



Legal Department Operations (LDO) Index: The risk of being left behind

Most corporate legal departments have dedicated legal operations, are increasing their use of technology, and are proactive about controlling costs.

EXECUTIVE SUMMARY

In the sixth edition of the Thomson Reuters LDO Index, we noticed new or continuing developments in three crucial areas of legal department operations — spending, technology, and department management — and we consider each of these areas in turn more deeply.

The data for this report is comprised of real-world legal spend analytics available from Thomson Reuters' Legal Tracker that's sourced from more than 1,500 corporate legal departments and a June 2021 Thomson Reuters survey to which 100 legal departments responded.

SPENDING

First, our survey showed the management of the department's legal spend is growing in sophistication. In this survey, a full 82% of legal departments identified themselves as proactive, optimized, or predictive in their approach to managing their legal spend in regard to outside counsel.

Departments also showed the use of alternative fee arrangements in some capacity (usually up to 20% of overall legal work) continues at most companies. And the most-cited legal metric being tracked by departments is *total spend by law firm*, followed by *total spend by practice area* and *total spend by matter type*.

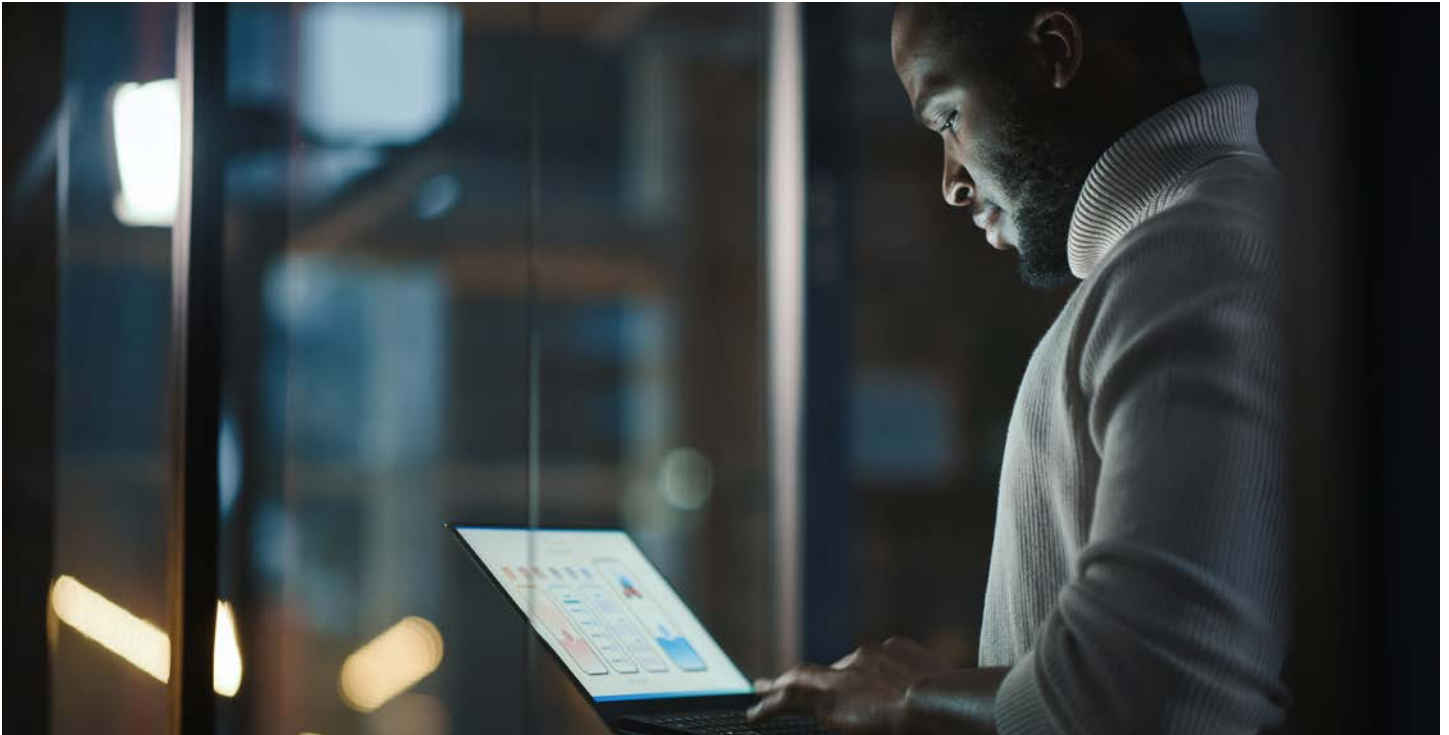
There were more mixed results with companies either increasing or decreasing legal department budgets and overall outside counsel spending, which demonstrated that legal departments and their companies still were dealing with varying levels of performance during the pandemic year of 2020.

Similarly, law firm utilization, rates, and staffing ratios differed dramatically depending on the size of the law firms and company in 2020. Further, large companies pressured timekeeper rate decreases in 2020, some of the biggest we have seen in the history of the LDO Index, although on average law firms were able to raise their rates last year in small and mid-sized companies.

TECHNOLOGY

Our survey showed the adoption of critical legal technology is expanding as departments look to enhanced technological solutions and digitalization to improve efficiency and lower department costs. The report showed more than half (52%) of the legal departments responding to the survey have increased their use of legal technology over the past year.

Indeed, respondents identified nine key legal technology tools or solutions that are being used by more than half of legal departments surveyed. Impressively, especially given the disruption of the pandemic, this was up from six identified technologies in the 2018 LDO Index report.



The top nine legal technologies tools or solutions identified in the latest report include Spend & Matter Management, eSignature, Legal Research, Legal Hold, Document Management, eDiscovery; with Contract Management, Legal Business Intelligence/Dashboarding/Analytics, and IP Management being added by respondents this year.

DEPARTMENT MANAGEMENT

Not surprisingly, developments in the area of legal department management continued along the same trajectory as in past Index reports. The top trend continues to be an increasing volume of legal work as it has been in all six editions of this report.

