



2021 State of Corporate Law Departments

The global COVID-19 pandemic:
A catalyst for accelerating
the change agenda



Executive Summary

For most corporate law departments, 2020 will be remembered as a year where everything was turned on its head. Law department leaders had previously helped guide their departments through recessions, sales shortfalls, and restructurings, but never a global pandemic.

However, the after-effects of 2020 will likely contain as many positives as negatives; and, if department leaders are smart, it should act as a catalyst for accelerating the change agenda in 2021 and beyond.



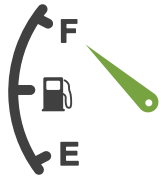
The four main effects of the pandemic on corporate law departments:

- 1. Increased and evolved workload** — Eight times as many law departments experienced a surge in workload as experienced a dip. Further, they supported their organizations in reinventing business operations to varying degrees and breaking through barriers which would have previously been considered insurmountable. This dynamic changed the composition of work from business-as-usual to crisis management.
- 2. Shifting demand for external support** — Corporate law departments' demand for external counsel at law firms fell by 2.5% in 2020, as many cases and deals stalled. However, rate increases put in place by law firms at the start of the year along with a shift to using more senior partner-level contacts for crisis support meant that revenue for most law firms still grew overall in 2020.
- 3. Many traditional law departments struggled to adapt** — Many traditional law departments lost time while their more modern counterparts were able to adapt to changing conditions much more quickly. Strategies such as investing in technology and establishing remote working practices were vindicated.
- 4. Safeguarding became a much higher priority for law departments** — From keeping the organization afloat to mitigating risks emerging from the pandemic, the mandate to safeguard the company became paramount during the crisis. More than 40% of law departments have put in place new dispute prevention measures, on top of what they already had in place.

As we enter 2021, the challenges continue but many corporate law departments are now prepared — at least for what they have experienced through the pandemic. Many department leaders have formed a new adaptable mindset and have shown the efficacy of a remote working practices model. Legal budgets are likely to be further stretched, of course, as business-as-usual comes back to full force alongside rising work levels coming out of the dynamic COVID-19 environment and related disputes.

Any gaps in the industry's modernity have been laid bare, and law department leaders have a unique opportunity to continue the rate of change in 2021 from how we worked in 2020. Forward-thinking law departments will be using this time to invest in the technology, processes, and smart resourcing required to optimize value and effectiveness from their current budgets.

Indeed, corporate law departments are in a unique position to drive more fundamental change across the legal industry and beyond in a number of ways, such as i) holding themselves, their organizations, and their suppliers accountable to new, modern standards; and ii) seeking authenticity in approaches and assigning hard targets in areas such as client service, efficiency, diversity and inclusion, sustainability, and broader corporate social responsibility.



How will this report help you?

- ✓ Compare your approach to handling the pandemic with that of your peers.
- ✓ Learn how to remain adaptable amid continuing uncertainty.
- ✓ Critique your own department against a new framework of a successful law department that includes metrics, spend benchmarks, talent management, technology improvements, process redesign, external counsel management, and culture development.



Data sources

Acritas Sharplegal

Acritas, part of Thomson Reuters, has been researching senior in-house counsel across the globe for 14 years. This study incorporates responses gathered from more than 2,000 telephone interviews, each lasting approximately 30 minutes, including more than 600 in the U.S.

The topics covered include legal spend, sourcing patterns, experiences with law firms, and general market trends. Additionally, this year the report looked in detail at the impact of the global COVID-19 pandemic on corporate law departments.

For law department leaders, participation in the study enables them to access peer benchmarks on spend, proportion of budget allocated externally and internally, and team size. Please contact Kayleigh Lowes at kayleigh.lowes@thomsonreuters.com to schedule an interview.

Thomson Reuters Legal Department Operations (LDO) Index 2020

Thomson Reuters® Legal Tracker has surveyed legal operations professionals for five years, examining the changing landscape in the corporate legal field. In 2020, Legal Tracker surveyed corporate attorneys and legal operations professionals on their spend management plans and sophistication, department priorities, the maturity of their legal operations, and their staffing and diversity plans. The report also provides a listing of the most commonly used metrics for law department operations and best practices used by leading organizations.

In total, 223 law departments, including those of 81 companies in the Fortune 1000, responded to the survey in June 2020, and their information was combined with Legal Tracker benchmarking data, comprised of more than \$90 billion in legal spending from more than 1,450 law departments.

Section 1 — Impact of the global COVID-19 pandemic

Early stage of the pandemic

As a result of the pandemic crisis, 58% of corporate law departments experienced a surge in workload, more than eight times the number of departments that experienced a reduction. Unfortunately, this work increase came at the same time as rapid-fire budget cuts across many organizations, as department leaders sought to protect the financial viability of their business models as revenues fell.

