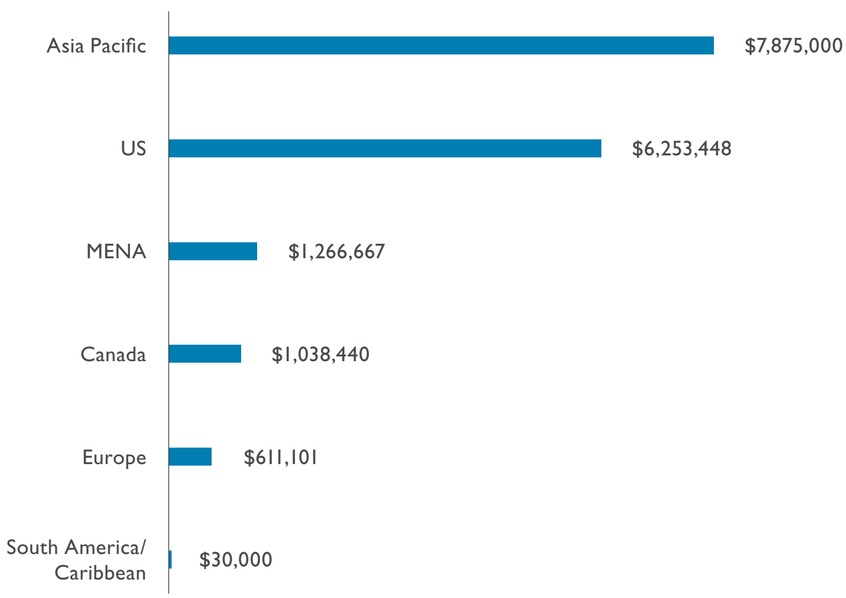
**No respondents in this category.*

AVERAGE AMOUNT SPENT ON LITIGATION/ARBITRATION MATTERS IN 2014 BY INDUSTRY



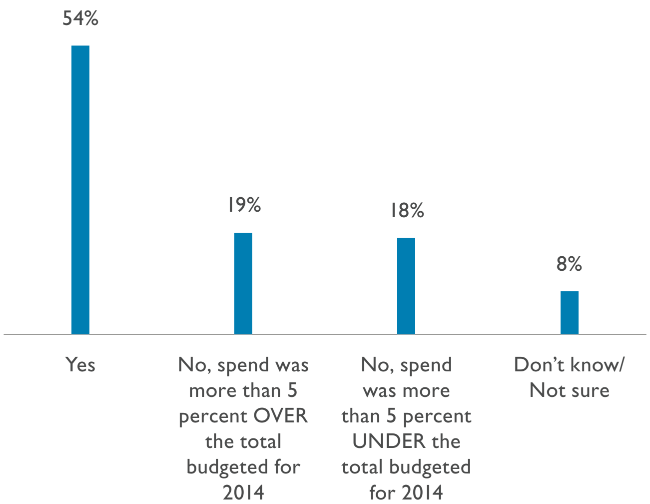
Note: Chart excludes industries with fewer than 10 respondents.

AVERAGE AMOUNT SPENT ON LITIGATION/ARBITRATION MATTERS IN 2014 BY REGION

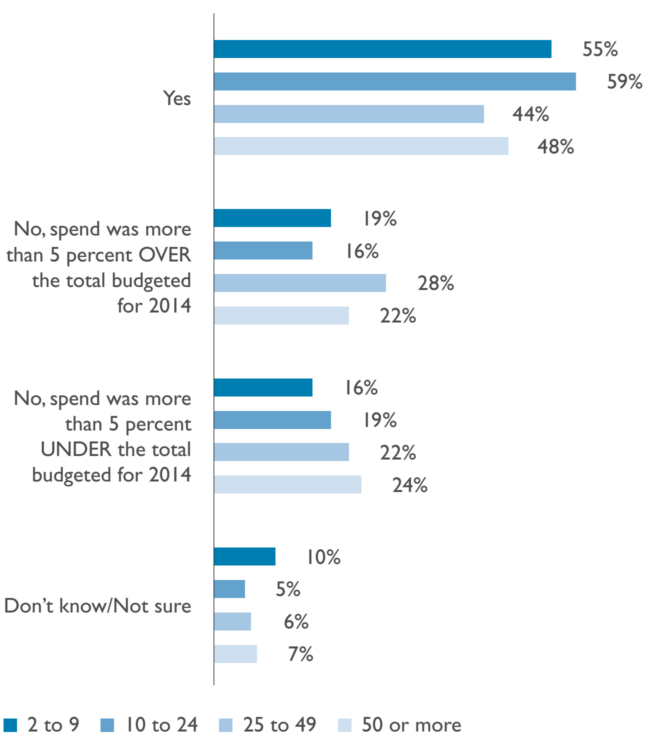


AVERAGE AMOUNT SPENT ON LITIGATION/ARBITRATION MATTERS IN 2014 BY ANNUAL GROSS COMPANY REVENUE

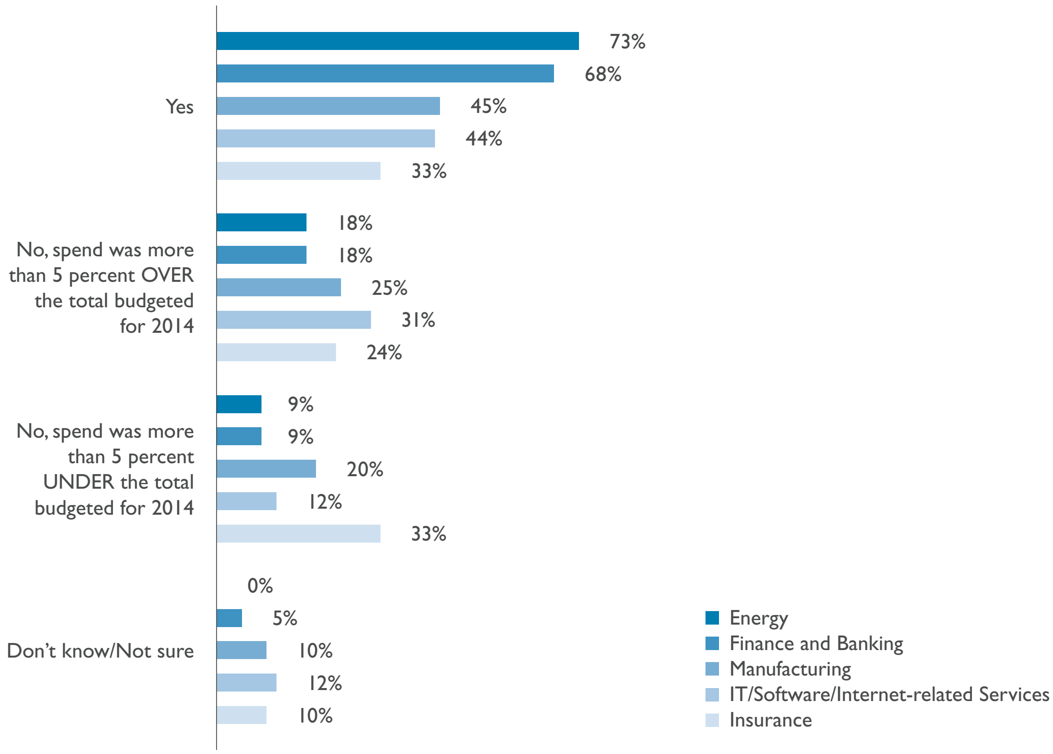
7. Did the department's total spend for 2014 fall within 5 percent of the annual budget for that year?



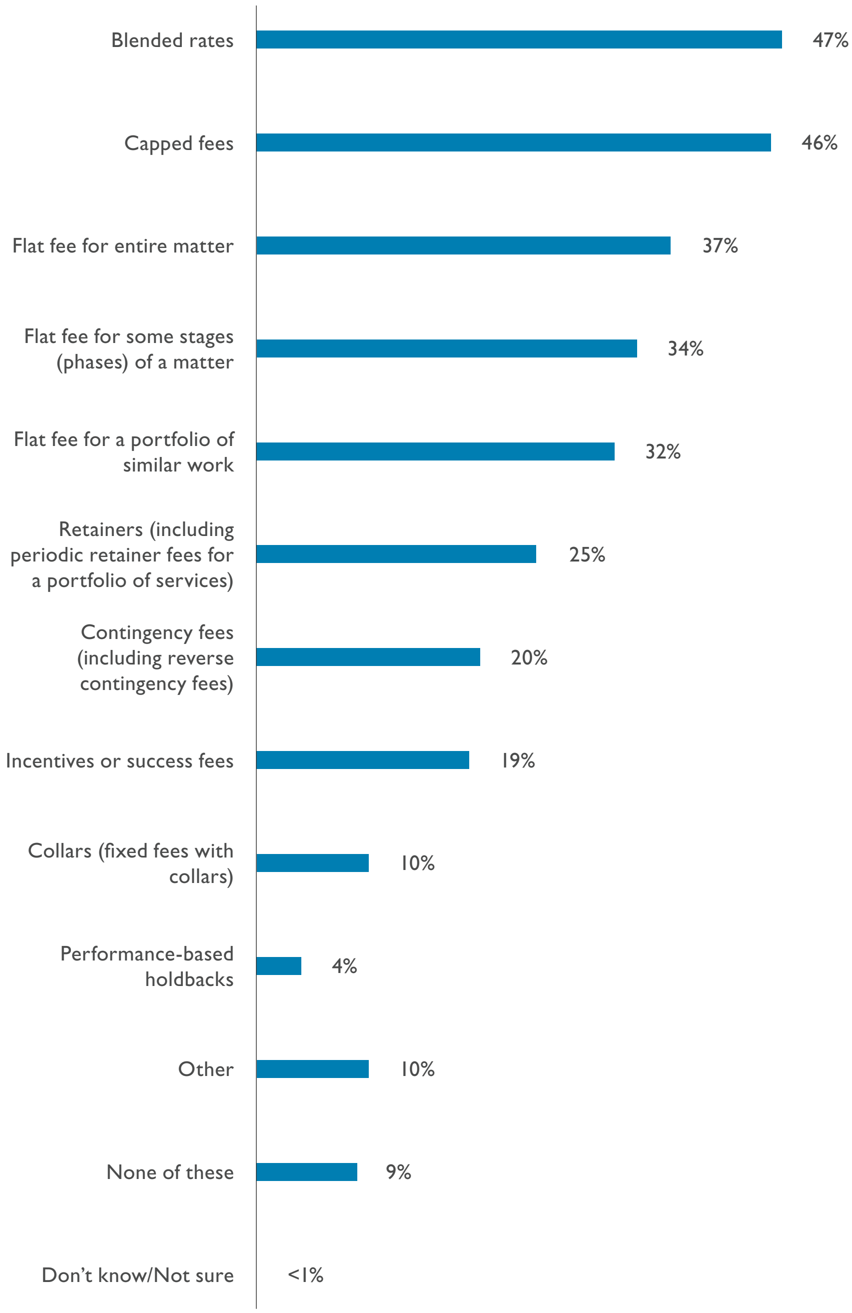
DEPARTMENT SPEND WITHIN BUDGET BY DEPARTMENT SIZE (ALL EMPLOYEES)