And growth in the area of dedicated legal operations continues to swell among legal departments with 80% of departments responding to our survey indicating that they now have staff dedicated to the department's legal operations function.

Finally, one very positive development that this year's LDO Index noted was legal departments' overall movement on requiring diversity among their outside legal counsel. The percentage of department respondents saying they do not have an initiative to require diversity information from their outside law firms fell to 42% in the latest report, compared to 77% saying this in the 2017 report.

This marks the first time that a majority of corporate legal departments said they are asking their outside law firms for this diversity information.

These three crucial areas of legal department operations — spending, technology, and department management — continue to be the areas the LDO Index sees as most ripe for continued improvement and development.

METHODOLOGY

The data in this report is comprised of real-world legal spend analytics gathered from Thomson Reuters' Legal Tracker and sourced from more than 1,500 corporate legal departments. Added to that data is a Thomson Reuters survey, conducted in June 2021, in which 100 legal departments responded.

Throughout the report companies are referred to as *Large, Medium, Moderate & Small*. These designations are based on the company's annual revenue, as classified below.

SURVEY RESPONSES

In response to the June survey, we received replies from the following:

22

LARGE
COMPANIES

those with \$10B+
in annual revenue

43

MEDIUM
COMPANIES

\$2B - \$10B
in annual revenue

19

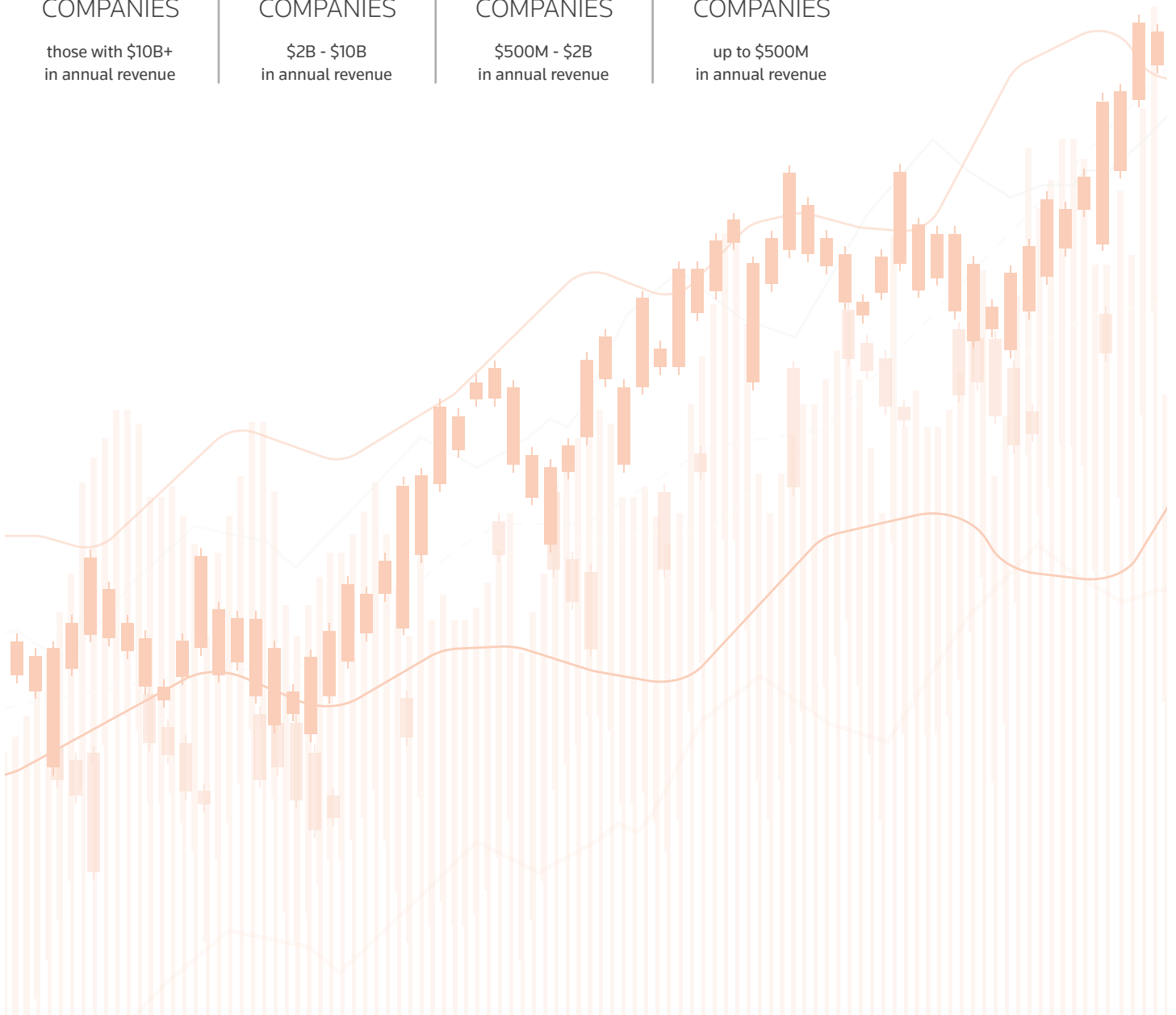
MODERATE
COMPANIES

\$500M - \$2B
in annual revenue

16

SMALL
COMPANIES

up to \$500M
in annual revenue



CORPORATE LEGAL PRIORITIES

We can see the top areas of concern voiced by corporate legal departments — spending, technology, department management — reflected in how department leaders cited their top priorities. As the survey showed, more than half of legal departments surveyed ranked issues such as controlling outside legal costs, using technology to improve efficiency, and focusing on legal operations as “high priority” concerns.