In fact, nearly five times as many law departments suffered budget cuts as saw budget increases. This meant the shift to ‘more for less’ in legal spending moved from a desire to an imperative.

Nearly

5x

as many law departments suffered budget cuts as saw budget increases.

58%
increased workload

6%
increased legal budgets/spending

7%
decreased workload

29%
decreased legal budgets/spending

Overall, corporate law departments’ outside law firms stepped up to this challenge. Many law firms redirected their knowledge sharing efforts to help organizations understand the legal impacts of the pandemic and provided both general and tailored advice for clients, in the form of e-newsletters, webinars, and knowledge portals.

Many law firm partners offered their clients hours of free advice, often beyond their core areas of expertise to better help clients think through the issues, implications, and potential solutions they were now facing. As these conversations were conducted remotely, from home to home, relationships between in-house and external counsel became more personal and were strengthened as a result.

During all this, corporate law departments had to deal with new and different challenges, as four different workstreams emerged:

1. Complying with COVID-19 mandates
2. Establishing remote working procedures
3. Maximizing operations
4. Minimizing potential damages

Four key workstreams coming out of the COVID-19 pandemic



	Workstream 1	Workstream 2	Workstream 3	Workstream 4
	Compliance with dynamic COVID-19 requirements	Enabling effective home-working	Maximizing operational activity within dynamic environments	Minimizing potential damages
Objectives	<ul style="list-style-type: none"> Employee safety Business operations 	<ul style="list-style-type: none"> Hardware Access to info systems Communication tools New processes Sufficient resources Engaged people Measure productivity 	<ul style="list-style-type: none"> Continuity in supply chain Logistics Customer continuity Review customer contracts Ability to deliver products and services Maintain cash flow 	<ul style="list-style-type: none"> Resolve labor matters Monitor risks (contracts, regulatory compliance, counterparty) Mitigate disputes Maximize government aid support Preparing for staged return to (new) normal
Strong Position	<ul style="list-style-type: none"> Low impact on business activity Single state operation 	<ul style="list-style-type: none"> Established home-working patterns Adequate tech infrastructure 	<ul style="list-style-type: none"> Innovative culture Adaptable workforce Available supply chain Digitally enabled 	<ul style="list-style-type: none"> Adopt reason and compromise Early attempt to settle
Weak Position	<ul style="list-style-type: none"> High impact on business activity Multi-state, multinational operations 	<ul style="list-style-type: none"> Rigid environment Traditional culture Inadequate tech Sickness in team 	<ul style="list-style-type: none"> Frozen legal activity (notaries, regulatory agencies) Requirements for F2F 	<ul style="list-style-type: none"> Suspended hearings Inflexible counterparties

How corporate law departments dealt with the impact of the global COVID-19 pandemic

Organizations were faced with a set of varying challenges, depending primarily on their business activity and geographic reach. This dictated how the Pandemic impacted their revenue and business operations and how many different sets of COVID-19 regulations they were dealing with — across different geographies.

“I think there’s been a disproportionate increase in workload. Consultations to understand what force majeure is, to understand the implications of the pandemic, what effects it can have and, especially, the high degree of regulation which has been introduced in the country. At the end of the day, being a federation, with 32 states, plus the federation, there are 33 entities issuing regulations every day, as well as local authorities, which complicates matters.” — *Transport, Mexico*

“The amount of work has been overwhelming because we’ve had to do a lot evaluating of contingency planning options [relating to] employments, possibilities in multiple countries and also business continuity for countries where we have operations but have lock downs.”
— *Technology/Media/Telecom, U.S.*

These challenges also varied depending on how ready law departments were to adapt to virtual working and how creative they were in finding solutions to what would previously would have been considered untenable solutions. This meant that within a law department, its existing technology, established working practices, and culture made a big difference in how ‘fit’ the department was to handle the crisis. Were department leaders scrambling to order laptops and make systems accessible from numerous remote locations? Were in-house lawyers trying to find couriers to send out physical documents rather than being able to access and work on documents online? How well were they able to collaborate with colleagues? Were department leaders adept at crisis management and using modern approaches such as design thinking to find innovative solutions?

“We are a department that is very used to working remotely, furthermore we are a department that provides services at a global level; the internal client is not always in our offices so normally all communication is always remotely with them.” — *Healthcare, Switzerland*

"It's difficult to be as efficient without having all the same kit at home, including things like printers that allow you to print hundreds of pages of documents. So, I think it's going to be difficult to do more complex work without that infrastructure. There's some stuff we physically can't do because we don't have access to files without people going into the offices, which doesn't really fit into the government's recommendations so that stuff's all put on hold for now."

