



Thomson Reuters Institute

2022 State of Corporate Law Departments

Benchmark, Optimize, and Innovate: Law department
performance in a post-pandemic world

Executive Summary

Corporate law departments underwent a period of rapid change during the global COVID-19 pandemic, and that ongoing crisis loomed heavily through 2021 even as the whole world progresses into a new, post-pandemic era.

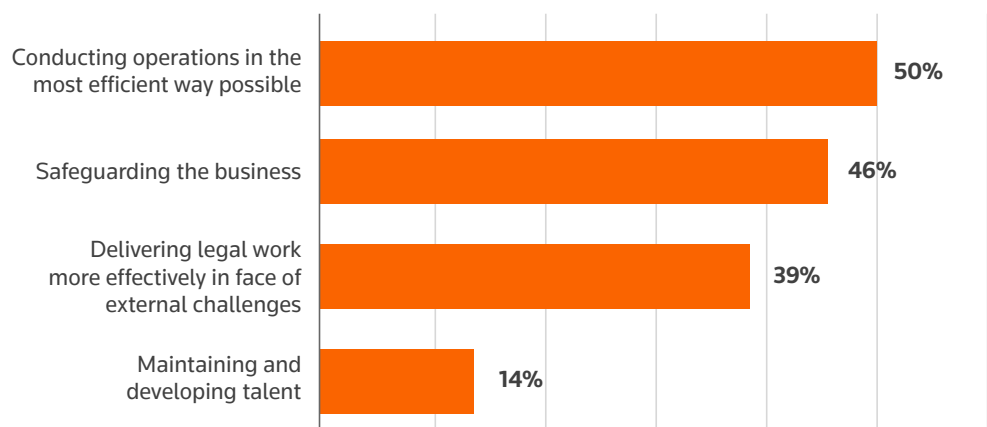
As corporations' responses continue to evolve moving forward in 2022, there is appetite and readiness for even greater transformation pulsing throughout the different industry, organizational, departmental, and individual levels. Where 2020 and 2021 saw the emergence of new ways of working rapidly imposed because of the pandemic, 2022 looks to offer the law departments the opportunity to drive positive change for their people and work.

The most successful law departments will be those that leverage the momentum of the past two years to actively embrace transformative change, in how they integrate and operate both within their organization and in utilizing outside legal expertise.

Key priorities

The key priorities of corporate law departments are unchanged year-on-year, despite the extreme turbulence experienced across most economies and industries.

Figure 1: **Priorities of law departments in the coming 12 months**



Source: Thomson Reuters 2022

While the enduring purpose of an organization's legal function is to safeguard the business, a slightly higher number of respondents in our survey cited efficiency as a stronger priority for the department. Similarly strong was the response that held that delivering work effectively

even in the face of challenges was a top priority. This report focuses on those two major departmental priorities which support that enduring function of safeguarding the business: the efficient and effective delivery of legal work.

How will this report help you?

This report provides insight to help corporate law departments:

1. **Benchmark** legal spend and team size against the latest peer data
2. **Optimize** systems and processes to drive greater efficiency by learning from others
3. **Innovate** for the future by understanding how other law departments are implementing transformational change

Data Sources

Thomson Reuters Sharplegal

Sharplegal conducts research on senior in-house counsel across the globe and identifies client-nominated star lawyers within law firms. 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 spending, sourcing patterns, experiences with law firms, and general market trends. 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.

Stellar Performance

High-performing lawyers identified by Sharplegal are invited to join the Stellar Performance research panel, in which approximately 1,000 star-lawyers participate in annual web surveys covering topical issues. In 2021, the Stellar Performance panel was asked to evaluate client performance and provide a form of industry-wide, 360-degree feedback.

Thomson Reuters Legal Department Operations (LDO) Index

Thomson Reuters® Legal Tracker has surveyed legal operations professionals for five years, examining the changing landscape in the corporate legal field. 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 LDO Index also provides a listing of the most commonly used metrics for law department operations and best practices used by leading organizations.

Part 1: Benchmark – How does your department compare to others?

The last year has brought more new legal needs across the board, escalating demand for both internal and external legal services, and greatly challenging many corporate law departments. As a result, organizations' total legal spending level has increased — and law departments anticipate further increases in spending to come.

Overall, 43% of corporate law department leaders around the world said they were expecting their total legal spend to increase in the coming 12 months, compared to just 21% who said they were anticipating a reduction in their legal spend.

This is the strongest indication of a significant upturn in legal expenditure that we have tracked in the last decade.

This is the strongest indication of a significant upturn in legal expenditure that we have tracked in the last decade. As spend rises, so will the importance of ensuring that it is deployed in the most efficient and

effective ways possible. Measurement, monitoring, and benchmarking will become even more critical tools for those managing legal budgets.

Indeed, our data showed three key areas that law departments should look to benchmark — spend relative to revenue, future spending, and team size — to determine how they match up with similarly situated organizations.

Benchmarking spend relative to revenue

Measuring an organization's legal spend as a percentage of its revenue enables law departments to monitor movements in legal costs relative to corporate growth. Focusing on legal spend in isolation risks giving the appearance of ever-increasing costs without taking into account the greater volume of work being done.

For global organizations with revenues of more than \$1 billion, total legal spend on average is currently 0.12% of revenue. By region, we observe the highest ratio of legal spend-to-revenue in North America. This is driven primarily by the U.S., which has a spend-to-revenue ratio of 0.33%, almost three-times the global average. This is because the U.S. is a highly regulated and litigious jurisdiction in which external law firm fees are significantly above global averages. The same ratio is lowest in the more emerging Latin America (0.02%) and Asia Pacific (0.05%) legal markets, with Europe sitting between the two (although closer to the lower than the higher end.)

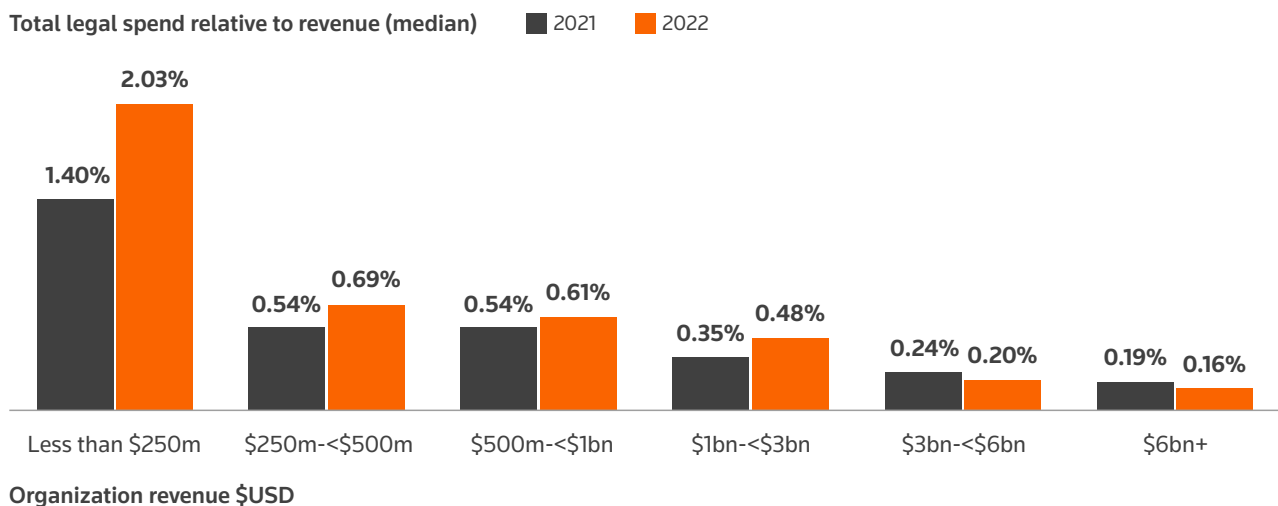
A good starting point when evaluating *efficiency* is to compare an organization's total spend relative to revenue to that of similarly situated, local benchmarks. If that organization's spend-to-revenue ratio is higher than average, it may be overspending; and a below-average ratio may indicate the organization isn't spending enough to ensure that it's adequately protected from legal risk.