Top Legal Department Priorities

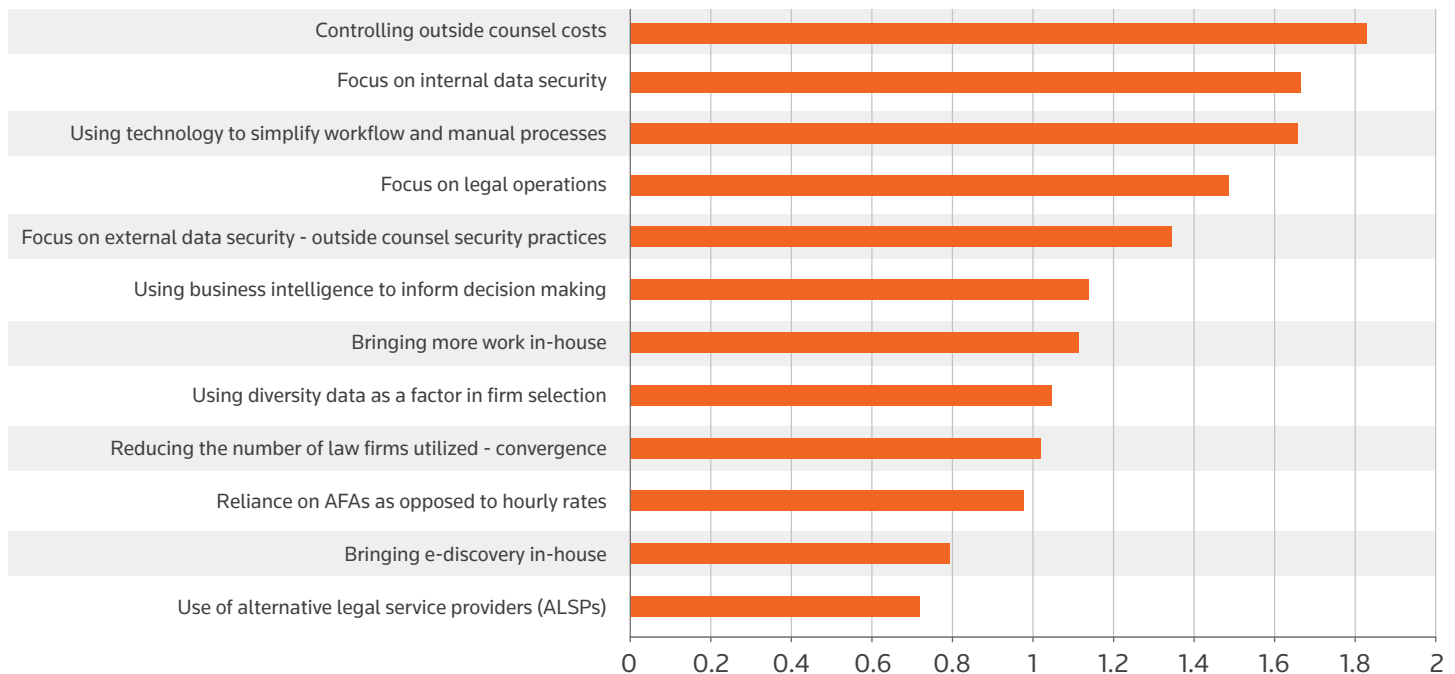
More than 50% of Legal Departments ranked topics below as “high priority”

1. Controlling outside counsel costs	87%
2. Using technology to simplify workflow and manual process	74%
3. Focus on internal data security	73%
4. Focus on legal operations	59%

Source: Thomson Reuters 2021

Figure 1 below provides the top priorities that legal departments face on a weighted scale. If the respondent said a priority was “high” then it would return a 2, “low” would return a 1, and “No Priority” would provide a 0, which was then averaged to get the scores below.

Figure 1:
Weighted legal department priorities



Source: Thomson Reuters 2021

LEGAL OPERATIONS

As the next several graphics show, the growth in size and importance of legal operations within a corporate law department continues to be felt. For example, a major component of an increased focus on legal department management is the rapid growth in the number of departments that now say they have staff dedicated to the department’s legal operations function. Now, 80% of departments responding to our survey indicated this, growing from 56% in the 2017 report.

This growth in legal operations may also be impacting how individual departments are viewing change. In the latest report, 55% of respondents characterized the pace of change within their own legal department as “moderate” change (with 49% saying this) or “fast” change (6%). Interestingly, more large legal departments felt “fast” change was happening.



Pace of Change

ONLY 6% of Legal Departments characterize the pace of change in the legal department as “fast” with large scale YoY changes

49% characterize pace as moderate

45% characterize pace of change as “slow”

9% of large company legal departments characterized the pace of change as fast – the highest among the companies by revenue size, but they also have the highest proportion of legal departments (50%) identifying as slow to change.

Dedicated legal operations	Large	Medium	Moderate	Small
NO	5%	12%	26%	56%
YES	95%	88%	74%	44%

Source: Thomson Reuters 2021

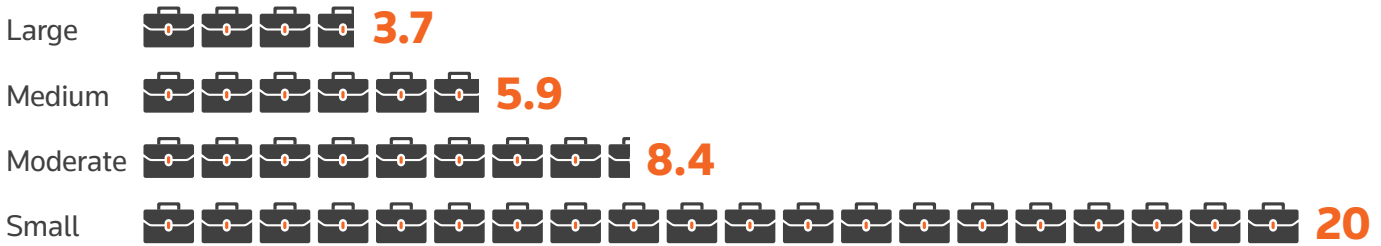
Staffing of legal operations functions continues to increase, with the corporate legal departments within medium companies and moderate companies showing the largest percentage, 11% and 16%, respectively, of dedicated legal operations staff compared to overall legal staff.