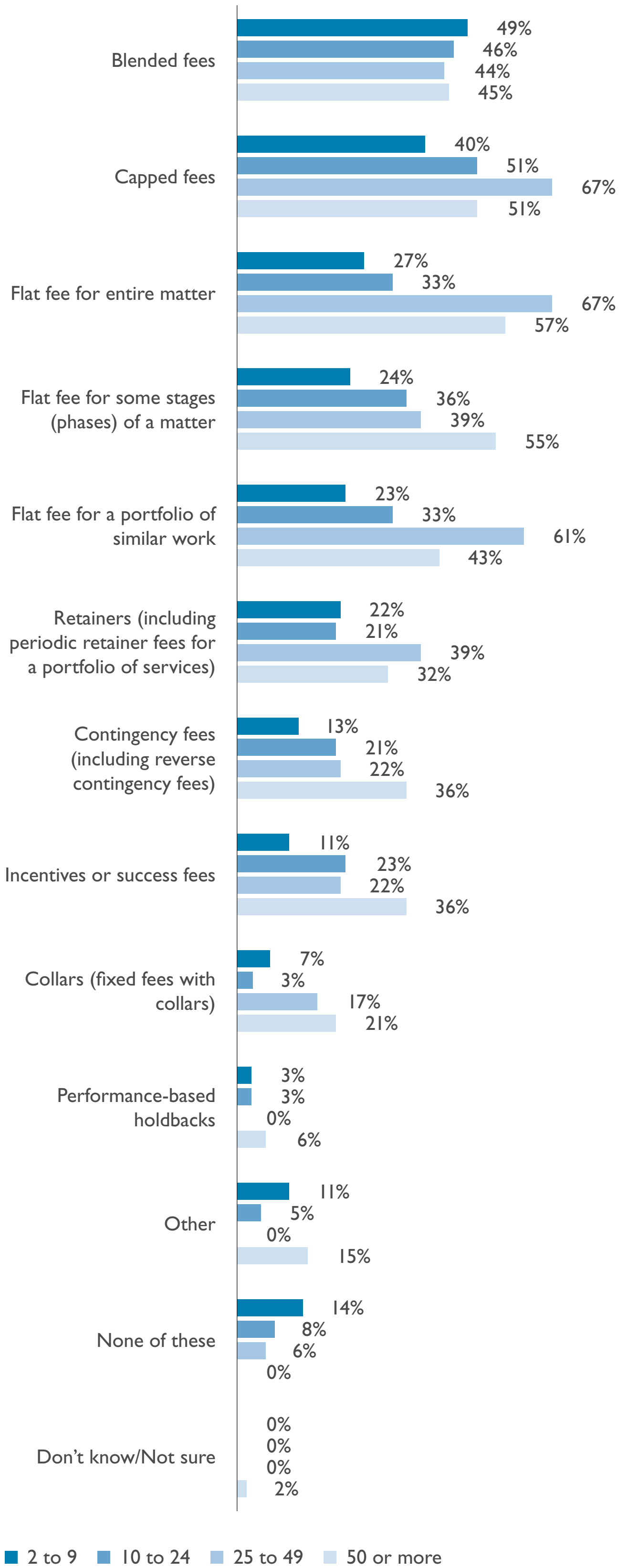
DEPARTMENT SPEND WITHIN BUDGET BY INDUSTRY



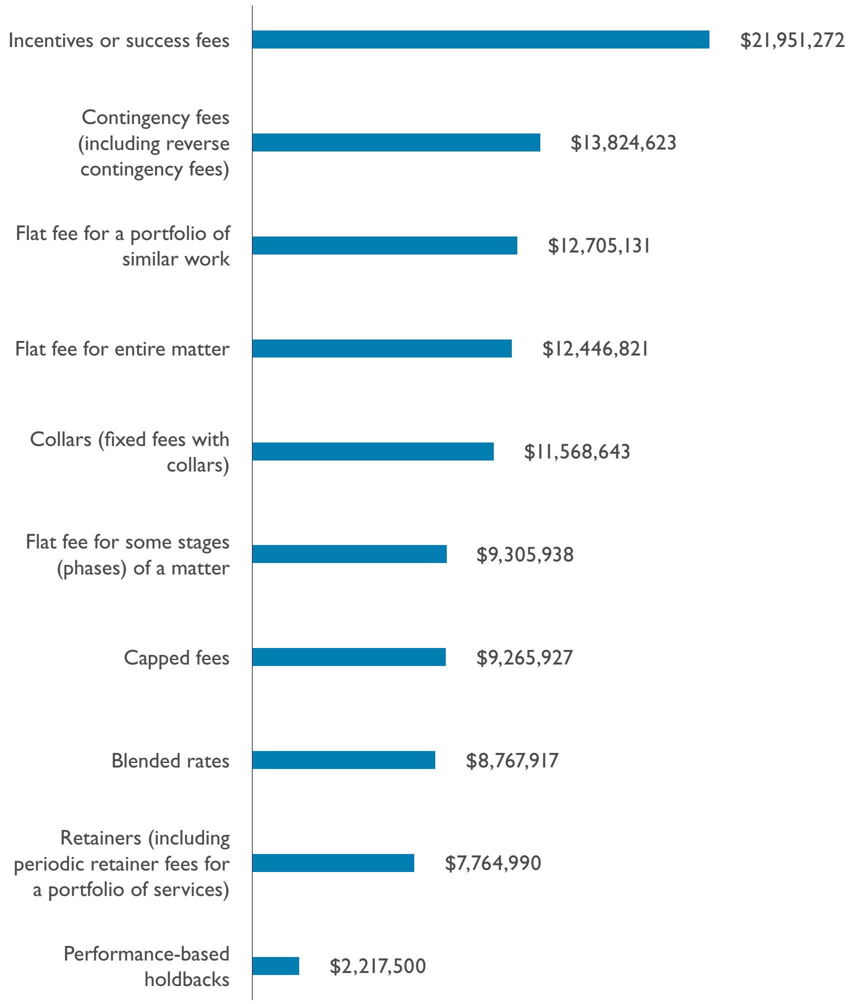
8. Which of the following fee arrangements do you use?



FEE ARRANGEMENTS BY DEPARTMENT SIZE (ALL EMPLOYEES)



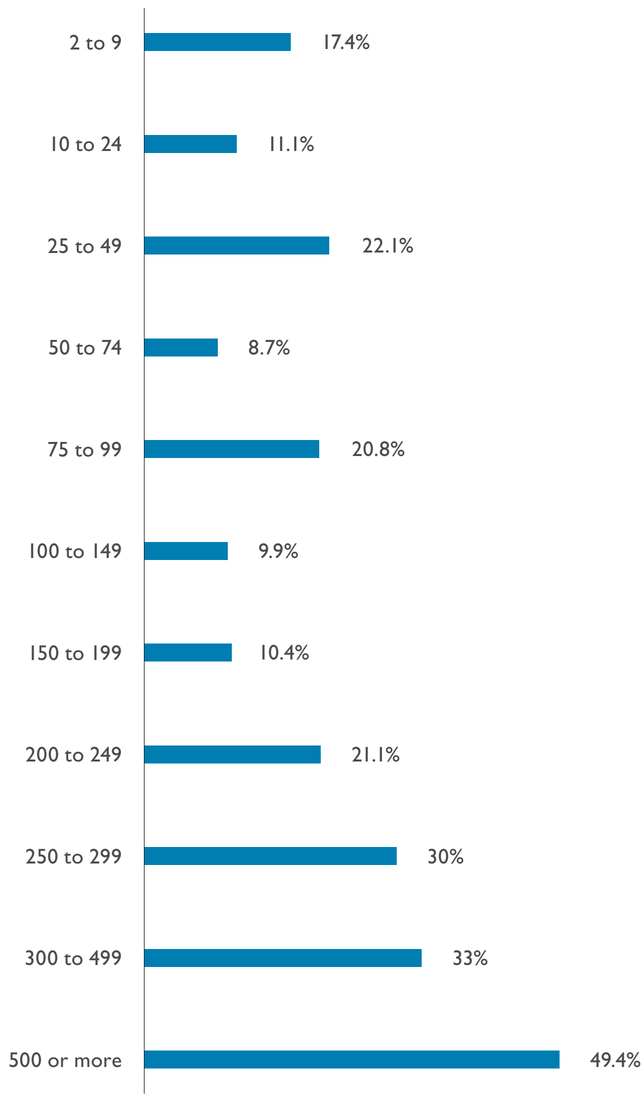
FEE ARRANGEMENTS BY OUTSIDE LEGAL SPEND



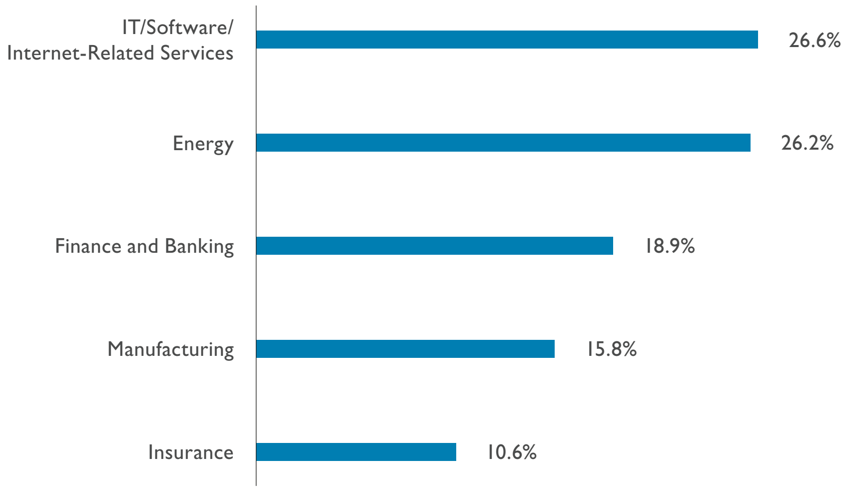
9. What percentage of your outside legal spend was based on alternative (value-based) fee arrangements?

n	median	mean	std. dev.	min.	max.
212	10%	17.69%	22.48%	0%	100%

ALTERNATIVE FEE ARRANGEMENTS AS A PERCENTAGE OF OUTSIDE LEGAL SPEND BY DEPARTMENT SIZE (ALL EMPLOYEES)

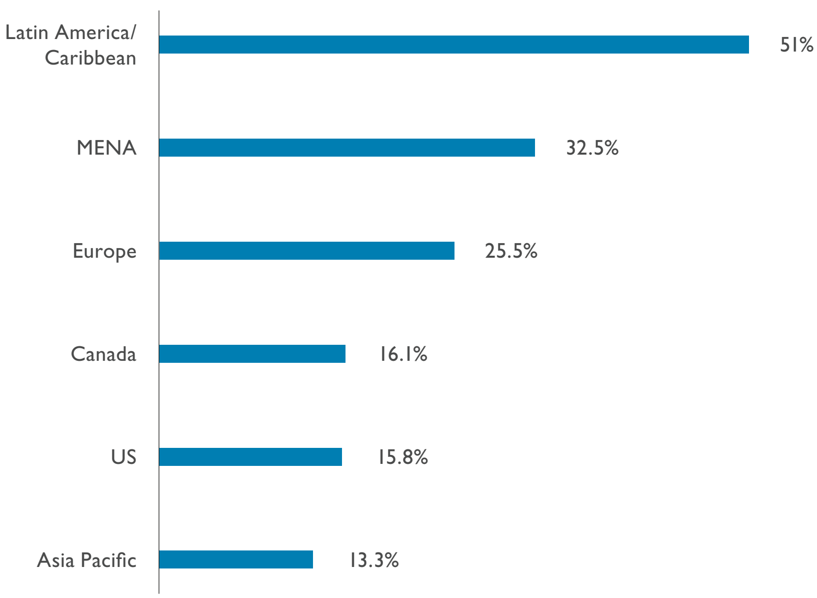


ALTERNATIVE FEE ARRANGEMENTS AS A PERCENTAGE OF OUTSIDE LEGAL SPEND BY INDUSTRY

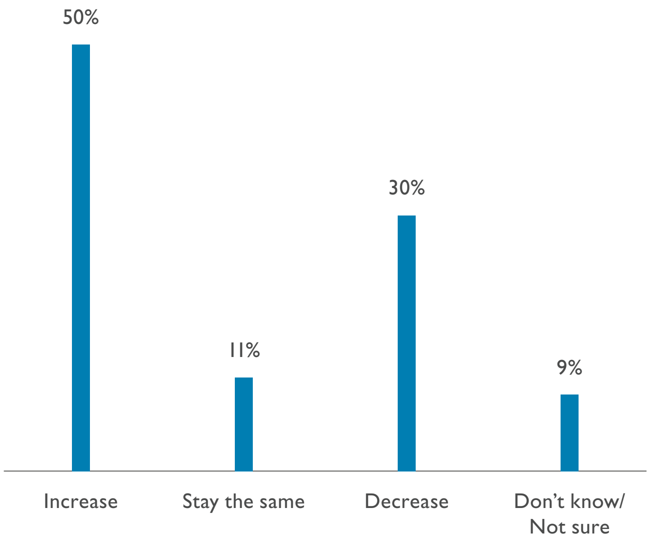


Note: Chart excludes industries with fewer than 10 respondents.

