LEGAL VALUE NETWORK

Thomson Reuters Institute

2023 Legal Department Operations Index

Building a focus on protecting and enabling the business

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Executive summary

Cost control and efficiency rank high on the list of corporate general counsel priorities across the globe, and particularly in the US.[1] It is, therefore, understandably incumbent upon those responsible for overseeing the operations of corporate law departments to align with these priorities in ways that benefit both the law department and the broader enterprise. This is no small mandate, and it requires focus on a large number of priorities.

At the same time, legal department operations (LDO) professionals must also structure their efforts in a way that reflects the broader realities around them including technology trends, economic influences, and the changing strategies and alignments of outside counsel law firms.

Most law departments are facing increasing matter volume, especially matters handled in-house, but with flat or decreasing budgets.

To better understand how LDO teams are balancing these often-competing interests, the Thomson Reuters Institute is pleased to produce this latest iteration of our Legal Department Operations Index.

Among the key findings in this report:

- A strong majority of law departments are experiencing an increase in the volume of legal work. At the same time, many are trying to handle an increasing share of their workload with internal resources rather than outside counsel.
- At the same time, nearly two-thirds of law departments report that total department budgets are either flat or decreasing, further reinforcing the "do more with less" mantra.
- A majority of law departments report an increased use of legal technology tools in the past year, despite a generally slow pace of adoption of new technology.
- For the majority of law departments, attorney headcount is unchanged, meaning the increased volume is placing a greater strain on in-house lawyers.
- Controlling outside counsel costs remains the top "high priority" item on LDO agendas.
- A majority of law departments are increasing focus on using legal technology tools to help manage workflows.
- However, most law departments also report the share of their budget devoted to legal technology is remaining flat, meaning law departments looking to increase operational

1 Thomson Reuters State of the Corporate Law Department 2023 report, https://www.thomsonreuters.com/en-us/posts/legal/state-of-the-corporate-law-department-2023/

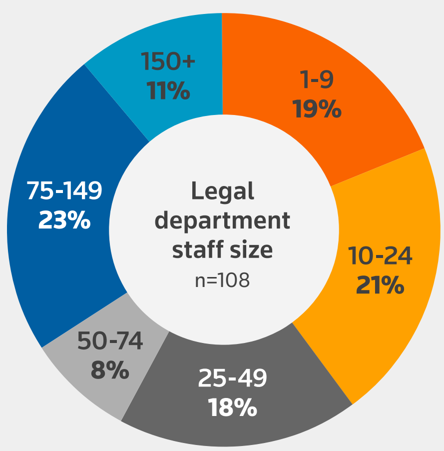
efficiency via technology need to get a higher return on their technology investment to see increasing value out of their spend.

- Efforts to control costs, particularly with regard to law firm rates, appear to be bearing fruit, although more innovative ways to price and track legal work remain uncommon.
- LDO professionals are increasingly concerned about threats posed by data security issues.
- While LDO professionals want to place a greater focus on legal operations, additional headcount and budget are hard to come by.
- The metrics tracked by LDO teams cover the financial aspects of the law department well, but they may not be comprehensive enough to provide a broad overview of all areas of responsibility.
- Questions around how legal teams work and return-to-office policy remain common, and many law departments are seeing their policies set by the broader enterprise.

METHODOLOGY

The results contained in this report, unless otherwise cited, are derived from an online survey of legal department operations professionals in the US, conducted in June and July 2023.

Figure 1: Respondent profile



Mean number of legal department employee roles

n=108	Mean
Attorneys	36.8
Paralegals	9.5
Legal operations staff	5.1
Other	21.5

Approximate annual gross revenues

n=71	Total
<$1 billion	38%
$1 billion - $5 billion	27%
$5 billion - $10 billion	10%
$10+ billion	25%

Source: Thomson Reuters 2023

Figure 2: **Key findings**

Priorities

78%

78% say controlling costs is a high priority

43% brought more work in-house last year and nearly the same expect to do so again

Trends

35% report increasing attorney count

14% report declining headcount

70%

70% report an increase in matter volume

66% report flat or decreasing budgets

66%

Technology conundrum

72%

90%

72% see using technology to simplify workflow as a high priority

90% say their dept. makes only slow to moderate progress in adopting new tech

Only **32%** report an increase in legal tech budget

Other priorities may be suffering

29%

Only **29%** report increase in legal operations staff

Fewer departments reporting high priority in law firm diversity information.

25%
2022

17%
2023

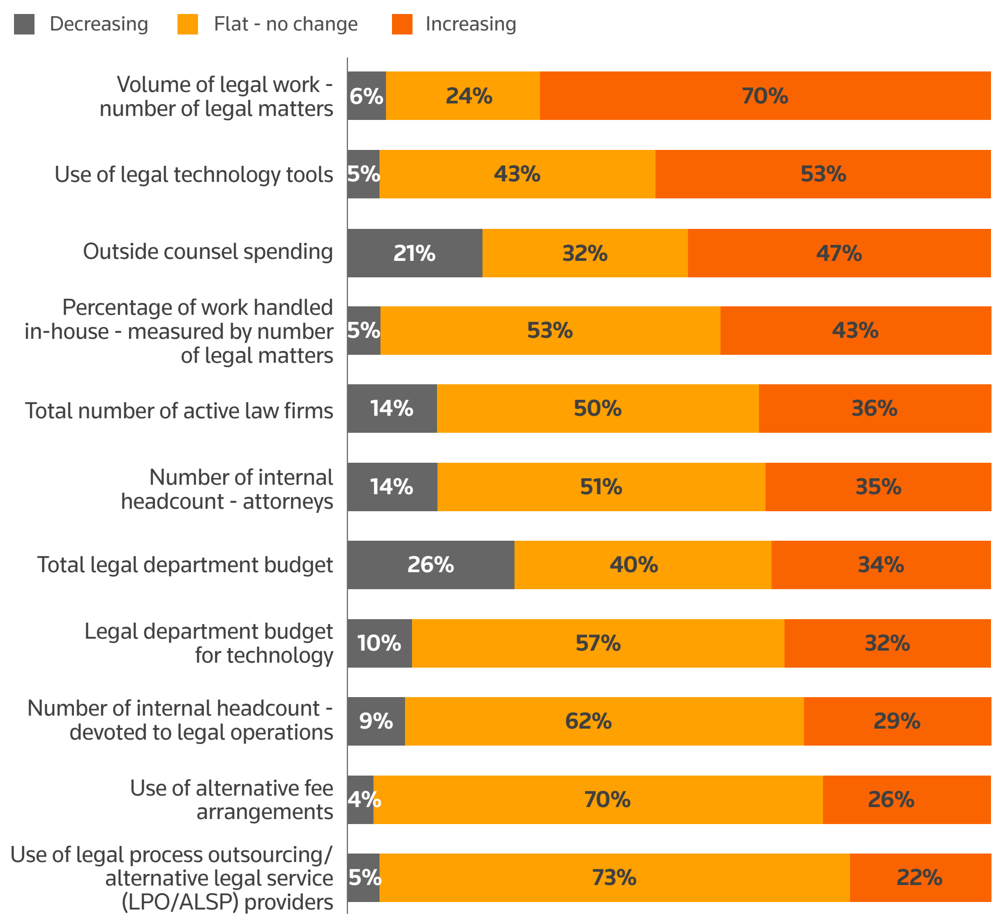
Source: Thomson Reuters 2023

Trends impacting today's law department

Today's corporate law department is faced with myriad forces – some pushing while others pull – but all influencing how the attorneys within the department serve the interest of the enterprise and meet the goals of the department.

Respondents were asked to give a directional indication of the impact of some of these trends on their department's operations.