Figure 2:
Legal Operations Staffing

Company Annual Revenue	Average Total Legal Dept. Staff Size	Average Attorney Staff Size	Average Legal Ops Staff Size	Average Paralegal Staff Size	Paralegal count for every 1 attorney count	Legal Ops staff as a % of total staff
Large (\$10B+)	255	113	8	39	0.42	5%
Medium (\$2B - \$10B)	51	31	7	8	0.33	11%
Moderate (\$500M - \$2B)	26	13	3	5	0.42	16%
Small (Less than \$500M)	14	8	2	3	0.39	6%

Source: Thomson Reuters 2021

Figure 3:
Average number of attorneys per billion in revenue



The gulf between the above metrics for large multibillion-dollar firms and their smaller multimillion counterparts comes down primarily to economies of scale. Larger firms are capable of being more efficient in their lawyer headcounts as they can leverage variable and fixed costs in their favor. In addition, smaller firms are typically younger and working through growing pains as they discover their proper (and thus more efficient) makeup. Reflecting a greater corporate focus on environmental, social, and corporate governance (ESG) issues, more corporate law departments are engaging their outside law firms on diversity & inclusion initiatives, and more than one-third of departments say they are using diversity data when they select an outside firm.

Does your legal department require diversity information from law firms?	2017	2021
YES	13%	43%
NO – Plan to launch in the coming year	10%	15%
NO	77%	42%

Source: Thomson Reuters 2021



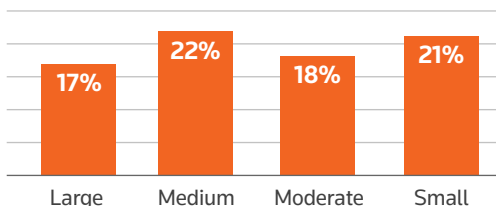
Using diversity data as a factor in firm selection

2021: 34% High Priority | 36% Low Priority | 30% No Priority
2017: 4% High Priority | 32% Low Priority | 64% No Priority

The survey showed that corporate legal departments are employing outside counsel for legal work outside the United States approximately one-fifth of the time.

20% volume of outside counsel work is outside the United States.*

This is relatively consistent based on size of company.



*Large majority of legal departments reporting were companies headquartered in the United States.

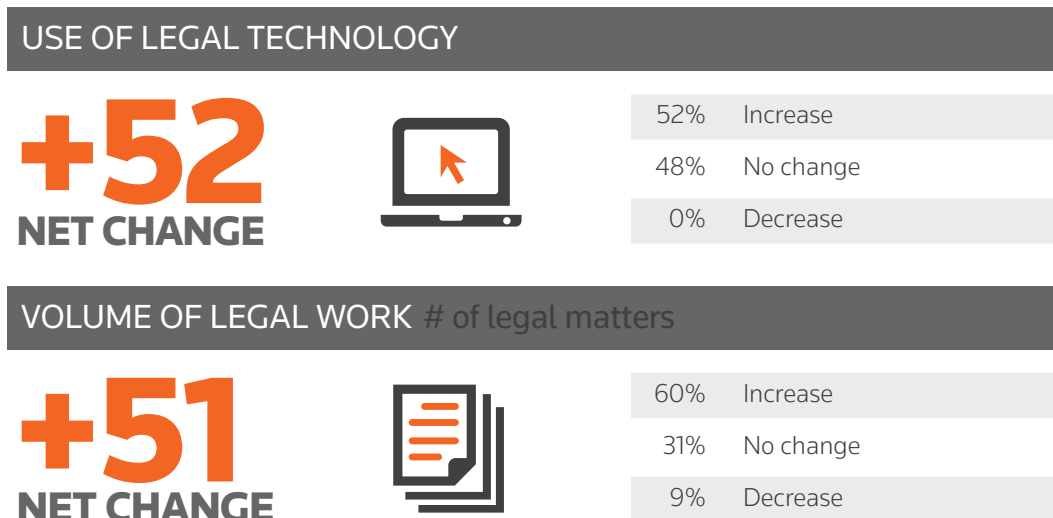
Source: Thomson Reuters 2021



TRENDS

Not surprisingly, the two biggest trends among corporate legal departments, as identified in the survey, were the continued growth in the volume of work, based on the number of legal matters, that departments are facing, and departments' continued embrace of technology to improve their work efficiency and save costs.

Figure 4:
Net Change Trends - Percent of Respondents
 (% legal departments increasing - % of legal departments decreasing)



Percentage of legal work handled in-house	+38 Net Change
43% increase / 52% no change / 5% decrease	
Legal technology budget	+30 Net Change
34% increase / 62% no change / 4% decrease	
# of in-house attorneys	+26 Net Change
37% increase / 52% no change / 11% decrease	
Use of alternative fee arrangements	+17 Net Change
23% increase / 71% no change / 6% decrease	
Use of LPO/alternative service providers	+11 Net Change
12% increase / 87% no change / 1% decrease	
Legal operations headcount	+11 Net Change
18% increase / 75% no change / 7% decrease	
Outside counsel spending	+8 Net Change
39% increase / 30% no change / 31% decrease	
Total # of active law firms	+4 Net Change
31% increase / 42% no change / 27% decrease	
Total legal department budget	+4 Net Change
31% increase / 42% no change / 27% decrease	

Many other identified initiatives within corporate legal departments — such as the use of alternative fee arrangements or number of in-house attorneys — reflected little change for the majority of departments compared to past years. Although even when slight change was seen, it was more likely to be increasing than decreasing.

COST CONTROL

There is a strong maturation of spend management sophistication demonstrated in the survey, with 82% of legal departments now identifying themselves and their approach to operations as proactive, optimized, or predictive, and opposed to chaotic or reactive.