Figure 2: **Organization spend-to-revenue ratio by region**

| | | Total spend relative to revenue (median) |
|---------------|-----------------------|------------------------------------------|
| Global | | 0.12% |
| North America | Overall North America | 0.28% |
| | U.S. | 0.33% |
| | Canada | 0.15% |
| Europe | Overall Europe | 0.07% |
| | UK | 0.14% |
| | Germany | 0.12% |
| | France | 0.05% |
| Latin America | Overall Latin America | 0.02% |
| Asia Pacific | Overall Asia Pacific | 0.05% |

Source: Thomson Reuters 2022

Figure 3: **Spend-to-revenue ratio for \$50m+ US organizations**

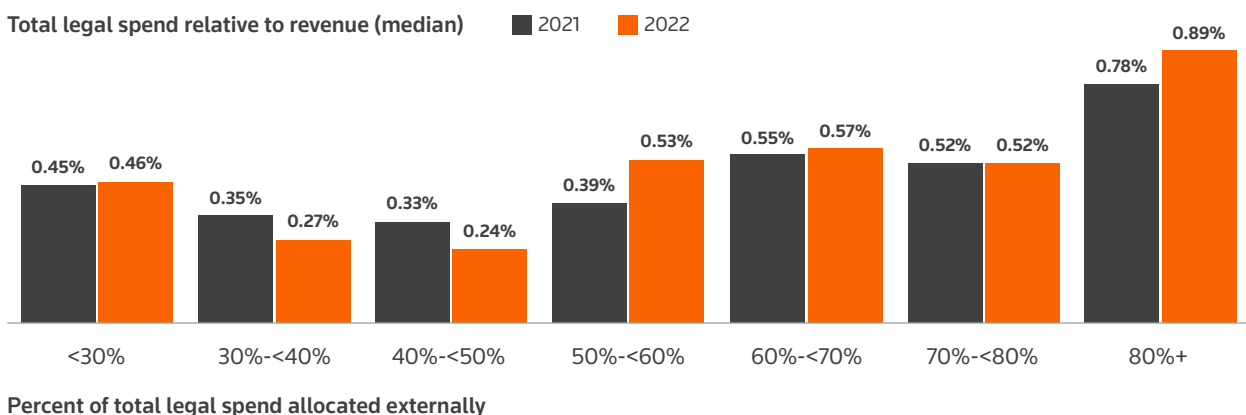


Source: Thomson Reuters 2022

Further, this spend-to-revenue metric varies greatly by organization size. Not surprisingly, larger organizations typically spend a smaller proportion of their revenue on legal expenditures, benefiting from significant economies of scale and stronger buying power.

This is most clear when looking at organizations in the U.S., as the outlook for 2022 is consistent with previous years. The greatest difference in the spend-to-revenue ratio is between the smallest organizations (less than \$250 million in revenue) — where we know the fewest legal specialists are employed and the ratio of external to internal spend is greatest — and the rest of the legal market. The largest corporations also achieved the biggest rate decreases in recent years while small and midsize companies typically had to endure rate increases.

Figure 4: **Spend-to-revenue ratio by % of external spend for \$50m+ US organizations**



Source: Thomson Reuters 2022

The above chart shows how different proportions of spend being allocated externally relate to total spend relative to revenue. In 2021, we observed a “sweet spot” between 30% and 60% of spend being allocated externally. Our data showed that this level of external allocation was associated with the lowest total spend relative to revenue, used here as a proxy measure of efficiency of spend allocation. In 2022, the sweet spot has shifted towards a slightly lower level of external spend allocation – the up to 50% range delivering the lowest levels of total spend relative to revenue. This is likely a consequence of the largest companies having benefited from economies of scale even *more* in the last year than previously. And this often came at the expense of smaller companies that bore the brunt of increased demand and rising costs. Those companies that are more reliant on external counsel — which traditionally skew towards smaller corporations — faced even higher costs, resulting in an increased spend-to-revenue ratio when revenue growth slowed.

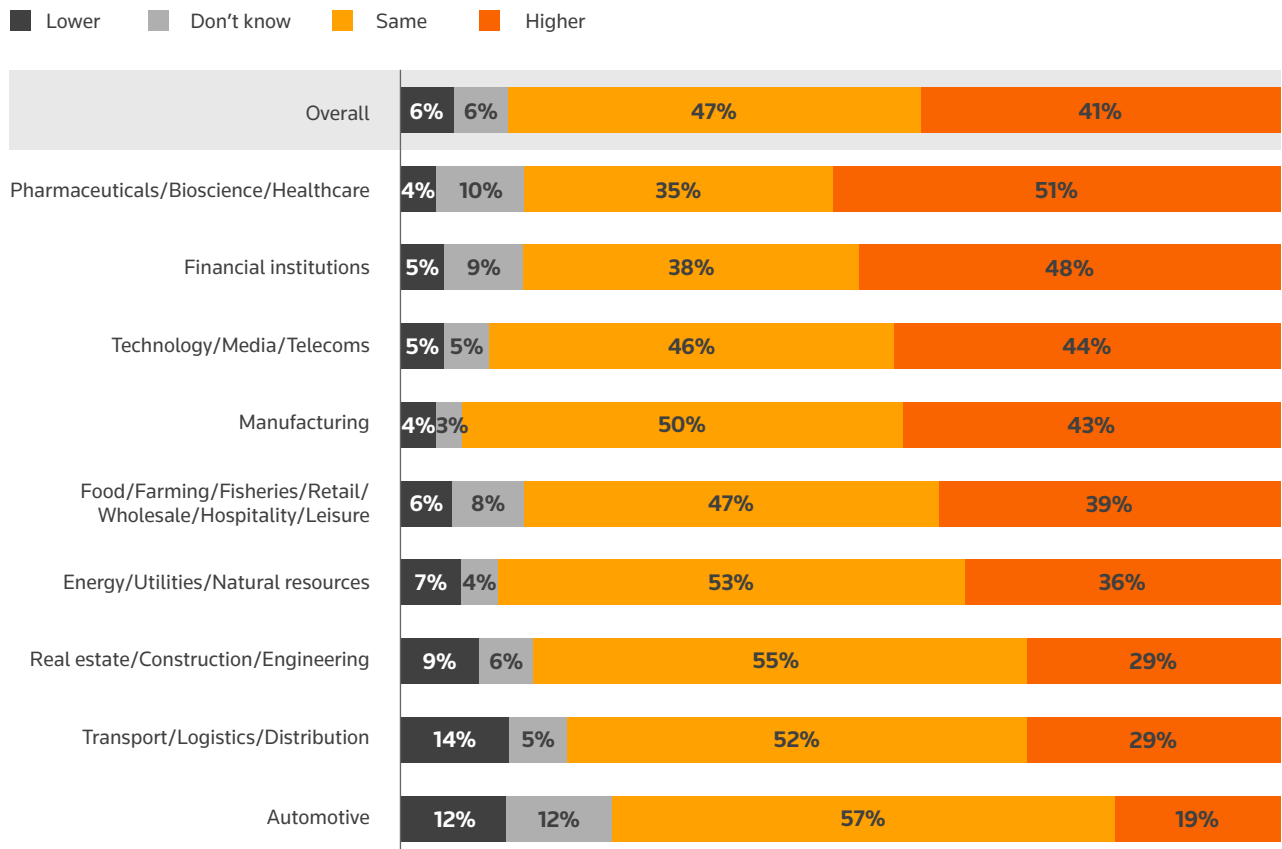
Benchmarking future spending

To be efficient, law departments need to be able to plan ahead and assess the optimal way to resource the anticipated work. That means determining whether it can be handled by the existing in-house team, if additional headcount or different expertise should be hired, the volume of work by type, and whether it is best to outsource the work to external law firms or alternative legal service providers. To help inform projections, law departments should look at spend-by-work-type benchmarks for their sector and consider how their organization compares.

The heavily regulated Financial Institutions and Pharmaceuticals/Biosciences industries are most likely to anticipate increased external spend; and, in line with this, Regulatory work is the work type expected to be most in demand, with 41% of respondents across all industries saying they expect their spend to increase around Regulatory work. The fast-moving Technology/Media/Telecoms and Manufacturing sectors also anticipate greater need for Regulatory support.

The chart below shows the portion of in-house lawyers who expect external legal spend for Regulatory work to increase, decrease, or stay the same in the coming 12 months.

