

2020 State of European Corporate Legal Departments

A focus on efficiency and effectiveness



Contents

Executive Summary	3
Background to research and departmental profiles	4
Departmental profile and budgets	4
Cross-border legal needs	5
Articulating expectations: Areas to focus on	5
Corporate departments' priorities: efficiency and effectiveness	5
How are corporate law departments driving efficiency?	6
The case for technology investment	6
The rise of the ALSPs	7
Conclusion	7

Executive Summary

A focus on efficiency and effectiveness—these were the strategic priorities for the majority of legal teams we spoke to across Europe in our SharpLegal Global Elite 2019 survey and were mentioned more than safeguarding. This was a consistent message from corporate law departments around the world. In Europe respondents placed particular emphasis on the drive for efficiency.

At that time, both effectiveness and efficiency were mentioned more frequently as priorities than safeguarding the business. Though as COVID-19 struck, the latter shot up the priority roster for many legal teams.

Proportion of respondents naming efficiency as a strategic priority:



Cost control is a principal driver of efficiency, and only 29 percent of European respondents—whose average budget is slightly below the global figure—said their budgets will increase in 2020. In comparison, 25 percent expect budgets to decrease. Looking at our most recent data collected through 2020 itself, this close scrutiny on budgets does not show signs of waning. In fact, the proportion of Europe-based buyers who predict a decrease in the legal spend in the coming 12 months is among the highest in the world.

However, this trend varies significantly from country to country and when it comes to cross-border work, fewer departments are looking to cut their budgets—indeed this is one area where European companies outspend their global counterparts.

Although efficiency is not just about cost control. For many respondents, it is also about innovation, modernisation, and technology. Legal technology plays an increasingly important role for in-house legal teams and European companies are spending on average five percent of their internal budget on technology, in line with their global peers. By leveraging technology for more commoditised work, legal departments are then able to shift their attention to the goal of effectiveness.

For European chief legal officers, effectiveness means supporting the strategic goals of their company and eliminating barriers to progress—being a quick, agile,

practically-minded business partner. Some of this involves collaborating more closely with other departments, in order to take a multidisciplinary approach to providing professional services to their board colleagues. It requires a more strategic approach than might have been the case in the past, when the focus was much more on safeguarding and the prevention and management of risk.

“To become a business partner for the business unit—that’s our strategic thing...agility is our second priority and third is the technology transformation, digitalisation.”

It is perhaps surprising to see safeguarding ranking third as a strategic priority; but it has always been a priority for corporate law departments—and it is so fundamental to their role that it is taken as a given by many within the company. For the most part, it is consistent with the drive for efficiency and effectiveness—but there’s sometimes a challenge in supporting a corporate agenda while also trying to mitigate risk, especially in times of crisis and the subsequent change in organisational objectives.

What can European legal department teams learn from each other and from their global peers about improving efficiency and effectiveness? Three ideas stand out:

- Invest in technology
- Collaborate with other functions across the business
- Review legal service providers, in particular across borders and recognising the role of alternative legal service providers (ALSPs)

In the following pages we look at these points in more detail.



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Background to research and departmental profiles

Acritas, part of Thomson Reuters, conducts an ongoing global research study of senior in-house counsel, called Sharplegal, which started in 2007. More than 2,000 interviews are conducted globally by telephone each year exploring their approach to buying legal services, their experiences with law firms, their spend level, and team size.

This report draws on 578 interviews conducted between November 2018 and October 2019 within Europe as part of the wider Sharplegal study. This research period took place before the start of COVID-19. However, interviews have continued throughout 2020 and a review of the latest intelligence from corporate legal departments has been undertaken to ensure the insights shared within this report are still reflective of current market conditions.

All organisations interviewed have an annual revenue of more than \$1 billion (USD)—and include some of the world’s biggest multinationals as well as successful local businesses. The 578 contributors to this report have an estimated combined legal spend of \$5.5 billion (USD).

Of the respondents, 75 percent were the organisation’s chief legal officer.