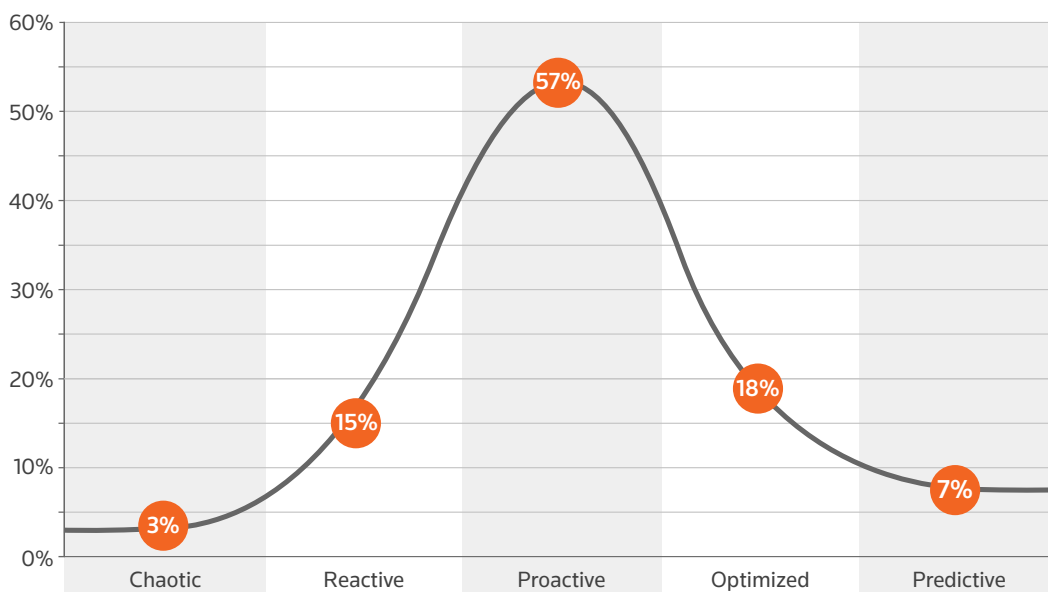
Figure 5:
Spend Management Sophistication

SOPHISTICATION LEVEL	2017	2018	2019	2020	2021
Chaotic	2%	3%	1%	0%	3%
Reactive	21%	23%	23%	23%	15%
Proactive	58%	56%	57%	51%	57%
Optimized	12%	13%	10%	18%	18%
Predictive	7%	6%	7%	7%	7%

SOPHISTICATION LEVELS

- **Chaotic.** Legal invoices outside of e-billing system; no consistent way to report on legal spending.
- **Reactive.** Use of e-billing system; basic reports on spending.
- **Proactive.** Use of billing guidelines, invoice audits and legal bill review; defined process for management of timekeepers and matters.
- **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.
- **Predictive.** Active management of matters with collaborative involvement from attorneys, outside counsel and legal operations; detailed matter budgets, predictability and forecasting; benchmarking performance.

Figure 6:
2021 Sophistication Levels

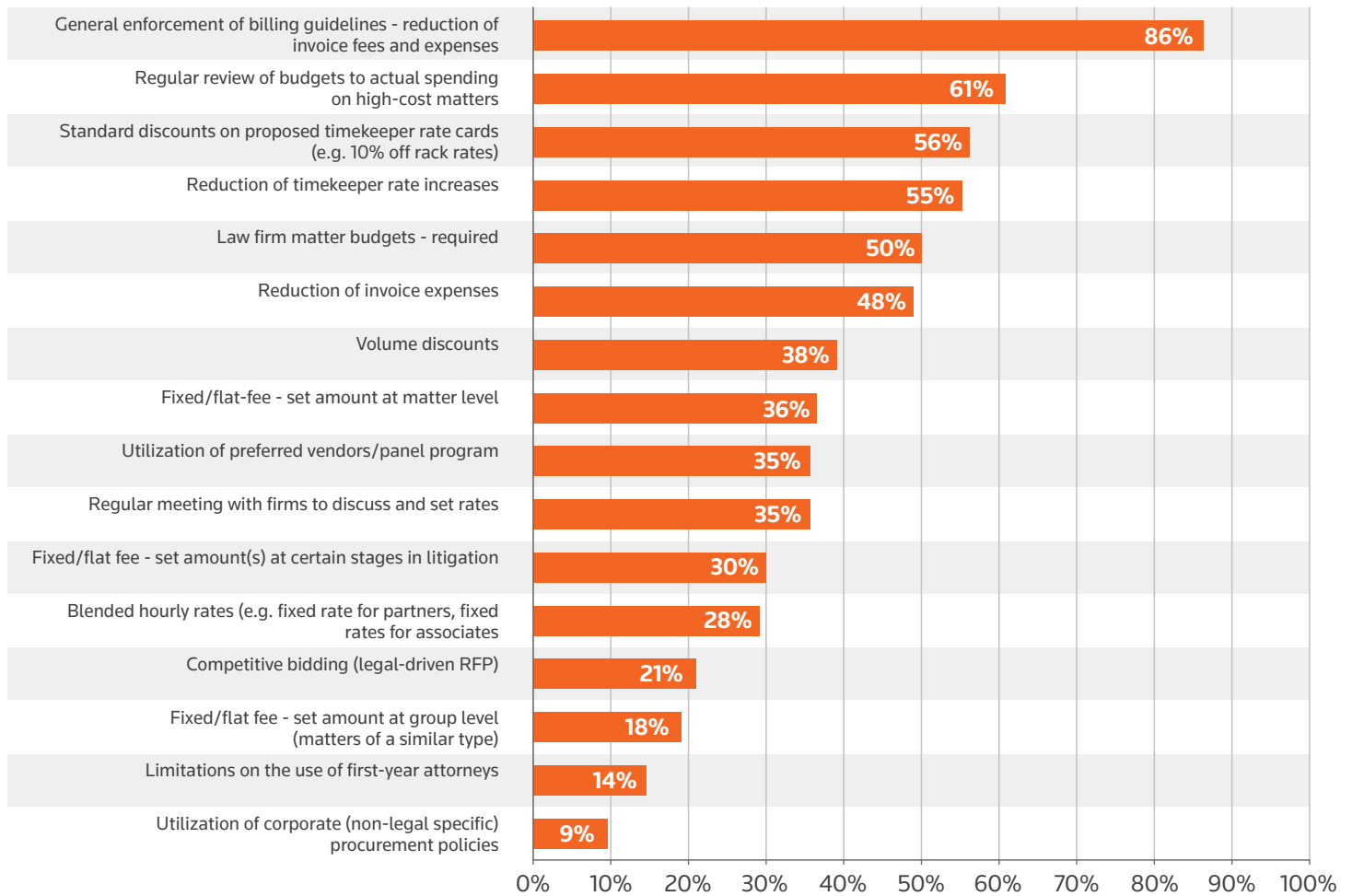
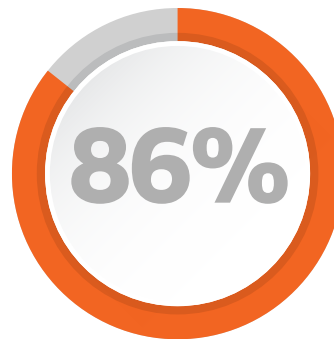