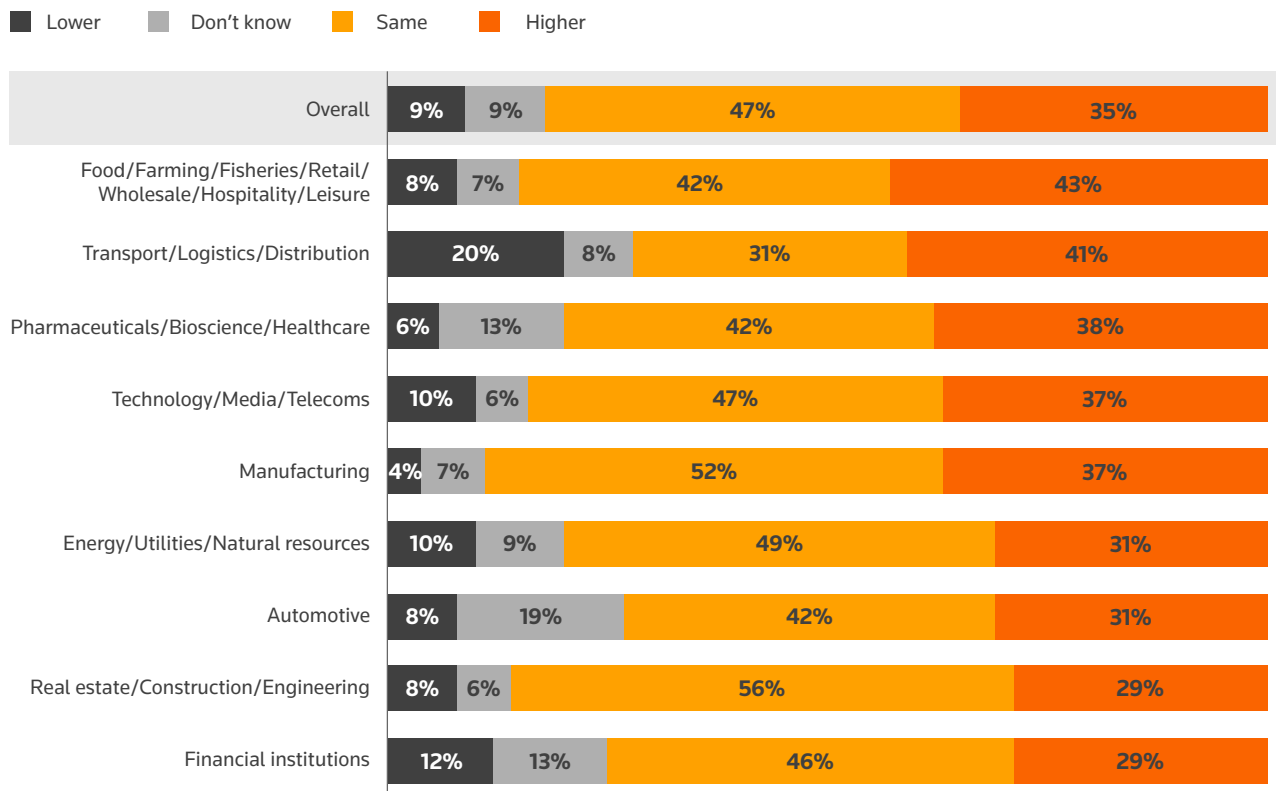
Figure 5: **Anticipated external spend change on Regulatory, by industry**



Source: Thomson Reuters 2022

Demand for legal services in the Labor & Employment area also is expected to increase across the board — more consistently, though more moderately, than we see for Regulatory. This reflects both the practical changes to working practices prompted by the pandemic and the broader evolution of the employer/worker relationship which has gathered momentum in recent years.

The chart below shows the portion of in-house lawyers who expect external legal spend for Labor & Employment work to increase, decrease, or stay the same in the coming 12 months.

Figure 6: **Anticipated external spend change on Labor & Employment, by industry**

Source: Thomson Reuters 2022

Benchmarking team size

Internal legal spend is most heavily driven by labor costs. The global benchmark for the number of in-house lawyers per \$100 million of an organization's revenue currently stands at 0.38 – roughly one-third of one lawyer – with the U.S. sitting very close to this at 0.41. However, the U.S. cost per lawyer is considerably higher than the global average, accounting in part, for the higher legal spend as a percentage of revenue observed in the U.S. market (which also incurs higher external rates.)

Figure 7: **Team size and cost per lawyer benchmarks by region**

| | Number of lawyers per \$100m revenue | | Median cost per lawyer |
|----------------|--------------------------------------|----------------|------------------------|
| Overall | 0.38 | Overall | \$194,000 |
| Africa | 0.23 | | |
| Asia Pacific | 0.31 | Asia Pacific | \$123,000 |
| Canada | 0.38 | Canada | \$240,000 |
| Europe | 0.24 | Europe | \$148,000 |
| Latin America | 0.46 | | |
| United Kingdom | 0.69 | United Kingdom | \$168,000 |
| United States | 0.41 | United States | \$329,000 |

Source: Thomson Reuters 2022

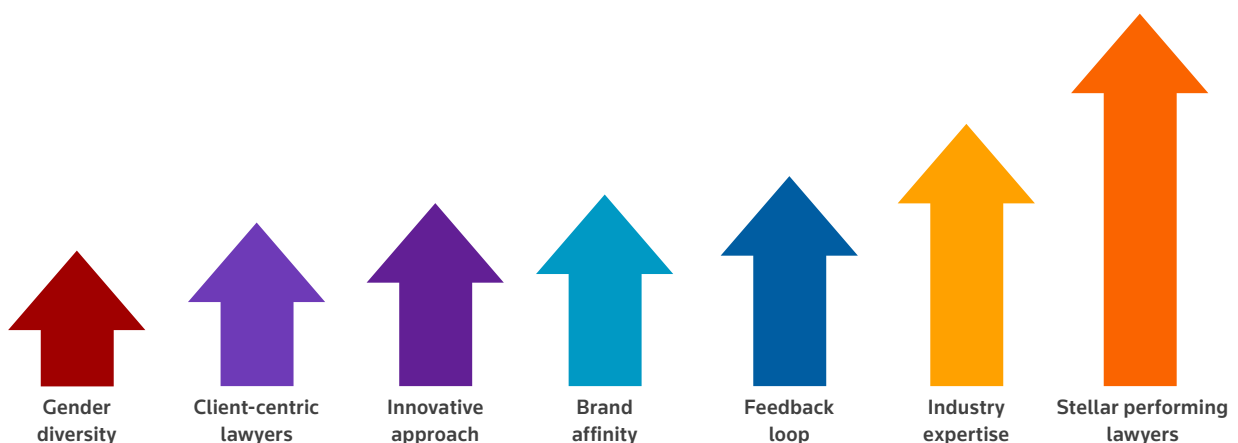
Part 2: Optimize – Practical steps to maximize your department’s outcomes

With law firm spending set to increase — due mostly to rising associate compensation — at an unprecedented rate this year, law departments would be wise to evaluate how well their relationships with their external law firms are delivering the services they need in a timely and costly manner and what opportunities exist to improve the process.

Our data revealed three main areas — law firm selection, partnership (especially around pricing, scoping, and project management), and legal technology — to which both law firms and corporate law departments can look to drive better outcomes for both parties.

Optimizing law firm selection

By analyzing how thousands of corporate law departments rate their law firms, seven critical levers of client satisfaction have emerged. These levers work together to elevate the client experience and deliver stronger, more effective working relationships. An awareness of these levers equips law departments to play a more active role in ensuring their own satisfaction by aligning their law firm selection and relationship development to evidenced influences.



These seven levers include: working with male and female lawyers, demonstrating innovation, establishing a formal client feedback process, and showing knowledge of the client’s sector among others. The highest impact influence on clients’ propensity to trust a firm with a greater share of work is when there is a dedicated team within the law firm that consistently displays client-centric qualities like business understanding and project management alongside a high-level of quality expertise.

