Using metrics to unlock value in your legal department

As a general counsel managing a legal department, you face a multitude of challenges. You want to ensure that your legal department is proving its value to your business while maintaining visibility on your external spend. Data-driven legal technology is ubiquitous and can help to uncover and manage the value driven by the legal department, yet knowing exactly what to look for can be challenging. And always, there is a lot at stake.

To be successful, you need to identify the challenges that your legal department faces and determine whether, and how, a technology solution can help.

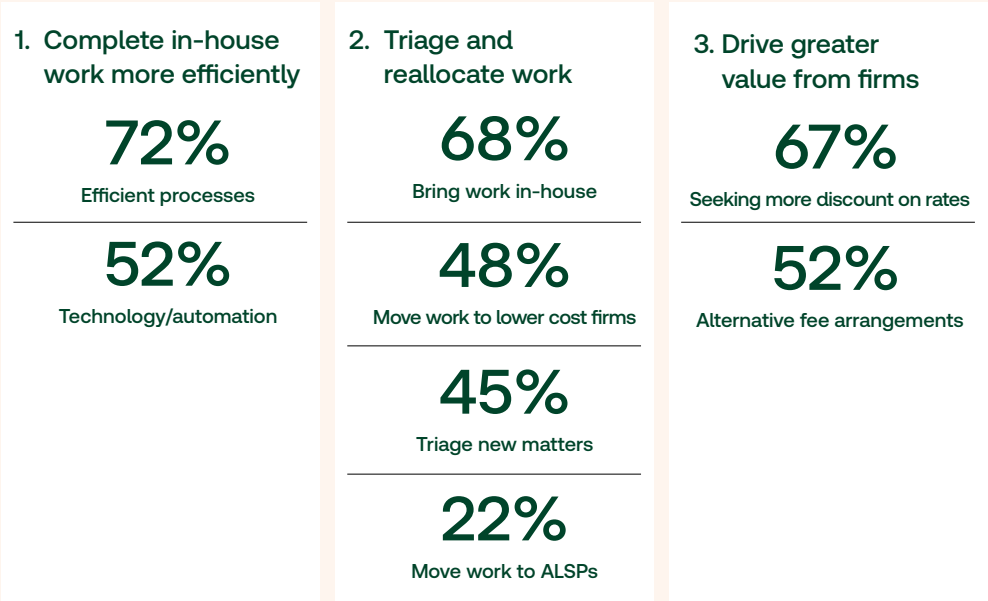# How are metrics used in legal department management?

In recent years, in-house legal department budgets have not always grown in line with the increasing volume of legal work. Findings in the most recent State of the Corporate Law Department report from Thomson Reuters® show that almost seven in ten (69%) of General Counsel globally are under moderate to significant cost pressure from business leaders. That's perhaps not surprising, given that the total average legal spend for UK businesses can range from 0.5% of company revenue for businesses with revenues in the region of £40 – 80m, to 0.05% for those with revenues in the region £5bn figures are less than, or in line with, the global average, however they still represent meaningful amounts.

No wonder that keeping a tight rein on cost controls and creating efficiency gains remain top priorities for today's in-house legal departments. The report highlights three areas where GCs have signalled that they will focus their efficiency efforts:

1. **Completing in-house work more efficiently:** with more streamlined processes and greater deployment of technology and automation. Generative artificial intelligence (GenAI) may increasingly come to the fore as in-house departments explore its potential to automate routine processes so lawyers have more time to focus on higher-value work

2. **Triaging and reallocating work:** by bringing a greater share of work in-house, reallocating work to lower-cost firms or alternative legal service providers (ALSPs), and prioritising which new matters are most important to deal with first