Source: Thomson Reuters 2021

In regard to which cost control measures were seen as most effective, 86% of legal departments identify “general enforcement of billing guidelines” in order to reduce invoice fees and expenses as the standard best practice for cost control. Other cost control tactics, such as review of high-cost matters, standard discounts on timekeeper rates, reduction of rate agreements, and law firm matter budgets were also identified by more than one-half of legal departments.

Figure 7:
Effective Cost Control Measures

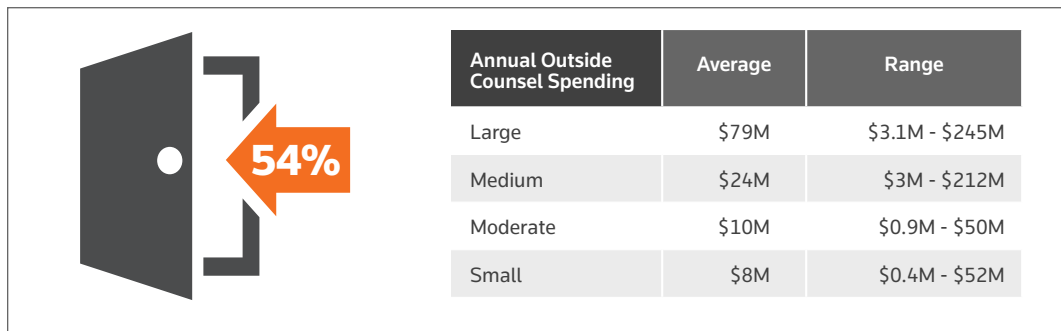
86% of legal departments identify general enforcement of billing guidelines to reduce invoice fees and expenses as the standard best practice for cost control. Review of high-cost matters, standard discounts on timekeepers rates, reduction of rate agreements, and law firm matter budgets are also identified as effective measures used by more than half of legal departments.



Source: Thomson Reuters 2021

The survey showed that employment of outside legal counsel occurred in more than one-half (54%) of overall legal work, as measured by legal matters, with in-house counsel retaining the rest of the work. And this ratio is fairly consistent across the board, no matter the size of companies, with 48% of legal work going to outside counsel in small companies to 56% in large companies.

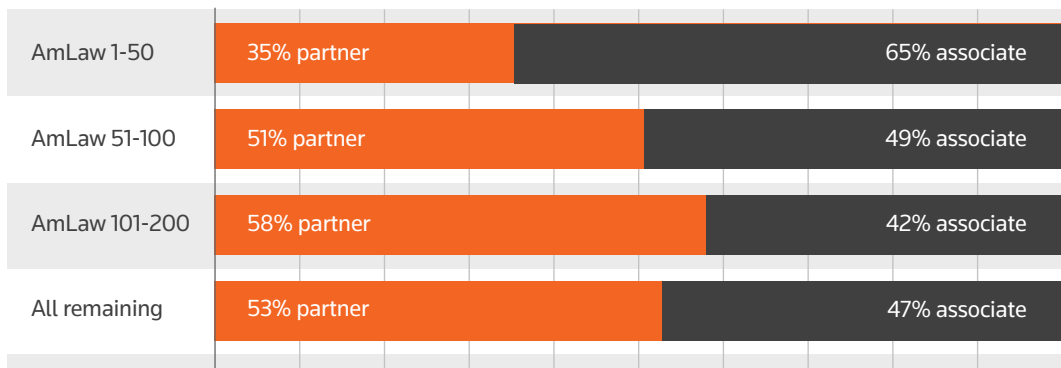
Figure 8:
Law Firm Utilization



Source: Thomson Reuters 2021

In 2020, the law firm staffing ratios of those firms employed by corporate legal departments, measured as a ratio of partner-to-associate staffing, on average reflected a mix of 49% partner / 51% associate. There are clear differences, however, based on the size of the law firm involved, with the largest law firms using the lowest percentage of partners in the mix.

Figure 9:
2020 Staffing Ratios Based on Fully Approved Invoice Data



Source: Thomson Reuters 2021

Interestingly, the Legal Tracker approved invoice data showed some push-back by corporate law departments, especially those at larger companies with the most purchasing power, in regard to timekeeper rates. Those departments significantly pressured rates in 2020 and realized decreases across all timekeeper types. In fact, this is the first report in which we saw decreases of this magnitude.

Perhaps in response, law firms overall were able to generally increase rates and realize significantly greater year-over-year increases from work for companies of smaller sizes.

Figure 10:
Timekeeper Rate Performance

Index Average	2019	2020	YOY
Partner	\$533	\$529	-0.8%
Of Counsel	\$546	\$560	2.5%
Associate	\$420	\$434	3.2%
Paralegal	\$195	\$194	-0.5%

Over \$10B	2019	2020	YOY
Partner	\$579	\$524	-9.5%
Associate	\$445	\$432	-2.9%
Of Counsel	\$565	\$549	-2.8%
Paralegal	\$209	\$187	-10.3%

\$2B - \$10B	2019	2020	YOY
Partner	\$537	\$545	1.3%
Of Counsel	\$546	\$572	4.7%
Associate	\$423	\$441	4.3%
Paralegal	\$202	\$203	0.6%

\$500M - \$2B	2019	2020	YOY
Partner	\$530	\$536	1.2%
Of Counsel	\$543	\$559	3.0%
Associate	\$416	\$432	3.8%
Paralegal	\$190	\$183	-4.1%

Up to \$500M	2019	2020	YOY
Partner	\$490	\$524	7.0%
Of Counsel	\$527	\$563	7.0%
Associate	\$390	\$436	11.6%
Paralegal	\$174	\$205	18.2%

To flip this data and look at it from the law firm side, we see that in 2020 most law firms were able to realize year-over-year rate increases among most timekeeper types.