Figure 3: **Legal department trends**



Over the last 12 months, how have the following areas trended within your legal department? n=108

Source: Thomson Reuters 2023

Chief among the trends influencing legal department operations today is the increasing volume of legal work. Some 70% of respondents report an increasing volume of legal work, more than the 65% who reported an increased volume last year. Even among the relatively small portion of departments not reporting an increase in legal work, very few report any sort of decrease. The resulting conclusion is that high workloads for corporate legal departments are a near universal reality.

Law departments will have had to decide how to allocate this increasing volume of matters between law firms, alternative legal providers and the in-house team; the chart above shows that departments are using a mixture of these strategies.

High workloads for corporate legal departments are a near universal reality.

Interestingly, the outside resource of choice appears to continue to be law firms rather than alternative legal service providers (ALSPs). Only 22% of respondents report increasing utilization of ALSPs, while 47% report an increase in outside counsel budgets. At least some of this increase in law firm spend is due to an increasing number of outside counsel as 36% of respondents report working with a higher number of law firms than a year ago. At the same time, as we will see later in this report, many LDO professionals are in fact looking to reverse this trend, and reduce the number of firms they work with.

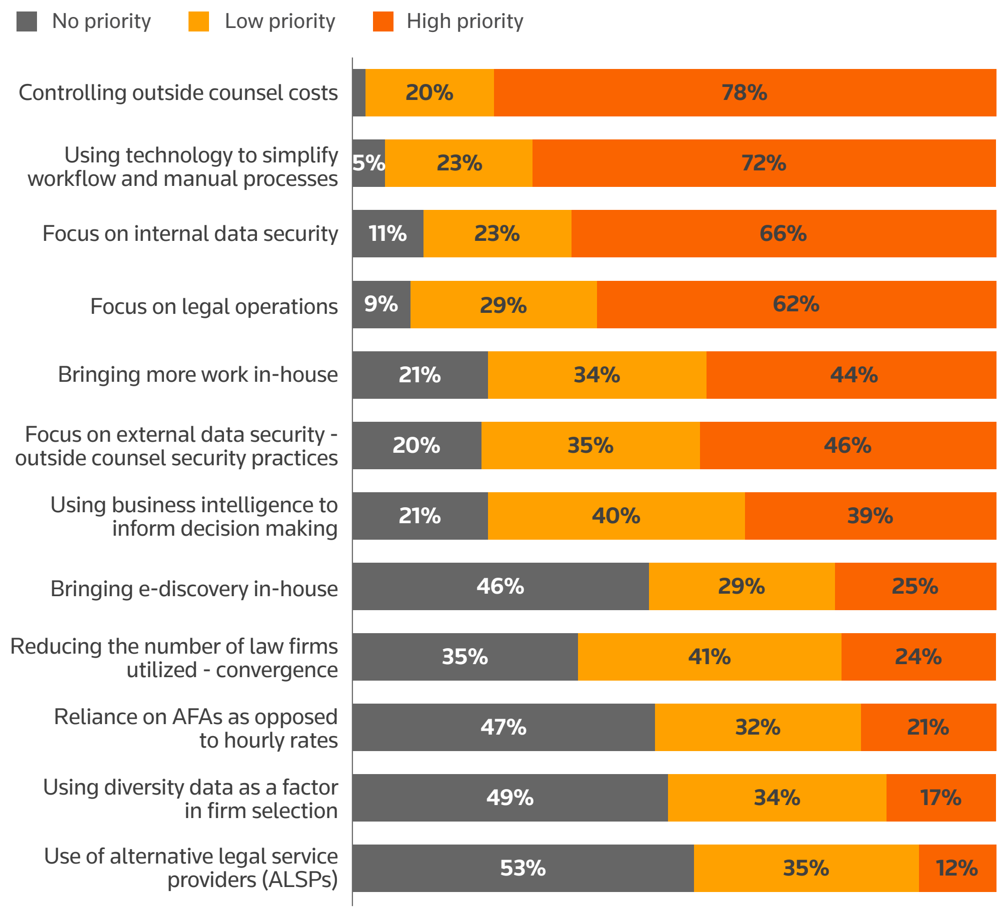
In a somewhat surprising corollary to this finding, this year's report actually shows a smaller percentage of law departments reporting an increase in the share of legal matters handled in-house rather than by outside counsel. According to this year's results, 43% of respondents report an increase in the percentage of work handled in-house, compared to 52% who reported an increasing in-house share last year. However, this may be explained, at least in part, by last year's results. Given the large percentage reporting an increasing in-house workload from 2021 to 2022, many law departments may feel as though they are operating at maximum capacity. This would be reflected in the greater proportion of respondents who say their in-house share of legal work has remained flat; their plates are full and the overflow has to be handled by external resources. This theory is further backed up by the fact that, even in light of an increasing volume of legal work, relatively few law departments (35%) report an increase in the number of in-house lawyers. Nearly an equal percentage report an increase in their department budget. Even fewer report an increase in the number of internal headcount devoted to legal operations (29%). The end result of these factors is a classic illustration of the well-worn corporate trope of "do more with less."

Likely as a means to optimize internal operations and efficiency, without the need to increase attorney headcount, 53% of law departments report an increased use of legal technology tools in the past year, but most have done so without increasing the share of their budget dedicated to legal tech. This increased use of technology no doubt serves to increase the productivity and output of the department's attorneys, a vital outcome given other realities the department may be facing.

Setting future priorities

Perhaps as a reflection of both current economic and workload trends, the top "high priority" items on the agenda for LDO professionals relate to controlling outside legal spend and improving the use of technology.

Figure 4: **Legal department priorities**



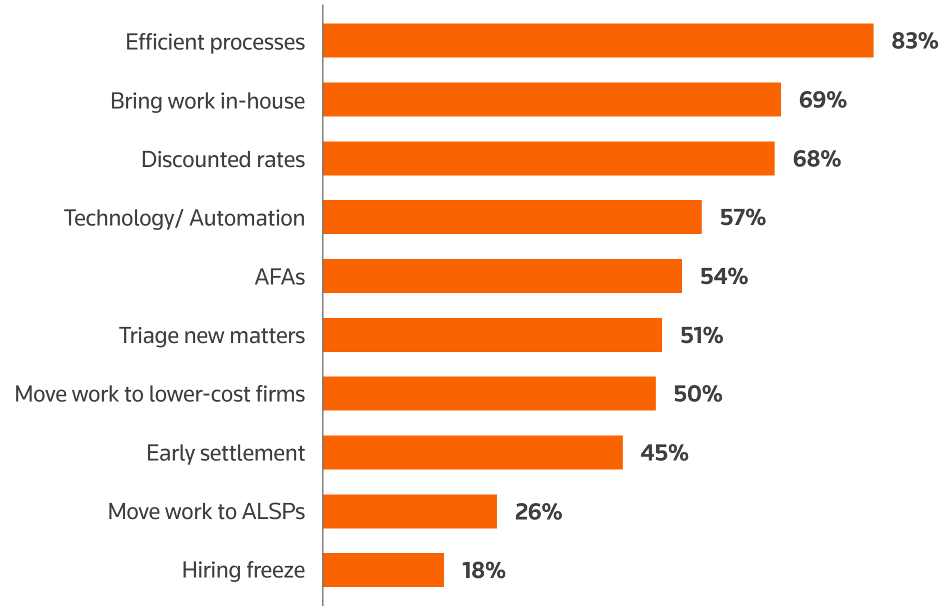
Please identify the priority your legal department places on the items below. n=108

Source: Thomson Reuters 2023

It is interesting to compare the above view, from those in legal operations, with the general counsel perspective from separate Thomson Reuters research.[2] Overall perspectives on cost control are similar with GCs in the US placing a premium on attention paid to cost control. However, the strategies utilized by GCs are informative in terms of illustrating their priorities. The vast majority state that more efficient processes will form a significant part of their cost control strategies in the coming year. Increasing the amount of work handled in-house also looks to factor heavily, as does the idea of ramping up pressure on law firms for increased hourly rate discounts. Increased use of technology also will likely play a substantial role, creating an avenue for natural alignment between GCs and the operations teams that make their departments run.