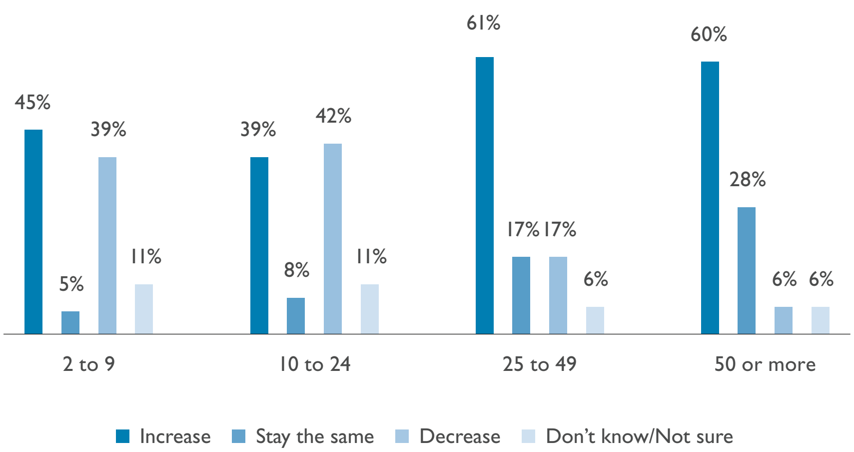
ALTERNATIVE FEE ARRANGEMENTS AS A PERCENTAGE OF OUTSIDE LEGAL SPEND BY REGION



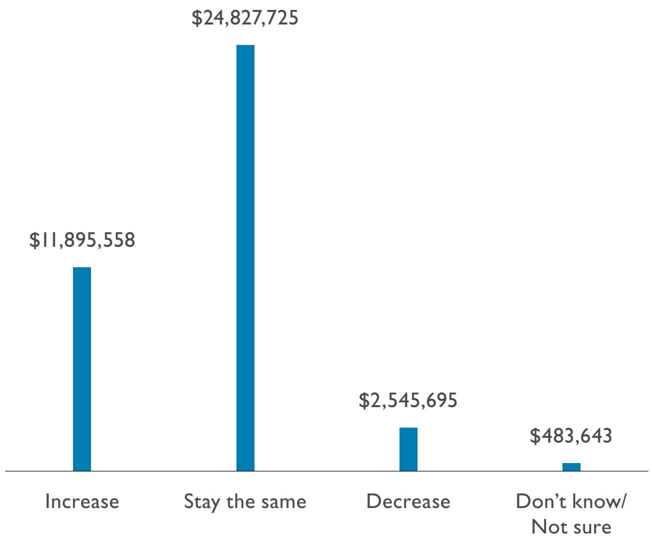
10. Do you anticipate your department's use of alternative (value-based) fee arrangements to increase, decrease, or stay the same in the next year?



ANTICIPATING NEXT YEAR'S ALTERNATIVE FEE STRUCTURE BY DEPARTMENT SIZE (ALL EMPLOYEES)

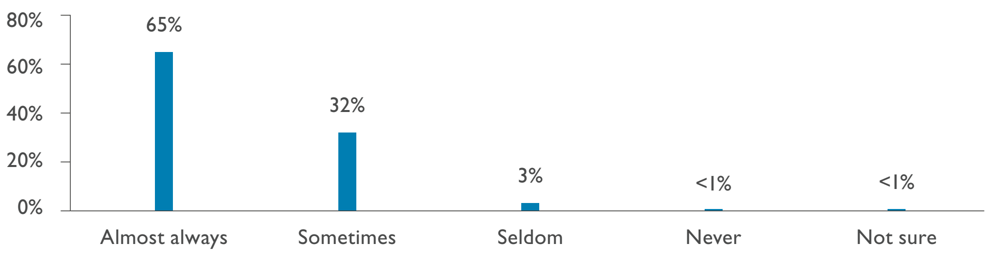


ANTICIPATING NEXT YEAR'S ALTERNATIVE FEE STRUCTURE BY OUTSIDE LEGAL SPEND

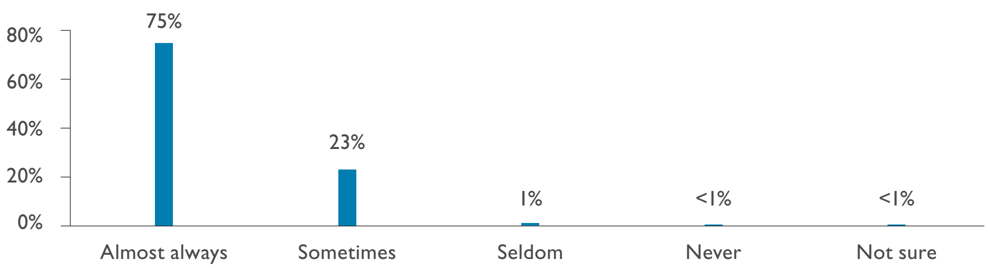


II. Degrees of Influence
Select your most accurate response for each of the following:

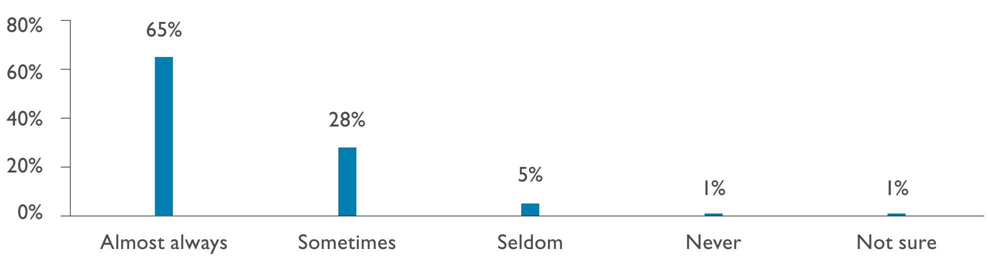
THE EXECUTIVE TEAM SEEKS THE LEGAL DEPARTMENT'S INPUT ON BUSINESS DECISIONS



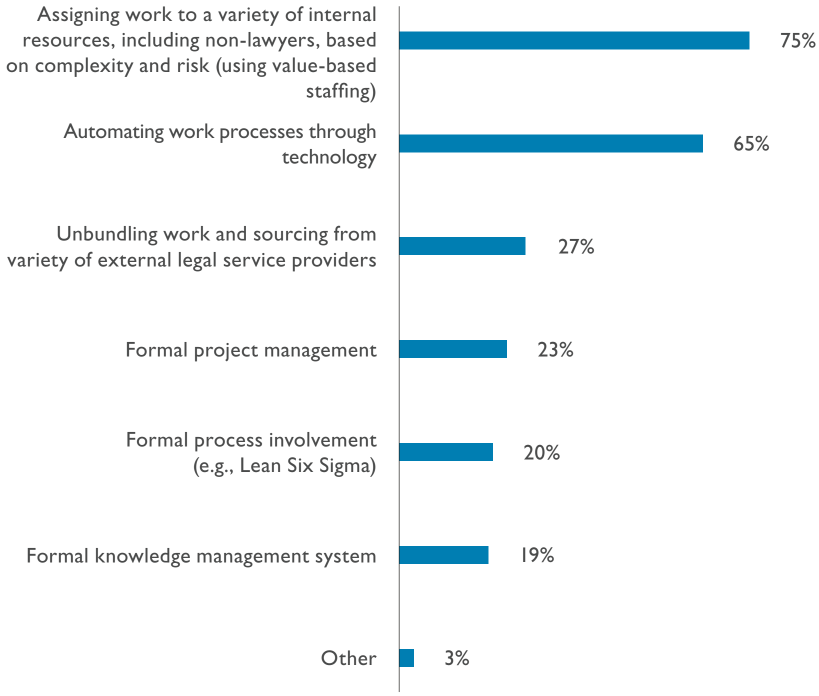
MEMBERS OF THE LEGAL DEPARTMENT MEET WITH BUSINESS LEADERS TO DISCUSS OPERATIONAL ISSUES AND RISK AREAS



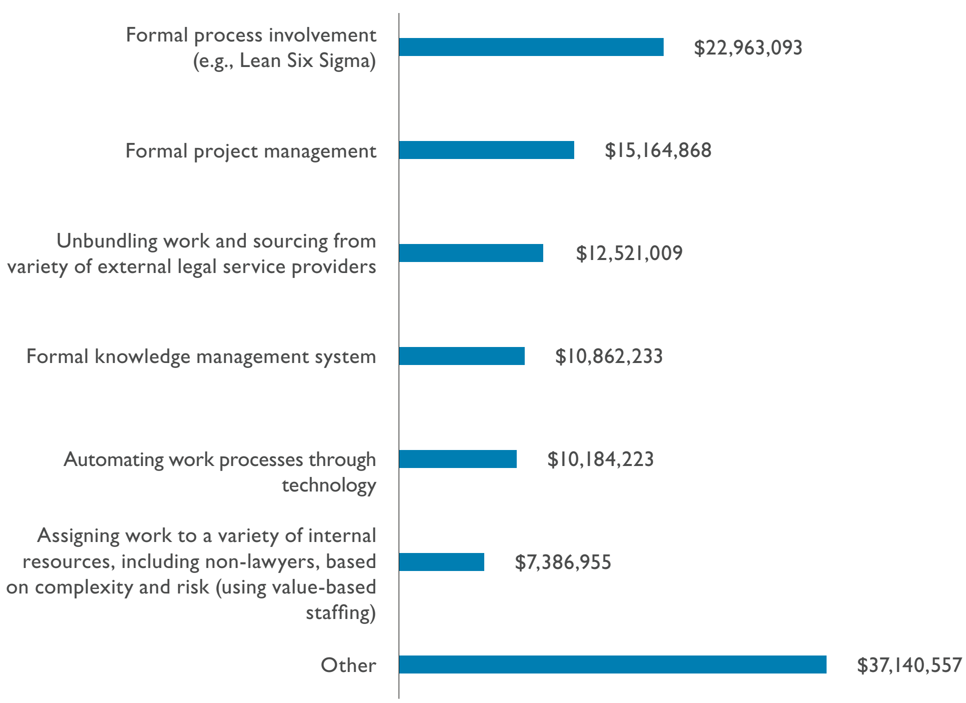
THE LEGAL DEPARTMENT IS A CONTRIBUTOR TO THE ORGANIZATION'S STRATEGIC PLANNING EFFORTS



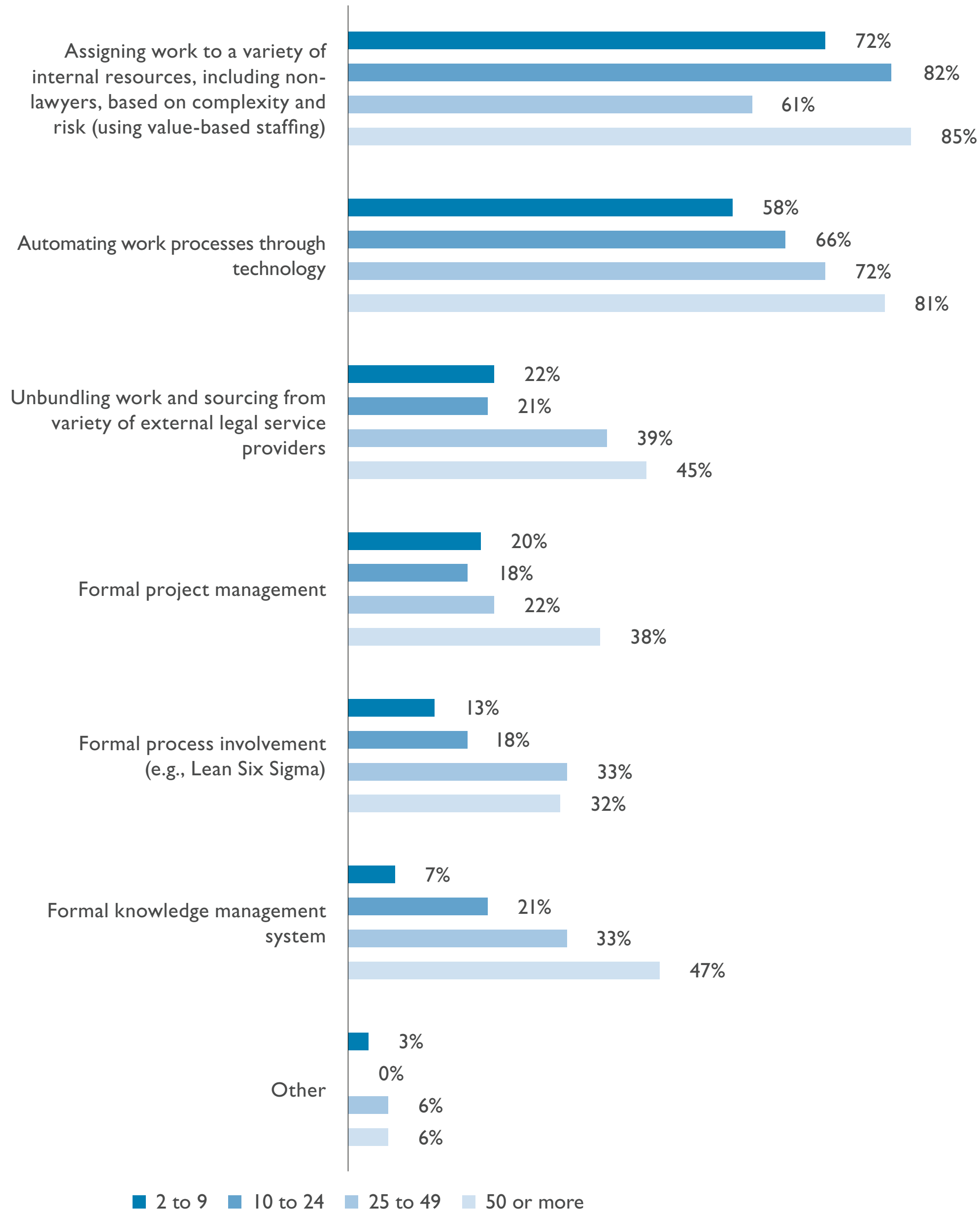
12. What management practices are you employing to improve efficiency in your department?



