Legal Value Network

Thomson Reuters Institute

2022 Legal Department Operations Index

Seeking stability amid uncertainty

Thomson Reuters

Executive summary

Similar to past years, corporate law departments continue to face the brunt of pressure points involving cost control, increasing workloads, and staffing concerns; however, newer challenges involving technology adoption and environmental, social & governance (ESG) priorities also have given many department leaders sleepless nights, according to this year's *Legal Department Operations (LDO) Index Survey*, published by Thomson Reuters Institute and the Legal Value Network.

Priorities and trends

Controlling outside legal counsel spending remains a top priority for law departments, according to the *2022 LDO Index Survey*. This is unchanged from prior years — which is unsurprising, given that outside counsel spend remains the largest single budget item for most corporate law departments. However, given the changing economic environment, departments also are gearing up to handle more work in-house for the remainder of 2022 and beyond. To that end, department leaders are looking for ways to use technology to simplify workflows as they prepare to bring more work in-house.

The majority of law departments report an increasing volume of legal matters in the last 12 months; and an increasing percentage of that work is already being handled in-house — a trend that is likely to only increase in the coming year. Roughly one-half of respondents to the Index survey said their departments were hiring additional attorneys. However, increasing matter volumes and growing headcount have not necessarily translated into increased budgets for many legal departments. And relatively few legal departments report an increase in hiring in their legal operations staff.

Outside counsel vs. keeping work in-house

In general, the rates paid by law departments to their outside law firms has continued to increase, although not necessarily across the board. Year-over-year rate increases in 2022, compared to 2021, represented modest growth, or in some cases, a slight contraction. When compared to 2020, however, rates in 2022 are up nearly universally — and in some cases, they're up quite substantially.

Even with this being the case, the bulk of work for in-house law departments continues to be handled by outside counsel, with roughly 80% of departments reporting that 25% or more of their work was handled by an outside law firm.

Even as legal departments try to get their outside counsel costs under control, alternative pricing structures — such as alternative fee arrangements or blended rates — remain relatively rare. Indeed, most law departments rate their legal spend management sophistication as middle of the road, which means that most law departments continue to rely on general billing guidelines and discounts as their primary cost-control measures.

More sophisticated cost-control measures and the metrics used to track their efficacy remain relatively underutilized by all but a few corporate law departments.

Technology & staffing

Another area where underutilization is a concern is the area of technology adoption, according to survey respondents. Many respondents said their law departments use a wide range of technologies in cases where the company has identified a solution to a particular problem; however, the professionals surveyed said they are still concerned that that solution is being underutilized by much of the staff.

The most common technologies that are seen to bring value to law departments today are electronic billing, electronic signatures, and online legal research. Legal operations professionals report that the pace of change in their companies regarding improvements to process and technology is, for the most part, moderate at best or slow to non-existent at worst.

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Indeed, there is a similar sense of hesitancy with regard to resource and budget allocation. While 30% of respondents reported being satisfied with their departments' budget and resource allocation, another 28% reported being either dissatisfied or very dissatisfied with their allocation.

This may be indicative of the fact that in-house matter volume continues to increase, while budgets and legal operation staffing remain, for the most part, stagnant. The average corporate law department in the survey reports only 3.8 legal operations full-time equivalent (FTE) staff members within their department. While this will obviously vary based on department size, the verbatim commentary provided by survey respondents indicates that for many companies, dedicated legal operations staff remain relatively rare.

The rising importance of ESG

Despite much conversation in the broader marketplace around the increasing importance of focus on ESG issues in general, and diversity, equity & inclusion (DEI) concerns in particular, the majority of companies responding to the survey have yet to implement a diversity initiative. For those companies that do report having a diversity initiative, it is still a relatively new venture, often less than two years old. These initiatives also seem to lack granularity in the diversity information collected, and most companies report that they seem unsure of how to utilize the data they do collect.

As focus on ESG and DEI issues continues to sharpen, however, the need to collect such information and use it in a meaningful way will only increase. Those companies which have already begun such initiatives, particularly the small percentage that have been at it for a while, will likely find themselves at an advantage.

However, it appears that much work remains regarding how to use diversity initiatives to drive meaningful change, or how to achieve desired goals and outcomes in terms of encouraging outside law firm diversity. Equally unclear, too, is how outside law firms can help their client companies meet their own ESG goals.