3. **Driving greater value from law firms:** often by negotiating discounted rates to counter sometimes aggressive rate growth strategies on the part of law firms, or pushing for alternative fee arrangements (AFAs).
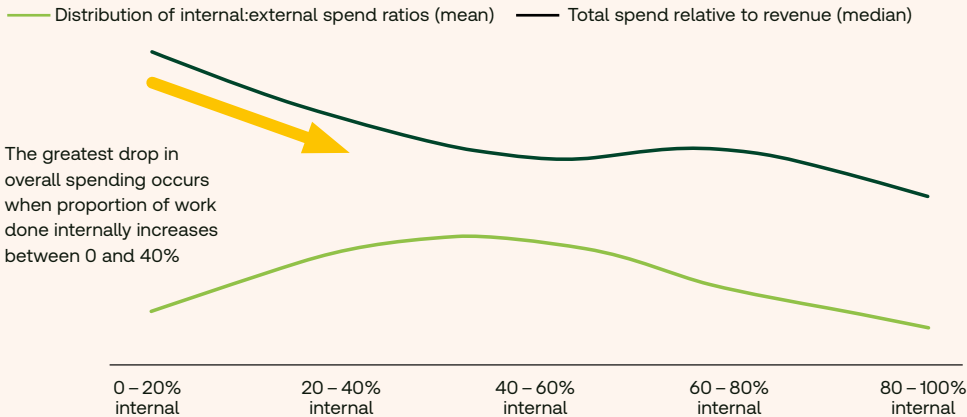
What metrics should a legal department measure?

FIGURE 1:
Cost control strategies

1. Complete in-house work more efficiently

72%

Efficient processes

52%

Technology/automation

2. Triage and reallocate work

68%

Bring work in-house

48%

Move work to lower cost firms

45%

Triage new matters

22%

Move work to ALSPs

3. Drive greater value from firms

67%

Seeking more discount on rates

52%

Alternative fee arrangements

Proportion of GCs globally indicating each tactic forms a significant part of their cost control strategy.

Source: Thomson Reuters 2024

Legal departments must now be able to explain exactly their impact on the overall business. Historically, in-house legal teams didn't usually track their spend or use metrics to measure performance and benchmark against their peers. However, this is no longer the case. Such activities are now critical to communicating how the team is driving value and contributing to the success of the organisation. But what metrics should a legal department measure?

FIGURE 2:
The advantage of internal spend

—— Distribution of internal:external spend ratios (mean)　　—— Total spend relative to revenue (median)

The greatest drop in overall spending occurs when proportion of work done internally increases between 0 and 40%

| 0 – 20% internal | 20 – 40% internal | 40 – 60% internal | 60 – 80% internal | 80 – 100% internal |

Source: Thomson Reuters 2024

As noted above, total legal spend as a share of overall business revenue is an important measurement. So too is evaluating how much of that spend is dedicated to internal resources versus being committed to external law firms. Internal legal spend typically makes up around two-fifths of the total at UK corporates, slightly lower than the global average.

While using external law firms makes sense for many purposes, such as dealing with complex or specialist matters, or handling peaks in workload, in-house legal teams need to strike the right balance. Keeping external legal costs contained could deliver a significant financial advantage if GCs can find the "sweet spot" as the graph below shows. GCs will want to highlight this to the wider business to make the case for increased headcount or tech investments where necessary.

Although spend metrics are vitally important, they only focus on cost. Many in-house legal teams are also seeking to measure the core value a law department contributes, by tracking the volume and quality of work that they do, such as the number of legal matters opened and closed, the scale of their litigation exposure or legal outcomes.

Taken together, all these metrics can be incredibly important in helping corporate legal departments to demonstrate to the business how they create value and avoid losses, and to work out what internal resources they need, as well as how much (and what kind) of support from outside law firms. Ultimately this enables in-house departments, which are now often seen as cost centres, to fend off attacks on their budget and grow their reputation as strategic advisors.

How technology and metrics can support your strategic goals

Many successful in-house legal departments have turned to automated matter management and e-billing solutions. These solutions can help you to:

- Better track costs

- Control the number and type of matters handled by your legal department

- Improve communication within your legal department and with external law firms

- Provide greater insights to your C-suite that leads to a better bottom line for your organisation

- Ensure external law rate increases are in line with market benchmarks

- Find matter-based pricing automatically, allowing for a more targeted request for proposal (RFP) process

To keep metrics at the forefront of its operations, have your legal department establish a regular reporting mechanism that helps the internal team stay on track. This mechanism will help you communicate the value your organization brings to the business leaders who control the purse strings. The information and insights provided by these metrics can be vitally important to the success of your organisation. Not only will you be able to measure the value that your department contributes, but you will be able to provide strategic benefits to your department by making data-driven decisions.

What are these tools?

Matter management

Matter management refers to the organisation and control of matters in a legal department. At a very basic level, matter management can be quite manual with some organisation relying on spreadsheets to track activities.