2 Cost control remains a top priority for GCs in the US: Strategies for bringing down department spend." Available at: https://www.thomsonreuters.com/en-us/posts/legal/law-department-cost-control/

Figure 5: **General counsel cost control strategies**



Which of the following will form a significant part of your cost-control strategy over the coming 12 months?

Source: Thomson Reuters 2023

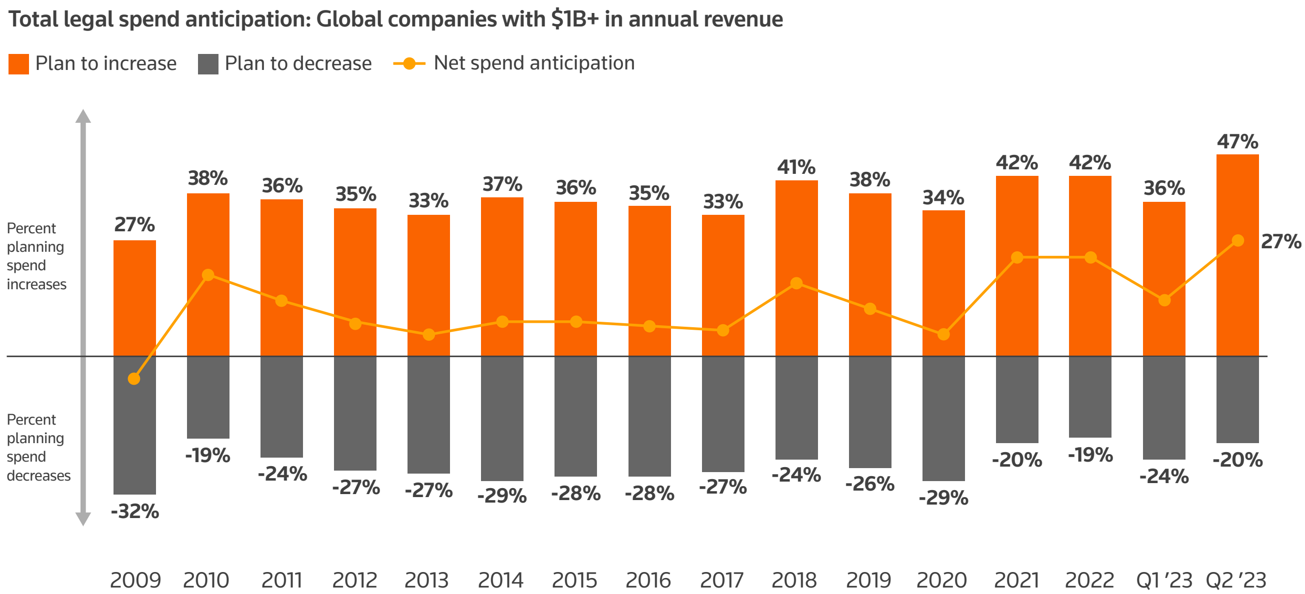
Controlling outside legal spend

Given the amount of money most corporate law departments spend on outside counsel, it is understandable that it would rank so highly on the list of department priorities.

It is important to note, however, that "controlling" costs is not necessarily synonymous with "reducing" costs. Indeed, corporate general counsel are currently reporting a net spend anticipation (NSA) score of 27,[3] clearly reflecting that more corporate counsel expect their external spend to increase than expect it to decrease.

3 To calculate net spend anticipation (NSA), a sample of global corporate counsel is surveyed on a question of whether, in the next 12 months, they expect their outside legal spend to increase, decrease, or remain the same. NSA is calculated as the difference between the percentage of respondents anticipating a decrease in external spend, subtracted from respondents anticipating an increase. For Q2 2023, 47% of respondents expect an increase while 20% expect a decrease for an NSA of 27.

Figure 6: Net spend anticipation (NSA)

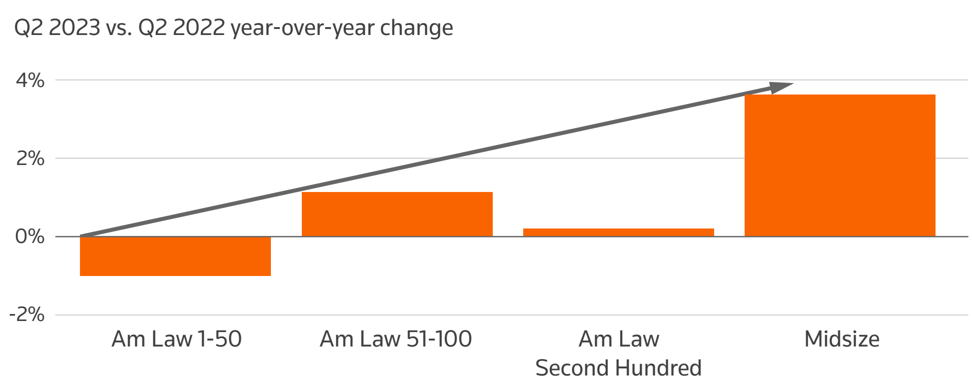


Number of responses: Q2 spend expectation (380)

Source: Thomson Reuters 2023

However, that does not mean that expectations surrounding where or how that money is spent are static. An examination of trends regarding the flow of legal matters clearly shows a continued outflow of legal work from the largest firms into smaller, often more cost-effective law firms.

Figure 7: Demand growth by segment



All timekeepers. Billable time type; non-contingent matters.

Source: Thomson Reuters 2023

This is particularly true of practice areas which have been experiencing a surge lately – practices colloquially called counter-cyclical practices[4] due to the fact they tend to experience upturns during times of relative economic decline. Among Midsize law firms, these practices grew by 5.3% in Q2 2023, compared to just 2.8% for Am Law 100 law firms.

4 Counter-cyclical practices include litigation, labor & employment, and bankruptcy.

We also appear to be witnessing the continuation of a trend first reported in last year's LDO Index. In last year's data, we noticed a widening disparity between the increases in agreed rates from law firms and the changes in effective rates paid by clients. At the time, the conclusion was that clients were engaging in a practice known as "tiering" of legal work – shifting at least some portion of their legal work from larger firms to smaller firms, resulting in a net cost savings to the client even as the law firm saw an increase in the hourly rates. The relative performance of Midsize law firms in 2023 compared to their larger law firm counterparts indicates that this phenomenon is likely still in full effect.

> ***The relative performance of Midsize law firms in 2023 indicates that "tiering" of legal work is still in full effect.***

At the midyear point of 2023, the average law firm had raised worked rates[5] by 5.7% compared to the same point in the prior year. However, very little of those rate increases appears to be directly impacting the rates paid by clients.

Figure 8: **Percentage change in paid rates by client's total revenue**

Average Law Firm Worked Rate Increase 5.7% – YTD June 2023			
Company size by annual revenue	**Timekeeper classification**		
	Partner	Of Counsel	Associate
Under $500M	-1.1%	-3.0%	-3.7%
$500M-$2B	-4.6%	-2.4%	-6.1%
$2B-$10B	-2.1%	-3.4%	-3.0%
$10B+	-6.8%	-7.5%	-8.0%

Source: Thomson Reuters 2023

The data shows that, while law firms are commanding worked rate increases that are approaching historic highs, clients have managed to find ways to blunt the impact of those increases, creating instead some significant rate savings.

How is this possible? Tiering of legal work no doubt has much to do with it. Hypothetically, an Am Law 100 law firm and a Midsize law firm could both raise their worked rates by the average increase of 5.7%. If we assume the Am Law 100 firm's rates were higher to begin with in terms of actual dollar value, then from a client's perspective, every hour of work shifted from the Am Law 100 law firm to the Midsize law firm would result in a net cost savings to the client, even though the Midsize law firm implemented just as large an increase. The client simply shifted work to a lower-cost service provider. As shown in Figure 5, 50% of US general counsel are indeed planning to shift work to lower-cost firms.