— Technology/Media/Telecom, UK

"So, for us we see that there is a huge willingness to embrace the change that COVID has driven. We have remote working, we have full IT support, we have extended hours for people who are home working. — Healthcare, Hong Kong

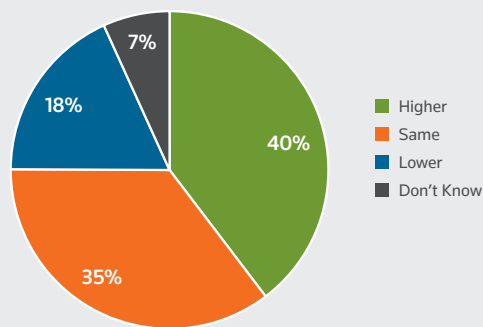
"Productivity and efficiency have declined significantly as most of our legal workers are working from home." — Technology/Media/Telecom, U.S.

Minimizing disputes arising from the pandemic

Law departments are familiar with a constantly changing disputes environment. Recessions, for example, often lead to a more litigious environment as aggrieved parties become more desperate to assign blame and stem previous losses; whereas, in buoyant times, such finger-pointing becomes less prevalent.

With all the disruptions arising from the pandemic, especially the strain the crisis has put on contracts, many senior in-house counsel teams anticipate an uptick in dispute activity.

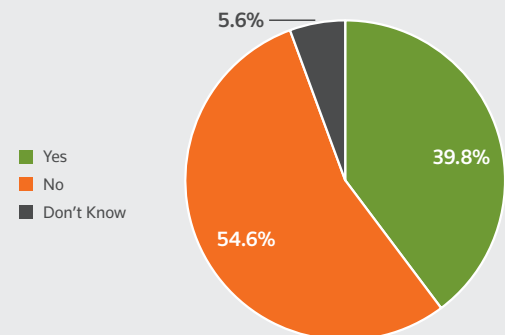
Disputes — next 6 months compared to pre-COVID



In total, 40% of law departments predicted that spend on disputes would be higher over the next six months than pre-pandemic levels, twice as many as foresee lower spend levels.

Overall, the mindset and strategies of corporate law departments over the previous few years were laid out for all to see — and their external law firms were in much the same boat.

New measures aimed at preventing disputes

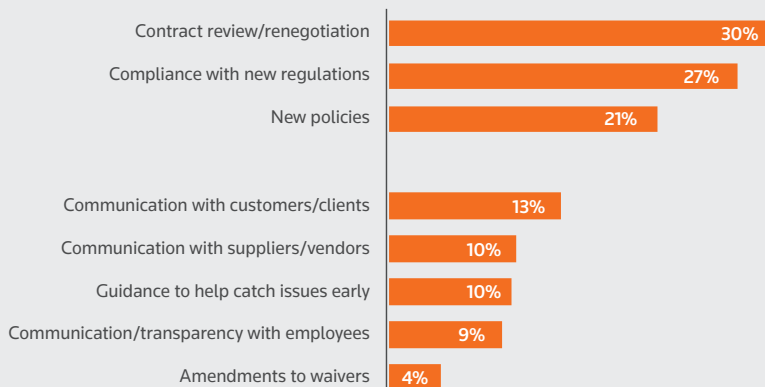


Further, 40% of these departments are taking additional steps to prevent disputes; however, 55% said they are not.

The most common preventative measures cited included reviewing or renegotiating contracts, taking a robust approach to ensuring compliance with pandemic-related regulations, and implementing new policies.

Many departments are also stepping up communications with employees, customers, and suppliers.

Top COVID-19 dispute prevention measures



"We have gone to great lengths to make sure that when we are operating, we're doing it in the absolute safest fashion.... One [objective] is to protect the employees; two, is hopefully lessen any liability from any potential worker compensation or other disputes. It's all I've been working on for the last four months."

— *Manufacturing, U.S.*

"It's really about communication. You're kind of limited in what you can do based on the law or what your contract says, but certainly as soon as COVID broke out we made sure there were open lines of communication with us and our sub-contractors as well as us and our owners." — *Construction, U.S.*

"Reviewing our contracts to understand our position on issues like force majeure, and potentially clarifying some of the force majeure clauses, and having proactive discussions with suppliers and contractors around their position." — *Natural Resources, UK*

How the pandemic changed the way law departments work

The rapid shift to remote working within the legal industry has forced many law department leaders to break through the traditional mindset of having to see people in their offices to understand that work was being done.

Lawyers' ability to work remotely while continuing to be effective and productive has been proven for those departments that have offered the right supporting technology and processes. This new dynamic brings a host of opportunities — the ability to scale back office space, to hire talent, or search for new suppliers beyond the usual geographic limitations. Departments also can offer a more flexible employee experience that fits around the individual, not the work location.

