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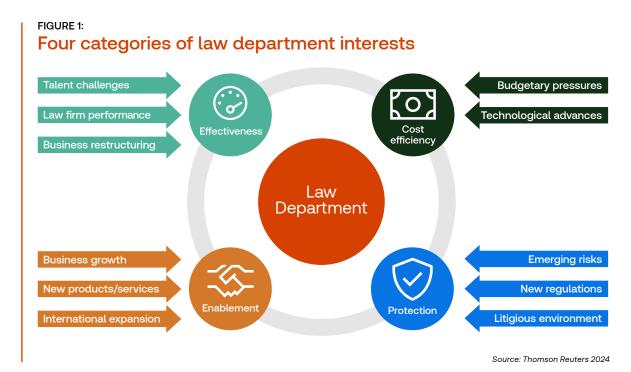
2024 Legal Department Operations Index

Gaining efficiency & streamlining workflows



Executive Summary

Today, the operations component of an in-house corporate law department faces unique challenges - yet, those challenges should still be viewed in the context of the broader department. The annual Legal Department Operations Index report from the Thomson Reuters Institute engages in an in-depth examination of the current state of affairs for legal department operations, and to this question, has developed a four-part framework for analyzing the various focal areas within an internal law department.



Among these four areas, legal department operations are most directly implicated in the effectiveness and cost efficiency with which the department operates. Drilling down a bit deeper, in-house legal operations professionals must further concern themselves with both the internal and external aspects of departmental effectiveness and efficiency. This is the framework we will apply to analyzing the results of this year's survey of law department operations teams.

Key findings

FIGURE 2:



75% place a high priority on using technology to simplify workflow and

manual processes





65%

high priority on internal data security





say controlling costs is a high priority



up 6 percentage points since 2023



report increasing matter volumes



36%

brought more work in-house

67%

showed flat or decreasing attorney headcount



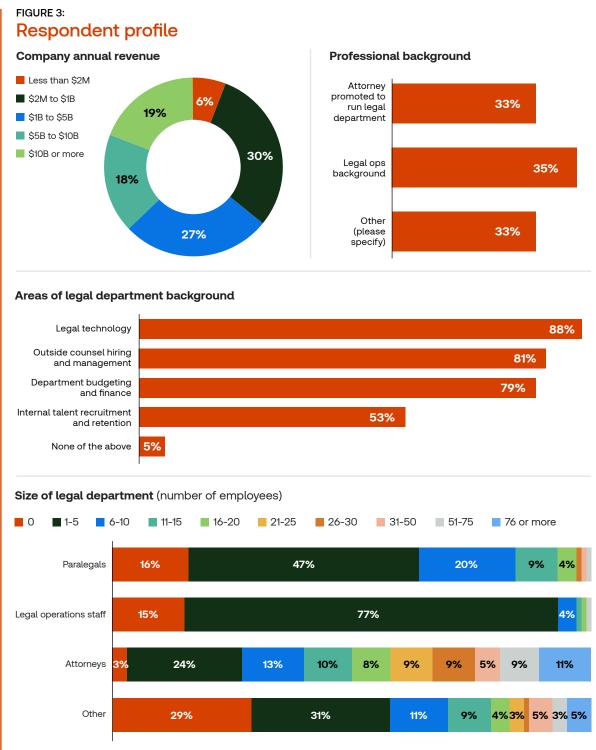
had flat or decreasing department budgets



Source: Thomson Reuters 2024

Methodology

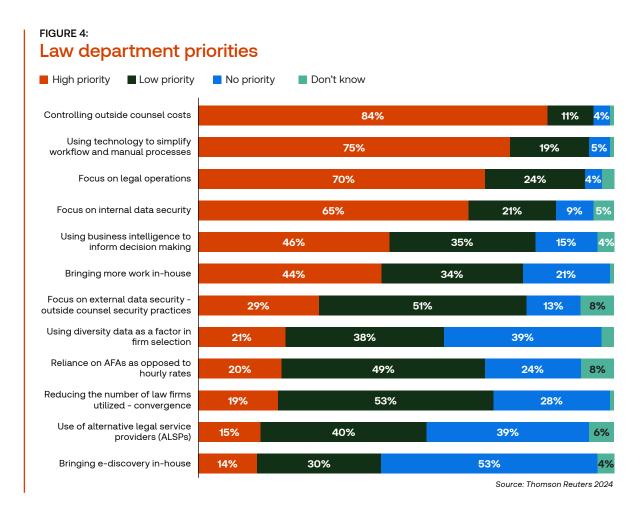
The results in this report, unless otherwise cited, are derived from an online survey of 80 legal department operations professionals in the United States, conducted in July and August 2024.



What's coming from inside the house

Examining internal effectiveness measures

Perhaps the best initial indication of the effectiveness of the internal operations within a corporate law department can be seen by exploring where these teams are placing their priorities.