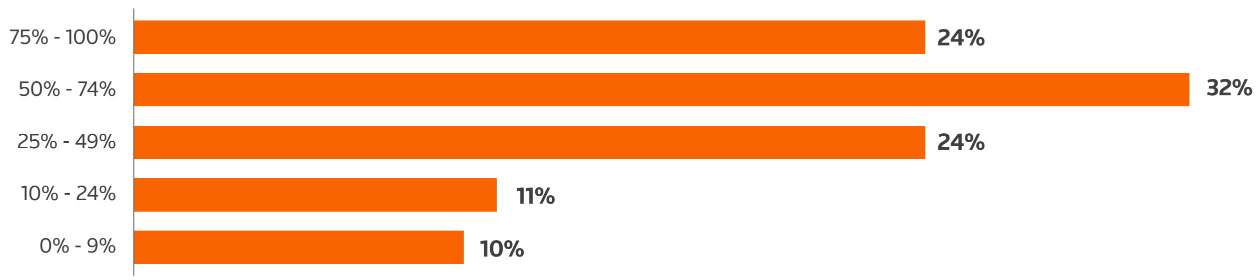
5 Worked rates are defined as the rates clients agree to pay to engage work on a new matter. They are also frequently called agreed rates. This figure represents the average increase in worked rates from a sample of 166 law firms in the US, representing 46 from the Am Law 100, 48 from the Am Law Second Hundred, and 72 Midsize law firms.

At the same time this tiering is occurring, 24% of LDO professionals report a high priority being placed on convergence – reducing the number of law firms they work with. This too can be an example of controlling costs as work can be consolidated within law firms that consistently deliver better value to the client, even if that law firm isn't necessarily any cheaper. The resulting increase in experienced value and simplification of outside counsel relationships helps improve the value of each dollar spent.

Given the volume of legal work handled by outside counsel, the potential for cost savings is potentially significant.

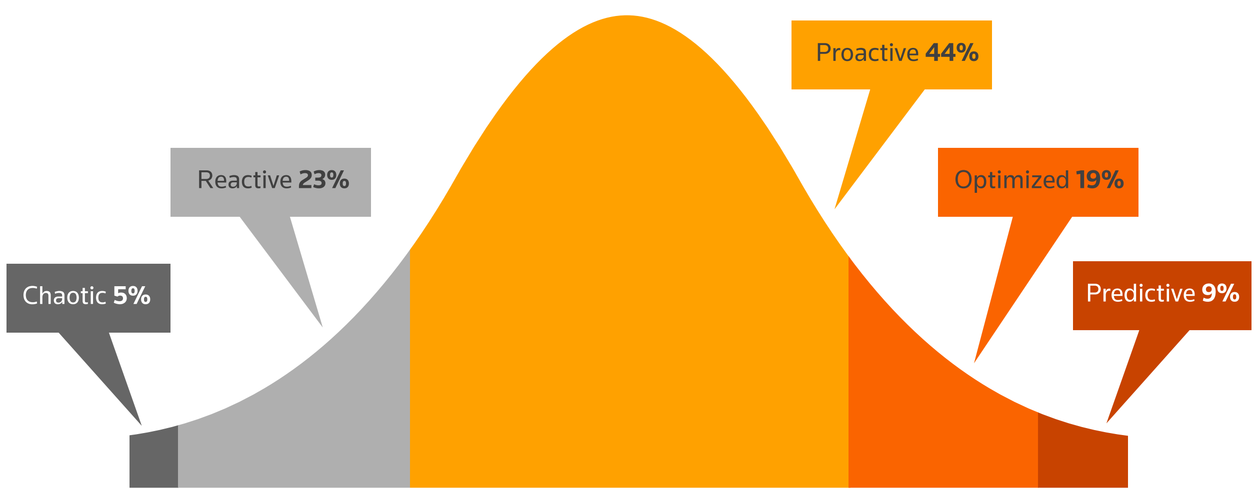
Figure 9: **Working with outside counsel**

Percentage of legal work handled by outside counsel



Please estimate the overall percentage of legal work handled by outside counsel. n=107

Legal spending sophistication



- **Predictive** - Active management of matters with collaborative involvement from attorneys, outside counsel and legal operations; detailed matter budgets, predictability and forecasting; benchmarking performance.
- **Optimized** - Centralized management of rates; utilization of RFPs, bids or discounts to set rates; focus on internal processes that drive down costs; advanced reporting on legal department performance.
- **Proactive** - Use of billing guidelines, invoice audits and legal bill review; defined process for management of timekeepers and matters.
- **Reactive** - Use of e-billing system; basic reports on spending.
- **Chaotic** - Legal invoices outside of e-billing system; no consistent way to report on legal spending.

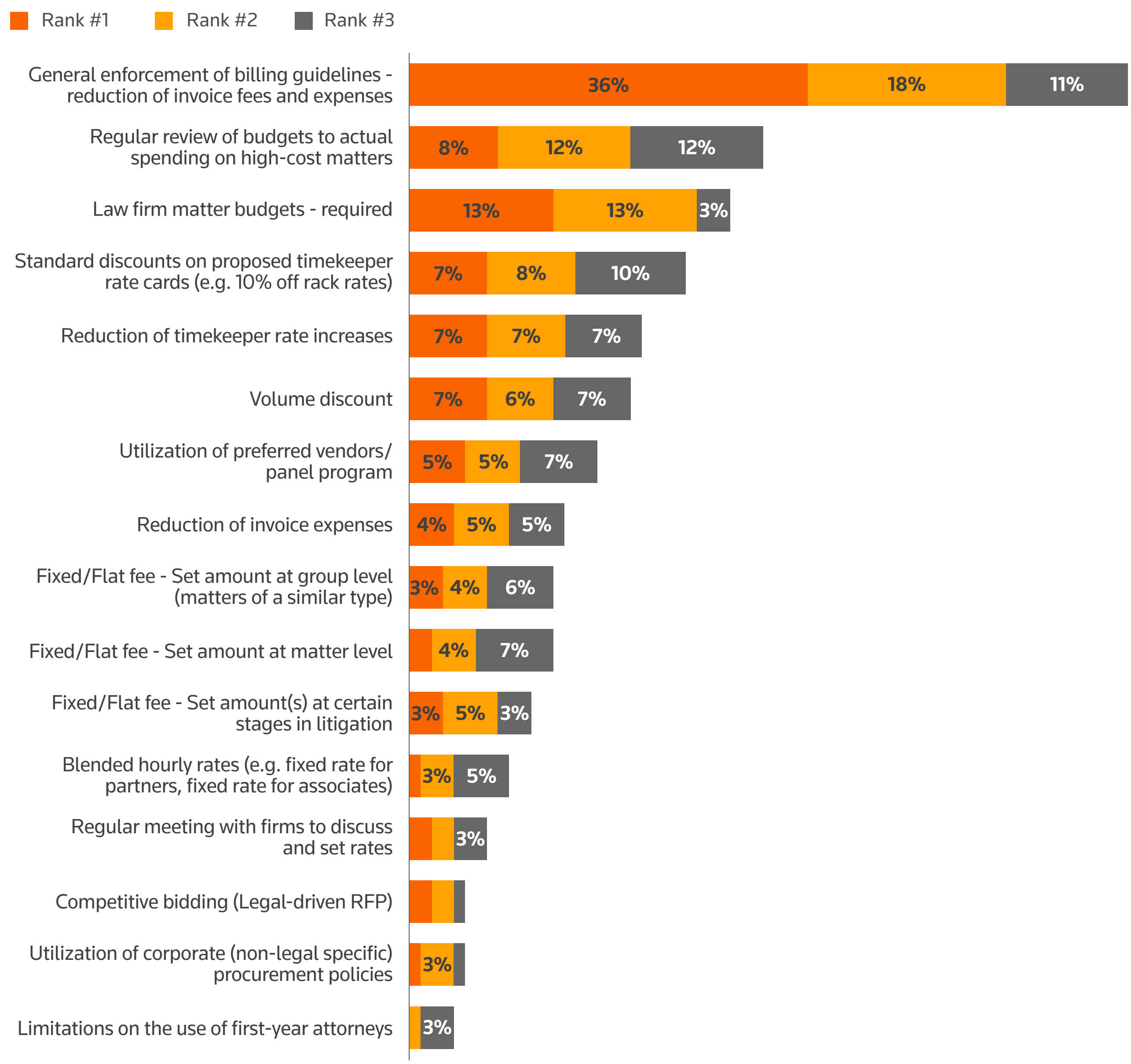
How would you rate your company's sophistication in management of legal spending? n=108