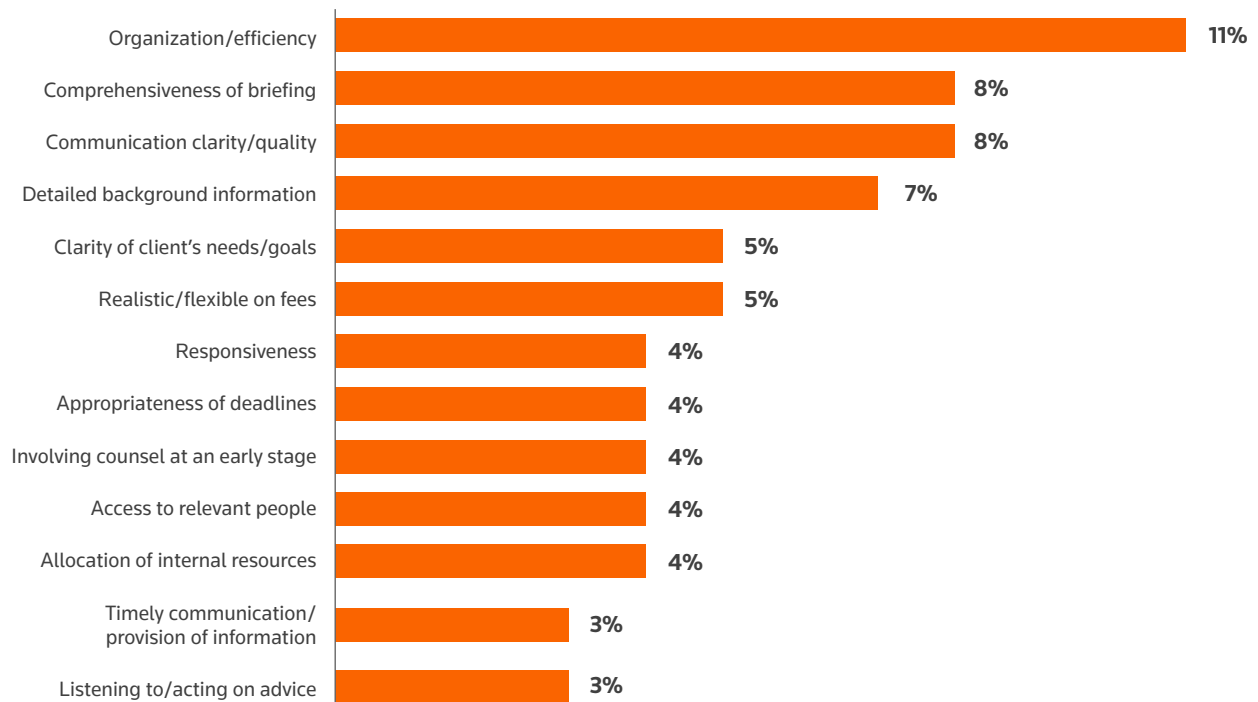
Most in-house lawyers surveyed say that strength of individual lawyers is their primary selection criteria — and industry expertise is also very often high on their checklist. However, it is comparatively rare for any of the other five levers to be cited as consideration or selection criteria; true, they have a strong influence on the *quality* of the law department’s relationship with its outside law firms but in themselves are not typically considered at the outset.

Those corporate law departments seeking the most successful partnerships with their law firms should take steps to ensure as many of the levers as possible are active. Evaluation of the relative importance of these seven levers to your department’s specific context should shape future decision-making. It may be beneficial to widen your external firm selection consideration to allow a greater number of firms to be evaluated in each area, especially if your selection process to date has been dominated by the strength of individual lawyers and industry expertise.

Optimizing the partnership

Formal client feedback is one of the hallmarks of the most successful relationships with law firms, and 360-degree feedback — in which the law firm also has the opportunity to provide constructive feedback on how the client performs — offers even greater opportunity to improve the effectiveness of partnerships. In 2021, we asked external lawyers to review a recent matter and appraise both their own and the client’s performance. Approximately 1,000 matters were reviewed in this way, and in 90% of cases, opportunities for law department improvements were identified by external firms.

Figure 8: **What areas do external firms believe their clients could improve?**



Source: Thomson Reuters 2022

The results reveal three key areas in which clients and their law firms have an opportunity to optimize their partnership: pricing, scoping, and project management. These are mutual responsibilities that offer mutual benefits, and the typically strong relationships between clients and their law firms provide an excellent foundation for the collaboration necessary to effect meaningful and sustainable changes. Corporate law departments can take a leading role in driving some of the specific improvements identified.

Pricing

Law departments consistently tell us they would like to see more innovation in law firm pricing; and ultimately the driver for this is a desire for greater *cost certainty* in the face of continual budget pressures. Yet, law firms committed to delivering on this client request say they are often frustrated by clients who, when offered fresh pricing approaches, ultimately compare offerings on hourly rate equivalents. This situation has become a deep-rooted issue with the legal industry, and it requires true collaboration — along with shared risk-taking — to address.

“The key is working closely with clients to cost manage and budget and being upfront about what we can add value to, and where we do not add value.”¹

— *United Kingdom*

Spend management is becoming increasingly sophisticated, with 82% of corporate law departments now self-identifying as *proactive, optimized, or predictive* in how they manage their spend on external counsel. However, these departments also report that 75% of matters and up to 80% of total billings are billed on an hourly-rate basis. Fixed and alternative fee arrangements (AFAs), then, represent approximately just 20% to 25% of billings.

The U.S. and Canada lag behind the global average in terms of use of AFAs. In excess of 80% of matters in those countries were billed on hourly rates. And just slightly more than one-half of firms in those countries were likely to use fixed or capped fees, compared to the global average. Conversely, in Latin America — where just more than one-half of matters were based on hourly rates — also is significantly ahead in its use of AFAs.

“We do need greater flexibility on associate rates and also a more proven, practical approach on alternative fees. Most structures are too complex, too theoretical, and they don't really achieve the level of certainty clients want.”

— *United States*

¹ All quotes come from Equity Partners within law firms who were asked what were the areas of the client/law firm relationship on which clients need to focus.

Persistent frustrations in achieving pricing innovation, experienced by both parties, may well account for waning efforts in this area, but with more than 50% of the matters we reviewed exceeding the estimated budget, (and in more than one-tenth of cases, the budget was exceeded by more than 50%) this issue warrants renewed focus.

Scoping

Three-quarters of the matters reviewed changed in scope from what was initially understood, and 30% of these substantially so. In most cases when this happens, the matter went over budget, meaning that improvements to the scoping stage would optimize cost certainty as well as client experience and matter outcomes.

“Engaged more directly in goal-setting with the entire business and legal team to identify the desired result and allow for greater strategy and planning to achieve that goal.”

— *United States*

External lawyers recognize their own role in improving scoping but also cited specific aspects of client under-performance in this area. According to their law firms, practical steps that corporate law departments can take at the scoping stage to optimize outcomes include:

- Involving counsel at an early stage — the sooner, the better
- Providing of a comprehensive brief and detailed background information
- Clearly articulating needs and goals
- Setting appropriate deadlines

“Earlier involvement by the client's top management and decision-maker in the project could have saved us more time.”

— *Hong Kong*

While improving scoping cannot eliminate all changes in scope of complex matters in dynamic environments, it does offer the opportunity to reduce the frequency of substantial scope changes. Shifting more matters into the “scope creep” zone also would reduce the significant negative impact that substantial changes can have on budgets.

“The client tended to be disorganized and last minute, often giving us unclear instructions and frequently missing meetings so that we did not have the authority to give advice to the business.”

– Canada

Project management

Many law departments cited their increasing volume of legal work as a top industry trend, for the sixth consecutive year. Roughly 60% of corporate law departments saw a rise in the number of matters they had to manage. Yet, department budgets are not rising at the same rate. Law departments face continuing pressure to deliver more for less, and accounting for efficiency became one of the most-mentioned strategic priority or challenge among law department leaders.

“The client was slow in onboarding additional resources and thereby extremely stretched the internal team.”

– Germany

Effective project management — both externally and internally — offers law departments one route to optimize that efficiency.

Of the matters we reviewed, a full 86% were project managed on the law firm side by a partner. In fact, only the largest 1% of matters involved a dedicated legal project manager, despite most large law firms having now built sizable teams of professionals with this speciality. Indeed, many law firm partners readily acknowledge that their firm does not deliver optimally in this role. This points to a gap in the legal industry’s project management capability, between its aspirations and what it is currently delivering to clients. Law departments can speed the closure of this gap simply by increasing demand for specialist legal project manager involvement in the work matters they send to law firms.

“The lack of an in-house person to manage the file proved quite frustrating.”