The basic solution may meet the requirements of a smaller organisation, which carries out lower levels of activity in a market where there is less exposure to risk. However, as activity increases within the department, in-house lawyers often look for more advanced technology to help.

A legal matter management solution can provide instant access to every aspect of every matter, from documents and emails to deadlines and personnel — all in one place. Robust tools will connect with your law firms.

Using a matter management tool also enables you to track and report on what your department is working on. Increasingly, legal departments are using matter management tools to regularly report on the number of legal matters opened and closed, the litigation exposure of each matter, and the quality of legal outcomes. Such metrics will go a long way to demonstrating how the law department creates value and avoids losses for the organisation.

Spend management

Spend management is a management discipline concerned with enabling businesses to gain full and complete control over their external spend. For corporate legal departments, spend management concentrates on managing spend with law firms and other legal costs. There are now spend management software solutions on the market that have been specifically developed to meet the needs of in-house legal teams.

A spend management tool for legal departments is not the same as an accounts payable tool. A standard spend management solution is designed to support the complexity of legal matters — considering the evolving nature of typical legal matters and pricing. While this is understood widely by the legal department, it can be a common misconception outside the legal team. Legal departments, particularly those with a high external spend or those interested in reducing costs, need a solution with spend management functionality for a key reason: accounts payable software is not designed to accurately capture and report data that is critical to effective management of the legal department.

Due to the unique type and volume of invoices received by the legal team, invoice approval software costs the legal and accounts payable department an enormous amount of unnecessary time and money. Matter management and e-billing software provide vital functionality and capabilities to the legal department that accounts payable software simply cannot. The correct solution will sit alongside your wider business' finance system, providing the facility to integrate into its accounts payable functionality.

> Legal project management is about better communication.

The difference between spend management and e-billing

A best-in-class e-billing component is the cornerstone of a spend management solution. Most modern spend management software includes additional features alongside the e-billing functions, such as reporting and analytics components, and functionality to help manage legal spend. Such features may include:

- Automatic or manual enforcement of timekeeper rates, expense compliance, alternative fee arrangements (AFAs), and other billing guidelines

- Over-budget spending alerts for month, fiscal year, life of matter or phase

- Budgeting and unbilled time reporting to capture spending estimates directly from your firms

This is just a flavor of what is possible from a spend management perspective, but as you can see, the e-billing element is just the beginning. Spend management is where your department can gain the most value in terms of fully understanding and controlling legal spend.

Reporting and analytics

A quality reporting and analytics component can let you know exactly what is happening in the department. It can also help to transform raw data into a readable format, enabling you to produce reports that break down budgets and spending, summarise key information, and identify developing trends, all of which will help to support better decision-making.

Though often talked about synonymously, reporting and analytics play distinct roles in terms of understanding how the legal department is performing. In a nutshell, while reporting focuses on compiling data, analytics focuses on exploring and interpreting that data to garner valuable insight.

True analytics deliver customisable interactive visual dashboards that provide real-time insights. These analytics can assist in comparing the impact of proposed rates before entering negotiations with your firms; as well as easily reviewing, adjusting, and approving the proposed billing rates on one page. Additionally, analytics can also enable peer benchmarking, revealing how client relationships have evolved and exposing areas that need attention. You can leverage current market rate trends based on real up-to-date statistics, and view markdowns by area of law or matter type compared to industry benchmarks.

The sum of the parts is greater than the whole
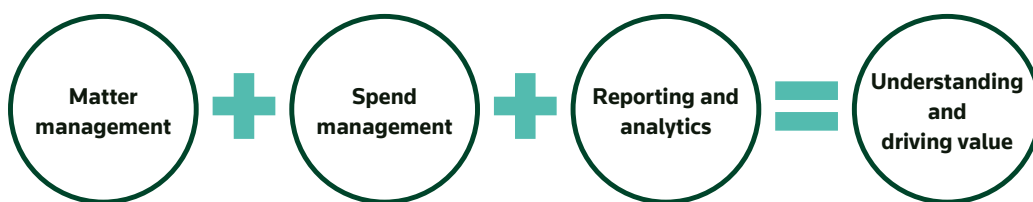
When combined, these three technologies create synergies, particularly in relation to transparency and the ability to analyse data. To maximise the benefits, consider implementing solutions that offer joined-up capabilities in all these areas for friction-free data transfer and a seamless user experience.