MANAGEMENT PRACTICES BY OUTSIDE LEGAL SPEND



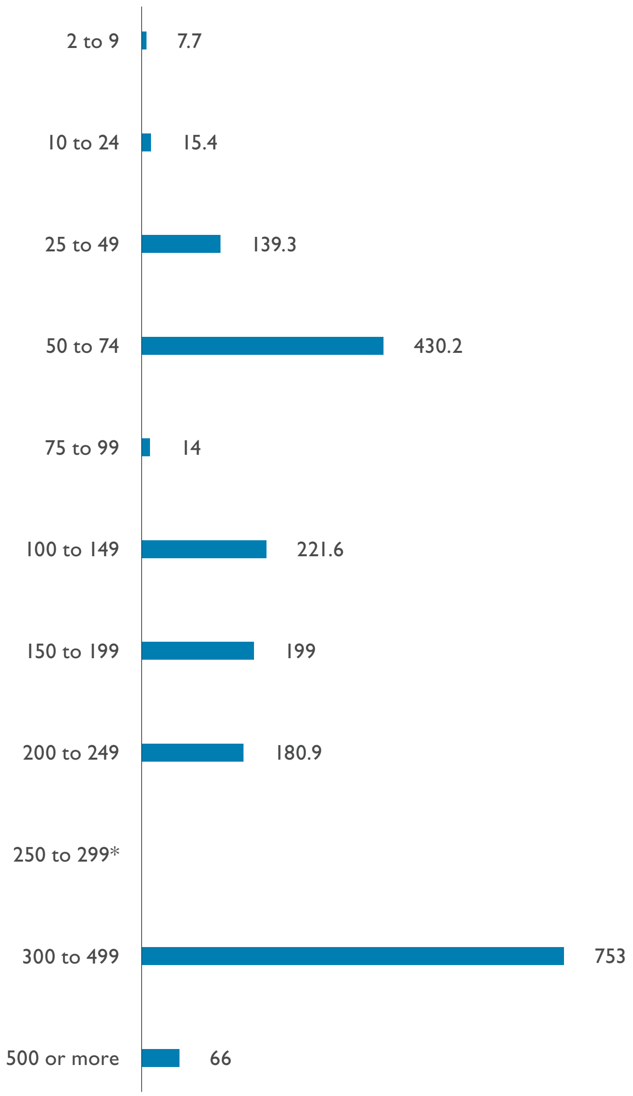
MANAGEMENT PRACTICES BY DEPARTMENT SIZE (ALL EMPLOYEES)



13. Please indicate the total number of new litigation/arbitration matters filed in 2014.

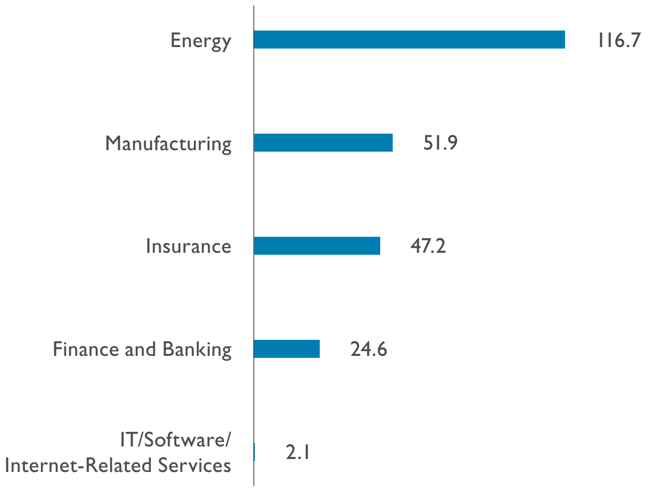
n	median	mean	std. dev.	min.	max.
191	4	48.51	161.81	0	1,350

AVERAGE NUMBER OF NEW LITIGATION/ARBITRATION MATTERS FILED BY DEPARTMENT SIZE (ALL EMPLOYEES)



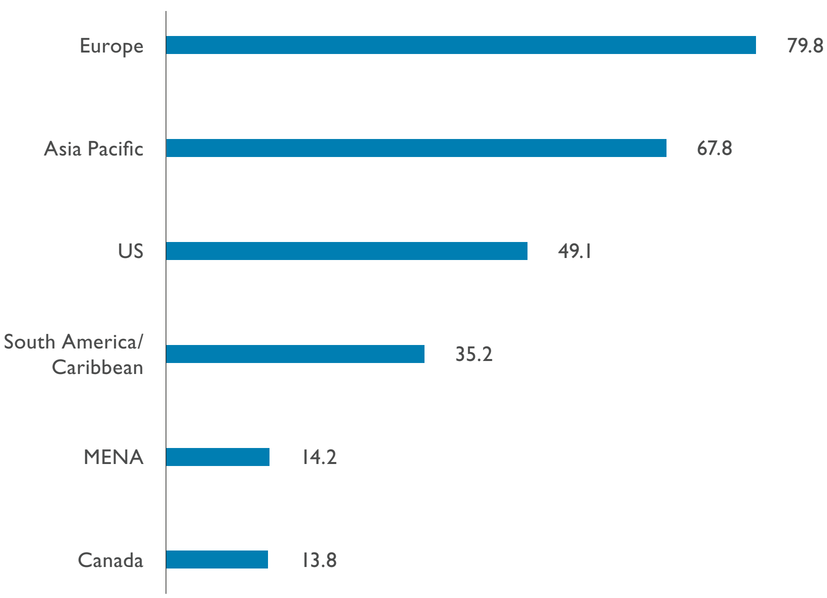
**No respondents in this category.*

AVERAGE NUMBER OF NEW LITIGATION/ARBITRATION MATTERS FILED BY INDUSTRY



Note: Chart excludes industries with fewer than 10 respondents.

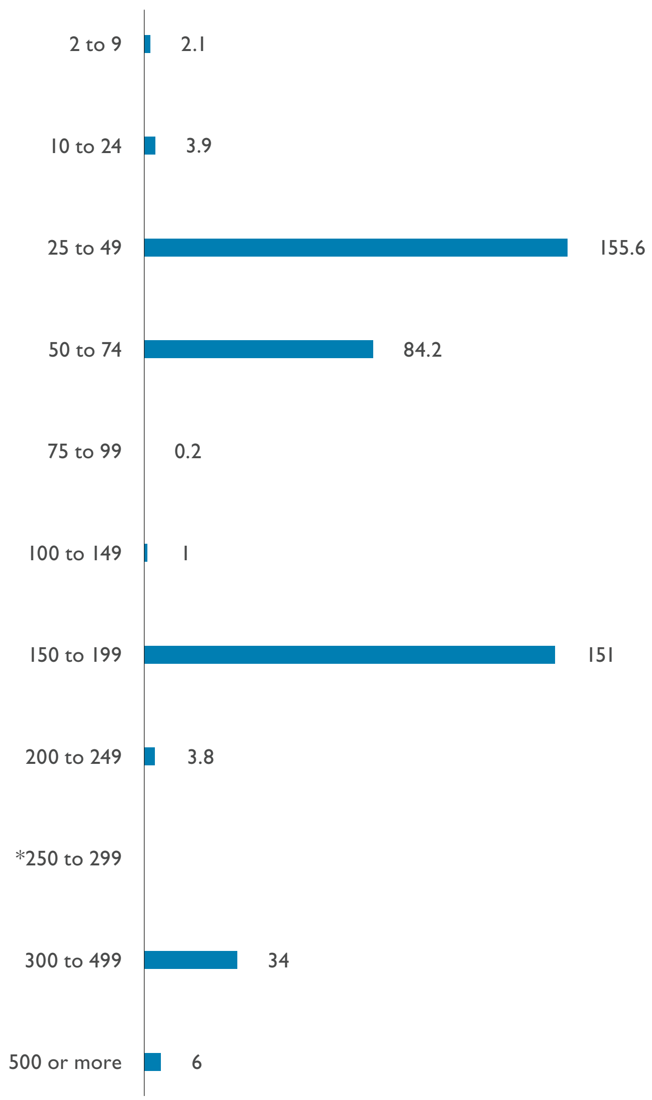
AVERAGE NUMBER OF NEW LITIGATION/ARBITRATION MATTERS FILED BY REGION



14. Please indicate the total number of regulatory investigations outstanding in 2014.

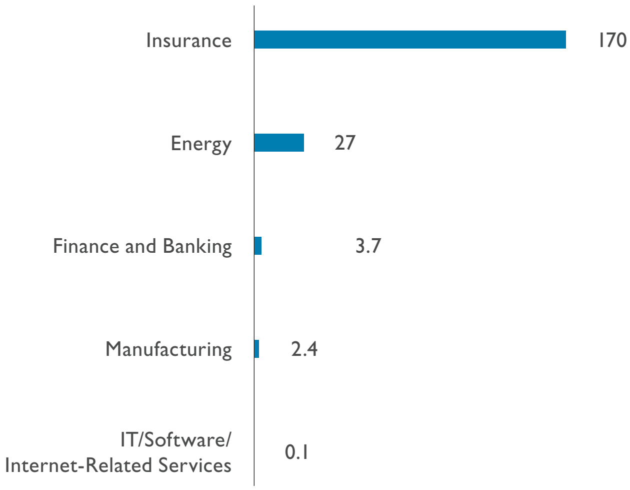
n	median	mean	std. dev.	min.	max.
188	1	18.17	157.14	0	2,108

AVERAGE NUMBER OF REGULATORY INVESTIGATIONS OUTSTANDING BY DEPARTMENT SIZE (ALL EMPLOYEES)



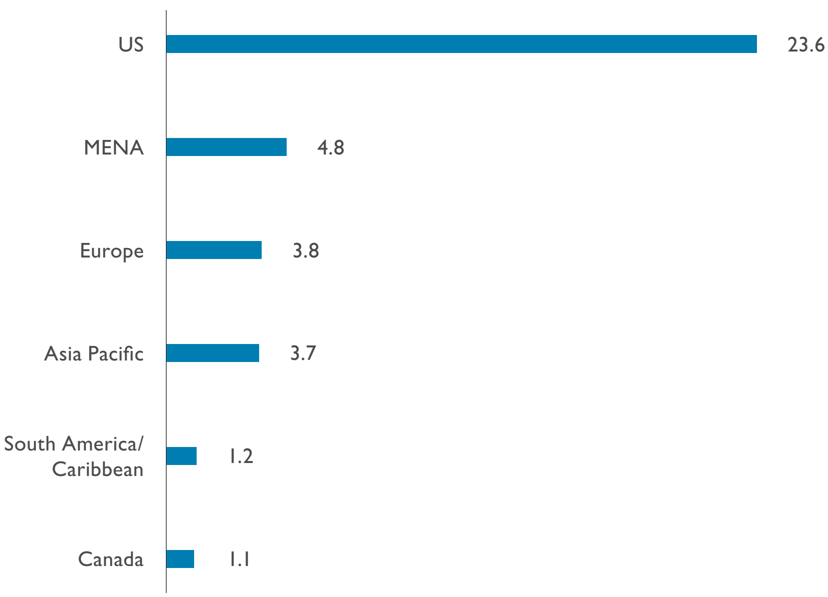
**No respondents in this category.*

AVERAGE NUMBER OF REGULATORY INVESTIGATIONS OUTSTANDING BY INDUSTRY



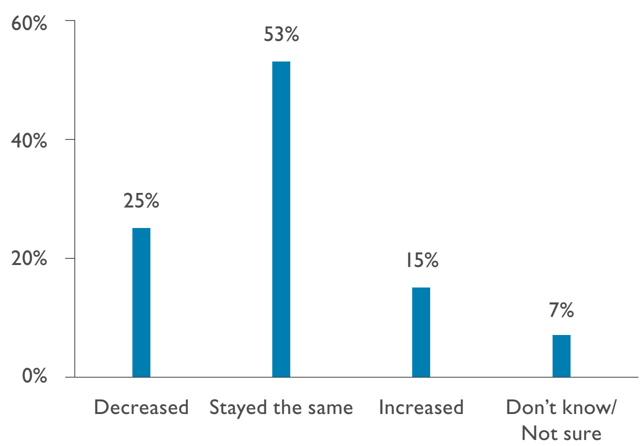
Note: Chart excludes industries with fewer than 10 respondents.