Departmental profile and budgets

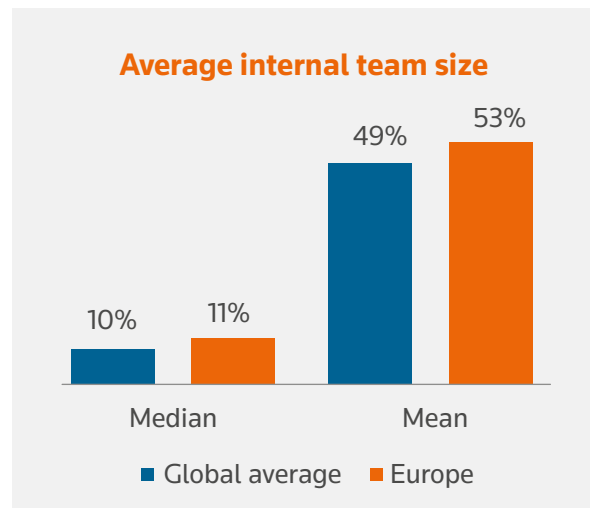
What does a typical corporate law department look like regarding how it spends its money?

Respondents in Europe spent 53 percent of their budget externally in 2019, which is one of the lowest proportions spent on external counsel in any region. This represents a decrease in external spend since 2018, when the percentage was 57 percent, suggesting a trend for insourcing work where possible.

However, the picture across the continent is varied. The Netherlands has a larger proportion of internal spend, allocating only 35 percent of budgets externally. In contrast, Germany-based companies spend more than half of their legal budget externally and in the United Kingdom (UK) it is as high as 60 percent.

While a high proportion of budgets is spent on internal resources, this isn’t reflected in the size of legal departments across Europe. Both the mean and the median—which is more reflective of the ‘typical’ organisation—are roughly in line with the global average.

Again, the macro-view obscures country-level differences. For example, in line with large internal budgets,



organisations in the Netherlands—on average—have larger corporate legal departments.

External budgets are not just being allocated to law firms. Though this remains the majority of external spend for Europe’s in-house legal departments, the region allocates a higher proportion of their legal budget to ALSPs than the global average. Often, ALSPs are specifically positioning themselves to support departments in their two main goals of being efficient and effective, whether through consulting, multi-disciplined advice, or a body-shop approach to staffing legal matters.

Legal departments also have more cross-border needs, as you would expect in a region of over 30 countries, home to some of the world’s leading multinationals.

Combining these elements, departments across the region need to be aggressively focused on right-sizing their internal legal department in order to cope with the demand and complexity of legal challenges—while constantly considering their options in terms of external legal providers. While some departments are continuing to rely on traditional law firms, others are broadening their supplier base to include the Big Four, Legal Process Outsourcing, online knowledge solutions and flexible resourcing platforms. Added to this increasing choice, focus in selecting the right supplier needs to be placed on:

- how they are positioned to support the legal department’s own strategic priorities
- how they are positioned to support the organisation’s cross-border legal needs

We will explore each of these in more detail below.

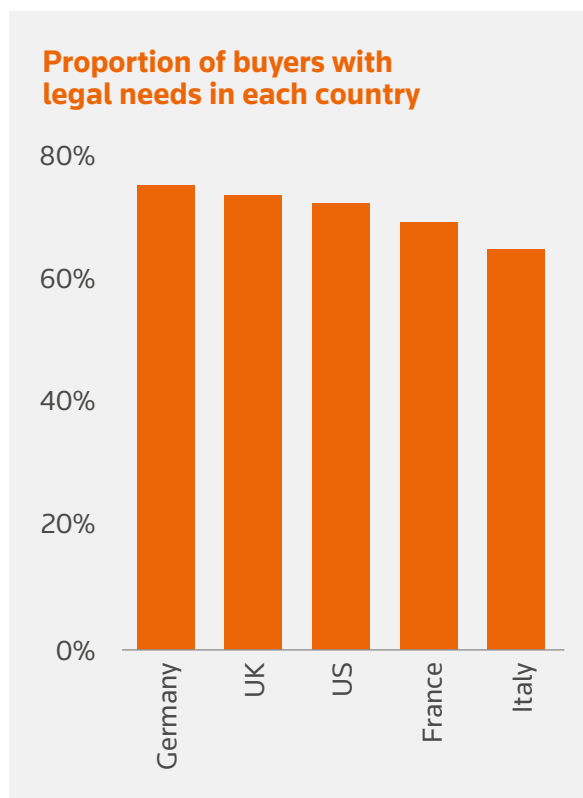
Cross-border legal needs

There is a very high demand for cross-border support in Europe.

Some 87 percent of legal buyers based in mainland Europe have international legal needs, slightly above the global average at 85 percent.

Of external legal budgets, almost half is spent outside of buyers' home countries—which is much higher than the global average. Again, the picture varies by country. For example, in Italy, only 17 percent of external budgets are allocated to international work.

These international needs are predominantly focused within the continent; the United States (US) is the only nation in the top-five most required jurisdictions outside of Europe.