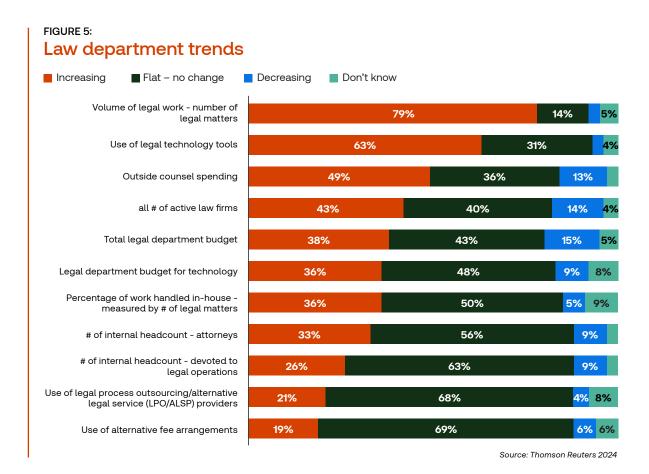
Unsurprisingly, the need to control outside counsel costs tops the list of high-priority challenges for legal operations teams. While this perpetually tops the list of department priorities, it is particularly noteworthy this year for the 6-percentage-point jump in the number of respondents characterizing cost controls as a high priority compared to last year.

Among other high-priority focuses for law departments are such challenges as using technology to simplify workflows and manual processes, focusing on legal operations, and ensuring internal data security. Perhaps surprisingly, external data security practices by outside counsel were a relatively low priority concern despite the vast amount of sensitive client data that law firms possess.

When asked directly, other areas of high priority for law departments mentioned by respondents included: i) attorney experience, retention, hiring/on-boarding, and compensation; ii) contract management; iii) billing arrangements; and iv) use of artificial intelligence (AI) and generative Al (GenAl).

In reviewing these verbatim responses provided, a surprising number of respondents mentioned automation and simplification of workflows, as well as workflow management, even though workflows were specifically included in the choice options for the question asked. This frequency suggests that workflows occupy a strong position in the top-of-mind of many law department professionals.

Recent trends reported by law departments may hint at a reason why.



A few of these findings tell an interesting story. Nearly every corporate law department reported increasing matter volumes or flat volumes (79% and 14%, respectively). At the same time, more than half (58%) report flat to decreasing total department budgets, and two-thirds (67%) report flat or decreasing attorney headcount.

The TR Institute's View:

This particular conundrum is not a new one for law departments. Indeed, it is a regular state of affairs. However, that reality explains why examining and streamlining workflows is such a priority for law departments: The need to do more with less is essentially relentless, and improving how work gets done also impacts how much work gets done by each member of the team.

Thomson Reuters' recently released *Future of Professionals Report 2024*¹ found that the average professional services worker estimated that they could save an average of 4 hours per week through the application of Al to their work. For in-house legal teams, this could act as a force multiplier. In essence, a 10% improvement in work efficiency could enable a team of 10 in-house lawyers to do the work of 11 people. Legal operations professionals within law departments appear to be recognizing this potential and are actively looking to technology to help improve their department's workflows.

Standing as a potential hurdle to this progress is the reality of law department technology budgets. While 36% of respondents reported that they were seeing increasing legal tech budgets, 57% said that their tech budgets were staying flat or even shrinking. Those departments with budget challenges are not necessarily without options, however. Many departments are exploring tech upgrades as replacement costs, in which upgraded technology takes the place of other items in the department budget, enabling the budget to remain flat, or in some cases even decrease, rather than showing new tech investment as a net-spend increase.

One other noteworthy finding is the relatively small percentage of respondents who report that their departments are seeing an increase in the percentage of work handled in-house. Only 36% of respondents reported an increasing proportion of in-house matters. Meanwhile, 50% said that their share of in-house work had remained flat, and 5% said their proportion had actually shifted toward outside counsel.

Interestingly, this stands in somewhat interesting contrast to the goals articulated by corporate general counsel (GCs). In the 2024 State of the Corporate Law Department report,² more than two-thirds (68%) of GCs said that bringing more work in-house was a significant part of their cost-control strategy. However, the aspiration to bring more work in-house may be experiencing a bit of a conflict with the reality of departmental capacity, especially given the already previously mentioned issues of increasing matter volumes and declining attorney headcounts.

Here too, the potential benefits of improving workflow could help to enable greater attainment of GCs' goal of bringing more work in-house.