METHODOLOGY

The data in this year's *LDO Index Survey* is comprised of real-world legal spend analytics gathered from Thomson Reuters' Legal Tracker and sourced from more than 1,500 corporate law departments. Complementing that data is a Thomson Reuters survey, conducted in August and September 2022, to which 107 legal departments responded.

Approximate annual gross revenues	Percentage of respondents
Small (Less than $500M)	14%
Moderate ($500M - $1B)	7%
Medium ($1B - $5B)	38%
Large ($5B - $10B)	41%

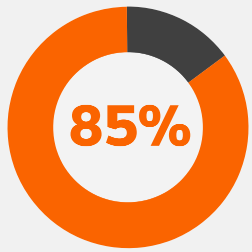
Source: Thomson Reuters 2022

Throughout the *LDO Index Survey* report, companies are referred to as Large, Medium, Moderate and Small. These designations are based on the company's annual revenue, as classified at right.

Key findings

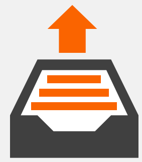
Priorities

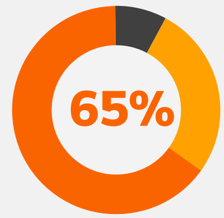
Controlling costs is a high priority for **85%** of respondents.



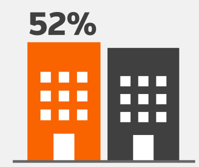
Bringing work in-house is a high priority for **49%** of respondents.

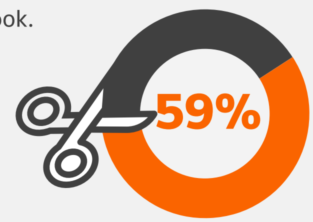
Trends



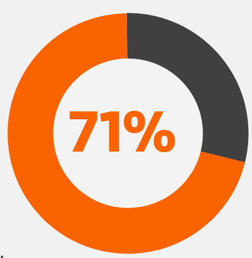


65% see matter volumes increasing, with nearly half bringing more work in-house, yet **59%** see a flat or decreasing budget outlook.





Using technology to cover workload and staffing issues



71% see using technology to simplify workflow as a high priority.

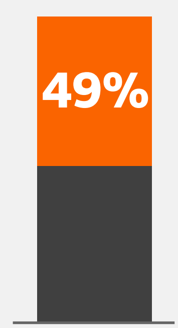
50% see internal headcount increasing vs. **39%** flat and **11%** decreasing.

Diversity efforts (if any) are still in the early stages

53% of respondent companies currently have no diversity initiatives.

33% of companies diversity initiatives have been in place two years or less.

49% currently do not use diversity data in counsel selection.



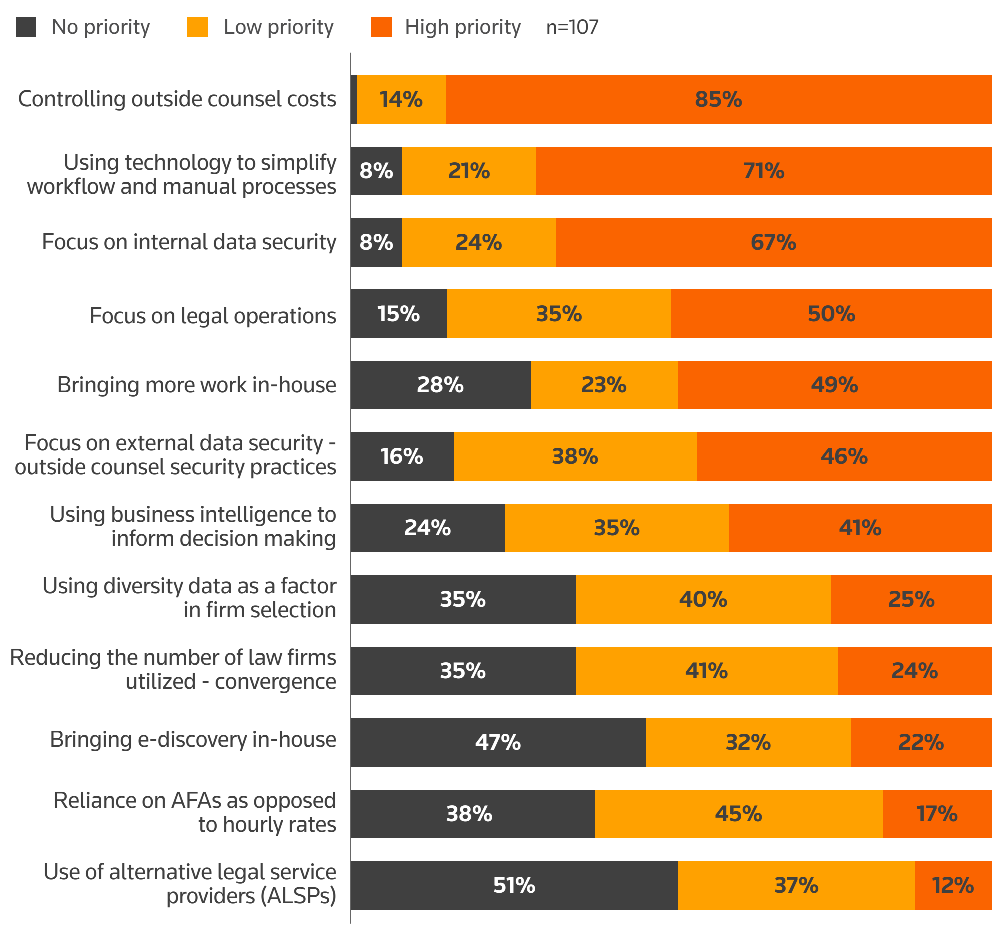
A closer look at the findings of the 2022 LDO index survey