AVERAGE NUMBER OF REGULATORY INVESTIGATIONS OUTSTANDING BY REGION

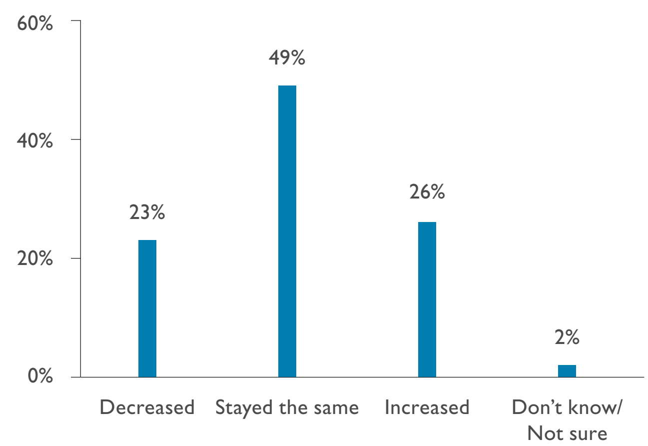


15. Compared to the same time last year, what changes, if any, have occurred to the following:

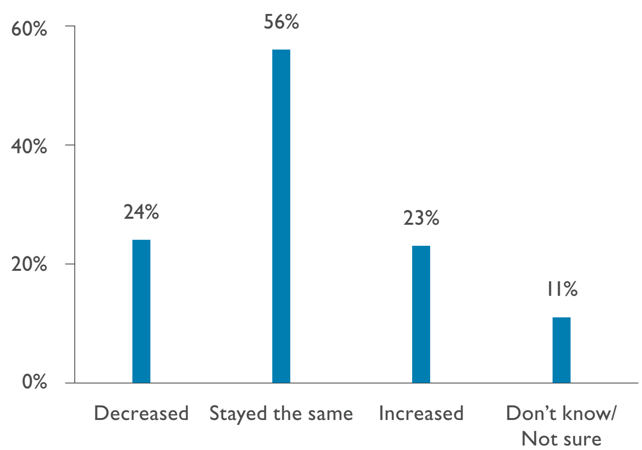
CYCLE TIME FOR CONTRACTS



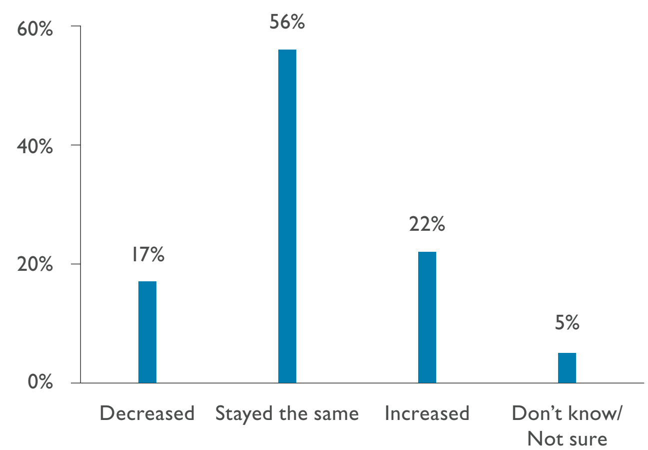
NUMBER OF NEW LITIGATION/ARBITRATION MATTERS



SETTLEMENT COSTS



NUMBER OF COMPLIANCE-RELATED INVESTIGATIONS



16. Where do you primarily direct the following functions/responsibilities?

	Insource (in-house)	Outsource to law firm	Outsource to LPO/LSP*	Other	N/A
Administration/operations	98%	1%	2%	1%	0%
Complex litigation	7%	93%	1%	<1%	4%
Content creation	79%	12%	3%	1%	12%
Contact management	91%	3%	3%	3%	3%
Document management	88%	5%	6%	3%	4%
Document review	76%	28%	14%	1%	4%
Due diligence	68%	55%	5%	<1%	8%
E-Discovery	32%	52%	20%	2%	22%
Legal research	79%	60%	3%	1%	<1%
Legal writing	81%	41%	1%	1%	3%
Patent services	19%	65%	7%	1%	24%
Records management	87%	3%	8%	4%	6%

**LPO - Legal process outsourcing provider*
LSP - Legal service provider

17. What factors do you consider when determining whether the department should employ in-house lawyers (insource) or outsource work to a law firm and/or legal service provider?

Note: The word cloud above is based on word frequencies from 154 open-ended responses.

Availability of internal resources and cost to build vs. cost to buy" analysis.

Budget and workload of in-house team.

Business knowledge required.

Capability, capacity, and cost, in that order.

Conflict of interest; geography; subject matter expertise.

Cost and ability to do the work.

Cost-efficiency, regularity of requirement, and trust.

Competence and timeliness.

Competencies, cost of activity, and internal vs. external importance to our organization.

Complexity and/or specialized nature of matter.

Complexity and staffing requirements.

Complexity and volume/frequency mainly.

Complexity; specialized topic; different jurisdiction; quantity of work.

Cost vs. return of investment, client satisfaction both internal and external.

Difficulty of the subject matter and the total resources required to do the job effectively.

Each lawyer has the autonomy to decide. We are shifting this model and have to standardize the criteria for hiring outside counsel. We hope to align it based on risk and complexity in the future.

Efficiency from a time and cost perspective.

Expertise, capacity, budget, geographical location.

Frequency and type of matter, importance of matter to business, and ability to perform the service.

How specialized the matter is.

Overall value: risk reduction + actual savings vs. cost of internal resource.

Quality, repeatability, staying up to date knowledgewise, fit with core business, cost vs. value, expertise.

Specialty areas are outsourced; all other work remains in house.

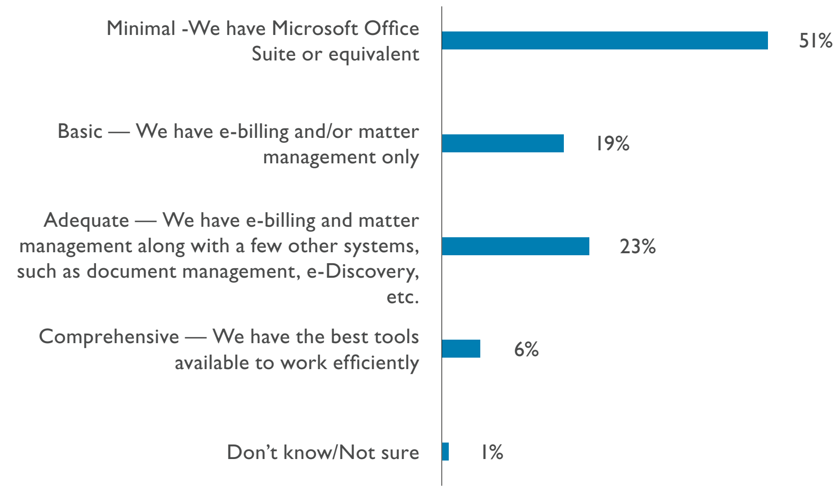
Strategic relevance of the matter workload.

Time, quality, specific expertise, business savvy, and ability to balance risk and benefits of various alternatives.

Total workload; significance for the company; exposure.

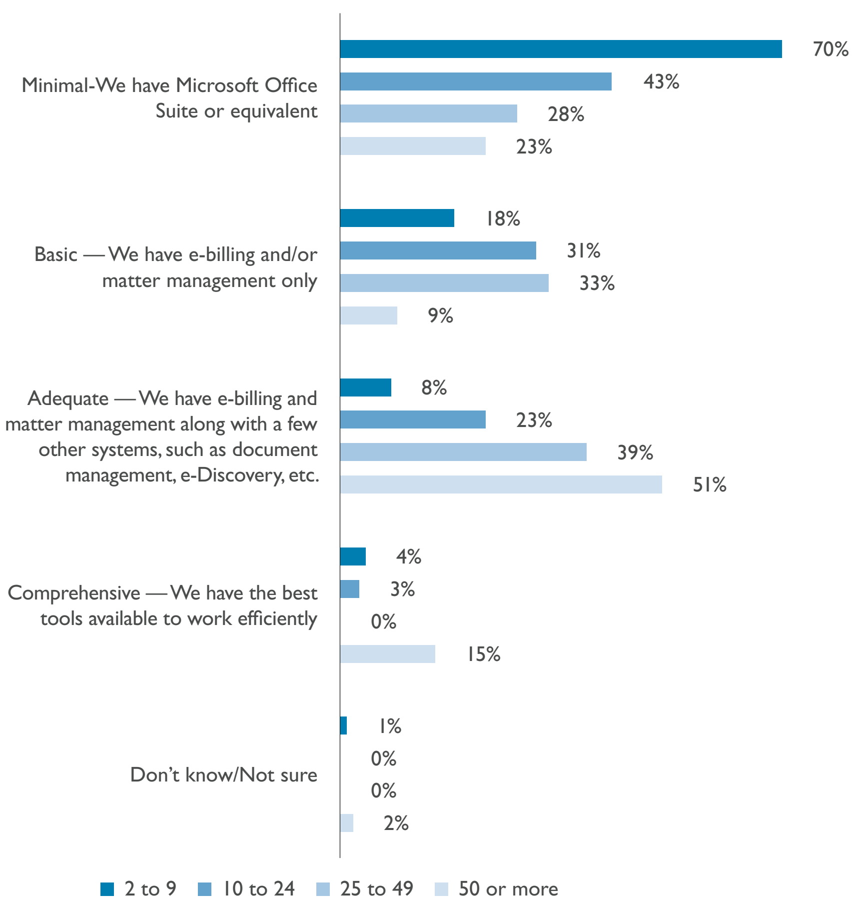
Type of matter and availability.

18. Which of the following best describes the technology (systems and software) in your law department?

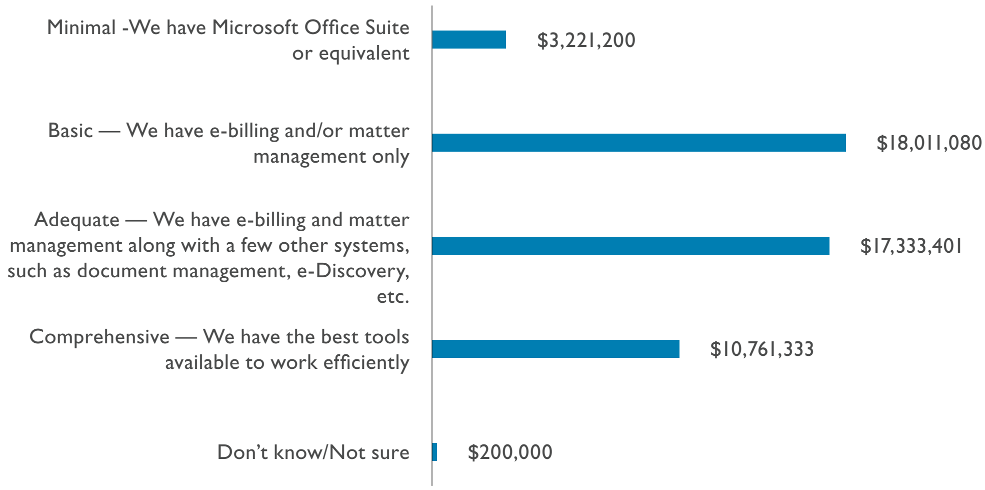


Note: Chart excludes industries with fewer than ten respondents.

STATE OF TECHNOLOGY BY DEPARTMENT SIZE (ALL EMPLOYEES)



STATE OF TECHNOLOGY BY OUTSIDE LEGAL SPEND



19. What key metrics do you rely on most to manage legal operations and make decisions about the legal department?

Note:The word cloud above is based on word frequencies from 159 open-ended responses.

Added value: 1. Time to deliver. 2. Usability. 3. Legal quality. 4. Cost effectiveness.

1. Average outside billing rate overall and by matter type. 2. Percentage of internal spend to revenue. 3. Percentage of external spend to revenue. 4. Percentage litigation costs to revenue.

Benchmarking resources and internal analytic/reporting.

Benchmarks against peer retailers for OC spend vs. revenue, staffing ratios by position, attorneys per $B revenue, spend to budget, internal vs. external spend percentage.

Budget allocation, number of matters worked, response time.

Budget, communications plan achievement, close rate on open cases, contract close times.

Budget to actual spending comparison.

Client satisfaction, turnaround times, legal spend.

Client survey and feedback, budget, goal achievement as a department and individually, feedback from law department itself.

Company objectives; workload volume.

Contract review statistics; legal spend.

Contract turnaround time and number of times legal touches a contract.

Contract volume, external counsel expenses.