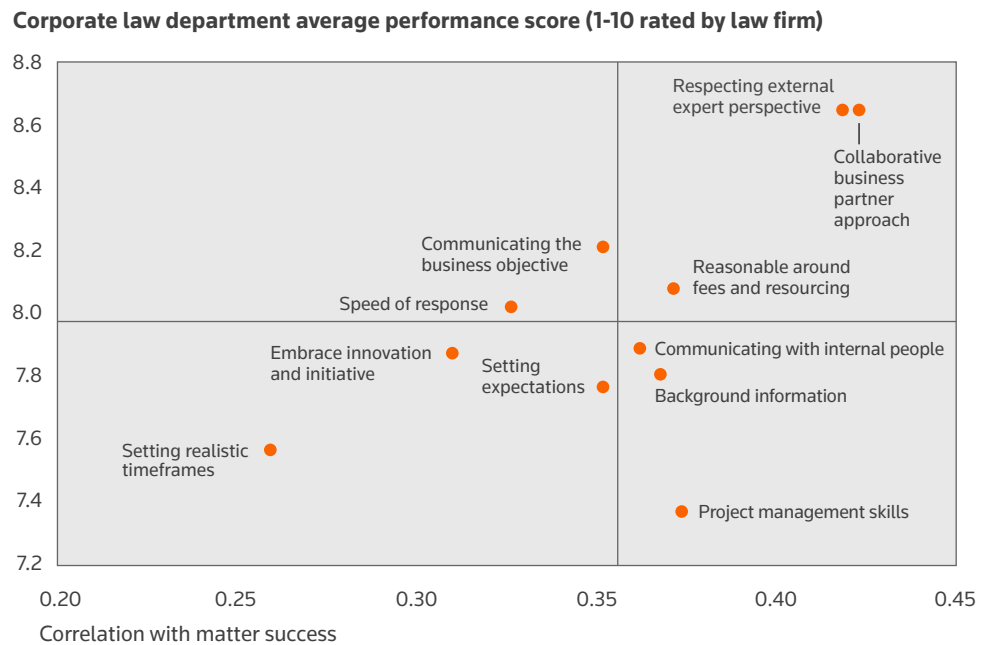
– Canada

Internal legal project management should also be high on the agenda for many law departments. Our research has revealed a strong correlation between client-side project management skills and reaching a successful conclusion efficiently. However, our survey showed that project management is regarded by external lawyers as their clients’ weakest area of performance. In order to optimize the chances of efficient, successful matter conclusion, law departments must improve their own project management competencies.

“Although the relationship was very transparent and amount billed was high, it took the client an unreasonable time to review, question and approve invoices.”

– Brazil

Figure 9: **Corporate law department performance correlation with successful outcomes**



External lawyers surveyed suggested client-side project management could improve in several aspects, including:

- Organization/efficiency
- Responsiveness
- Clarity and quality of communication
- Timely communication and delivery of information
- Access to the relevant people across the business
- Effective allocation of internal resources

Just as law firms have done, corporate law departments should consider (or revisit) the value that legal project managers can deliver to their operations. Growth in legal operations staff is continuing, with 80% of corporate law departments now employing dedicated legal

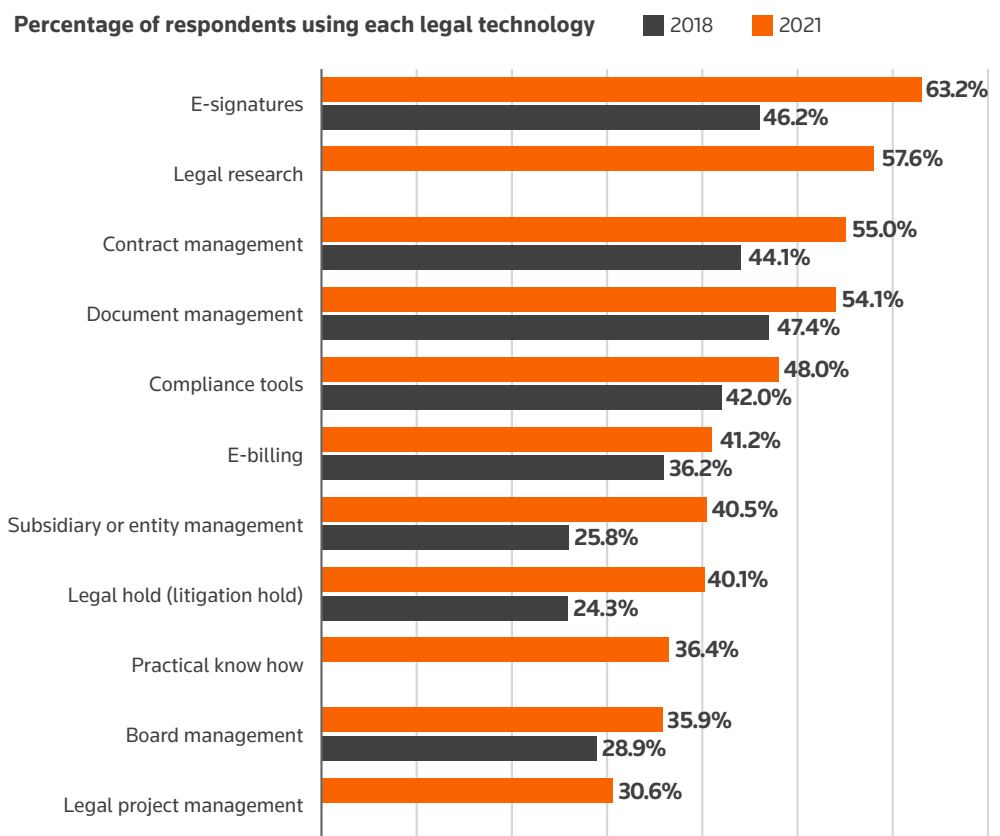
operations specialists. It is unclear, however, to what extent these teams are involved in project management of individual matters.

Investment in new roles dedicated to project management of legal work (or greater empowerment if such roles are already in place but not yet delivering optimally) has the potential to positively impact all three of the key areas for improvement — pricing, scoping, and project management — that were identified by law firms.

Optimizing legal technologies

Corporate law departments' usage of legal technologies has increased substantially since 2018, with now more than one-half of departments actively using e-signatures, legal research (which was not measured in our 2018 survey), and contract and document management systems.

Figure 10: **Legal technology usage by law departments**



Source: Thomson Reuters 2022

Uptake of established technologies was accelerated by the pandemic, which exposed late adopters to a much higher risk of failure in providing their organization with legal services than more tech-savvy law departments. Further, those departments which had already invested in a range of technologies and learned to hone their process from multiple

implementation experiences were among the departments best placed, culturally and practically, to adapt to the new ways of working that were necessitated by the pandemic. The remaining departments, however, were forced to catch up quickly, and largely, they appeared to have done so successfully.

Only 30% of departments reported use of legal project management technologies (which also was not measured in 2018), which could benefit those departments currently underperforming in this area. Legal project management software is relatively inexpensive and is easy to implement. It further enables departments to systemically track workloads as well as to determine scope, priority, schedule, and allocate appropriate resources. Specific tasks can be defined, assigned, and monitored, providing a level of control that can boost a department's organization and efficiency — aspects that are commonly criticized by external lawyers.

More than one-half of legal operations respondents reported increased usage of technology in the last year as they look to enhanced technological solutions and digitalization to improve efficiency and lower costs within the department. The following table summarizes how respondents ranked the technologies used by the value they provide to the department and the percentage of departments using each.

Figure 11: **Technology value rankings and utilization rates by law departments**

| Value rank | Tool | Percent using |
|------------|----------------------------------------------------------|---------------|
| 1 | eBilling/spend and matter management | 97% |
| 2 | eSignature | 80% |
| 3 | Legal hold/litigation hold | 65% |
| 4 | Legal research | 74% |
| 5 | Document management | 63% |
| 6 | Contact management | 66% |
| 7 | eDiscovery | 54% |
| 8 | Intellectual property management | 51% |
| 9 | Legal business intelligence/dashboarding | 58% |
| 10 | Legal workflow automation | 41% |
| 11 | Knowledge management | 40% |
| 12 | Legal RFP | 32% |
| 13 | Legal project management | 38% |
| 14 | Contract AI for analysis, risk assessment, due diligence | 30% |
| 15 | Bots/robotic processing information (RPA) | 14% |

Source: Thomson Reuters 2022

Part 3: Innovate – Insights to inspire transformational change

Corporate law departments have faced enormous operational pressures over the past two years, taking a crucial role in safeguarding and supporting their organizations through unprecedented times while rapidly adapting to the practical constraints those times brought. In 2022, as practical pressures continue to ease and organizations settle into new dynamics, law departments should re-evaluate how they fit into the changed landscape in which they now find themselves.