While standalone solutions exist, integrating them can be incredibly complex as they require more supplier management. Plus, you will need to ensure that any chosen solutions can be integrated with each other.

> "Often our work spans multiple countries and departmental budgets, and the invoices have to be reviewed by everyone involved. We needed a web-based tool to handle our workflows around the world so that I could centrally manage the legal department's billing, budgeting, and spend reporting from Seattle."
>
> **Sam Bernstein,** Legal Operations Manager

How these tools can support a project-oriented approach to legal work

A project-oriented approach to legal work is about adapting project management techniques in a legal context. It is the process of:

- Defining the parameters of a matter upfront
- Planning the course of the matter at the outset with the facts you have at the time
- Managing the matter
- Evaluating how the matter was handled, from the perspective of the legal department and the client

Many lawyers already use aspects of this to manage their work. However, client pressures on lawyers are driving the need for a more proactive, disciplined, and systematic way of working.

At its core, legal project management is about better communication with the matter team internally and between the lawyers and their clients, whether the matter is being handled by a law firm or done within a legal department.

Data-driven legal department management solutions provide in-house lawyers with the right tools to support the legal project management approach.

How these solutions work in practice

Hartmann

Healthcare giant **HARTMANN** is one of the leading European providers of professional medical and care products and associated services. When HARTMANN undertook a digital transformation of its legal department, and its Head of Commercial Law, Markus Warmholz, began benchmarking his department against industry norms, he identified spend management as a key priority. Another issue was gaining visibility and asserting some control over external law firm rates.

He says, "Our process was very manual. So, we couldn't easily do any ad hoc reporting. As we operate in 36 countries, with a legal team spread across nine locations in six countries, we needed to ensure some consistency across jurisdictions."

The main ROI with the spend and matter management solution HARTMANN deployed has been: "Transparency and the actions we can now take, having had that transparency... now we can see a geographic slice of our matters, for example, M&A, litigation, etc. Before...we couldn't see our matters in that level of detail," says Warmholz.

This degree of transparency is informing the legal department's sourcing strategy. "We can now track the types of legal matters we are spending on and for what types of projects. So, we can make better 'make or buy' decisions. We can identify where we might need more training and create business cases for insourcing or outsourcing, which was difficult before. For example, if we see an increase in a competition or regulatory law issue, that could show us it would make sense to insource."

A more obvious ROI has been identifying discrepancies in rates charged, often by the same firm for the same lawyer, in different jurisdictions and matters. "Having this data puts us in a better position to negotiate discounts and discuss framework agreements and other collaborations."

Another benefit has been efficiency. "Before we had an issue with law firm invoices which came in addressed to different people. We have now included a 'four-eyes system' so someone from both legal and business is assigned to jointly approve any invoices before the final invoice is sent to our enterprise invoicing solution. This has created better efficiency as, before … invoices sometimes circled around until you knew to whom it belonged.

Amazon®

"Amazon's international legal billing processes are built on our e-billing and matter management solution — and it does a great job."

Amazon's legal department was confronted with several unique challenges when working with its overseas business units and law firms. For example, paper bills and tax information needed to be routed for approval around the world and then booked to the correct ledger — which became increasingly difficult as the company expanded.

"Often our work spans multiple countries and departmental budgets, and the invoices have to be reviewed by everyone involved," said Sam Bernstein, Legal Operations Manager. "We needed a web-based tool to handle our workflows around the world so that I could centrally manage the legal department's billing, budgeting, and spend reporting from Seattle."

Data-driven legal department management solutions have given Amazon's legal department the tools it needs to efficiently process international invoices. Now, for example, international tax and entry information for each invoice is automatically routed to local business units for review. The Amazon team has also configured their software solution to hold invoices until the vendor has been set up in both the U.S. and international accounts payable systems. According to Bernstein, "that feature alone made international billing easier."

Today, Amazon uses e-billing and matter management software to collect invoices, budgets, and unbilled time from 100% of its firms, which operate in more than 90 countries. Amazon's software solution includes built-in currency conversion, allowing Amazon to review all financials in both U.S. dollars and native currencies.