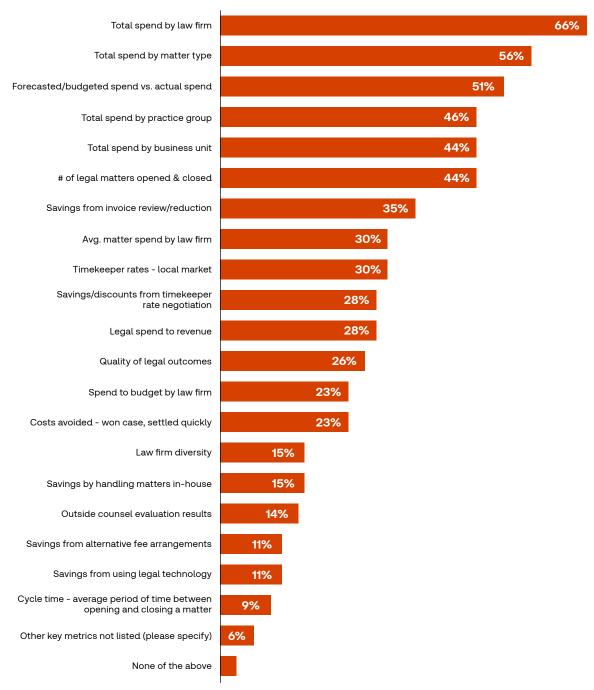
¹ Future of Professionals Report 2024; Thomson Reuters (July 2024); available at https://www.thomsonreuters.com/en/c/future-of-professionals.html.

² State of the Corporate Law Department; Thomson Reuters (March 2024); available at https://legal.thomsonreuters.com/en/insights/reports/2024-state-of-corporate-law-department-report.

Tracking in-house effectiveness

Of critical importance to understanding the effectiveness of an in-house legal team's operations is the ability to measure its performance against key metrics. The findings in this report, however, demonstrate that law departments continue to have a problem with metrics, in both tracking and reporting.

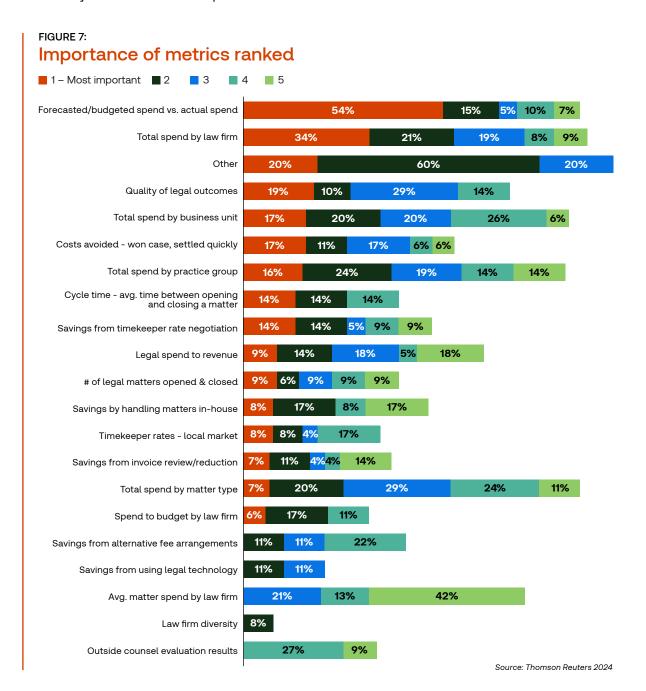
FIGURE 6: Metrics tracked and reported on by law departments



Source: Thomson Reuters 2024

Recall earlier, we discussed the various key areas of focus for law departments cited by respondents, including operational effectiveness, cost efficiency, their ability to protect the business, and their ability to enable business growth and success.

Yet, what becomes readily apparent from the metrics that corporate law departments are tracking is that in-house legal teams, as a matter of relative habit, are tracking metrics related to cost efficiency almost exclusively. Indeed, those metrics that could speak to the other key areas of focus are much less commonly tracked. In particular, qualitative metrics such as the quality of matter outcome, law firm diversity, or outside counsel evaluation results are tracked by one-quarter or less of law departments, according to the survey. Even potentially insightful cost metrics like savings from technology or benefits from alternative fee arrangements are only tracked by about 1-in-10 law departments.



Among the metrics tracked, forecasted spend compared to actual spend was ranked as the most important metric, with total spend by law firm following as the second-most often cited as most important metric.

Here again, however, nearly every highly ranked metric dealt with total spend, often just broken down in various ways. The exception was quality of legal outcomes, which ranked as quite important by those respondents who reported that they were using that metrics; however, only about one-quarter of respondents said their law departments use it.

The TR Institute's View:

Corporate law department operations teams looking to present a more comprehensive picture of the effectiveness of their department operations should consider expanding their suite of metrics being tracked by their team, so as to have a more robust set of data with which to tell the story of their department's contributions to the overall business.

While the leaders within the law department themselves may be the kind of lawyers who think in terms of narrative, many other key leaders across the business will be people who think in terms of numbers. Clear data and outcomes can help speak to these stakeholders more effectively.

Where legal ops pros felt they were most effective: In their own words

"What achievement of the legal operations function have you been most proud of?"