Source: Thomson Reuters 2023

The vast bulk of corporate LDO professionals surveyed report that the majority of their legal work is still handled by outside counsel. Yet the plurality of those surveyed characterize their handling of outside legal spend as merely "proactive," meaning they employ strategies such as billing guidelines, invoice audits, and defined processes for timekeeper management, but they do not employ more advanced strategies such as forecasting of detailed matter budgets, benchmarking, centralized management of rates, or focusing on internal processes that drive down costs.

Figure 10: **Cost control measures**

General enforcement of billing guidelines is by far the most effective cost control measure.
Other top cost control measures include regular review of budgets and required law firm matter budgets.



Please rank the measures that are effective for cost control in your department, where 1 is the most effective, 2 the next most effective, and so on. Rank all measures that you use in your department. n=108

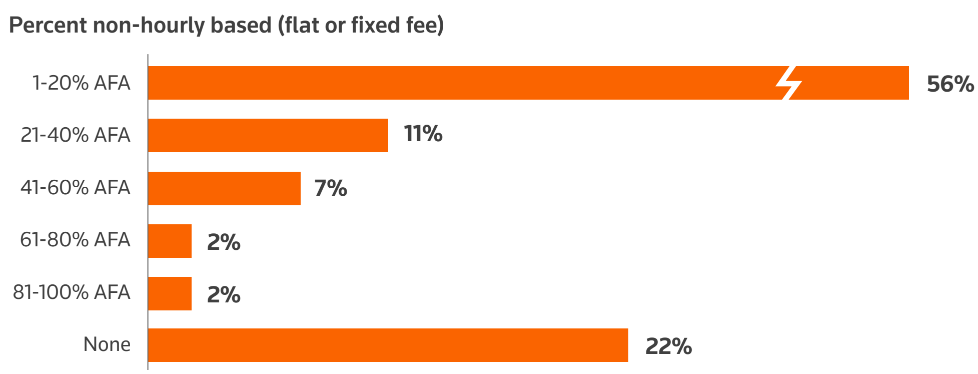
Source: Thomson Reuters 2023

Currently, strategies to manage legal spend rely heavily on tried-and-true methods. General enforcement of billing guidelines through invoice review and reduction remains the top cost control measure, a place it has occupied for a number of years. Regular reviews of budgets to actual spend saw a jump in this year's results, moving from fourth on last year's list to second this year with more respondents likely to rank it as their first or second most-effective strategy than last year. Discounts and matter budgets also remained popular methods for cost containment.

However, in keeping with respondents' self-reported levels of spend-management sophistication, more sophisticated methods of cost control were not highly ranked in terms of their effectiveness. It might be tempting to conclude that these methods are not highly ranked because they are not particularly effective. However, given the relative lack of sophistication reported by survey respondents, a more likely conclusion is that strategies such as preferred panels, fixed fees, blended rates, or legal-driven RFPs are not as widely used and therefore are not as likely to be ranked as highly effective.

The concept of alternative fee arrangements (AFAs)[6] as a potential tool for cost management is one that merits a bit of further exploration.

Figure 11: Non-hourly based AFA outside legal spend



What percentage of your company's outside legal spend is structured as a non-hourly-based (i.e., flat or fixed fee) alternative fee arrangement (AFA) as opposed to hourly rates? n=107

Source: Thomson Reuters 2023

The most common responses among those surveyed regarding their use of AFAs were that such billing arrangements accounted for less than 20% of total department expenditures, or weren't used at all.

It must be noted that the lack of adoption of AFAs really can't be blamed on LDO professionals. Agreements as to billing practices for matters are often heavily influenced by the in-house attorneys

> ***"We want to do AFAs, but it's been difficult to work out with our firms."***

6 For the purposes of this survey and report, AFAs are defined as non-hourly based billing arrangements. Consequently, hourly billing arrangements such as discounts to hourly rates or volume discounts based on the number of hours billed would not meet the definition of an AFA even though these are commonly used billing methods.

assigned to matters, and sometimes even corporate procurement teams. The former, in particular, may be more comfortable working on an hourly basis as that is the long-standing industry standard. Part of the blame must also be shared by the outside law firms. As one respondent stated, "We want to do AFAs, but it's been difficult to work out with our firms." Clients are not giving up, however – as shown in Figure 5, over half of US general counsel are aiming to increase the pressure they put on firms to offer AFAs.

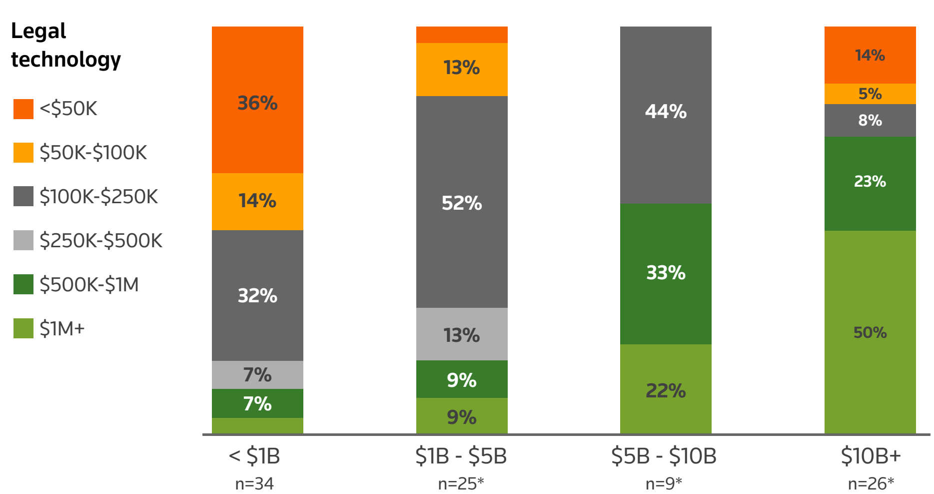
This is a common refrain among corporate legal teams. Despite more than a decade's worth of discussion of AFAs, adoption has remained relatively stagnant due to inertia in favor of hourly billing that has proven difficult to overcome. It is worth noting that the current level of AFA adoption was largely driven as the result of changes to the legal economy following the Global Financial Crisis. Current economic woes may spur a second wave of AFA adoption as clients look for more predictable and budget-friendly pricing alternatives. In particular, many law firms have begun to offer subscription-style pricing models, providing access to lawyers for a certain number of matters, a certain number of hours, or some combination, for a monthly fixed cost with heavily discounted hourly billing set to start once the subscription guardrails are exceeded. Such arrangements remain relatively uncommon, but as clients look for new ways to control costs while also improving the sophistication of their spend management, such strategies may gain in popularity. Law departments in the US could look for inspiration to their counterparts in Europe, where alternatives to hourly rates are much more mainstream.

Simplifying work through technology

Only slightly lower on the list of law department priorities is using technology to simplify workflow and manual processes, with 72% of respondents identifying it as a high priority.

Legal technology is another area of large expenditure for many law departments.