In a survey of law firm partners, three times as many partners said they perceived remote working as having a positive impact on their well-being than said it had a negative effect. Partners were also more likely to perceive working practices had improved rather than deteriorated. Those that thrived were more likely to talk about having more structure in the way they collaborated with others. Partners also said that getting the right support and training for those who find it harder to adapt is key.

Among alternative legal services providers (ALSPs) the ethos was to offer traditional legal organizations the kind of flexibility previously unavailable in the industry. This often resulted in ALSPs attracting a more diverse, tech-friendly workforce they could pitch to traditional law firms and corporate law departments.

If law departments and law firms can follow the ALSPs' lead by maintaining their flexible working options after the pandemic, they are likely to develop a more engaged and creative team.

Checklist:

Characteristics of law departments that were in good shape to handle the pandemic

- ✓ Utilized technology that enabled effective and efficient remote working (hardware and software).
- ✓ Established remote working practices that allowed internal teams to have structured working processes and online meeting cadence.
- ✓ Checked in regularly with internal business leaders to ensure a legal perspective is included at all key meetings and that risks are identified.
- ✓ Fostered a creative, non-hierarchical culture where all team members felt able to contribute ideas to solve challenging issues.
- ✓ Enabled external counsel to offer the same seamless service virtually.
- ✓ Accessed free law firm resources to help identify and understand emerging legal issues.
- ✓ Learned from other clients' experiences by relying on trusted external lawyers who are well-connected within their own firms.
- ✓ Tracked dynamic COVID-19-related regulations across all jurisdictions and ensured compliance.
- ✓ Created and maintained a risk register that incorporated and ranked all potential legal risks.
- ✓ Took steps to mitigate the most concerning risks at all levels.



Section 2 — What might 2021 bring and how can corporate law departments best prepare

What will the outside world be like?

Until the pandemic is more fully under control, most economies are likely to suffer continued disruption and reduced economic activity.

This will create financial pressure for many legal organizations and their clients, which will no doubt increase the pressure on legal budgets. For those law departments that have been well positioned to grow through this crisis or rapidly adapted their business models to find greater opportunity, there are likely to be continued challenges to help facilitate business change and rapid growth.

The U.S. has transitioned to a new administration and, as the largest economy in the world, this change will impact businesses trading in, or with, the U.S. The new administration of President Biden already has indicated it is taking a stronger stance in handling the pandemic, by re-joining the World Health Organization and issuing a national mask mandate in public areas. Hopefully, these actions will reduce the longer-term damage, especially the loss of life from the virus.

Further, the Biden administration has signaled its intention to review and reverse much of the former administration's regulatory, trade, and foreign policy initiatives, which is likely to impact international trade. In his inaugural address, President Biden also pledged to confront the issues that have led to social unrest in recent months. This further focus on social disruption would continue to empower law department leaders to push for more diversity and inclusion, both internally and among their outside counsel teams.

For multinational companies active in Europe, the UK's departure from, and new relationship with the European Union could have a significant impact on how business gets done in the short- and long-term.

For many industries, including legal, operating in an uncertain political and economic landscape will continue to be the norm. And law departments will be central in helping their organizations maximize performance while they minimize both near-term and future risks.



How can law departments prepare?

Keep legal support available at all times

First and foremost, corporate law departments need to build on the productivity gains and flexibility they've seen in their transition to remote working. Even after many return to the office, departments should be ready to switch to virtual working as quickly and effectively as possible as demand requires it. That means continuing to transition systems and processes that make this possible and supporting individuals in their remote working capabilities.

Be a proactive, core advisor to the business

Second, the in-house legal team needs to keep close to the business, not just by identifying and mitigating potential risks, but by taking a more proactive role, providing a sounding board for new strategies, and bringing forward potential solutions.

In dynamic times like these, staying current with the strategic moves of competitors or organizations in parallel industries will be essential, as will keeping abreast of changing regulations. The more formalized this process is, the more effective it is likely to be.

Law department leaders also should let outside legal advisors know that they are expected to bring ideas and best practices, gathered from their other clients to your legal team. And it's crucial to schedule time and reward them for doing this.

What should a successful law department look like?

81%

of law departments' hirings were for legal operations roles in 2020.



Source: Thomson Reuters Legal Department Operations Index Report

In the above framework, seven major components that a successful corporate law department should seek to incorporate were identified.

One major development in 2020, according to the report, was the huge increase in law departments' hiring of legal operations roles, with 81% of departments saying they were making such hirings, compared to 57% that said this in last year's report. Legal operations specialists are increasingly seen as the driving force behind all seven elements of this framework, often ensuring that legal departments have the right tools and resources.

To keep metrics at the forefront of its operations, your law departments should put in place a regular reporting mechanism that helps the internal team stay on track, while reminding business leaders, especially those in charge of the purse strings, of the value added by your team.