Alignment with their organization's strategic focus remains key to the law department's ultimate success; yet for many organizations, that strategic focus may have changed. When subtle shifts or more major changes in focus occurred at the organizational level, it is important for the law department to adjust accordingly.

Departments should consider whether new thinking and a new approach is now needed in relation to each of the following:

1. Departmental context
2. Organizational context
3. Wider societal context

Further data analysis within each of these contexts provides key lessons for corporate law departments seeking to drive change and innovation in their operations.

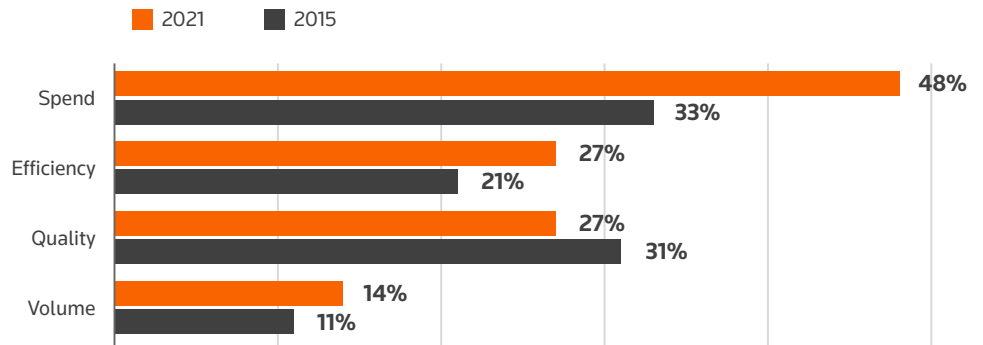
Departmental context – Measure what matters

Recent years have seen a steep rise in the proportion of law departments using metrics-driven approaches to managing their departments, with 90% of departments saying they are employing some form of metrics last year, compared to 75% that said this in 2015. The average number of metrics used by each department has also increased significantly. With the vast majority on departments now engaged in data-driven measurement across multiple areas, we have analyzed the metrics most pertinent to departmental priorities.

The most important metrics reported by law departments relate to spend, efficiency, and quality of work. At the high level, these metrics map directly to law departments' stated priorities of efficiency and effectiveness. Efficiency metrics have significantly increased in

prevalence since 2015, possibly at the expense of quality metrics which appear to have fallen back slightly, echoing shifts in the weighting of priorities in recent years.

Figure 12: **Most important metrics cited by corporate law departments**



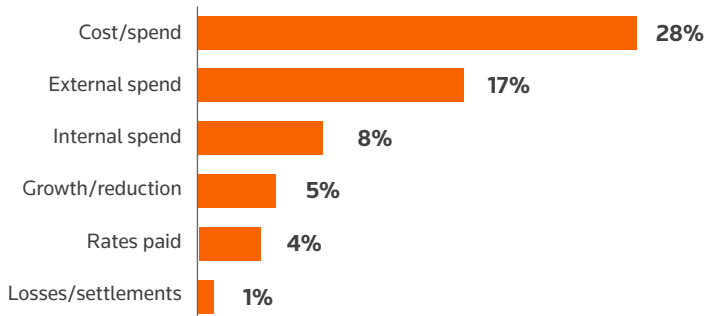
Source: Thomson Reuters 2022

Total spend and external spend are the top metrics mentioned; both are easily quantifiable and most law departments acknowledge cost pressures. Despite these being the top responses, only 28% and 17% of respondents cite these metrics, respectively, as among the most important.

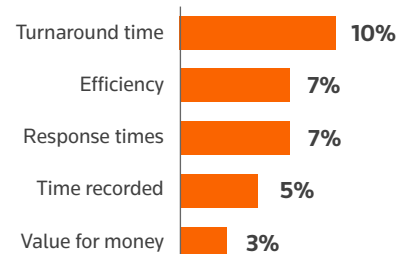
The most important metrics directly related to efficiency include turnaround times and response times, with work quality measured by client satisfaction and results.

Figure 13: **Most important metrics cited – expanded detail**

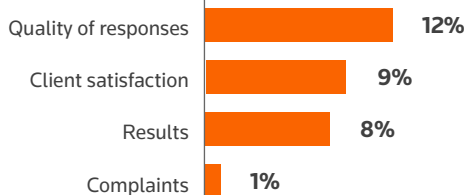
Spend metrics



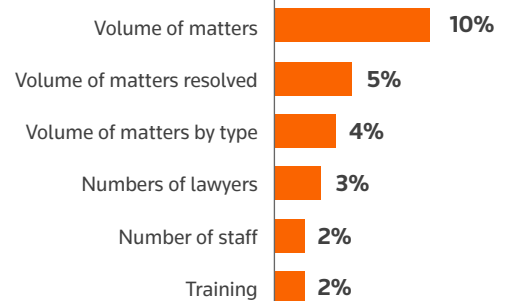
Efficiency metrics



Quality metrics



Effectiveness metrics



Source: Thomson Reuters 2022
© Thomson Reuters 2022

Overall, the metrics that law departments currently regard as most important appear heavily skewed towards spend and efficiency. This is accounted for, to an extent, by those metrics' relative ease of measurement and how they're readily understood across organizations. Further, favoring efficiency metrics isn't surprising because it closely aligns with *efficiency* being the most-cited priority by law departments. However, such one-sided reporting of corporate law departments' performance may fail to properly quantify the value they are adding to their organizations.

Only 1% of departments cited tracking losses/settlements and complaints as highly important metrics yet reducing these has potential to make a positive contribution to business success.

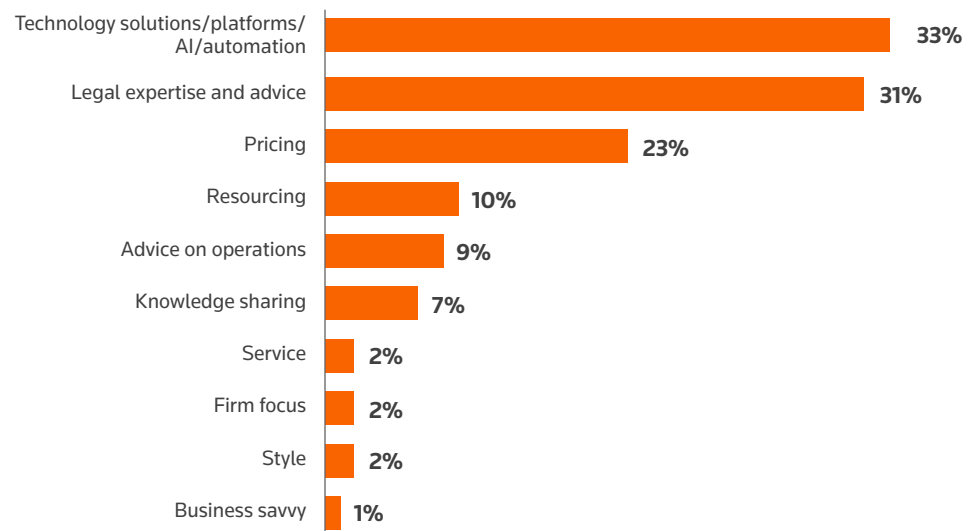
The metrics of internal client satisfaction, at 9%, and results, at 8%, indicate a low rate of use for these metrics, but given their potential impact on raising the perceived value of the law department, that may be a lost opportunity. Absent entirely from the list are metrics that could demonstrate the law department's success in proactive activities such as training/education, litigation exposure, and lessons learned. Advancement in measuring department performance across a broader spectrum of metrics is necessary for corporate law departments seeking to make the shift from cost-center to value-center in the eyes of their organizations.

Departmental context — Developing innovative solutions to department challenges

As previously discussed, law departments' use of technology has risen rapidly over the last year. Looking ahead, the fastest growing areas of legal technology adoption are identified as legal workflow automation, contract management, document management, and using AI for contract analysis, risk assessment, or due diligence. Each of these solutions was being actively sought for procurement within the next 24 months, by at least one-fifth of departments (27% in the case of legal workflow automation.) For those law departments that currently do not have these tools in place and are seeking to prioritize investment areas, they can provide some sense of direction if they wish to keep pace with peers.