In examining the data and the heart of this year's *LDO Index Survey*, we see that areas such as outside spending, technology adoption, in-house legal operations, and ESG and DEI initiatives were top of mind for many survey respondents. We now take a deeper dive into the data surrounding many of these factors.

Law department priorities

Despite fears of pending economic woes, the top priorities for many law department operations professionals have not shifted much since the last version of the *LDO Index* was published.

Figure 1: **Legal department priorities**



Q: Please identify the priority your legal department places on the items below.

Source: Thomson Reuters

Perhaps this lack of change is due to the fact that many of their top priorities were already aligned around measures that would be helpful in an economic downturn, as legal departments have been focused on their budgets for years. The topic *Controlling outside counsel costs* was, and is, their top priority. Outside counsel remains the largest budget items for in-house legal departments so it is unsurprising that keeping close control of it would be top of mind.

There were a few notable position changes in the findings, however. *Use of technology to simplify workflow* moved into second position, breaking what had been a tie in 2021 with *Focus on internal data security*.

This does not mean of course, that data security has become less of a priority. Indeed, in today's increasingly online and cloud-based environment, data security remains a prime concern. As we will see, however, law departments are experiencing increases in both overall matter volume and the number of those matters being handled in-house. It would seem logical, then, that they would be looking for ways to increase efficiency in their workflows.

While controlling outside counsel costs is a high priority for most companies, few are looking to reduce the number of outside firms, or to increase use of AFAs or ALSPs.