1. Strategic goals, related metrics, and reporting

While most law departments can articulate a range of compelling strategic goals — for example, encompassing effective legal support to the business, safeguarding the organization for the long-term, or driving efficiency — most of the metrics departments report are related to their legal spend.

In fact, the top five metrics used, according to Thomson Reuters Legal Department Operations Index report, were spend-based:

- Total spend by law firm (with 92% of departments saying they track this metric)
- Total spend by matter type (62%)
- Total spend by practice group (54%)
- Total spend by business unit (50%)
- Forecasted spend vs. actual spend (48%)

While spend metrics are vitally important, they alone do not measure the core value a law department contributes.

Law departments that can find measures which help to demonstrate to the business how the department creates value or avoids losses, can use these metrics to help fend off attacks on their budget.

For example, the sixth most used metric cited by law departments is tracking the number of matters opened and closed. While this still doesn't evaluate the quality of work and value created, it does measure the volume of work. The eighth most utilized metric is litigation exposure — often a big concern for Chief Finance Officers — so keeping track of this is recommended. Interestingly, tracking the quality of legal outcomes is only utilized by 11% of departments.

- Number of legal matters opened and closed (46%)
- Litigation exposure (36%)
- Quality of legal outcomes (11%)

2. Budget allocation and management

While law department leaders can gain access to real benchmarks — gathered by collating budget and revenue information from thousands of companies — the reality is that a department's actual budget depends on its organization's size, location, industry, level of regulatory scrutiny, stage of growth, international reach, and many other factors. This report shares overall medians, means, and trends, while recognizing that the figures gathered often do not account for the quality of the legal provision.

Below are two high-level metrics that law department leaders should consider to be key when it comes to legal spend benchmarks:

- Legal spend as a percentage of revenue
- Percentage of legal spend allocated to external counsel



In 2020, an organization with \$1 billion or more in global revenue typically spent 0.18% of this revenue on legal services. In the U.S., this figure was much higher with U.S.-based organizations spending close to twice as much, relative to their revenue. UK and Canada sit close to the global average, while most other countries typically spend somewhat less on legal.

Total legal budget = **0.18%** of revenue

Spending benchmarks for \$1bn+ revenue organizations, by HQ location:

		Total spend relative to revenue (median)
Global		0.18%
North America	Overall North America	0.28%
	U.S.	0.32%
	Canada	0.19%
Europe	Overall Europe	0.15%
	UK	0.18%
	Germany	0.13%
	France	0.11%
Latam	Overall LA	0.14%
Asia Pac	Overall AP	0.12%

Aside from geographical location, the size of the organization (based on its total revenue) makes the biggest difference when it comes to level of legal spend because large economies of scale can come into play. A U.S. organization with revenue of \$6 billion or more will typically spend almost 15% less on legal compared to an organization that has less than \$250 million in revenue.

The table below gives a rough guide by revenue, but doesn't account for other variables, such as industry. Finance and real estate industries within the U.S., for example, allocate more than 1% of their revenue to legal, due largely to regulatory demands.

Spending benchmarks for \$50m+ revenue U.S. organizations, by revenue size:

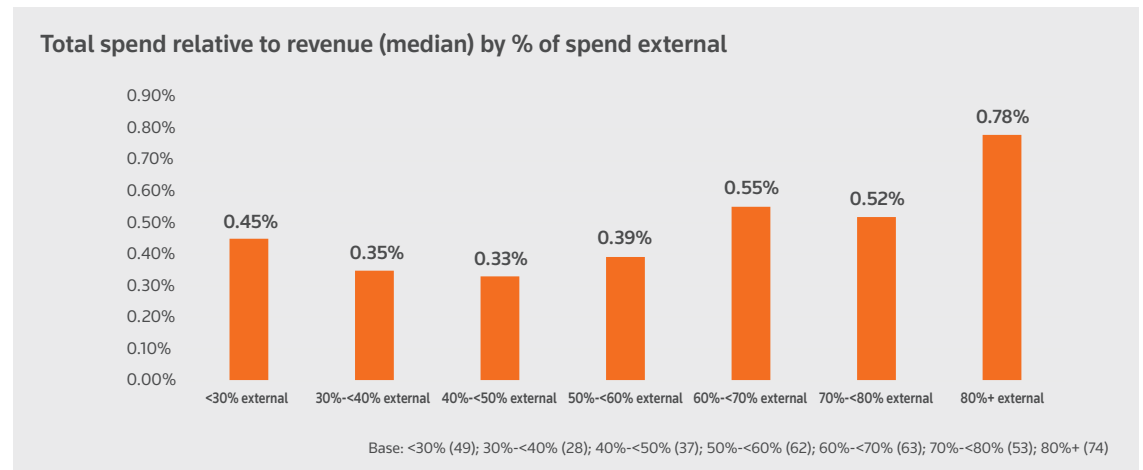
Revenue	Total spend relative to revenue (median)
<\$250m	1.40%
\$250m-<\$500m	0.54%
\$500m-<\$1bn	0.54%
\$1bn-<\$3bn	0.35%
\$3bn-<\$6bn	0.24%
\$6bn+	0.19%

Proportion allocated externally = **55%**

External legal spend — The average proportion of a corporate law department’s overall legal budget allocated externally has remained fairly consistent at 55%. In the U.S., the average is slightly higher at 60% while in Europe and the Asia Pacific region the figure is closer to 50%.