More than one-third of law departments are now benefiting from innovative solutions that they've leveraged from their law firms and other legal service providers. These innovations address a wide range of objectives and challenges and are focused in the areas of technological solutions, creative legal advice, and pricing.

Figure 14: **Innovative solution that helped with challenges or objectives**



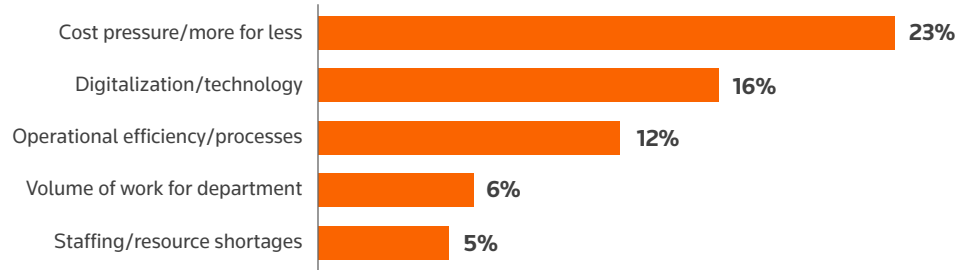
Source: Thomson Reuters 2022

The relatively low proportions of law departments that are experiencing innovation in areas outside of the top three on the chart above indicates the scale of opportunity available for departments to benefit from what other external providers have to offer.

Organizational context – Improving the value proposition through better integration

When we drill down on the stated top priorities of corporate law departments — around efficiency, safeguarding, effectiveness, and talent — it reinforces the idea that the typical department today is positioned as more of an organizational cost-center than value-center.

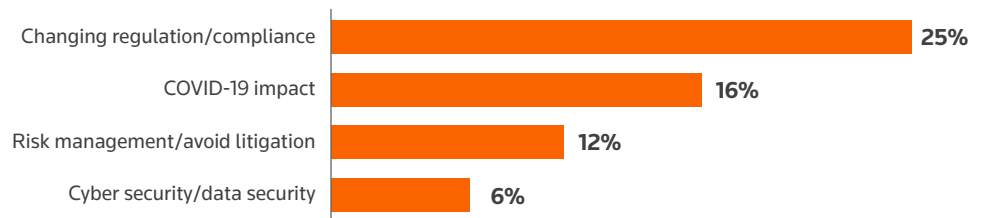
Almost 25% of law departments cite cost pressures and organizational demands for them to do more for less as key challenges. Linked to this, a further 16% and 12% are focused on digitalization and operational/process efficiency, respectively, to enable them to address this pressure. Finally, 6% of departments say they are concerned with the volume of work, and 5% are struggling to staff it. Collectively, a clear picture emerges of law departments being squeezed by the growing demands and tight budgets of their wider organizations.

Figure 15: **Efficiency****Priorities and challenges for coming 12 months**

Source: Thomson Reuters 2022

For those departments regarded by the wider organization as pure cost-centers, the rapid rise of legal process outsourcing, and the growth of alternative legal service providers pose a threat as the organization will continually seek to reduce costs. There is opportunity for forward-thinking department leaders to change and reposition their department as a value-creating function, however.

When discussing their main priorities and challenges in relation to safeguarding their organizations, one-quarter of those department leaders surveyed said they are focused on compliance — responding to changes in regulation across their markets and jurisdictions. For a further 16%, continuing to address the impact of pandemic still presents significant challenges this year. These two priorities see the law department operating in a *reactive* role, in contrast to the less prevalent but proactive priorities of active risk management (10%) and building cyber/data security (6%).

Figure 16: **Safeguarding****Priorities and challenges for coming 12 months**

Source: Thomson Reuters 2022

When law departments shift the balance to place more focus on proactive risk management activities, their value proposition within the organization can be elevated. To enable this, departments should seek to integrate more comprehensively with other functions across the organization.

Compared to the proportions of in-house lawyers prioritizing efficiency and compliance, those focused on integration with the wider organization appear relatively few.

Figure 17: **Effectiveness**

Priorities and challenges for coming 12 months



Source: Thomson Reuters 2022

Only 17%, combined, cited contribution to meeting strategic goals and company growth specifically as departmental priorities. This may represent a missed opportunity for many departments seeking to halt the ever-growing cost pressure.

Societal context – Environmental, social, and corporate governance (ESG)

The sustainability and societal impact of business is climbing in importance on corporate agendas worldwide. Over the coming few years, more advanced corporate law departments will place increased importance on ESG factors as they align with the rest of their organization.

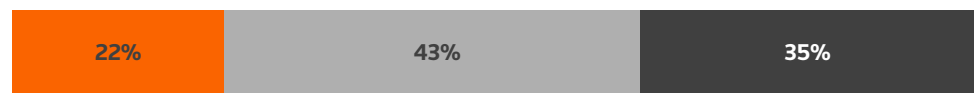
Just more than one-fifth of law departments currently place “very high” importance on their external law firm partners’ ESG propositions, rising to two-thirds when those rating it as “moderately important” were included. Typically, those who rate the importance of law firms’ ESG propositions the highest demonstrate a sophisticated understanding of ESG factors and can clearly articulate the specific attributes they are seeking. Among this group, a wide range of important factors are recognized, but the specific factors used for rating firms varies substantially by industry and practice area. Such factors include diversity, equity & inclusion (DEI), environmental sustainability, addressing climate change, corporate governance, and compliance.

In contrast, law departments currently somewhat less engaged with their outside law firms' ESG stance are much more likely to focus more narrowly on DEI. It is also important to note that the former group is considerably more likely to say that their law firms' commitment to ESG must be *genuine*, perhaps suggesting that those which have undertaken formal assessments have found some firms wanting in this respect.

Figure 18: **ESG's importance and elements of focus for law firms**

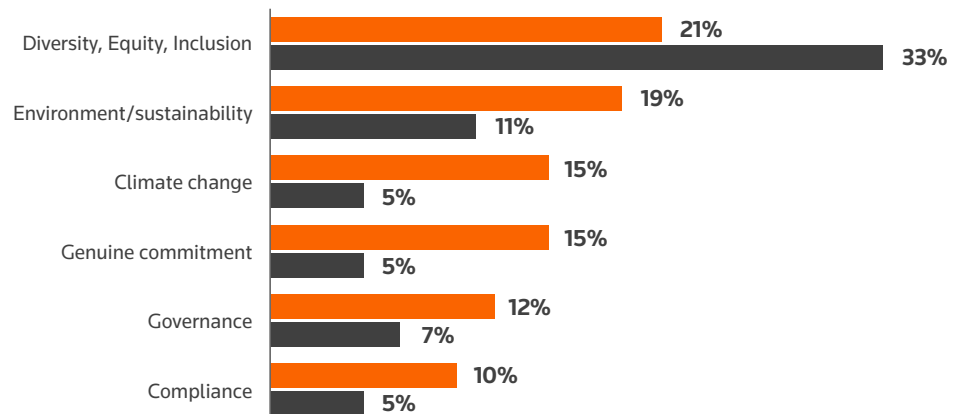
How important is it for law firms to demonstrate a compelling ESG proposition in the coming year?

Very important (9 or 10) Somewhat important (7 or 8) Not important (1-6)



What specific elements do you think firms should focus on as part of an ESG proposition?