- Being able to meet changes in forecasts and budgets to accommodate the company's goals.
- Bringing legal budget in line with expectations, using e-billing software and reporting.
- Creating the foundation for change. Expecting to see more data, more use of technology, and more efficiency... in the next fiscal year.
- Educating staff on the value of legal technology in streamlining processes and creating efficiencies as well as cost vs. value propositions. Freeing up staff time for more impactful projects.
- Establishing and growing the first legal operations team!
- I am most proud of my system implementations. We have a really great tech stack, and we are making the most out of our various solutions.
- The ability to control billing rate increases annually.
- We are next level on our legal spend, consolidating our firms in a lot of areas down to two global providers. We continue to streamline and drive efficiencies.

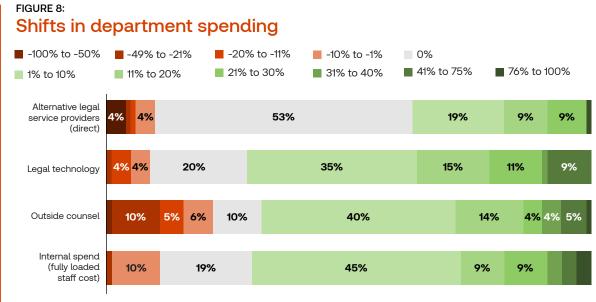
Efficiency of the in-house legal function

Efficiently operating the corporate law department means responding to budgetary pressures while also keeping abreast of technological advancements. These priorities exist in an interesting state of tension: Budgetary pressures can induce a corporate law department to seek out more efficient ways to complete work by leveraging technology, but those same pressures can simultaneously create roadblocks to the type of investment necessary to push a department's technological advancements forward.

It is nearly impossible to examine these priorities without also acknowledging this intersection. However, it is equally important to explore each challenge individually as there is more to budget than just tech spend, and more to technology than just the money available.

Meeting budgetary pressures

As previously discussed, the majority of corporate law departments are experiencing flat to decreasing total budgets, according to our survey. As a result, member of legal department operations teams are anticipating having to shift existing dollars to meet changing department priorities.



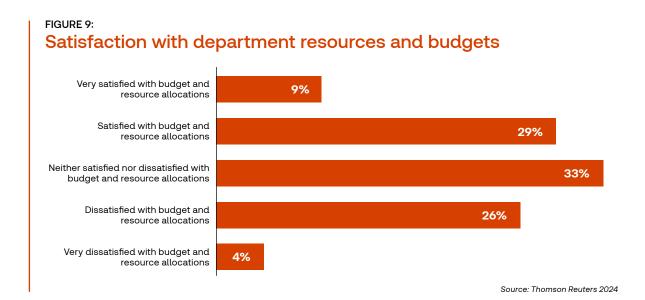
Source: Thomson Reuters 2024

Unsurprisingly, a few areas have been identified as likely sources of increasing expenditures. Spending on outside counsel, for example, is widely targeted for a moderate increase of between 1% and 10%, but a notable share of respondents also said they are expecting much larger shifts in outside counsel spend. This is likely due to a combination of the continuous rise of law firm billing rates and the growth of legal matter volumes without an accompanying increase in internal headcount, making it necessary to send additional work to outside counsel.

Similarly, internal staff costs appear poised for an increase, with more than 70% of respondents saying they anticipate an increase in staffing expenditures.

Overall, the data shows a few interesting contrasts between predominantly flat or decreasing total department budgets being reported on the one hand, and widespread anticipated increases in spending on the other hand. There could be multiple possible explanations for this apparent incongruity such as overall budget increases that are in line with inflation being reported as flat, or reallocation of dollars from one area of the budget to another to offset increases. However, fully understanding how many internal law departments are managing these questions will likely require additional research.

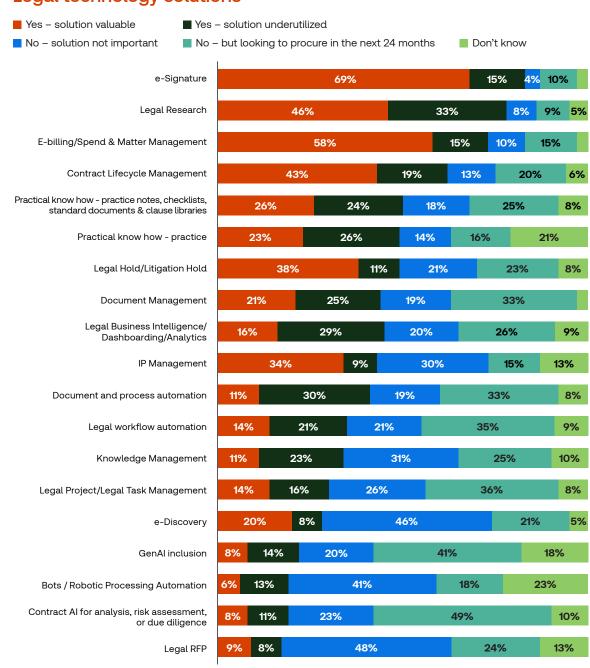
Still, satisfaction with department budget and resource allocation is mixed. The majority of respondents were neutral or satisfied with their department's budget and resource allocations; however, 30% report being dissatisfied with those allocations.