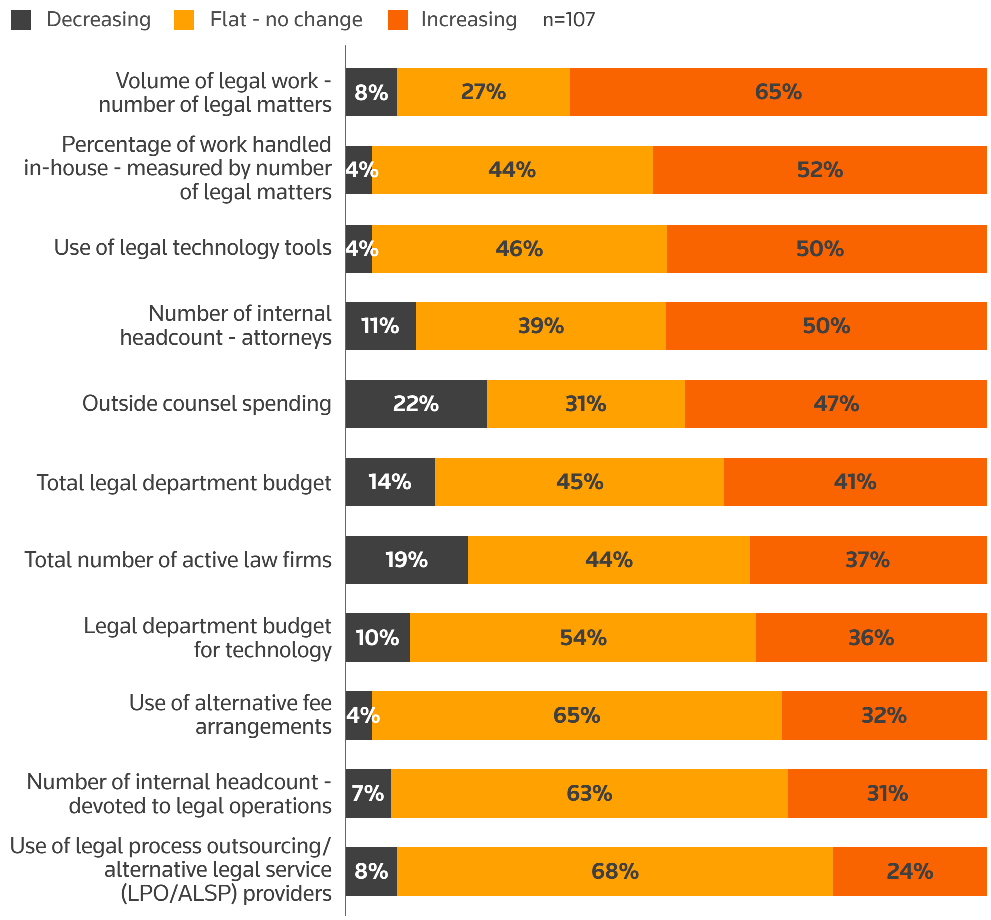
Another notable change is that *Bringing more work in-house* broke into the top 5 priorities, jumping two spots. This likely parallels the focus on outside counsel costs, because one way to control outside counsel costs is to control the amount of work they do. When matter volume is increasing, that typically means doing more of the work in-house.

On the topic of *Controlling outside counsel costs*, it is notable that among the lowest priority items are *Reducing the number of law firms utilized, Reliance on AFAs as opposed to hourly rates*, and *Use of ALSPs*. Each of those topics, in their own way, can be an effective means of managing legal spend. However, many law departments are seemingly hesitant to use these strategies, possibly because of fear of losing access to specific outside attorneys who are trusted for certain matter types or because the models for alternative fee arrangements (AFAs) and alternative legal service providers (ALSPs) don't yet fit the mindset of many of the attorneys responsible for managing such matters. Each of these options could see increases in use, however, especially if the current economic uncertainty persists or deepens.

Legal department trends

The current trends being experienced by corporate law departments are also reflective of the economic realities today.

Figure 2: **Legal department trends**



Q: Over the last 12 months, how have the following areas trended within your legal department? *Source: Thomson Reuters*

The most common trend cited by survey respondents is an increase in the volume of legal work — the number of legal matters that the department is handling. At the same time, 52% of respondents report an increase in the percentage of work being handled in-house, as measured by the number of matters the internal legal team is handling. Roughly half of respondents also report an increase in the number of internal lawyers in their department, which is a beneficial development as matter volume increases.

While lawyer head count may be growing to better help handle the increasing matter volume within the department, this does not necessarily mean that overall department budgets are increasing at the same time. Only 41% of respondents report an increase in their total legal department budget, while 45% report that their budget stayed flat and 14% report a budget decrease. At a time of increasing matter volume and consistently increasing outside counsel rates, it is unsurprising that department leaders would be concerned about the state of their finances when many of them are facing budgets that remain flat.