Choosing the right solution — a buyer's guide

Knowing the right time to invest in new technology can be a struggle. A helpful first step is to pinpoint the level of sophistication of your legal department in terms of legal spend and matter management. This will help you determine the maturity of your legal department in this area and will indicate the extent to which there is room for improvement. It will also help you determine your next steps.

Perhaps you have already implemented e-billing guidelines with your law firm but lack a good tool to help enforce them, or maybe you are starting on your journey and need to begin reporting basic legal spend information to your business. Knowing where you currently stand will help facilitate a conversation with your supplier. And it can help determine which features you wish to roll out right now.

Primary considerations

With technology now an intrinsic part of any efficient and forward-thinking legal practice, firms and in-house legal departments need to employ a strategic approach to choosing the right software solutions. But with so many different options on the market, it can be difficult to evaluate one product against its competitors. Here are some key things to consider when choosing which solution is the right one for your legal department:

Budgeting capabilities

As the complexity of legal work increases, costs will rise, and you will need a robust budgeting capability. Choose a solution that offers targeted features for managing over-budget billings. Some solutions offer a handy pre-set invoice rejecter role, enabling you to pull back an invoice even if it's in another reviewer's queue, ensuring over-budget billings are tackled consistently.

Law firm rate benchmarks

External law firm rates vary greatly by location, size of firm, level of expertise, and even length of relationship between client and firm. Choose a spend management solution that gives you benchmarks to compare law firm rates. You can use this information to negotiate a more favourable rate or shop for other law firms.

Invoice audit, review, and approval

Choose a solution that can handle the standard invoice review process, which will save you considerable time. Even better, a solution that gives you visibility of billing guidelines violations will provide substantial cost savings.

Currency conversion and tax

You may need a tool that can track foreign and domestic tax separately, or you may want the ability to restrict the currencies in which your firms submit invoices to reduce exchange rate exposure.

Accurately transfer invoice data to accounts payable

Your solution should ensure that your invoice data gets to your accounts payable team without introducing errors, delays, or work duplication. If your organisation is using a dedicated accounts payable solution, such as SAP® or Ariba®, look for suppliers that offer either an existing integration or can develop a suitable integration.

AFAs

Most e-billing solutions offer functionality to support AFAs. The key is finding a solution that is flexible enough to accommodate the broad range of AFAs you are using now or wish to use in the future. The solution should be able to:

- Manage multiple fee arrangements for multiple firms on the same matter or exclude certain matters from an AFA

- Select strict or flexible cost controls for AFA matters and automate early expenditure warning emails

- Group multiple matters into a single firm profile with an overall spend limit and combine AFAs and volume discounts to help you achieve greater savings

The solution should also allow you to review AFA matters before you pay for them to be sure they match your agreement.

Matter pricing and RFPs

If you favour matter-pricing or RFPs, select a tool that helps you see a firm's price for a specific matter automatically. That way you can run a targeted, competitive, and objective firm selection process. You can use this approach to save money and have proactive, informed firm negotiations while getting great performance from your legal advisers.

Matter and IP management

Your users will appreciate a solution that helps them visualise their data, making it easy to understand and to take any necessary actions. A good dashboard will go a long way to achieving this. Additionally, you'll want to ensure that the matter creation function provides configurable rules capable of automatically adding, filling in, or limiting user selected fields within templates. This will streamline matter creation considerably.

Choose a solution that gives you the ability to enforce billing requirements and guidelines. This functionality should ensure that firms are notified that a bill will not be processed and paid until the required information is provided.

You'll want to be able to track a matter as it progresses, so look for a solution that captures key developments from outside counsel on a monthly or quarterly basis and gives you the ability to track the duration and outcome of a matter. Combined with reporting and analytics features, your solution should give you predictive accuracy and lessons learned from each matter and the ability to evaluate and compare the performance of external law firms.

Reporting

Ideally you want a solution that can produce reports to help you analyse budgets and spending, summarise key information, and identify developing trends. The ability to show changes in trends over time, schedule and automate reports, and give you a good level of customisation means that your chosen solution will assist with strategic decisions.

Integrations

Check to see what integrations are available. For example, integrating the solution with Microsoft® Outlook enables you to quickly generate matters and instantly review, dispute, or approve invoices directly from the Outlook reading pane. You can also add documents and email directly to the solution from Outlook.