Figure 12: **Annual legal technology spending by annual revenue**

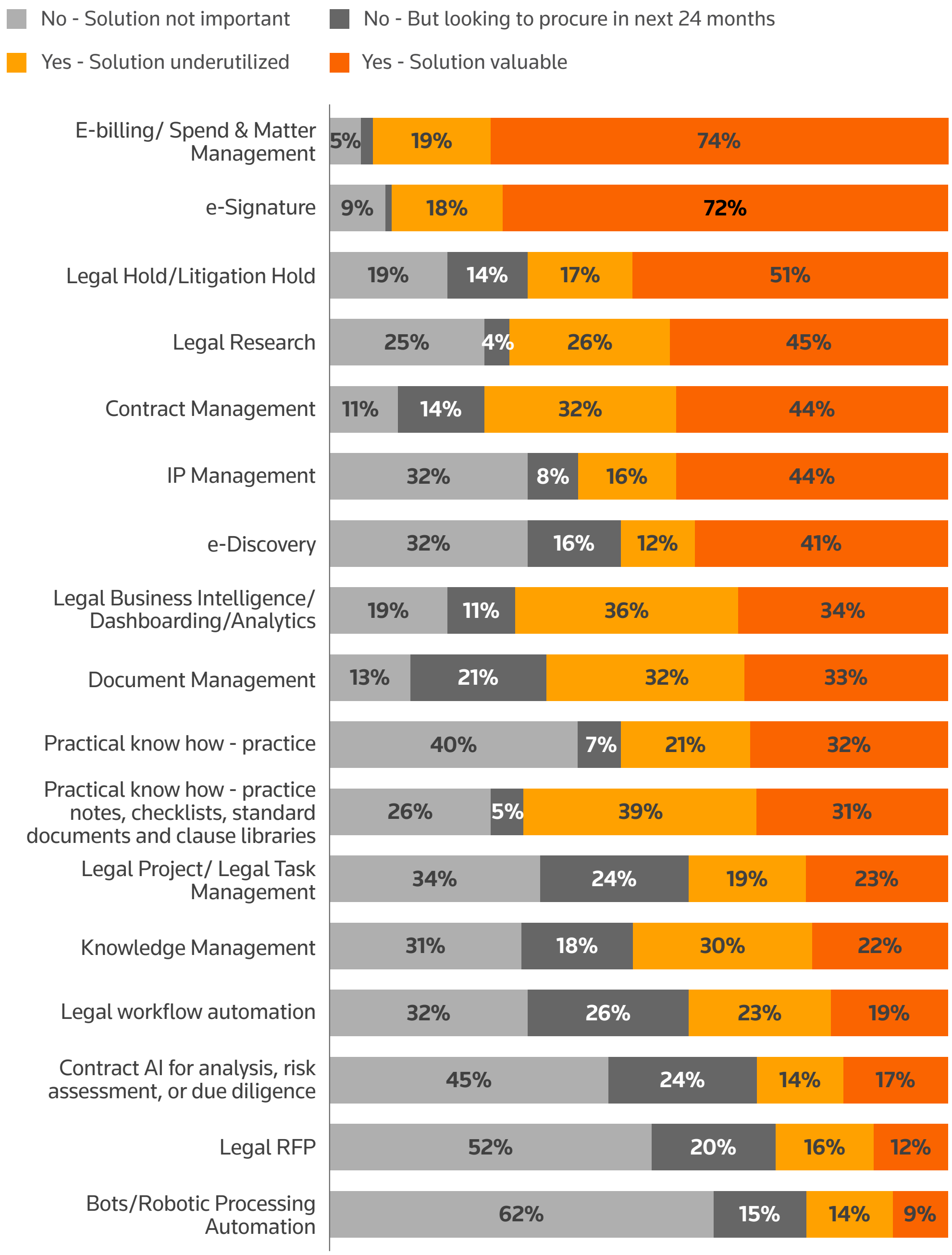


Please estimate your company's annual spending for the areas below? If no spend - please indicate "0", if unknown please state "unknown". *Small sample size.

Source: Thomson Reuters 2023

We can see a large variance in legal tech expenditures based on the size of the business. But regardless of the amount invested in legal tech, businesses of all sizes are looking for assurances that their investment will yield a strong return on investment, and that the solutions deployed will meet their business objectives.

Figure 13: **Software solution and importance**



Please identify whether your department has a software solution for the processes below and rate the importance of that solution to your law department. n=108

Source: Thomson Reuters 2023

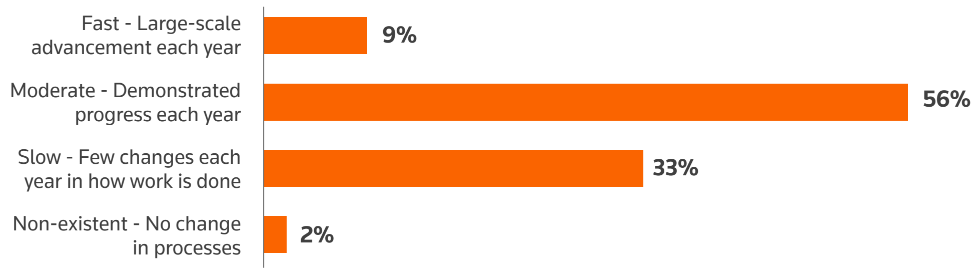
Once again there is a clear disparity evident in technologies adopted by corporate law departments. The vast majority have adopted solutions such as e-billing technologies to assist with spend and matter management and e-signature solutions, and the bulk of those adopting both find them valuable.

From there, however, we see a dramatic dip in the rates of reported adoption of tech solutions. Roughly half of respondents report they have experienced value from the solutions they have adopted for litigation holds, legal research, contract management, and IP management. We also see several categories of solutions where a tech tool has been identified and deployed, but is underutilized by a fairly wide margin, including contract management, legal business intelligence and analytics dashboards, document management, practical know-how, and knowledge management.[7]

Here again, it is difficult to identify the cause of either slow adoption or underutilization.

Figure 14: Pace of technology advancement

Process/technology advancement change



How would you characterize the pace of change in terms of process or technology advancements in your law department? n=108

Source: Thomson Reuters 2023

When asked to characterize the pace of change in processes or technological advancements within the law department, there is a clear bell curve trending toward moderate or even slow progress. As defined by the results, law departments reporting moderate pace of change show some demonstrated progress every year, but not what the respondent would characterize as large-scale advancement, while law departments demonstrating slow pace of change make only a few changes in how work is done in any given year.

The curve on these responses likely surprises few readers of this report. In-house law departments compete with several strong inertial forces when trying to drive change. First, the lawyers who run the department are well versed in their work and very good at what they do. This calls to mind the old maxim that the greatest impediment to change is success. To compound this struggle, lawyers are naturally risk-averse. This is perhaps especially true of in-house lawyers, whose departments exist primarily to protect the enterprise

7 Each of these listed solutions showed at least 30% of respondents reporting they had a software solution for the particular problem identified, but the solution was underutilized.

from risk exposure. Add to this mix the fact that many businesses are, themselves, slow to adopt changes to ways of working, and one finds a recipe for exactly what the findings here demonstrate – an environment ripe for moderate pace of change at best.

The relative lack of importance currently placed on advanced technologies, particularly those employing artificial intelligence, is also of note in Figure 13. AI generally – and more specifically, generative AI (e.g., ChatGPT) – is *the* hot topic of 2023. However, these survey results help to add a bit of context to many of the discussions happening across the industry.

Generative AI is at the forefront of many conversations regarding the future of the legal profession, and indeed, work in general. However, for lawyers, many of the potential direct impacts remain largely hypothetical. As previously reported by the Thomson Reuters Institute, there is a high level of awareness of generative AI among corporate law departments.[8] However, only about 4% of corporate legal departments report they are currently using generative AI for department operations.[9] A similar reality seems to be at play in terms of department priorities with regard to other AI-dependent technologies.

Contract AI for analysis, risk assessment, or due diligence; and robotic processing automation – both of which are technologies that would be dependent on AI – were among those most likely to be listed by respondents as less important solutions. This may be another example of AI technologies still being nascent enough to not yet be perceived as ready for deployment and adoption. However, the importance placed on AI-based software solutions will likely increase rapidly in coming years.