Contracts - volume, type, turnaround time, FTE per. Litigation - volume (pending, open, closed), type, reserves, settlements. Corporate - legal entities. Compliance - volume, type, investigation time, fines, and penalties. Training.

Cost metrics, people and process metrics, case volumes, etc.

Customer satisfaction response time.

External legal fees; "success" on litigation management.; escalation (or lack thereof); number of compliance reports; completion rate on third-party screening/compliance; on-time delivery on key actions; IP registered; IP enforcement action.

Financial cost-benefit analysis.

Hourly rates.

Legal spending as a percentage of revenue; spending by practice area; headcount.

Litigation and settlements.

M&A cases completed within given parameters, regulatory issues settled at better conditions than expected, feedback from the business lines on cooperation and result.

Matter management/e-billing.

Number of amicus briefs filed, number of cases won, communications, number of contracts and meetings attended.

Number of projects completed per year by each staff member.

Percentage of requests for support fulfilled. Number, value, and complexity of contracts handled.

Quarterly budget variance.

Response time to clients.

Spend to prior years; cost savings; revenue growth.

Tool usage by user ID so we can see who is using the tools and who is not. Work with those who are not to identify why they are not using the tools.

Value-based purchasing spend relative to peers.

20. What metrics are most effective in demonstrating the value of the legal function to your organization's leadership (i.e., what three or four metrics are you most often asked to share with executive leaders)?

Note: The word cloud above is based on word frequencies from 154 open-ended responses.

1. Client satisfaction survey results. 2. Number of assignments. 3. Number of assignments per professional (lawyer/paralegal). 4. Percentage of litigation matters handled in-house.

1. New litigation 2. Value of internal services vs. cost to acquire outside.

1. Number of internal clients 2. Number and source of instructions 3. Average closing time.

1. Usability 2. Cost effectiveness.

Budget versus actual. Cost of legal as a percentage of enterprise operating revenue. Total cost of legal. OC costs. Headcount. Number of lawyers. Number of compliance. Five-year trends on matter counts and spend.

Budget, contract cycle times.

Budget, litigation costs, settlement costs.

Client satisfaction, turnaround times, legal spend.

Cost (vs. outside counsel), risk management, brand protection, business advisory.

Cost as a percentage of revenue. Legal spend per billion of revenue. Staffing ratios.

Cost per claim, percentage of legal fees relative to company size.

Decrease in external legal costs per lawyer.

External legal fees; third party screening/compliance; litigation successes; IP registered.

Feedback from executive team.

Inside/outside spend ratio.

Legal ops as percent age of revenue, lawyers per billion in revenue.

Legal spend (internal and external), value of commercial settlements reached vs. forecast cost of bringing/defending claim in court or arbitration.

Matters handled; outside counsel spend; litigation results; involvement in strategic initiatives.

Minimal litigation, cost savings from prior year, reduction in usage of outside counsel.

Number of cases well-succeeded; amount of money saved the company in indemnification and labor claims; total sum of the contracts reviewed by legal; awards and recognition received from external entities (like ACC).

Number of cases, types of cases, and outcomes.

Number of open pieces of litigation.

Quantifying risk avoidance, understanding unique business and stakeholders.

Quarterly outside spend reports, annual inside budget comparisons, and annual benchmarking from surveys (HBR, Empsight, General Counsel Metrics, and CEB [hopefully ACC, too]).

Responsiveness, business-minded approach, quality, and cost consciousness.

Risk mitigation, cost avoidance.

Service delivery time, cost performance vs. budget.

Service quality scores from internal surveys, attorneys and staff per $1 billion revenue, ratio of outside to inside legal spend, forecast variance.

Settlement costs vs. settlement costs of competitors for similar litigation; opportunity cost savings for litigation.

Spend to budget, staff workload metrics, invoice savings, tracking timekeeper rate increases, spend by matter/business unit.

Total legal spend, percentage change in legal spending annually.

Total spend as percentage of revenue, percentage of internal vs. external spend, total annual outside counsel fees, legal fees broken down by line of business, headcount per billion of revenue, total litigation fees, percentage of new matters on AFAs.

21. What data/metrics would you like to have in order to make decisions, manage law department operations, and/or demonstrate value?

The word cloud above is based on word frequencies from 123 open-ended responses.

A comprehensive dashboard.

A more robust contract management system.

Active matter management system with data on value, complexity, and risk management.

Any data that would demonstrate a return on investment in numbers that the business can understand.

Automatic tracking of types of work performed to determine resource needs.

Average outside counsel spend for industry.

Benchmark data (number of lawyers per total number of employees in the industry; number of lawyers per amount of revenue; legal spent per number of employees and per amount of revenue).

Benchmarking against other similarly-sized MNCs.

Comparative data for headcount on size of business in similar industry.

Comparisons to the inside and outside spending to other companies of our size and in our industry.

Contract-related data, cost reporting.

Contractual terms. Anything that would support the lifecycle management of contracts.

Cost by activity within matter (e.g., cost of discovery, cost per contact by type, etc.).

Customer satisfaction, customer wants.

Cycle times (invoice processing; lifecycle of matters, etc.), efficiency/performance, volume, more detailed matter information.

Dollar value of greater efficiencies, lowered risks, and compliance improved.

Easy access to headcount by level, legal area, region/office attorney distribution by legal area.

Financial impact of legal support and advice given.

Global contract turnaround; some way to measure risks avoided.

Global hourly rate data for US and outside the US.

Hours spent per matter and matter type.

How many hours certain tasks and projects take, on average.

How much spend did we avoid by making good legal decisions?

I'd like to know who our most frequent internal customers are and what are the most frequent and/or time-consuming and/or expensive matters we regularly deal with.

Identification of risks, ways to evaluate and mitigate risk, compliance.

Internal costs vs. the cost of outsourcing the same work to law firms.

Legal budget information, corporate budget, staff allocations, reports from outside counsel.

Matter-level dashboards for our top 50 matters. An effective and easy-to-use matter management application (ACC to sponsor!).

Matter management tool.

Matters opened and closed with trend analysis.

Much better metrics on third-party billing.

Outside legal fees saved by utilizing in-house counsel.

Overview of requests for legal advice handled and turnaround time, number of agreements reviewed and progress in those fields; i.e., higher percentage reviewed, etc.

Profitability of different programs; better visibility into the sales pipeline; strategy models.

Quantifiable risk/benefit analysis prior to and after conclusion of matter.

Really accurate information about response times, number of issues addressed, complexity of issues addressed.

Settlement cost analysis.

Spend vs. budget, average blended rate for top vendors, monthly fees by phase.

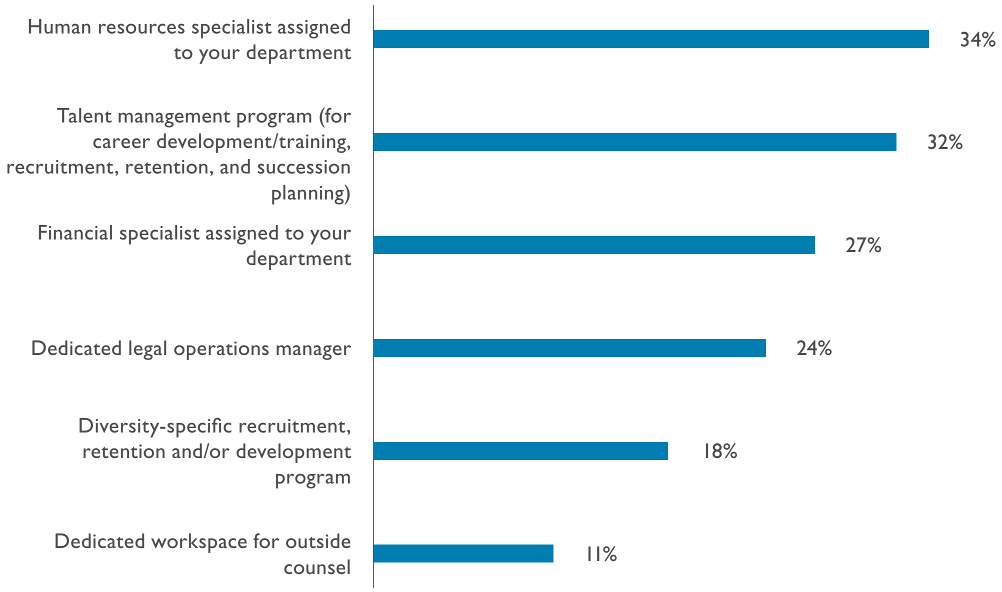
Staffing.

Trend of billable hour rates categorized by legal specialty, e.g., patent, labor, etc.

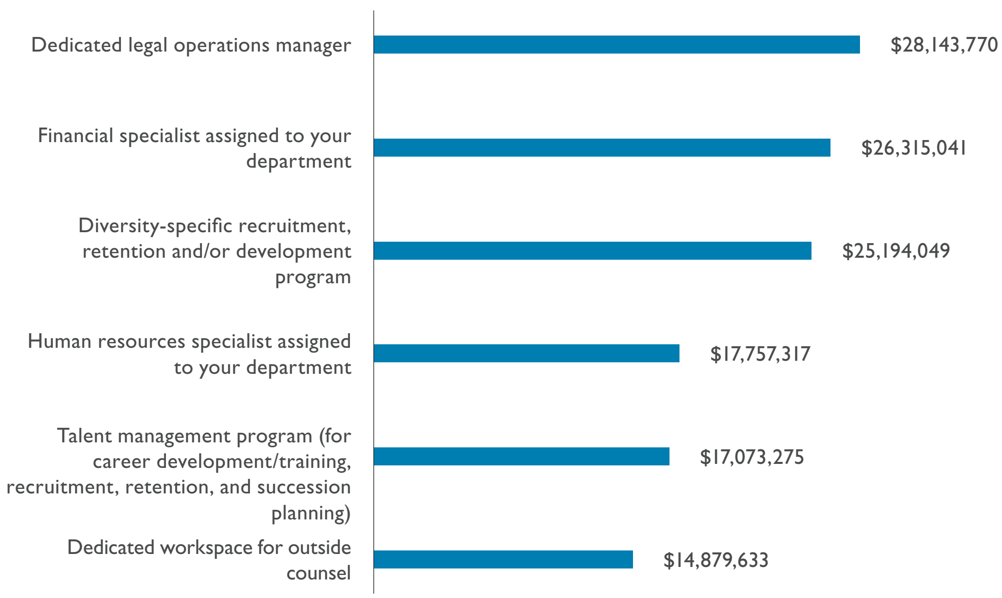
Turnaround time project open to close total time spent on matter.

22. Which of the following do you currently have in your department?

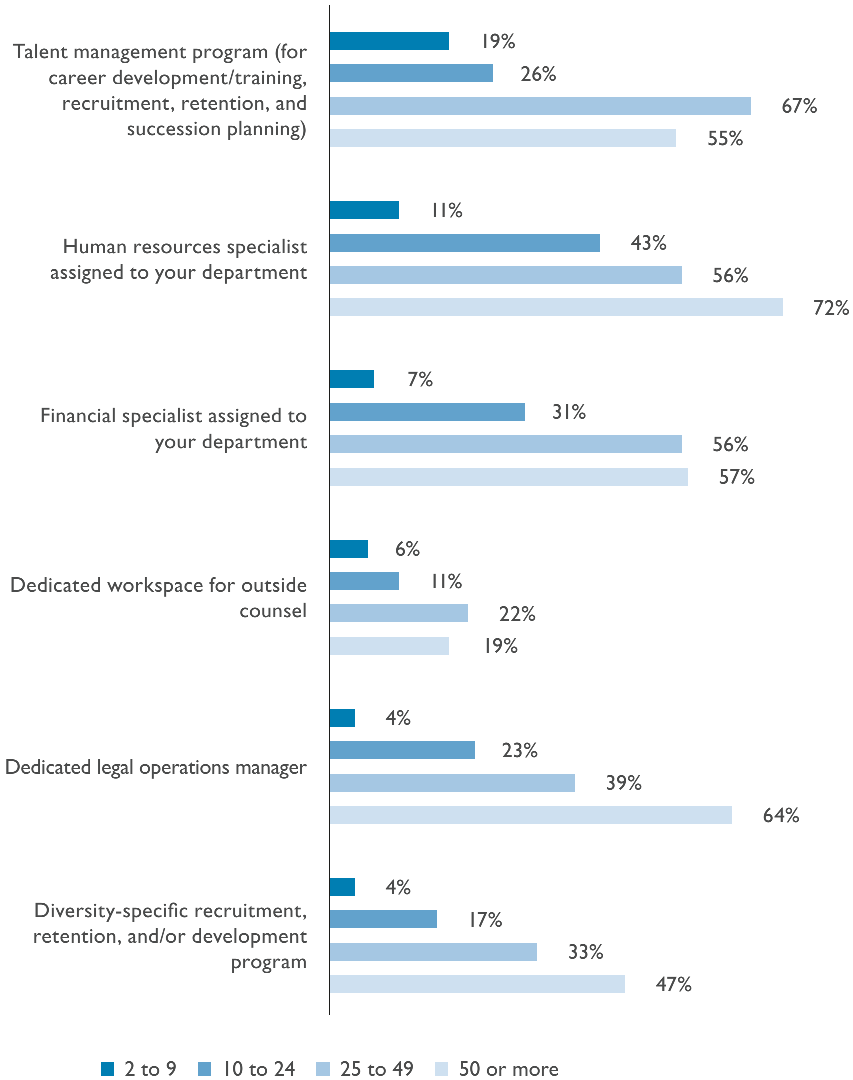
CURRENT STAFFING ARRANGEMENTS IN LAW DEPARTMENT