The technology mandate

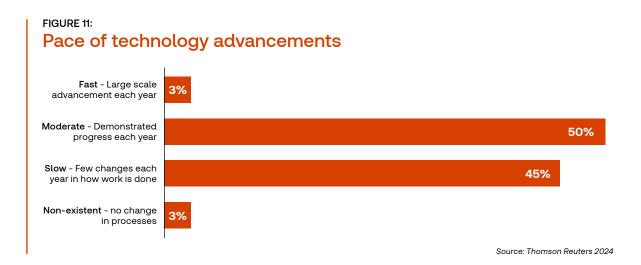
Another key consideration for law department efficiency is the selection and adoption of technology. Previously, we saw that 71% of respondents said they were anticipating a legal technology budget increase in the coming year, with more than half of those respondents anticipating an increase in legal tech spend in excess of 10%. We've already discussed the role legal ops professionals see technology playing in streamlining department workflows; however, the actual technologies in place within these departments shows room for growth — indeed, in the very technology stacks of many law departments.





Source: Thomson Reuters 2024

The most common technologies that law departments report adopting and finding valuable are e-Signatures, e-Billing/spend management, legal research, and contract lifecycle management tools. Interestingly, and perhaps troublingly, many respondents said that they have document management, business intelligence, document automation, and legal workflow automation tools, but those solutions are underutilized. In fact, more respondents said these tools were underutilized than said the tools were valuable. While this could be a reflection of the tools themselves, data hints at another potential answer.



The pace of technological advancement within many corporate law departments is almost universally slow to moderate; meaning that, at best, law departments demonstrate some progress in technological adoption each year. It is quite possible that this slow pace of change has not allowed for widespread adoption of otherwise underutilized legal tech tools.

This is unfortunate because these tech solutions are likely the exact types of tools that legal ops teams would be looking to use to gain improvements in efficiency and workflow. Indeed, essentially every technology in which the number of respondents who said the tools are underutilized exceeds the number who said it is valuable would be the very kind of technology that would contribute to improve workflows.

The TR Institute's View:

Moving into 2025, in-house legal department operations teams should look to push hard on those technologies in their tech stack that may be underutilized. Teams should engage in a thorough and honest assessment of why they feel these tools are underutilized. Is it due to some inadequacy with the technology itself, or is the lack of utilization due to poor training or a resistance to adoption?

In the former case, new tools can be evaluated that may bring greater value to the department. In the latter case, departments can double down on efforts to provide training and drive adoption, communicating the benefits that the tools could provide to the department's goal of improving workflows and to the individual lawyer's productivity and workload.

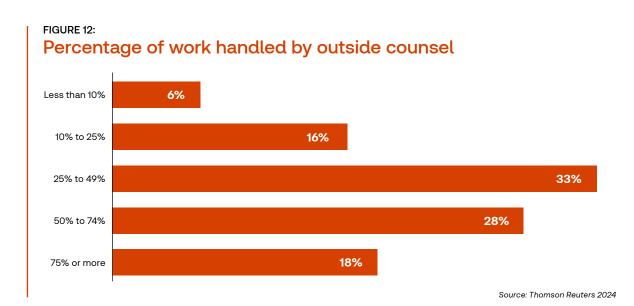
The view of the outside world

Corporate law department professionals bear responsibility for not only ensuring the effective and efficient operations of the department's inner workings, but also managing the performance and budget for any outside counsel retained as well - and that's no mean feat.

Why legal teams choose outside counsel, in their own words

- The work is more efficiently done by outside counsel, and they have expertise that cannot be developed in-house
- Bandwidth for large transactions or litigation matters [and] expertise in highly technical areas
- Expertise and volume
- In-house capacity limitations
- We require specialized knowledge in some areas/regions that we do not have in-house

In reviewing the totality of responses to an open prompt, specialized expertise and a lack of in-house capacity were by far the most frequently cited reasons for in-house law departments to turn to outside counsel. In fact, the majority of respondents to the survey report relying on outside counsel quite frequently.



The preponderance of respondents, 33%, said they use outside counsel for between onequarter and one-half of their legal work. Another 28% report using outside counsel for between half and three-quarters of their legal work. In total, this is not too far from the findings of the 2024 State of the Corporate Law Department report, which found that law departments tended to experience optimum resource allocation when the balance of their internal versus external

spend was somewhere between 40% of total spend internal and 60% of total spend internal.3

3 Ibid

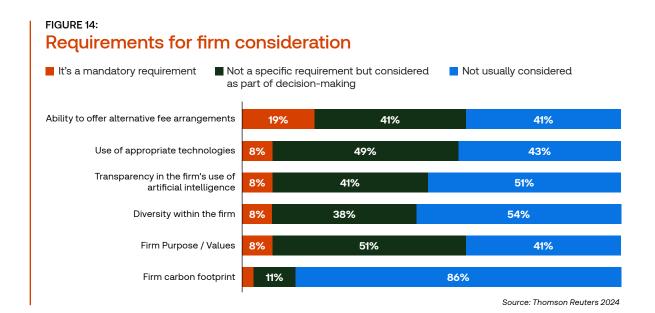
Evaluating outside counsel effectiveness

In terms of selecting which outside law firms to use, survey respondents were more likely to report making selections on a matter-by-matter basis, rather than selecting from a set panel.