For U.S. organizations at least, there does appear to be an optimal range when it comes to the ideal balance of external to internal spend which corresponds with the lowest spend-to-revenue ratio. The lowest ratio is 40% to 50%, suggesting that U.S. law departments would typically benefit from bringing at least another 10% of their overall budget internally — closer to the European and Asian average.

Spending benchmarks for \$50m+ revenue U.S. organizations, by external/internal ratio:



As companies start to increase their use of external ALSPs, which often claim to offer leaner pricing, the optimal range might shift, as outsourcing becomes more cost effective.

0.4 in-house lawyers per \$100m revenue

The typical organization with \$1 billion or more in revenue has the equivalent of 0.4 in-house lawyers for every \$100 million in revenue — this is true both in the U.S. and Europe. However, U.S. companies’ in-house legal costs are still typically much higher than their European counterparts’, as the U.S. median cost per lawyer is more than double, at \$300,000 compared to \$133,000 in Europe. In the Asia Pacific region, legal team sizes are typically smaller, with 0.2 in-house lawyers per \$100 million in revenue.

Economies of scale are again seen here, with smaller companies requiring larger teams relative to their revenue, but still spending a similar amount per lawyer as larger organizations.

3. Attracting and engaging talent

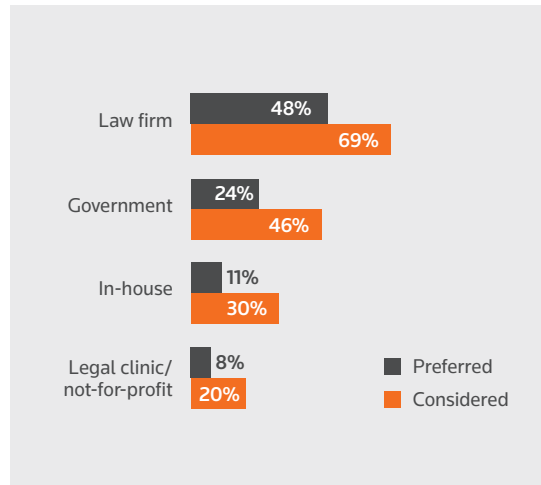
Many law departments recruit their talent directly from law firms. And the pandemic has made talent across law firms re-evaluate their working lives, and almost 80% of lawyers have said they want to maintain the changes they’ve experienced during remote working, according to a recent Acritas report on the future of legal work. Further, 20% said they would leave their current firm if it won’t accommodate greater flexibility.

If your department can offer these new hires more control of where and when they work, it could give you a unique opportunity to bolster your in-house team with talent from law firms across the country.

Additionally, some of the larger corporate law departments recruit directly from law schools, while others leverage learning platforms from their preferred law firms to ensure the department’s more junior members continue their professional development as they build a network of peers.

Only
30%
said they
would consider a
career in-house.

According to a survey of U.S. law students conducted by Acritas in late-2020, only 30% said they would consider a career in-house, and just 11% said this would be their preferred career choice. The survey also showed that there was very little understanding of what an in-house career entails, with some law school respondents saying they didn't think they would be qualified, they didn't have the right experience, or that there wouldn't be much earning potential or variety of work.



Clearly, corporate law departments would benefit from improving their employer brand among law schools and external counsel by, for example, showing off the rich variety of work and career prospects available alongside flexible ways of working and an opportunity for pro bono work.

Once in place, highly engaged team members not only perform well, but they are more likely to stay. Law departments can encourage this enthusiasm by inviting new team members to have a voice and share it within the organization. After working in hierarchical law firms, new in-house team members will view this as a hugely refreshing opportunity.

And one way to track progress in this area is to measure Net Promoter Score among the current team to see how the department scored when it comes to employees' recommending the department as a good place to work.