Figure 11:
Timekeeper Rate Performance by law firm size

AMLAW 50	2019	2020	YOY
Partner	\$884	\$907	2.6%
Of Counsel	\$756	\$783	3.6%
Associate	\$591	\$620	4.9%
Paralegal	\$267	\$286	7.1%

AMLAW 51-100	2019	2020	YOY
Partner	\$615	\$613	-0.5%
Of Counsel	\$542	\$559	3.3%
Associate	\$429	\$446	4.0%
Paralegal	\$227	\$226	-0.7%

AMLAW 101-200	2019	2020	YOY
Partner	\$494	\$507	2.5%
Of Counsel	\$475	\$485	2.2%
Associate	\$352	\$370	5.2%
Paralegal	\$199	\$212	6.3%

ALL REMAINING FIRMS	2019	2020	YOY
Partner	\$379	\$386	2.1%
Of Counsel	\$370	\$385	4.0%
Associate	\$288	\$308	7.1%
Paralegal	\$152	\$149	-1.8%

Digging into the realm of billing and pricing of legal services, almost one-quarter (23%) of corporate legal departments identified reliance on alternative fee arrangements (AFAs) as a high priority. And broken down by company size, the legal departments within large companies clearly are leading the charge on AFA usage and priority, with 27% of large company departments saying AFA reliance is a high priority.

Figure 12:
Percent of legal spend structured as AFA as opposed to hourly rates

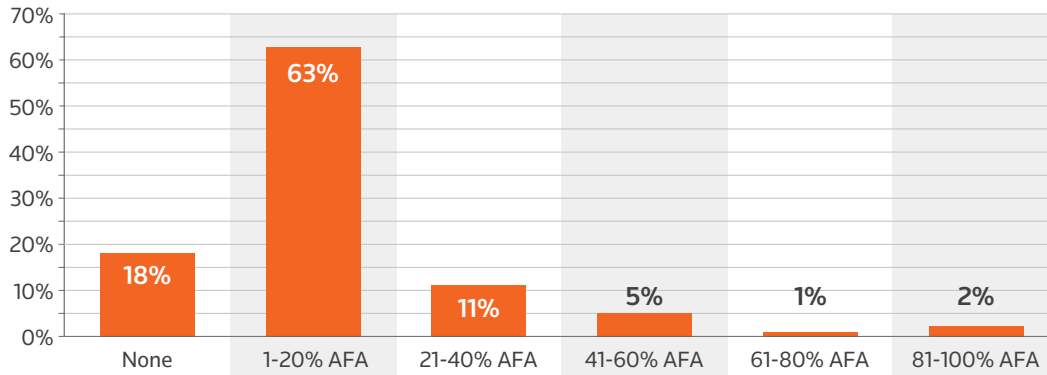


Figure 13:
Reliance on AFAs as opposed to hourly rates

	High priority	Low priority	No priority
Large	27%	64%	9%
Medium	23%	42%	35%
Moderate	21%	53%	26%
Small	19%	56%	25%

METRICS

The top metric measured by corporate legal departments is total spend by law firm, with 90% of legal departments reporting that they track that metric. Indeed, this metric has consistently been the top identified metric that departments track. Other metrics identified by a majority of legal departments included total spend by practice group (59%); total spend by matter type (58%); number of legal matters opened and closed (53%); and total spend by business unit (50%).

Today many corporate legal departments are reporting on deeper quantifiable measures concerning legal spend, with the more advanced departments measuring more data and looking at factors such as costs avoided, quality of legal outcomes, and cycle time, all of which can help legal departments better demonstrate their value to the company.

Routinely reported on legal metrics	% of legal depts.
Total spend by law firm	90%
Total spend by practice group	59%
Total spend by matter type	58%
# of legal matters opened & closed	53%
Total spend by business unit	50%
Forecasted/budgeted spend vs. actual spend	49%
Savings from invoice review/reduction	40%
Spend to budget by law firm	34%
Avg. matter spend by law firm	31%
Savings/discounts from timekeeper rate negotiation	29%
Legal spend to revenue	29%
Savings from alternative fee arrangements	26%
Timekeeper rates - local market	25%
Savings by handling matters in-house	23%
Law firm diversity	21%
Savings from using legal technology	18%
Costs avoided - won case, settled quickly	16%
Cycle time - average period of time between opening and closing a matter	16%
Quality of legal outcomes	16%
Outside counsel evaluation results	11%
None of the above	3%

LEGAL TECHNOLOGY

Legal technology solutions continue to be a critical part of legal departments' arsenal; and, in fact, our survey found their use is expanding as departments look to use such tools to improve efficiency and lower their costs. More than half (52%) of the legal departments responding to the survey said they had increased their use of legal technology over the past year.

Survey respondents ranked the technologies they use according to the **value** these solutions provide to the department.