It is interesting that despite widespread discussion of law firm panels across the legal industry, this sample of respondents were relatively unlikely to have a formal panel of law firms in place.

Respondents also offered interesting insights into what criteria they used to evaluate their outside counsel selections.



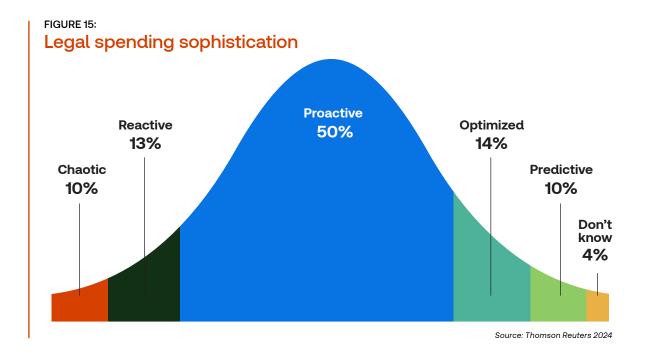
The ability of a law firm to offer alternative fee arrangements (AFAs) strongly factors into clients' evaluation criteria, with almost one-fifth of respondents saying firms' ability to offer AFAs is a mandatory requirement for it to even be considered to represent the client. Another 41% said

that the ability to offer AFAs was not a specific requirement but was considered as part of the decision-making process. A large proportion of respondents also said they take a firm's purpose and values into consideration as well.

Transparency in the use of AI by outside counsel firms was a nearly evenly split proposition, with 8% of respondents stating that disclosures around the use of AI were mandatory for their outside counsel. While this may not seem like a large percentage, it was only last year when more than 80% of clients reported having no idea whatsoever whether their outside law firms were even using AI technologies on their matters.

Considering the cost of outside counsel

Given the frequency with which outside counsel are used and the incredible expense associated with hiring law firms — particularly given the aggressive postures law firms have taken in recent years on rate increases — it's unsurprising that many legal department operations professionals justifiably devote quite a bit of attention to their outside counsel spend.

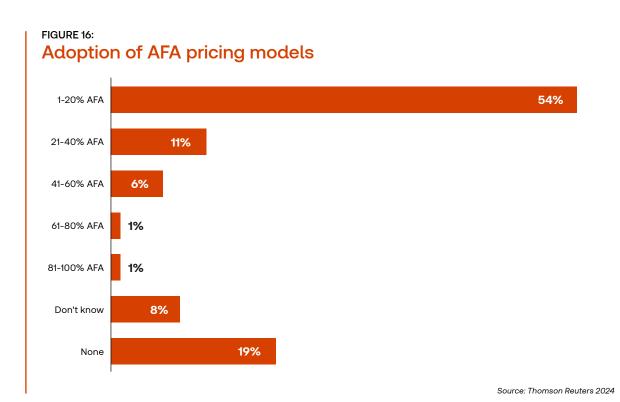


The bell curve of legal spend management sophistication remains strongly intact.

The majority of respondents surveyed characterized their law department's legal spend sophistication as proactive, meaning they utilize tools such as billing guidelines, invoice audits, and bill reviews, as well as maintain defined processes for managing timekeepers in an attempt to contain outside counsel costs.

On the edges of the bell curve, roughly equal proportions of respondents report being on the short side of the curve, identifying as chaotic or reactive, as report being on the positive side of the curve, identifying as optimized or predictive.

The relative lack of movement in this curve over the past several years of our report also likely helps explain why adoption of AFAs has remained largely stagnant as well.



For most of the past decade, regardless of whether in-house law departments or outside law firms are being surveyed, AFA usage has hovered consistently at around 20% of legal matters. There is much discussion about a potential expansion of the use of AFAs in light of recent technological advances; however, at this point, it remains largely a discussion rather than a plan of action.

One respondent to the survey provided some insight as to why AFAs have not gained more traction relative to hourly billing arrangements:

We need more analytics to review, assess, and present to decision-makers. In the past, final decision-makers have been reluctant to initiate or move to AFA or flatbased fees without more compelling data from similar industries and companies that have used AFAs about for what types of matters they are using these fees and the success rate of contracting with firms.

Not surprisingly, other in-house respondents stated that it was difficult to get their outside law firms to move away from hourly rates.