4. Technology and systems

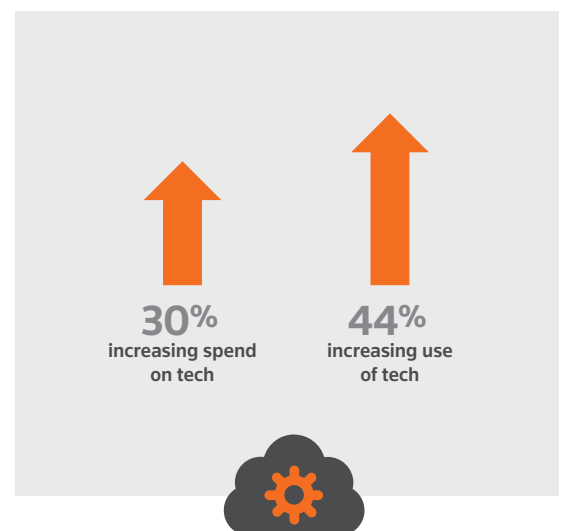
This year's report shows that 30% of law departments are increasing their spend on technology, compared with only 11% decreasing spend. An even stronger trend, identified in the LDO survey this year, is that more departments are making better use of existing technologies, with 44% of departments saying they were increasing their use of technology tools, compared with just 2% decreasing.

The top five most important technologies cited by corporate law departments, according to the LDO survey, were:

- eBilling/spend and matter management
- Contract management
- Legal research
- Document management
- Legal hold

The five most common technology solutions that law departments said they don't currently have but are looking to procure include:

- Document management
- Legal business intelligence
- Contract AI for analysis, risk assessment, or due diligence
- Contract management
- Legal workflow automation



Whatever technologies departments have in place, data security is cited as the second highest priority for law departments, according to the LDO survey. Amid the pandemic, of course, data security and protection has become even more important now that data systems, documents, and networks need to be accessible to remote workers.

5. Process optimization

The third and fourth highest priorities cited by law departments in the LDO survey were “driving internal efficiency in the delivery of legal services”, which was cited as a priority by 74% of departments; and “using technology to simplify workflow and manual processes” (61%), both of which demonstrate the importance of process optimization.

Law departments are increasingly turning to techniques such as design thinking and collaboration to re-engineer their working processes, assign the right resources, and maximize department technology. There is also huge upside potential in simplifying future processes by digitalizing as much of the department’s legal data as possible.

This type of process review is often greatly helped by employing the right experts. Professional project managers, legal engineers, and external consultants are increasingly being utilized by corporate law departments and law firms for this purpose.

How sophisticated is your department when it comes to technology and processes?

Thomson Reuters has developed a model to help law departments assess the sophistication of their technology and processes.

In the last year, law departments have grown in sophistication, with the biggest shift being Proactive organizations moving on to becoming Optimized and Predictive.

Category	Description	2020	Change since 2019
CHAOTIC	Legal invoices outside of eBilling system; no consistent way to report on legal spending	0%	-1%
REACTIVE	Use of an eBilling system and basic reports on spending	23%	—
PROACTIVE	Use of billing guidelines, invoice audits, and legal invoice review; process for management of timekeepers and matters	51%	-6%
OPTIMIZED	Centralized management of rates; use of request for proposals (RFPs), bids or discounts to set rates; focus on internal processes that drive costs down; advanced reporting on law department performance	18%	+2%
PREDICTIVE	Active management of matters with collaborative involvement from attorneys, outside counsel, and legal operations; detailed matter budgets, predictability, and forecasting; benchmarking performance	7%	+3%

6. External counsel management

The top priority cited for law departments in the LDO survey was to control outside counsel costs. This is not surprising given that those costs represent an average 60% of a department's total budget.

The top 10 most effective ways to manage external counsel costs identified by law departments were:

- 1 General enforcement of billing guidelines and reduction of invoice fees and expenses, cited by 81% of respondents
- 2 Standard discounts on proposed timekeeper rate cards (for example, offering 10% off rack rates), cited by 53%
- 3 Regular review of budgets, and comparison to actual spending on high-cost matters (51%)
- 4 Reduction of invoice expenses (50%)
- 5 Reduction of timekeeper rate increases (49%)
- 6 Volume discount (45%)
- 7 Requiring law firm matter budgets (42%)
- 8 Blended hourly rates (for example, offering fixed rate for partners, fixed rate for associates) (35%)
- 9 Fixed or flat fee with amount set at matter level (34%)
- 10 Utilization of preferred vendors/panel program (28%)

While spend on external counsel is important to keep under control, the performance of external firms and the value they add is even more important.

Given the effectiveness of enforcing billing guidelines as a measure in reducing outside counsel costs, law departments should consider using preferred vendor programs or panels as a way of increasing the value added, rather than simply as a way to further reduce cost.