An important part Acritas's research is identifying the skills and behaviours that matter most to clients and drive brand favourability. For the most part, these tend to be consistent around the world, but the 2019 study highlights a few variations in Europe. Therefore, it cannot be taken for granted that law firms instructed by the department—either at home or internationally—will automatically be attuned to the nuanced and cultural differences in service preferences.

When selecting providers to work with on cross-border matters—or even if selecting a firm to work with outside of the General Counsel's (GCs) base country—it is critically important that the legal department shares its preferences

and expectations in terms of service and deliverables. Sharing these expectations will help the law firm—or ALSP—better meet the department's needs and ultimately add more value to the process.

Articulating expectations: areas to focus on

Acritas's research shows that corporate legal departments in Europe tend to value service, relationships and 'style' more highly than their counterparts in other corners

- **Practical advice:** Have the business implications surrounding the legal question been articulated? Does the law firm understand the tolerance of risk at play?
- **Availability:** Is there an allocated 'second-in-command' should the lead partner be unavailable? Have you outlined how (and when) information might be shared, so the law firms can act as soon as possible?
- **Speed and responsiveness:** Have deadlines been clearly articulated—both the deadline to the firm and the deadline the department is working towards? Are there expectations in terms of replying to emails within certain timeframes?

Practical advice and availability of people, in particular, are of importance to European buyers compared with elsewhere. Both have becoming increasingly important in the last two years, and even more so through the course of COVID-19.

Corporate departments' priorities: efficiency and effectiveness

Acritas's research among corporate clients shows that in-house legal teams across Europe are mainly focusing on two key strategic priorities this year:

- increasing effectiveness by improving commerciality and service levels,
- improving efficiency by increasing focus on automation and reducing costs.

“The strategic goals: ... giving practical legal advice aimed at mitigating risks; and supporting the company's commercial operations by providing them with practical and understandable contract templates.”

Netherlands

Respondents defined 'effectiveness' as ensuring their advice and processes were fully aligned to their corporate strategy and business goals—contributing to growth, rather than just their primary role of safeguarding against risk.

More and more in-house lawyers need to step up as advisers or confidantes and put more emphasis on their role as corporate guardians. Yet, for many corporate law departments, effectiveness can be an ideal that is under continuous assault by the daily rigours of legal work in a corporate setting.

Indeed, for many, these day-to-day pressures mean members of the legal team cannot take a broader, strategic approach, and instead find themselves focusing on the specifics of litigation, transactions, and daily work matters rather than getting involved in the bigger picture. The latest research also found, through our conversations with GCs, that there's increasing pressure for in-house teams to adopt a multidisciplinary approach. For the largest organisations this involves setting up teams of legal operations executives to oversee issues such as pricing, project management and technology. Some law firms have also added such specialists—often previously in inward-facing roles—to their client facing teams, to match their corporate legal department's structure and bring a specifically business perspective to the relationship.

This all leads to the opportunity to consider new working styles with external providers—either law firms or ALSPs—as well as how technology as an investment can shift the departments' focus and attention away from these day-to-day tasks and allow them to concentrate on the higher value work which truly helps deliver to the corporate strategy.

How are corporate law departments driving efficiency?

If effectiveness is about what in-house lawyers do, efficiency is about how they do it. Over half of corporate legal departments Acritas interviewed across Europe cited increasing efficiency as a strategic priority. Cost control and automation are the major drivers.

Legal departments in Europe have reduced their spend on external counsel since 2018, plus a quarter were planning to contract spend again in to 2020.

This has increased to 42 percent of Europe-based corporate buyers predicting a decrease in their legal spend in the next 12 months since March 2020, with only 26 percent anticipating spend will increase.

Corporate departments in Europe can learn from their peers in the US when it comes to successful cost control. The single most effective cost control measure, according to Legal Tracker participants, is general enforcement of billing guidelines (resulting in the reduction of invoice fees and expenses). Clear, consistently enforced billing guidelines lead to external advisors and suppliers submitting fewer non-compliant expenses. This also enables law departments to more pro-actively manage unanticipated or escalating costs and simplify the invoice process, further aiding efficiency.

Top 5 Cost Control Methods	Effectiveness (% identifying each as an effective measure)
General enforcement of billing guidelines	89%
Regular review of budgets to actual spending on high-cost matters	50%
Reduction of invoice expenses	47%
Reduction of timekeeper rate increases	44%
Standard discounts on proposed timekeeper rate cards	44%

For each of the top five cost control methods highlighted by Legal Tracker respondents, departments need to clearly articulate their expectations in order to help law firms support them on this drive to efficiency.