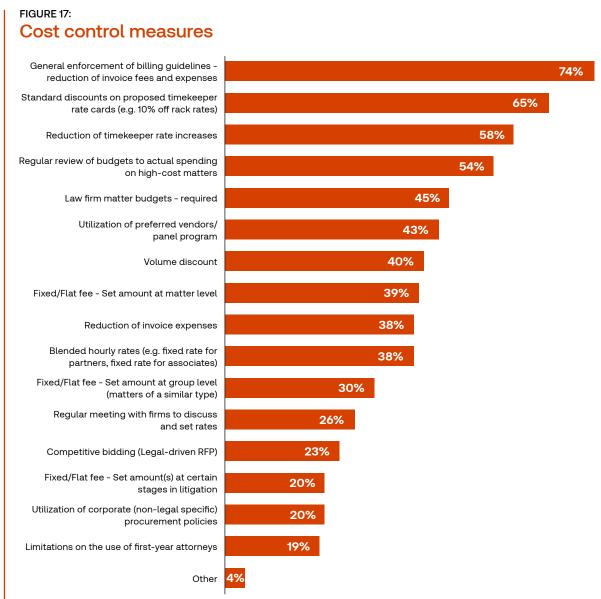
The move toward AFAs seems highly likely, if not inevitable, at least in certain contexts. The Thomson Reuters Institute has been engaged in an ongoing body of work⁴ exploring what the future of legal pricing may look like as AI becomes more in-grained into legal workflows. We note that some clients have said it is difficult to get law firms to move away from hourly billing, while law firms will quickly point to clients and say the same. Some movement in the pricing of legal services will be necessary, however, or else the legal industry could arrive at some very difficult junctures.

On the one hand, work done on an hourly rate could experience a precipitous drop in realized revenue as AI enables much faster outcomes. On the other hand, many businesses are anticipating a massive jump in overall demand for legal services as AI revolutionizes their ability to do business. This in-house revolution could see pricing reimagined with redesigned work outputs coming up against cost structures that are at the same or even higher levels relative to today's pricing models. Indeed, this development could make legal representation nearly unaffordable for many businesses.

⁴ See "Pricing Al-driven legal services"; the Thomson Reuters Institute blog site, available here https://www.thomsonreuters.com/en-us/posts/topic/pricing-ai-driven-legal-services/.

Controlling the cost of outside counsel

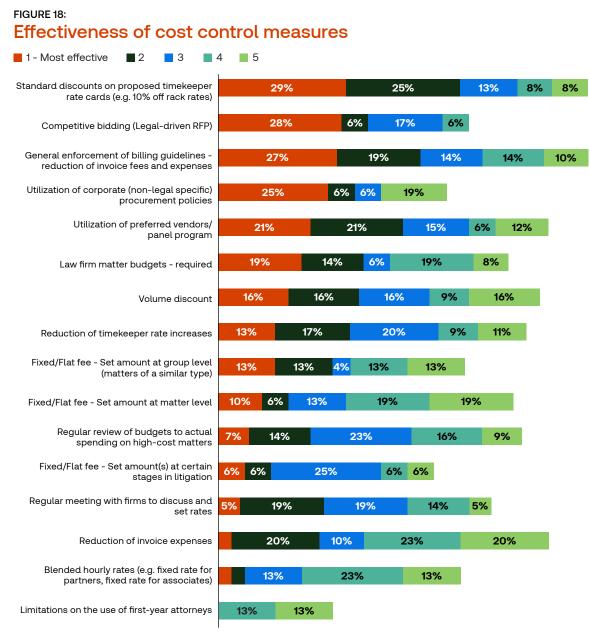
Survey respondents said their law departments continue to rely on numerous tried-and-true methods of controlling outside counsel costs.



Source: Thomson Reuters 2024

Enforcement of general billing guidelines and discounted hourly rates remain the most popular methods of controlling outside counsel costs. Surprisingly, fewer than half of respondents said that they require outside counsel to present matter budgets. And roughly one-quarter of respondents said that they were regularly meeting with their outside law firms to discuss and set rates, while only 20% reported using corporate procurement policies.

When asked to rate the effectiveness of these cost-control measures, most of the responses were as expected, however, there were some interesting outlier data points.



Source: Thomson Reuters 2024

Standard discounts and enforcement of billing guidelines — the most popular cost-control methods — also were frequently selected as the most effective measure, an unsurprising finding given the longevity and popularity of these tactics.

However, three other methods stood out for their perceived effectiveness:

- Utilization of corporate procurement policies While only used by about 1-in-5 law department professionals responding to the survey, one-quarter of those using this tactic identified it as the most effective, and nearly 37% ranked it among their top three tactics.
- Competitive bidding Though largely disliked by law firms, in-house law departments using competitive bidding or request for proposal (RFP) processes to control outside counsel costs ranked it quite highly, with nearly half ranking it among their top three most effective tactics.
- Law firm matter budgets Once again, this tactic was not used by a majority of respondents, but a large percentage of those who do use it (40%) ranked it as among their most effective cost-control methods.

Though not specifically listed in the survey options, additional research by the Thomson Reuters Institute indicates that tiering of legal work — that is, sending work to lower-cost law firms remains an effective cost-control strategy as well.