Focus on internal data security

Ranking third for highest priority among LDO professionals,[10] internal data security remains a large concern, essentially unchanged from last year.

It seems hardly a week goes by without news of a company suffering a data or privacy breach. As data privacy rules, like the EU's General Data Protection Regulation (GDPR), become more prolific, the risk presented by data security vulnerabilities expands.

As reported in the 2023 State of the Corporate Law Department report,[11] risk and compliance concerns are now the top challenge for corporate general counsel globally. This is likely a function of a few different factors.

First, regulations continue to proliferate and may, at times, even be in conflict with one another. A hypothetical company doing business in five states within the US, the UK, and two

8 According to the report "ChatGPT and Generative AI within Corporate Law Departments," 95% of corporate law departments are aware of the innovations surrounding generative AI. https://www.thomsonreuters.com/en-us/posts/wp-content/uploads/sites/20/2023/05/ChatGPT-Generative-AI-in-Corporate-Law-Departments-2023.pdf

9 *Id.*

10 See Figure 4.

11 Available at https://www.thomsonreuters.com/en-us/posts/legal/state-of-the-corporate-law-department-2023/

countries in mainland Europe would likely find itself subject to potentially 10 or more sets of regulations based on the various jurisdictions, not all of which would operate in comity.

Second, how businesses interface with their customers has fundamentally changed. Nearly any business today, regardless of the products or services it sells, is a data business. Customer mailing lists, e-commerce tools, customer loyalty programs, and even mobile apps all carry varying implications for customer data, which in turn carries a heavy regulatory burden.

Failure of internal data security can be existential for a business, not only from the standpoint of regulatory penalties and legal liability, but from the standpoint of brand equity. LDO professionals looking to stay commercially attuned to their business would do well to consider the negative impact on the business's brand that a security breach could have.

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Focus on legal operations

The final priority identified by more than half of respondents as a high priority is a focus on legal operations. In one sense, this is unsurprising given this was a survey of legal operations professionals. But in a deeper sense, it is a reflection of the number of functions LDO teams touch.

Some of these functions, such as managing outside counsel costs, identifying and deploying technology solutions, and protecting data integrity have already been discussed at length. However, much about the role remains to be explored.

First, it is worth noting that more than 60% of law departments report their number of internal headcount devoted to legal operations has remained unchanged for the past year.[12]

Figure 15: **Average LDO staffing**

Business size (revenue)	Number of legal operations staff
Small (Less than $500M)	4.4
Moderate ($500M-$2B)	3.1
Medium ($2B-$10B)	6.8
Large ($10B+)	5.7

Source: Thomson Reuters 2023

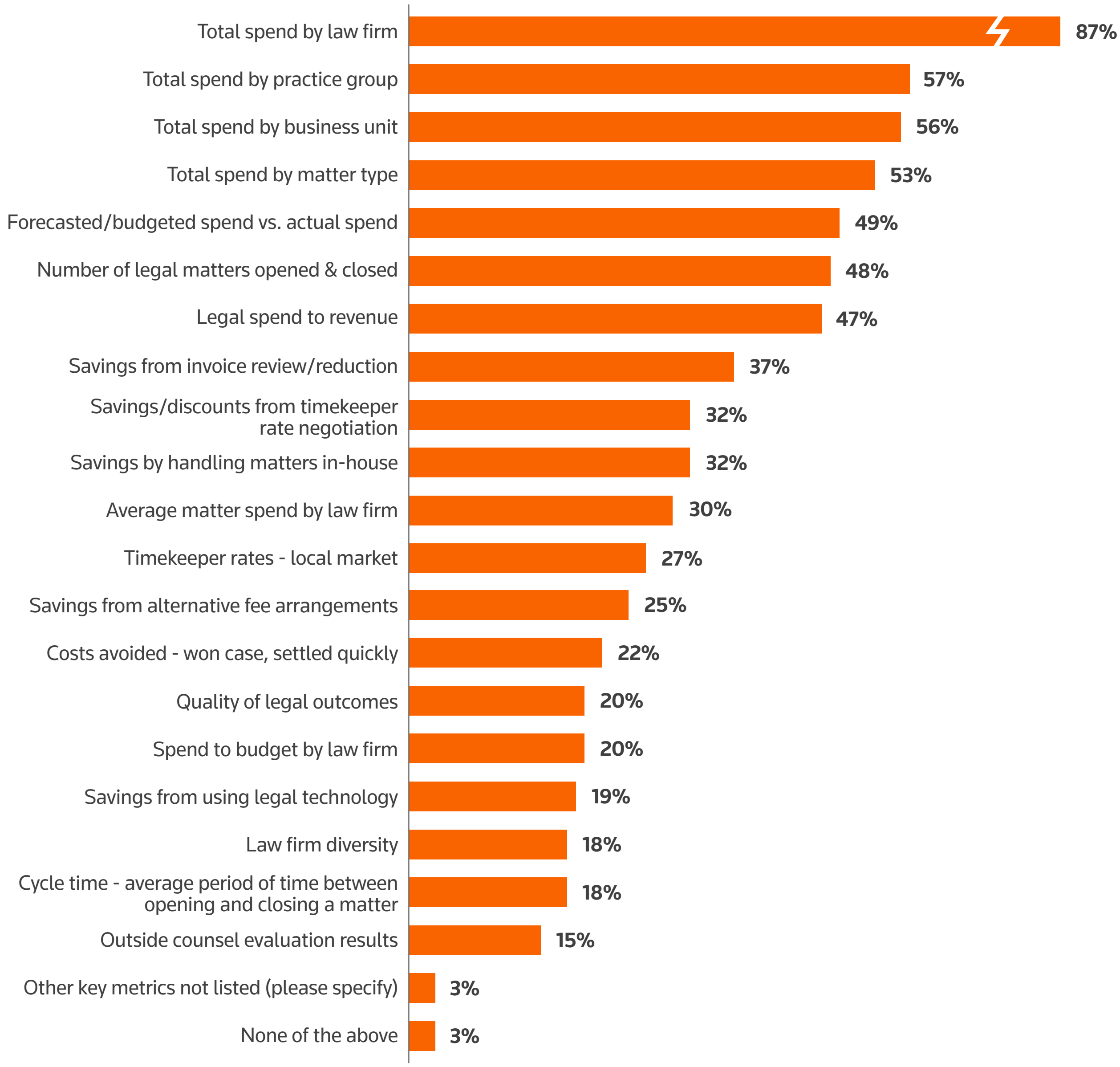
Currently, overall legal operations staff numbers remain relatively small, particularly for larger businesses that are more likely to have larger law departments. When given an opportunity to elaborate, several respondents commented that much of their legal operations work is handled by staff who are only partially

10 See Figure 3.

dedicated to legal ops functions, but such responsibility is not included in the job title. Given these current staffing trends, it seems likely that legal operations will remain a function challenged by the same "do more with less" mantra confronting the department as a whole.

At least some of this challenge may come in the form of trying to get a better handle on the scope of some of the broader functions of legal operations and how to create meaningful improvements.

Figure 16: Important legal department metrics



Please select all of the important metrics that are routinely reported on in your legal department? n=108

Source: Thomson Reuters 2023

A well-known cliché holds "you can't manage what you don't measure." Unfortunately for many LDO professionals, many metrics outside of those related to costs are not routinely tracked. With one exception, number of legal matters opened and closed, any metric tracked by roughly 50% of respondents or more relates to cost control. Other "value" metrics such as costs avoided by quick settlements, quality of legal outcome, cycle time, or law firm diversity were tracked with much less frequency.

This is reflective of a broader reality of the state of legal operations; metrics tracked do not necessarily encompass the full spectrum of department priorities.

Law department leaders have competing interests to balance, which can be loosely grouped into four categories.