Communication is critical — Typical breakdown areas between law departments and external counsel are often caused by poor communication. There are some ways these issues can be overcome or reduced, such as:

- ✓ Agree to a service standards framework that details how your department would like the external law firm to communicate, preferred methods for delivering advice, reasonable response times, and a traffic light system for urgency of tasks.
- ✓ Alignment of goals and metrics on how success is measured and rewarded for meeting budgets.
- ✓ Reviewing matters post-closure to ensure service is optimized, making sure the overall costs continue to come down and the law firm itself is rewarded for increasing overall efficiency.
- ✓ Regular briefings as to the company's goals, challenges, and risk appetite to ensure business solutions are delivered rather than just legal opinions. These sessions should be interactive and provide an opportunity for external counsel to suggest ideas or note experiences it has observed from working with other clients.

7. Culture

The culture of a law department is driven by many different factors. The tone from the top, what behaviors are rewarded and which are frowned upon, and the attitude towards both internal customers and external suppliers. In fact, how suppliers are treated makes a huge impact on how much value they ultimately will add.

However, culture is much broader than that. Indeed, culture begets key questions, such as: What type of people do well here? Does gender, race, or sexual orientation affect a team member's chance of success? Does this also impact the selection of external counsel?

Acritas has identified significant, yet often unconscious, bias at play in the selection of partners at law firms by their in-house clients. This bias shows that male clients are much more likely to select a male lead partner. Yet, the performance of male and female leads was seen to be equitable, according to the research. Better still, a diverse team was shown to lead to significantly higher performance across multiple measures.

Focus on diversity and inclusion — In 2019-2020, Acritas worked with the European General Counsel Association (EGCA) to co-create a framework that could be used with their panel law firms to ensure material progress on diversity and inclusion (D&I) initiatives of all types.

The top 10 practical steps that came out of the EGCA framework include:

- 1 Maintain focus on all aspects of diversity, but limit reporting to gender.
- 2 Report back to law firms on diversity metrics, outlining what you are looking for from firms. Also, show the impact on work allocation.
- 3 Agree to the same framework within your department and report on the same D&I metrics as law firms.
- 4 Hold annual discussions with your firms to discuss best practices and share successes and failures.
- 5 Consider funding joint initiatives to target specific under-represented groups.
- 6 Create a guide of *must haves* and *recommended* diversity initiatives.
- 7 Ask your law firms to report on both diversity and inclusion initiatives. This can help identify those firms that are really excelling.
- 8 Request metrics at the overall law firm level once a year and across matters twice per year.
- 9 Align reporting requests with existing standards (for example, Solicitors Regulation Authority, Diversity Model Survey, or Stonewall Index).
- 10 Commit to the *Mindful Business Charter*, a collaboration among leading banks, law firms, and other entities that are committed to driving workplace change.

The corporate law department, as guardian of the organization's legal identity, can also play an important role in ensuring the organization is operating as a good citizen. Does the company live up to its stated values? Is the supply chain sufficiently vetted to ensure vendors and suppliers also live up to these values? Is the company taking a sustainable approach to its energy consumption? Are members of the team stepping up to volunteer on projects that matter?

For most lawyers, a culture that enables a dual role — being recognized and rewarded for delivering high legal performance but also being allowed to give back to the local community and make a broader impact on the world — is a sound and compelling proposition.



Conclusion

In 2021, corporate law departments have a unique opportunity to build a department which is fit for the legal industry's changing future while meeting the heightened demand that top talent now requires in a workplace.

The pandemic year of 2020 stress-tested the current operations of most law departments. Through unprecedented disruption, crisis management, and immediate shifts to new ways of working, the gaps within departments were revealed. Law department leaders quickly realized that traditional methods of work could evolve and still meet department goals.

Departments also saw benefits in convenience, cost savings, and broader accessibility; but there were some challenges, such as tasks or occasions where remote connection falls short. Indeed, many department leaders found that some elements of law still required face-to-face contact and will continue to do so going forward.

The pandemic offered many in the legal industry the chance to reflect, whether spending more time with family or enjoying more conducive work-life balance. Indeed, 2020 proved that lawyers don't have to spend long hours in the office every day to make their best contribution — and it is increasingly outdated to think otherwise.

For corporate law departments, all of these experiences have opened up new, leaner ways of finding solutions to legal challenges, often by tapping into technology-enabled, virtual legal processes.

Law department leaders also will have to rethink how they train their people and be more structured in the ways they collaborate, allocate work, and build relationships.

Leaders also can use the lessons of the pandemic to design a department that fosters relationships with outside counsel and other legal service suppliers that are more efficient, healthier, and more focused on mutually beneficial outcomes.

Ultimately, this new approach to legal work will allow progressive law department leaders to reap the benefits of their innovation and, most importantly, to clearly demonstrate their department's value to their organization.

This report was written by Lisa Hart Shepherd, Vice President of Research & Advisory Services and founder of Acritas, now a part of Thomson Reuters.



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