The impact of tiering legal work

FIGURE 19:

Percentage change in rates paid by client's total revenue

Average Law Firm Worked Rate Increase 6.5% – YTD June 2024			
Company size by annual revenue	Timekeeper classification		
	Partner	Of Counsel	Associate
Under \$500M	3.6%	0.3%	3.5%
\$500M-\$2B	3.4%	-1.8%	5.0%
\$2B-\$10B	1.4%	1.3%	3.1%
\$10B+	0.7%	3.4%	3.1%

Source: Thomson Reuters 2024

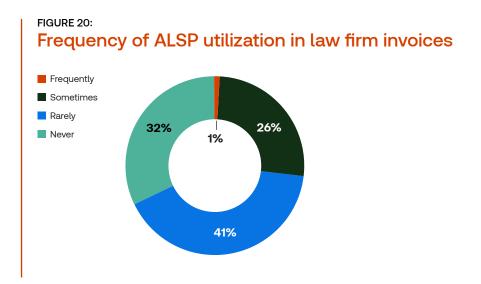
The pattern of shifting work to lower-cost law firms has been ongoing for several years. 5 While the disparity between the worked rate increases reported by law firms and the actual paid rate results reported by clients is not as wide as it has been in years past, the continued gap between the two indicates that clients have been able to maintain an effective strategy of tiering work and continue to garner the benefits of seeking out more cost-effective law firms.

Further, other potentially lower cost legal providers seem to be looked to less frequently than could potentially be the case. Alternative legal service providers (ALSPs), often perceived as cost-effective alternatives to law firms, do not appear to be frequent selections as legal service providers for in-house legal teams.

⁵ See, e.g., 2024 State of the Corporate Law Department Report at 16. Fully 48% of corporate GCs identified shifting work to lower cost law firms as a significant part of their cost control strategy; available at https://www.thomsonreuters.com/en-us/posts/legal/state-of-the-corporate-law-department-2024/

Earlier in this report, in fact, we saw that the direct use of ALSPs was most often reported as an area in which legal department operations teams anticipated holding expenditures flat or even notching a decrease in spend (53% anticipated flat direct ALSP spend, while 9% anticipated a decrease).

ALSPs are also infrequently highlighted in law firm invoices.



Source: Thomson Reuters 2024

Nearly three-quarters of respondents stated that they rarely if ever receive invoices from law firms that include line items indicating an ALSP has been used on the client's behalf. Of course, this does not mean that no ALSP was used; the firm may have employed one and just passed the cost through via another pricing mechanism.

These findings do, however, indicate that clients are seemingly unlikely to be actively seeking out the potential cost benefits of ALSPs, either directly or via their outside representation.

The TR Institute's View:

The question of when to use an ALSP and for what types of work has remained a challenging one since ALSPs first emerged into the legal marketplace. In fact, questions continue to swirl around how exactly to define ALSPs — questions which have gotten more complicated as the ability of ALSPs to offer more services and advanced technology have rapidly evolved.

A full discussion of ALSPs is beyond the scope of this report, but we will be publishing our biennial Alternative Legal Service Providers Report in January 2025 for those looking for a more complete discussion.

Concluding thoughts from legal ops professionals on the future of legal work

Since discussions of AI and its potential impact on the future of legal work pervade so much of the marketplace of ideas today, it seems only fitting that those who oversee the operations of in-house legal operations functions should have an opportunity to share their thoughts on the subject.

- As AI becomes more prevalent, I envision more work being done by in-house attorneys and paralegals.
- As firms utilize AI, we will need a process to confirm firms are validating anything that is AI-generated.
- Expect to see firms begin to push for value-based pricing (in lieu of or in addition to hourly billing) to protect their revenue streams as hourly work becomes materially more efficient from AI.
- Expected transparency on how AI is being utilized by outside counsel
- Hoping to see more analytics to drive decision-making and help make the right investments in the right place.
- I am hoping that law firms will increase use of GenAI and pass on savings to clients. So far, very low adoption and poor use of existing tech.
- I would expect that there would be cost savings that the firms would pass on to us. That's a lot of the discussions we are having these days.
- We expect outside law firms to be utilizing AI to lower expenses and create more accurate billing practices.
- We expect that it will take time to fully understand for which workflows our GenAI tools
 can be deployed and the efficiencies gained from the use of those tools. Therefore, the
 percentage savings will be modest initially and grow over time.
- Would like to better understand how AI will be utilized by our outside counsel and associated cost and efficiency benefits. Our department will also be researching possible AI solutions in our workflow.

Given the importance of effectiveness and efficiency, both internally and externally, to the successful operation of a corporate law department, AI and legal tech in general will likely play a growing role in the future.

Law departments are understandably concerned about the impact AI will have on their own work, the way their outside counsel do work on their behalf, and the cost of providing legal representation to their businesses.

As this report stresses, by prioritizing cost control, technology adoption, and comprehensive metrics tracking, in-house legal departments can better navigate budgetary pressures, enhance their overall performance, and provide greater value to their organization.

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