Figure 17: **Four categories of law department interests**

Source: Thomson Reuters 2023

As evidenced by the survey results, tracking of metrics related to cost efficiency is quite common. Less common is the tracking of metrics related to the law department's effectiveness, how it enables the business, and how it provides protection. LDO professionals looking to expand their coverage in these latter areas should consider tracking at least some of the following metrics:

- Rate of staff turnover
- Volume of work automated
- Uptake of existing tech stack

- Percentage of matter with desired outcome
- Department net promoter score by internal clients
- Risks mitigated
- Disputes resolved without litigation
- Advancements in DEI and ESG priorities
- Contacts with sales channels

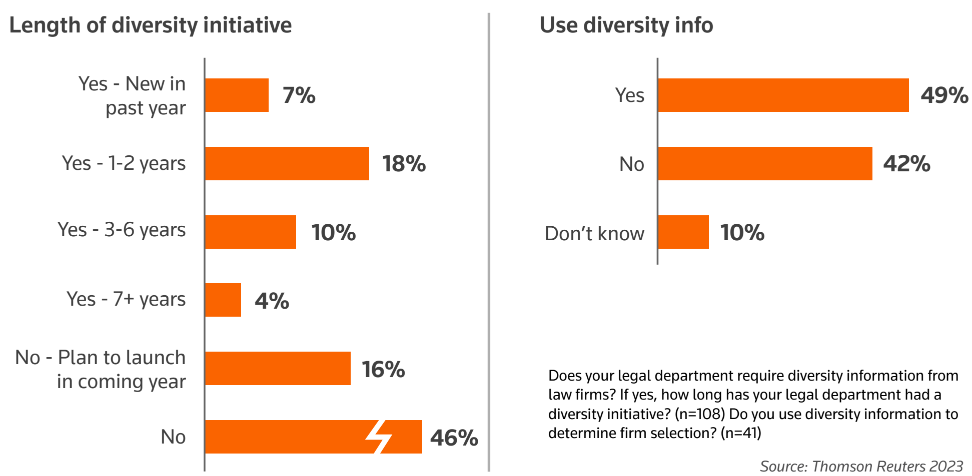
This is by no means an exhaustive list. The metrics that would be of use to a law department are as varied as the companies served by those departments.

But law departments can experience and deliver much greater value by leveraging metrics to encourage meaningful progress in key areas.

Law firm diversity as a key metric

Let's explore the area of outside counsel diversity as an example of a key area that can benefit from metric-driven improvements.

Figure 18: **Diversity information**



Does your legal department require diversity information from law firms? If yes, how long has your legal department had a diversity initiative? (n=108) Do you use diversity information to determine firm selection? (n=41)

Source: Thomson Reuters 2023

Fully 46% of LDO professionals report their company does not have an initiative to require diversity information from law firms, with another 16% saying they do not currently have such a program, but plan to launch one in the coming year.

Of those law departments who do track outside counsel diversity metrics, only about half actually use that information in selection of outside counsel.

There are likely reasonable explanations for these findings. Many law departments would object that they work with too many law firms for a diversity initiative to be practical, or that privacy regulations in some jurisdictions prevent them from asking for diversity information. These are legitimate concerns, but at least some law departments have found ways to navigate them. Possible solutions could include starting an initiative with only a select group of law firms, perhaps with the top 10 or 20 law firms with whom the department does business, or those sited in jurisdictions where privacy laws are not an impediment.

Similarly, law departments might respond that, while they don't use diversity info as a selection criterion for outside counsel, they do in fact use it to help drive measurable improvements in terms of the diversity of their outside counsel. This would, in fact, be a desirable outcome, removing the potential stick for outside counsel concerned that they may lose work and instead creating a win-win scenario where client and counsel work together to create meaningful progress.

However, evolution in this area remains slow. Last year, 47% of respondents said they had a diversity initiative in place, compared to 39% this year. This does not mean that companies ended their diversity programs; rather, it is likely an artifact of different companies responding to the survey this year compared to last. However, it is indicative that adoption of diversity programs remains slow.

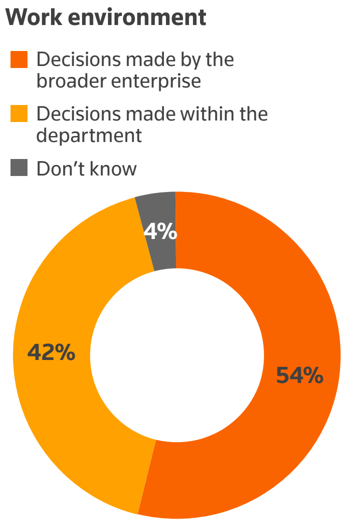
The question of how we work

Although it has been discussed for several years now, the conversation regarding how law departments and legal professionals in general work remains filled with more questions than answers.

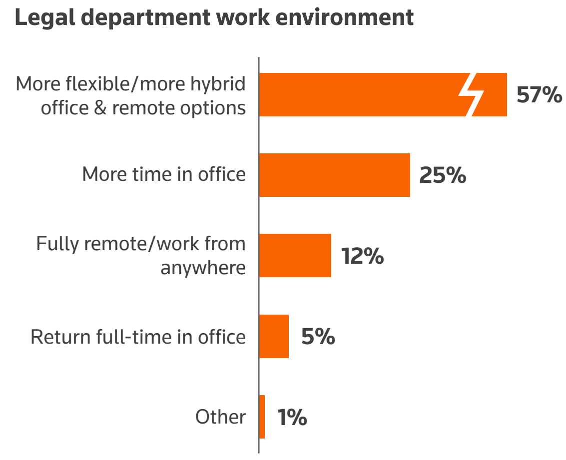
Corporate GCs seem torn regarding return-to-office policies. They struggle to find a balance between capturing the long-recognized benefits of face-to-face professional interaction and the appreciation their staff has gained for the autonomy and flexibility of remote working.

For many GCs, the decision is being made for them.

Figure 19: **Today's work environment**



Is your work environment primarily being driven by... n=108



What is the current work environment expected for your legal department? n=108

Source: Thomson Reuters 2023

More than half of respondents state decisions regarding work environment and return to office are being made by the broader enterprise. For 42% of responding departments, however, the decision remains with the department, at least for now.

But whether the decision is made by the GC or at a higher level, many of the same concerns regarding the outcome of the policy remain. The option to leave the company to join a law firm remains enticing and quite lucrative, as pay scales for not only lawyers but professional staff at law firms are still elevated. Many law department leaders are concerned attorneys and staff may decide if they have to be in the office, particularly if they don't really want to be, they may as well be paid more for it.

The long-term effects of return-to-office policies have yet to be seen, and some of the macro trends that have encouraged employers to feel comfortable pushing for more aggressive return policies may yet swing back in the other direction. For now, though, questions of what a law department's work environment looks like remain open.

Conclusion

The role of LDO professionals in today's corporate law department shows no signs of shrinking. In fact, it seems clear the part played by the professionals tasked with ensuring the effective operations of law departments is poised to grow. A key challenge will be marshaling the resources necessary to deliver consistently higher value results for the department and the broader enterprise.

Key among these resources will be:

- Vital data regarding outside counsel spend and performance
- New metrics both for outside counsel and in-house matters centered around value-added contributions
- An ever-increasing level of sophistication around outside counsel spend management, including a greater fluency with AFAs
- An ability to drive adoption of new technology solutions to address departmental challenges
- Increasing familiarity with rapidly evolving tech options such as generative AI
- An increased quiver of key metrics to gauge department performance broadly, considering the department's effectiveness and ability to enable and protect the business, in addition to controlling costs

Additionally, where and how LDO professional work will continue to evolve.

But those LDO professionals looking to take a data-driven approach to confronting rising challenges, and who are willing to take calculated risks as leaders, rather than simply waiting to see what approaches others have taken, will be in the best position to deliver innovative, impactful results for both their department and their broader business.

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