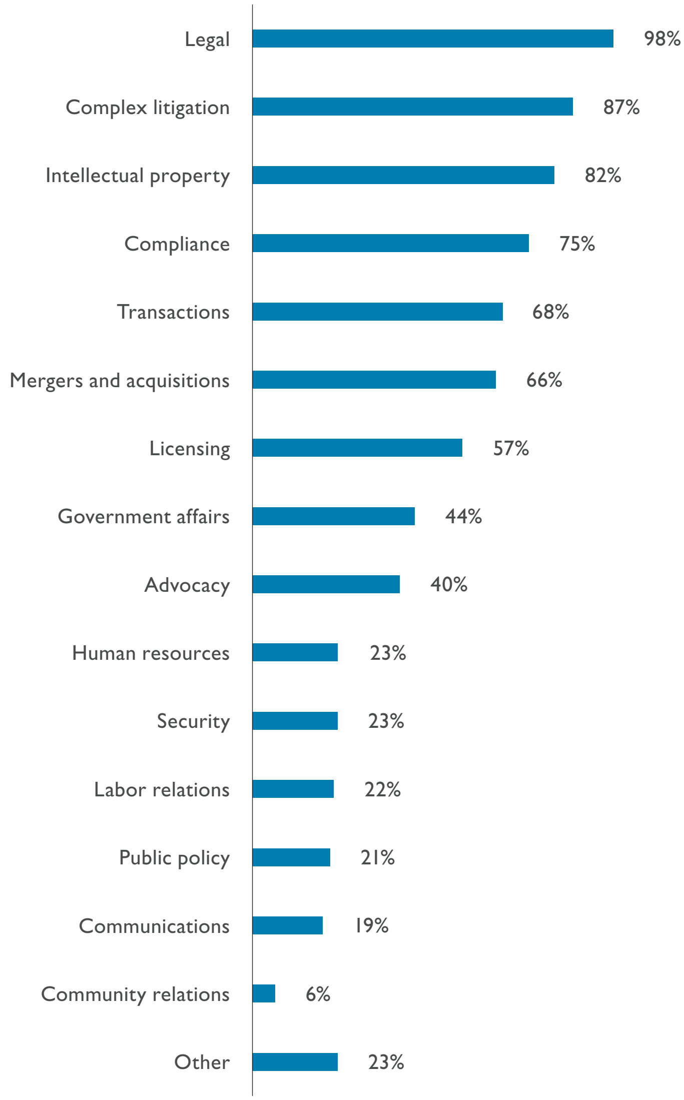
CURRENT STAFFING ARRANGEMENTS BY OUTSIDE LEGAL SPEND



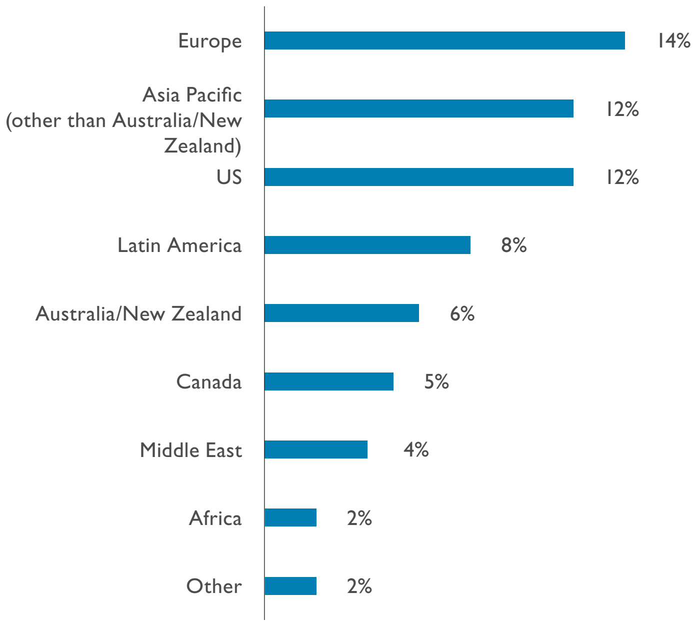
CURRENT STAFFING ARRANGEMENTS BY DEPARTMENT SIZE



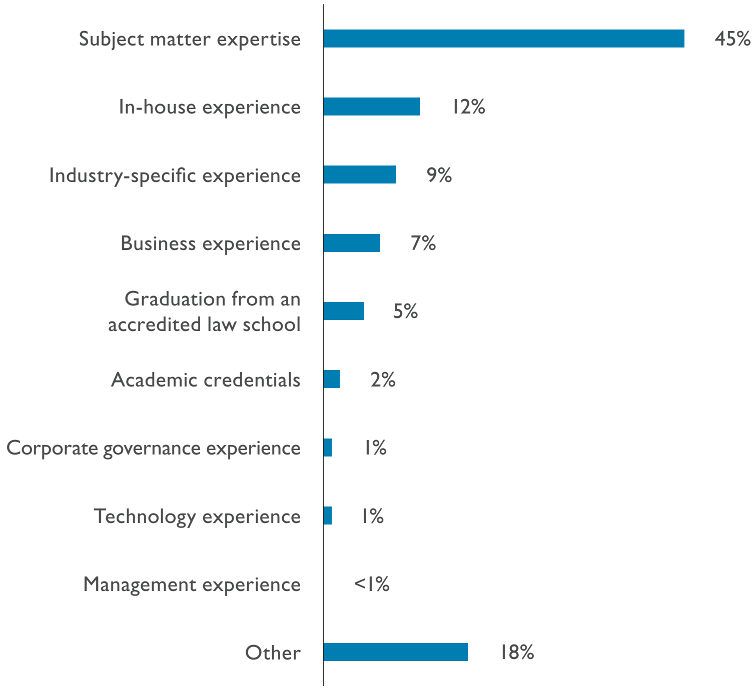
23. What corporate functions does your legal department oversee?



24. In which geographic locations does your company currently have in-house lawyers employed?



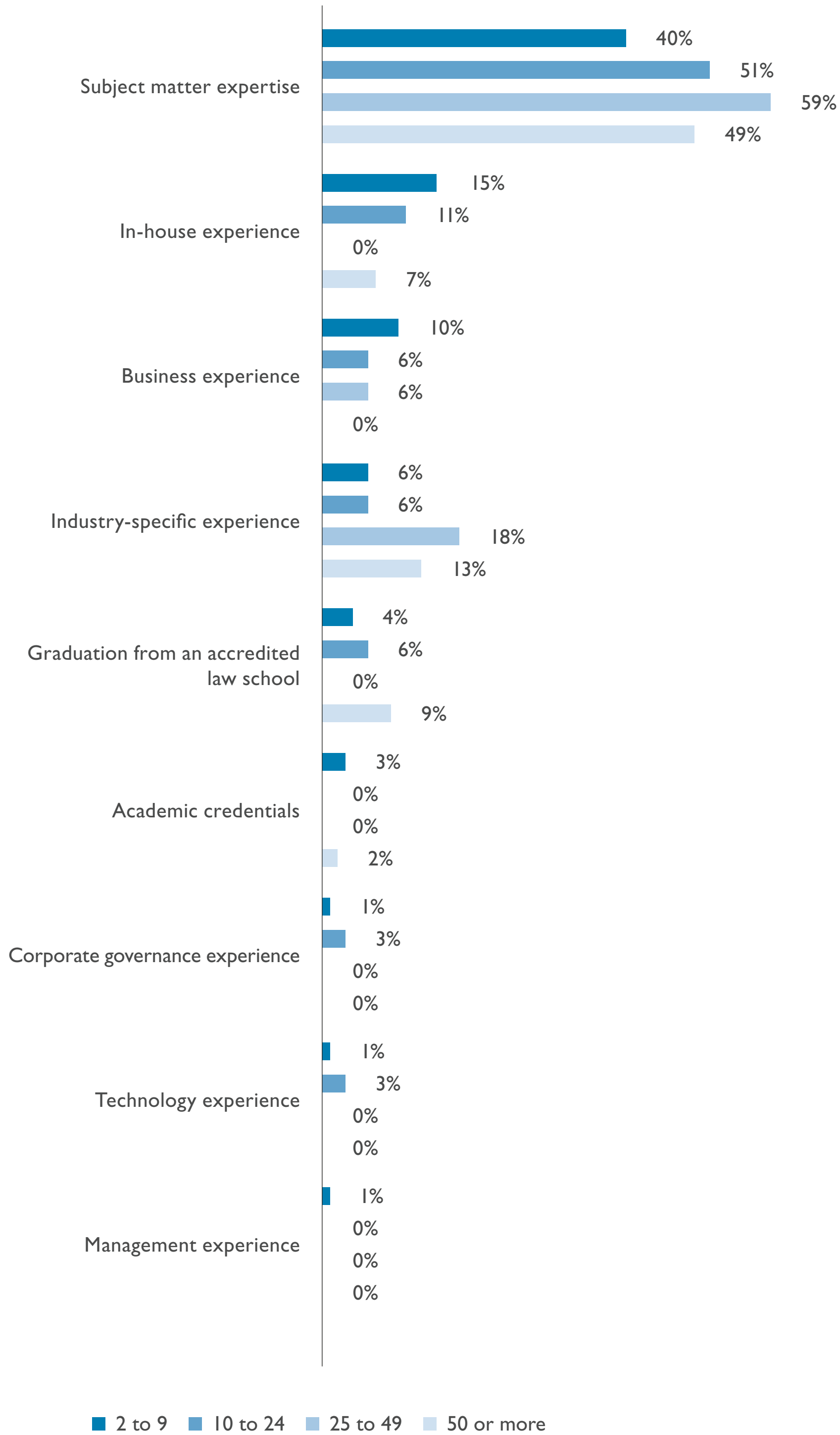
25. What is the most important criterion for qualified candidates seeking employment in your law department?



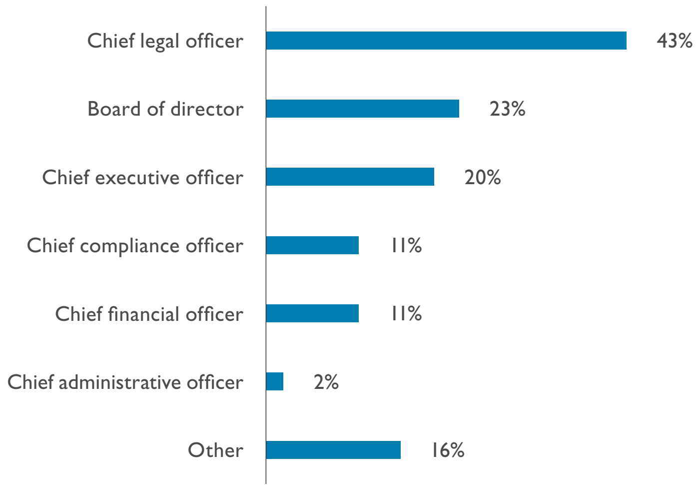
IF OTHER, PLEASE SPECIFY:

- Cultural fit
- Soft skills
- Adaptability
- No one single factor

MOST IMPORTANT CRITERION FOR JOB CANDIDATES BY DEPARTMENT SIZE (ALL EMPLOYEES)