The case for technology investment

As seen in the last recession, long-term cost cutting is not sustainable, so corporate legal departments are looking for other ways to drive efficiency for the long term. And of course, throughout the business world, digital transformation is the new watchword as companies aim to benefit from the efficiencies and opportunities offered by data science and artificial intelligence.

Not only can technology lead to efficiencies and collaboration in our new virtual world, but when implemented successfully the data output can better arm in-house legal departments with the insights around how they add value to their wider organisations, shifting the focus away from the department as a cost centre, to that of a strategic advisor to the organisation.

"...it's the integration of technology....it seems so obvious that this will transform the profession of in-house counsel; it's never too late to start."

Currently, European legal spend on technology is in line with the global average at 5 percent of internal budget, but as many as 32 percent of corporate departments aren't allocating any of their budgets to these innovative platforms and software. This is a much larger proportion than the global average—which sits at just 24 percent. There are many reasons why a corporate department may not have invested in technology. Most frequently mentioned are budget constraints, implementation challenges, confusion

driven by the multitude of providers and lack of certainty around who are the strongest players.

For those who have not yet taken the step to automation and data capture, the increasing availability and use of technology platforms from the law firms and ALSPs themselves may prove a ripe environment to experiment with the benefits they may bring to the internal legal department.

Those that have innovated by investing in legal tech are best positioned to defend their roles as high-value advisors to their organisation by automating more routine work in order to focus resource on value-adding activities. Other legal departments may well find that improved internal efficiency enables them to take work in-house that previously would have gone to external counsel.

“ The introduction of modern approaches in the implementation of the legal function. Digitalisation of the services, working with large amounts of data and using modern methods of information processing technology, knowledge of recent changes in the field of high technologies and communications, as well as personal data protection legislation, and also countering the financing of terrorism.”

Acritas' Sharplegal survey

“ Innovation & IT - the introduction of innovative methods in the management of legal departments and introduction of more IT technology into a legal function. Contract management through IP systems and automation of legal processes.”

Acritas' Sharplegal survey

The rise of the ALSPs

As well as implementing technology, using ALSPs can bring different benefits to the legal department than relying solely on traditional law firms. Some bring international or specialist expertise, others technological innovation, and—above all for many clients—an integrated approach to delivering professional services. This is particularly true of the Big Four—who may also have had an in-country presence for many years and enjoy high brand awareness within the business community.

Continental European clients are spending 7 percent of their budgets on ALSPs, slightly above the global average.

Though, this relatively low figure may under-estimate the impact they are having, if data from the US and UK is anything to go by. A 2019 survey by Thomson Reuters* on the ALSP market showed a 12.9 percent compound annual growth rate. The larger ALSPs expect to grow at 24 percent a year. The survey also found that corporate use of ALSPs had expanded significantly from the first survey two years before, with over a third of corporates now using ALSPs for various legal tasks.

For corporate legal departments not already exploring the possibility of ALSPs, it may be worth conducting an assessment of work currently being done in-house as well as being sent to law firms to uncover where—if anywhere—this new breed of legal service provider can alleviate workload and cost pressures to allow a greater focus on work which aligns strategically to the organisation's wider business goals.

Conclusion

The European legal market remains very localised and it is a challenge to draw too many conclusions that apply to every market. Nonetheless, there are several trends that all corporate legal departments should pay attention to.

The business world is constantly evolving. New risks and regulations—around sustainability, privacy, data, geopolitics, even Brexit—bring new pressures on in-house legal teams. The drive to become a more strategic advisor to the business, while collaborating more closely with other functions in the firm, means sole reliance on traditional law firms is becoming increasingly rare. Technology and ALSPs are entering the market as a way to help departments drive efficiency while maintaining the focus on core business agendas. Law firms, in turn, are shifting their models to compete.

However, success does not lie in the purview of the external suppliers. Corporate law departments must play a key role in this transition by:

- Articulating expectations around servicing and billing
- Investing in technology
- Encouraging more collaboration internally and among professional advisors

In today's client-centric market, corporate law departments should consider their choices as buyers. Review legal service providers, in particular, across borders and recognising the role of ALSPs, to make sure the right provider is mandated, while offering the opportunity to benefit from new entrants.

As budgets are looking to contract as a result of the COVID-19 pandemic, these market disrupters may well offer the value proposition required to deliver to the company's goals without relying on the traditional law firm model and their hourly rates.

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