A solution that integrates with your accounts payable (AP) system will enable you to feed improved invoice data accurately and automatically to your AP department. This integration means that your solution can automatically detect new batch files and transform the data to meet application import requirements, and deliver it to AP. Further, with accounting code integration, you can upload lists of accounting codes to maintain a valid chart of accounts, giving you a quick, easily accessible drop-down menu and type-ahead search.

API integrations

Some suppliers provide APIs facilitating integrations with the data sets and your existing systems and software. For example, you may use platforms such as analytical tools, SharePoint sites, and portals within your technology stack. The optimum solution will enable integration with these platforms, really enabling you to adopt a best-in-class approach when it comes to technology. By combining these data sets, API integrations can give you greater control of your data, enabling even better matter and spend management.

Other key features

When choosing any new technology for your organisation, these are the fundamentals that you should look for:

Ease of use

In order to get users on board with any new solution and realise a return on investment (ROI), the solution must be easy to use. Choose one that is unambiguous, learnable, and flexible, ensuring that it is more relevant and usable for your team. Software works well when it's focused on the user's priorities, goals, and challenges. When a product has been rigorously developed and road-tested with clients, it's more likely to be a usable and useful tool.

Value

The most expensive system isn't necessarily the best if you don't need all the bells and whistles. If the value to the way your users work isn't apparent and compelling, the discussion should probably stop there.

Configuration and scalability

Ensure that the solution can be configured to your organisation's specific needs, whatever its size or ambition. Whether you want to include all or just some of the features on offer, you need to know that it will work for your needs now and in the future.

Transparency and simplicity

Is the experience, including the pricing model, overly complex? If it isn't straightforward to you, ask whether there is a simpler approach. If the right solution has an enterprise-wide value, there is a benefit to pursuing a long-term arrangement.

Implementation and after-sales assistance

A good software vendor should be happy to offer as much, or as little, ongoing assistance as your team requires. Ensure that you agree on the level of implementation, on-site, or after-hours support that you need before you commit. This could include things like staff training sessions, a dedicated helpline or support team, ongoing 'bug' fixes, or the delivery of program updates and notifications.

Common myths that lead to decision-making delays, and how to overcome them

Myth #1: The value of a legal department can't be quantified

Busted: In the old days, a GC may not have necessarily known the outside legal spend, what matters their law firms were working on, and perhaps not even what internal lawyers were working on. Again, using e-billing and matter management software enables you to track and report on all this information.

With this tracking and reporting, you can easily quantify savings attributable to your legal department. Savings through invoice reductions, AFAs, billing guidelines, and more can be shown in a report, as can statistics like reductions in overall spend year-over-year, and reduction in legal spend as a percentage of company revenue. Legal departments can identify where legal cases originate and where more training is needed for employees, and then report on the results of that training through the reduction of money paid out. Potential liability for the company can be tracked and reductions in liability shown.

Myth #2: AFAs are too difficult to use regularly

Busted: The arrival of the AFA revolution has been a long time coming. However, while the growth of AFAs has been slow, it has been steadily building over the years. The inherent conflict of interest created by the billable hour — outside law firms needs to bill as many hours as possible, clients want excellent work done efficiently and want to prevent "bill churning" — has fueled this growth. There are many variations of AFA designed to align interests in different ways, but a good place to start is to identify matters that your legal department works on regularly — certain types of contracts, for example — where the average costs of those types of matters can be tracked over time. Once you have a good idea of the average cost, you can negotiate a flat fee for all matters of each type.

If a legal department can identify low-hanging AFA fruit like this and get experience with these types of arrangements, then the team can move on to more complicated AFA agreements for larger, more complex matters.

The bottom line is that the legal department is a cost centre, and like all cost centres, when the time to cut costs comes — and sooner or later it always does — you will need to justify headcount and demonstrate value.

Harnessing Metrics for Strategic Legal Success

Because of the mounting pressures that your legal department and organisation faces, using metrics to measure your in-house legal team's value is more important than ever. Combined with automated matter management and spend management, data analytics and reporting can help to cement your legal department's position within the business as one that works smarter and more effectively, provides a best-in-class service to internal and external clients, and is a valued facilitator of achieving commercial and strategic goals. Get started by working with the corporate legal industry's most widely used software for managing e-billing, matter management, and performance analytics. Learn more about **spend management solutions from Thomson Reuters**.