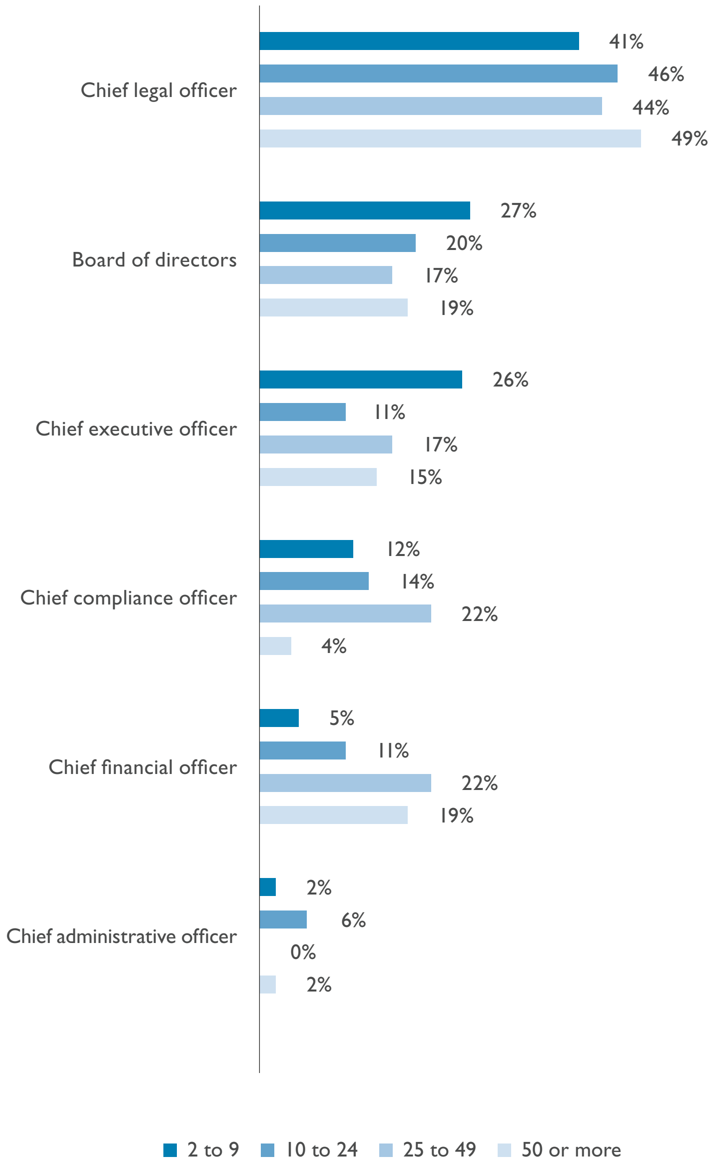
26. Where does the compliance function report in your organization?



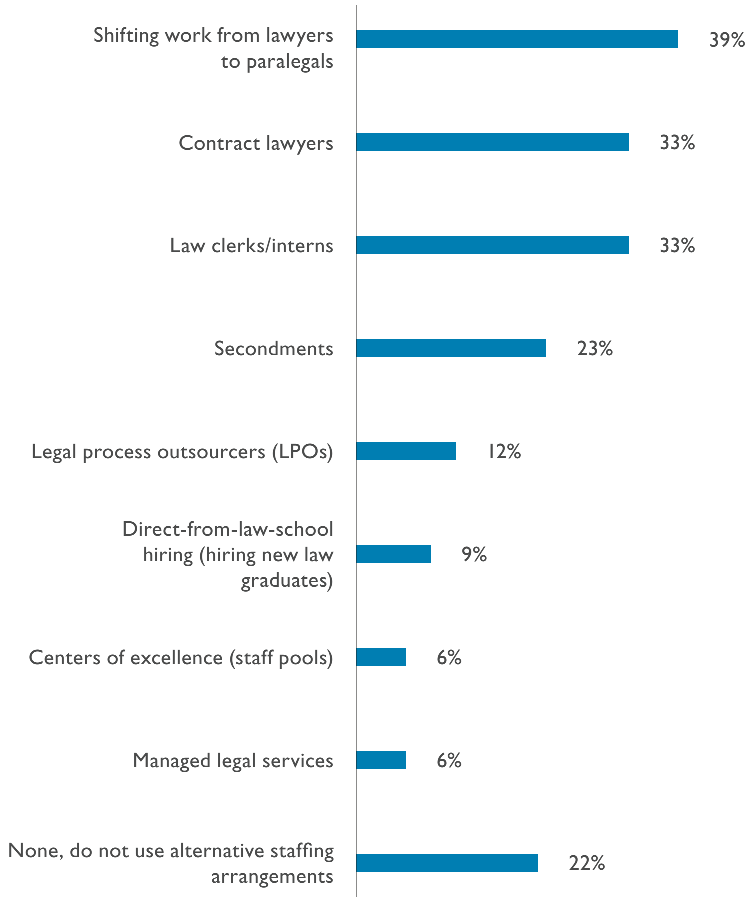
IF OTHER, PLEASE SPECIFY:

- Chief operating officer
- General Counsel
- Senior Vice President
- Lives in each business unit

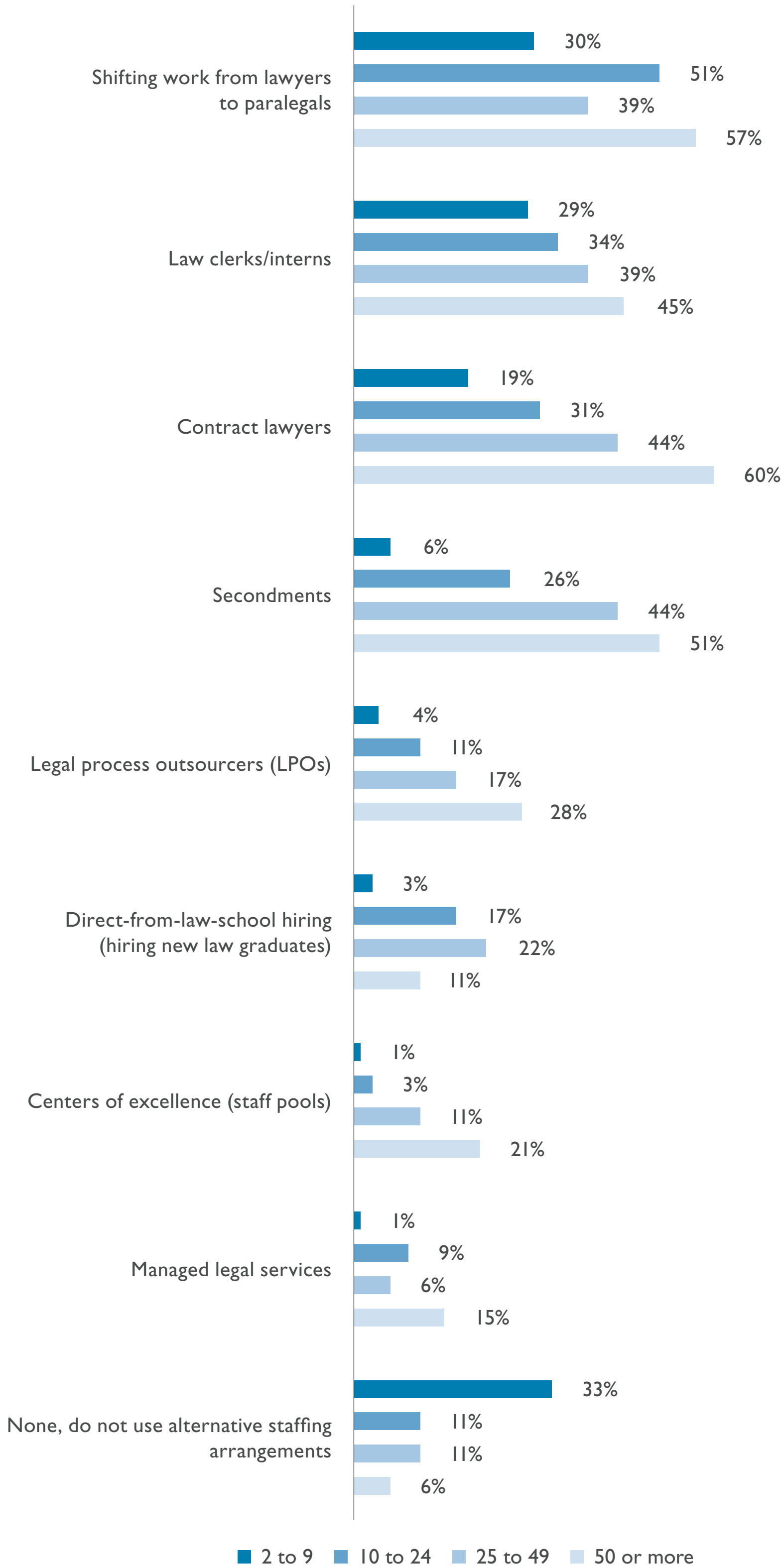
COMPLIANCE FUNCTION REPORTING BY DEPARTMENT SIZE (ALL EMPLOYEES)



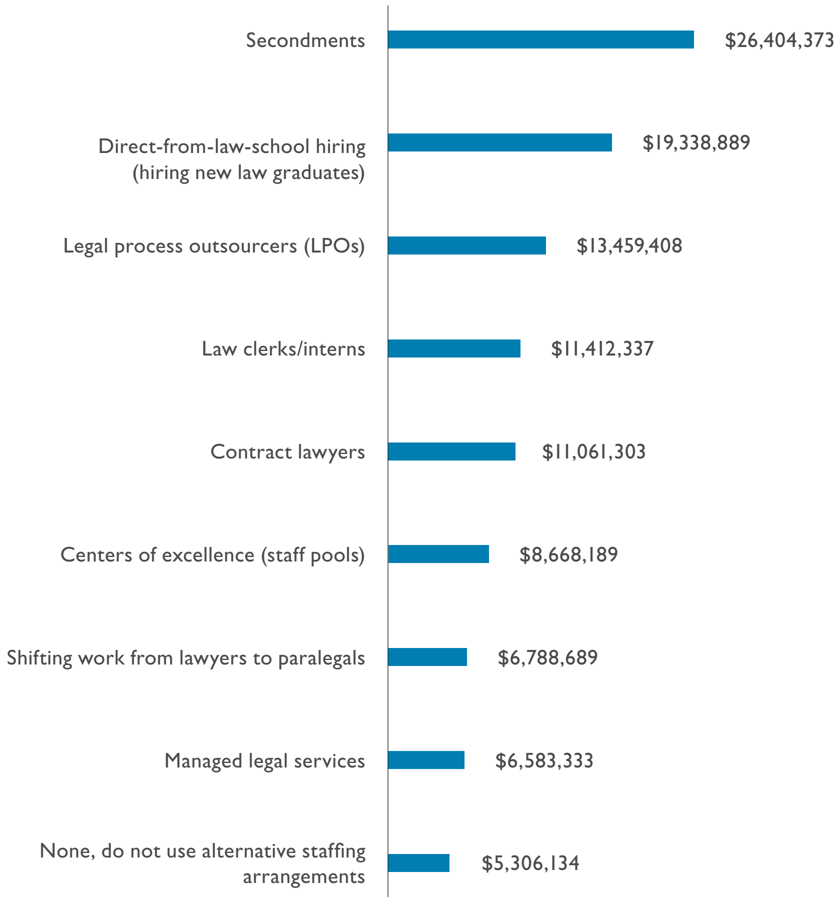
27. Which of the following alternative staffing arrangements do you use?



ALTERNATIVE STAFFING ARRANGEMENTS BY DEPARTMENT SIZE (ALL EMPLOYEES)



ALTERNATIVE STAFFING ARRANGEMENTS BY OUTSIDE LEGAL SPEND



DEMOGRAPHIC OVERVIEW

The majority of respondents are located in the United States (75 percent). Twelve percent are from Europe, 6 percent are from Canada, and less than 3 percent each are from the Middle East/North Africa, South America/Caribbean, and the Asia Pacific.

The top five industries represented are finance and banking (11 percent), manufacturing (9 percent), information technology/software/internet-related services (8 percent), insurance (8 percent), and energy (4 percent).

Thirty-nine percent of respondents work in public organizations, 34 percent work in private companies, 17 percent are in limited liability companies (LLCs), and 9 percent are in non-profits or non-governmental organizations. The remaining respondents work in limited liability partnerships (LLPs), partnerships, and other common organizational structures.

Sixteen percent of respondents work for companies that generate less than $100 million in total annual gross revenue, 31 percent of respondents work for companies that generate between $100 million and $999 million, and 47 percent work for companies with greater than $1 billion in revenue.

Fifty-four percent of respondents work in departments with two to nine employees, 19 percent work in departments with 10 to 24 employees, and 28 percent are in department with 25 or more employees. No respondents report being the only employee in their department.

Sixty-three percent of respondents are male, and 35 percent are female. The average age of respondents is 50.8 years, with 54 percent being a part of the baby boomer generation, 43 percent in Generation X, and 3 percent in Generation Y.

Eleven percent of respondents report being a member of a minority or underrepresented group in their workplace. Of those respondents, 55 percent say they are a member of a racial minority group, 41 percent say they are a member of an ethnic minority group, and 10 percent report being a member of a religious minority group.

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