	Utilization rate
<p>1. eBilling/Spend & Matter Management — Recognized as the foundational technology for legal departments, Spend and Matter Management systems help legal departments control legal spending and better understand and leverage their own data. This solution is strongly recommended for legal departments with more than \$500,000 in annual outside counsel spending.</p>	97%
<p>2. eSignature — eSignature tools greatly expand the speed of business with faster turnaround on documents. For legal departments that routinely route documents for signature, then eSignature solutions are strongly recommended.</p>	80%
<p>3. Legal Hold/Litigation Hold — Litigation Hold helps legal departments track information that is subject to hold in a repeatable, automated, and defensible way. For legal departments that usually handle 10 or more active or potential litigation matters, Litigation Hold is a valuable solution.</p>	65%
<p>4. Legal Research — Applying advanced technology and editorial enhancements to legal content enables simple search to find the relevant information across thousands of content types, ultimately reducing time spent and cost by allowing in-house lawyers to find comprehensive legal answers quickly.</p>	74%
<p>5. Document Management — Document Management enables key legal features, such as centralization of legal documents, versioning, audit trails, secure permission, workflow, categorization, and search to be used with department documents. For legal departments that do not have a repeatable and automated process to find and share legal documentation within the department, Document Management might be the answer.</p>	63%
<p>6. Contract Management — Similar to Document Management, Contract Management centralizes contracts and manages the workflow between the legal department and the rest of the corporation around contract requests, drafting, negotiation, review, tracking of information, and obligation management. This tool is strongly recommended for those legal departments that need to demonstrate their value in the contracting process, as it allows them to track the number of contracts negotiated, turnaround times, and the risks avoided.</p>	66%
<p>7. eDiscovery — This legal tech solution allows departments to process, review, and produce data subject to litigation. Significant advancements in this area have simplified the technology and led to more corporations bringing eDiscovery in-house. For legal departments that have routine litigation matters in which it would be more cost advantageous to manage more of the eDiscovery process in-house, then this solution would be highly recommended.</p>	54%
<p>8. IP Management — Intellectual Property (IP) Management is used to manage and protect the corporation's intellectual property rights. For legal departments that have a large IP portfolio or an IP practice focus within the department, then adopting IP Management technology solutions would be a great benefit.</p>	51%

<p>9. Legal Business Intelligence/Dashboarding — Legal Business Intelligence or Dashboarding solutions can aggregate a department’s key performance indicators (KPIs), metrics, analytics, benchmarking (peer-to-peer comparison), and other trackable data. For legal departments that do not have a centralized way to get to key legal department metrics that can help demonstrate department value to the wider organization, then Legal Business Intelligence or Dashboarding solutions could be useful.</p>	<p>58%</p>
<p>10. Legal Workflow Automation — This low-code or no-code automation technology allows users to build workflows for common repeatable time-consuming tasks, such as legal intake requests. For in-house legal teams that are spending too much of their work hours on common time-consuming repeatable tasks, it would be a great benefit to off-load work to this technology and free up teams’ time for more high-value and strategic work.</p>	<p>41%</p>
<p>11. Knowledge Management — Knowledge Management technology enables each person in the legal department to rely on the knowledge and expertise of the entire department by tagging and categorizing best practice documents and information. Legal departments that have a legal operations team would benefit from being optimized in this way, and a legal team that is aligned around sharing and contributing knowledge, would also benefit from Knowledge Management solutions.</p>	<p>40%</p>
<p>12. Legal Request for Proposal (RFP) — This technology allows the department to leverage existing templates to create custom RFPs to hire outside counsel by running through a request for proposal workflow to ensure the company hires the best counsel for the best price. For legal departments with more than 100 active legal matters that also want to be sure they are using the right firms for the right matters, then RFP technology makes sense.</p>	<p>32%</p>
<p>13. Legal Project Management — Legal Project Management technology enables collaborative legal work on content, matters, and projects, and coordinates active work-in-progress with internal and external stakeholders. For legal departments that routinely undertake complex, high-cost legal matters and do not have a centralized collaborative space for internal and external parties, then Legal Project Management is strongly recommended.</p>	<p>38%</p>
<p>14. Contract Artificial Intelligence (AI) for analysis, risk assessment, and due diligence — AI-enabled machine learning technology that applies business rules to review a large volume of contracts, alerting users to critical terms to better help manage and mitigate risk can be a great benefit, especially for legal departments that have centralized documents and need to scan across a large volume of documents for potential risks, such as M&A, legal, and regulatory changes.</p>	<p>30%</p>
<p>15. Bots/Robotic Processing Automation (RPA) — RPA technology can carry out a set of rules-based tasks, increasingly being replaced by more advanced AI capabilities, allowing in-house technical teams to build capabilities for high-volume rule-based workflows that are completely repeatable.</p>	<p>14%</p>

Survey respondents also identified the widely used legal technology solutions — those employed by more than one-half of the legal departments surveyed. Among these top nine tech solutions, eBilling/Spend & Matter Management was clearly the most-used technology with almost all departments (97%) saying they use some version of an eBilling system in their work processes. Other top technologies included eSignature for contracts, with 80% of departments saying they use this; and applying advanced technology and editorial enhancements to Legal Research, with 74% using this.

Legal departments responding to the survey also identified which legal technology solutions they would most be interested in procuring within the next 24 months. Among the top solutions identified were Legal Workflow Automation, with 27% of departments saying they were looking to procure this technology; and Contract Management and Document Management, both with 22% of departments looking at this solution.

Interestingly (considering its potential value to the department), Legal Business Intelligence/Dashboarding was ranked as the most underutilized technology available, with 37% of legal departments noting that they have an underutilized BI Solution already in-house.



Fastest growing solutions – legal departments looking to procure solutions in next 24 months

1. Legal Workflow Automation	27% looking to procure
2. Contract Management	22% looking to procure
3. Document Management	22% looking to procure
4. Contract AI for analysis, risk assessment, or due diligence	20% looking to procure
5. Knowledge Management	19% looking to procure



LOOKING FORWARD

For those legal departments that are seeking to benchmark their legal operations and are finding they are behind in any of the key areas below, we recommend a few paths:

- **Legal Operations** — Legal departments wanting to jump-start their legal operations initiatives should get involved with organizations like CLOC and ACC Legal Operations.
- **Legal Technology** — Departments seeking to build out their technological prowess should have a plan and look for resources on creating technology roadmaps. For those legal departments that don't have any department technology, start with an eBilling, Spend & Matter Management solution to see some positive results early. Department leaders should understand their departments' current processes first, and only then look for technology that is cloud-based, easy-to-use, quick-to-implement and can scale and grow to meet departments' needs today and in the future.
- **Diversity Initiatives** — Those legal departments wanting to benchmark their diversity progress should check out organizations like the DiversityLab which offer great resources on how to get started.



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