Very important Somewhat or less important



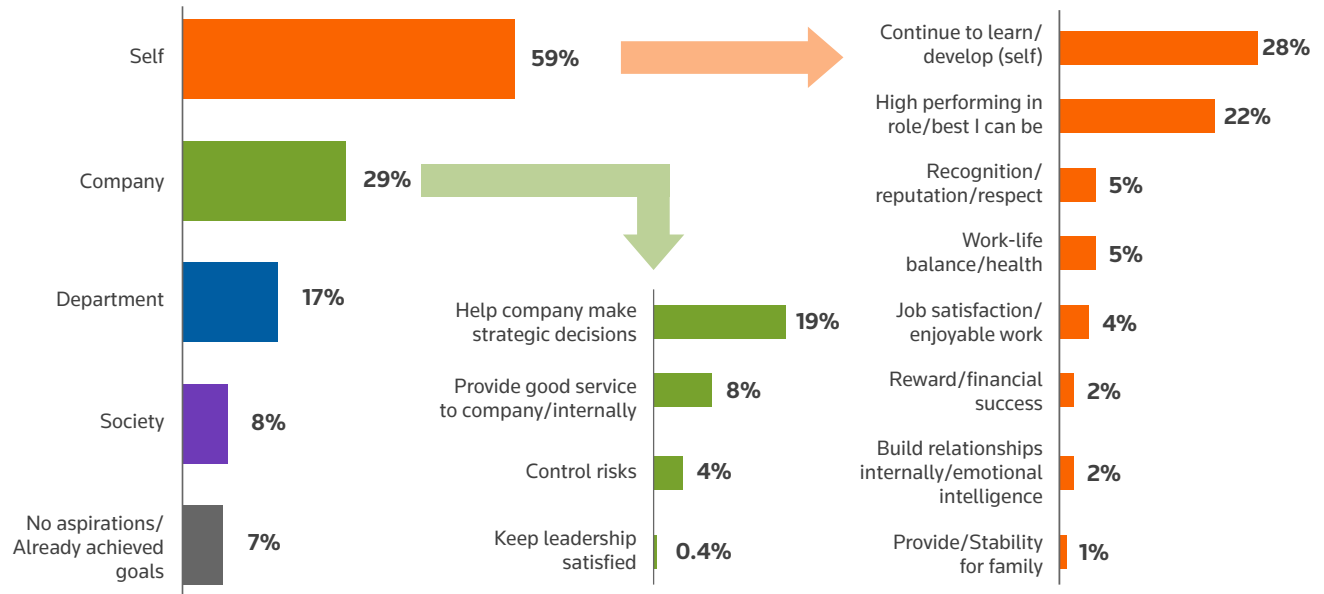
Source: Thomson Reuters 2022

Our research has revealed that external lawyers currently lack confidence in proactively discussing ESG with their corporate law department clients, despite believing that their own firms are well-positioned to support clients in this area with many firm lawyers having the personal skills relevant to their firms' ESG offerings. Law departments should consider opening ESG conversations with their external lawyers in order to benefit from their firms' wider perspectives and potential synergies.

We asked in-house lawyers how they would describe their purpose, in terms of what they aspire to achieve in their professional lives. As the question was framed "on a more personal level," the greatest proportion of responses were self-focused. These were dominated by personal development and performance goals. The second strongest theme of responses related to the company, and was centered around helping the company to make strategic

decisions. Departmental focuses lagged somewhat behind, underlining the need for law departments to collaborate across the corporation in order to enable in-house lawyers to expand and elevate their spheres of influence.

Figure 19: **Themes driving purpose for in-house lawyers**



Source: Thomson Reuters 2022

When asked whether their work has the potential to impact their community and wider society, in-house lawyers identified four key areas of impact:

Figure 20: **Key areas of impact on the community and wider society cited by in-house lawyers**

| Improving society infrastructure | Enabling job and wealth creation | Fostering a civilized and orderly society | Sharing knowledge and helping people succeed |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> • By working for a company that improves society (38%) • Volunteer/charitable/social impact work (8%) | <ul style="list-style-type: none"> • Help my company succeed/comply (16%) • By enabling the success of a company that provides employment (12%) • Helping business community/economy to thrive (10%) • Help my company to innovate (3%) | <ul style="list-style-type: none"> • By ensuring the company behaves legally/ethically/ESG focus (16%) • By maintaining the reputation/trust in company (2%) • Membership of legal organizations (1%) | <ul style="list-style-type: none"> • Academic/teaching (2%) • Promoting diversity and inclusion (2%) • Role model/mentor/sponsor (esp. for minority groups) (1%) |

Source: Thomson Reuters 2022

In conclusion

Our extensive benchmarking data illustrates how the industry and size of a business can affect an organization's current and future strategic direction. While business' concerns will vary depending on their unique context, key themes have emerged across the board and these should be on every law department's agenda in the coming year.

Technological transformation — The use of rapidly evolving legal technology and the continued onset of digitization are trends that are happening now; and departments that lag behind will risk always playing catch-up if they don't gather momentum immediately. If you suspect your department is not keeping pace, tackle the biggest issues and quick-wins first — then keep evolving. Investment in technology is not a discrete initiative. Indeed, it will be an ongoing activity requiring continuous funding in order to deliver on its fullest potential.

Choosing the right metrics — With increased investment in the department, the need to focus on the right metrics to monitor performance and drive improvement will be higher than ever. At present, most departments focus on the easiest-to-measure metrics, failing, in many cases, to capture the most strategically meaningful and operationally actionable data. Departments need to collaborate with their organizations to define the right metrics in order to be accountable. Then, departments need to work out how to measure against those metrics, rather than simply reporting what is most easily captured.

Law firm partnerships — Finally, there remains much room for improvement in how law departments work with their chosen outside counsel. Relationships with law firms and other external legal service providers account for a large proportion of most law departments' costs, so it is critical to ensure these relationships deliver maximum value, especially with departments facing ever-increasing budget pressures. There is much that law departments can do to optimize the chances for success in this area, including managing *throughout* the relationship life cycle, from consideration to post-matter feedback.

Interwoven through all these themes is the need for law departments to leverage the momentum of the last few years of rapid change and continue to innovate. We conclude with an Action Plan that outlines practical steps that can be taken by those law departments that are seeking to act on the key points raised in this report.

Action Plan

| Initiative | Practical steps |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>1. Ensure a broad scope of factors are considered when selecting law firms, including those factors with a less direct impact on matters, such as business understanding, innovation, feedback loops, and gender diversity</p> | <ul style="list-style-type: none"> • Review your current selection process, seeking to widen factors which gain firms entry into the consideration set • Define which of these factors (if any) should become formal selection criteria and how these factors will be evaluated • Communicate your department's intention to broaden consideration and selection factors to your law firms, with guidance on how to demonstrate each new factor |
| <p>2. Improve legal project management, both internally and externally, to drive greater cost certainty, better client experience, and optimal matter outcomes</p> | <ul style="list-style-type: none"> • Starting with the largest or most complex matters, assign internal legal project managers • Invest in or implement legal project management software |
| <p>3. Improve matter scoping</p> | <ul style="list-style-type: none"> • Systemize the involvement of external counsel at the earliest stage • Invest internal resource to ensure clarity and consider likely alternative scenarios and develop contingencies |
| <p>4. Invest in high-impact technological solutions</p> | <ul style="list-style-type: none"> • If you are not currently using certain tech tools, consider obtaining legal hold/litigation hold, document management, contract management, and e-discovery systems, which all appear under-utilized in relation to the value they deliver |

| Initiative | Practical steps |
|--------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>5. Build value-oriented metrics into your departmental performance monitoring</p> | <ul style="list-style-type: none"> Consider your department's proactive roles across the organization to derive suitable metrics which demonstrate department value, e.g. tracking losses/settlements, impact of training/education, and internal customer satisfaction |
| <p>6. Reposition department as an organizational value-center</p> | <ul style="list-style-type: none"> Ensure corporate goals and supporting the organizational strategy are high on the departmental agenda + Balance reactive work with a proactive approach to risk management across the organization – integrate fully to understand and manage risk |
| <p>7. Develop your department's ESG proposition</p> | <ul style="list-style-type: none"> Move from a generic to a specific approach to ESG, which includes identifying which factors resonate most with your organization, embedding aligned values within the department, and seeking external lawyers with complementary ESG propositions |

Thomson Reuters

Thomson Reuters is the world's leading source of professional legal and compliance content, intelligence, and technology. We bring you a suite of complementary solutions that enable greater efficiency, accuracy and understanding across every aspect of your legal and compliance functions. Each of these solutions has been created by legal and compliance professionals, for legal and compliance professionals. Together they form a comprehensive resource of powerful research products and workflow solutions that enable complete understanding and management of every legal and compliance issue. With Thomson Reuters, manage every matter, contract, and legal process.

Thomson Reuters Institute

The Thomson Reuters Institute brings together people from across the legal, corporate, tax & accounting and government communities to ignite conversation and debate, make sense of the latest events and trends and provide essential guidance on the opportunities and challenges facing their world today. As the dedicated thought leadership arm of Thomson Reuters, our content spans blog commentaries, industry-leading data sets, informed analyses, interviews with industry leaders, videos, podcasts and world-class events that deliver keen insight into a dynamic business landscape.

Visit [thomsonreuters.com/institute](https://www.thomsonreuters.com/institute) for more details.