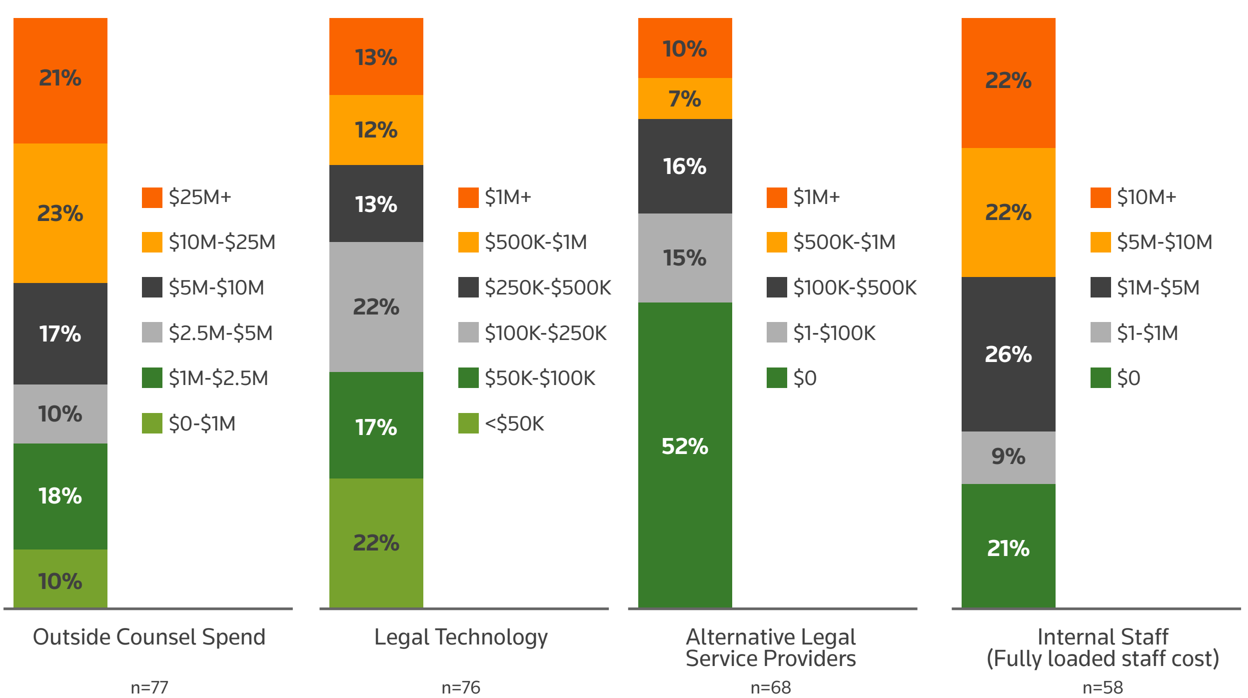
Yet, this increase in matter volume is not necessarily translating into an increase in the number of active law firms the department is relying upon either. More than one-third (37%) of respondents reported an increase in the number of active law firms they employ, while 44% report the number of law firms used remains flat. At the same time, very few law departments anticipate an increase in the use of AFAs, with some 32% expecting the use of AFAs to increase, and 65% expecting AFA use to remain stable.

More than half of legal departments surveyed report increasing their use of legal technology. Per Figure 1, use of technology to simplify workflow and manual processes is a high priority for nearly 70% of corporate law departments. While much of this likely involves types of work that could be handled by a legal operations team, most respondents report no change in headcount among their devoted legal operations professionals. In fact, close to two-thirds of respondents say that headcount devoted to legal operations has remained flat over the past year.

A closer look at spending

As has consistently been the case for as long as this report has been published, annual spending on outside legal counsel far exceeds spending on in-house legal technology, ALSPs, or internal staff costs, which is consistent with prior versions of this survey.

Figure 3: **Annual Spending**



Q: Please estimate your company's annual spending for the areas below? If no spend - please indicate "0", if unknown please state "unknown". *Source: Thomson Reuters 2022*

For 28% of respondents, spending on outside counsel ranges from $1 million to $5 million annually. Another 44% report annual outside counsel spend in excess of $10 million.

As we reported in the *2022 State of the Corporate Legal Department Report*,[1] legal department spend as a percentage of revenue varies greatly by an organization's size. Not surprisingly, larger organizations typically spend a smaller proportion of their revenue on legal expenditures, benefiting as they do from economies of scale and stronger buying power. However, organizations of all sizes are likely very cost conscious in today's economy.

Figure 4: **Rates**

Over $10B	2020	2021	2022	2022 vs. 2021	2022 vs. 2020
Partner	$531.49	$537.86	$531.58	-1.2%	0.0%
Of Counsel	$547.68	$556.65	$567.94	2.0%	3.6%
Associate	$394.71	$398.36	$401.65	0.8%	1.7%
Paralegal	$198.58	$200.98	$201.70	0.4%	1.5%
From $2B to $10B	**2020**	**2021**	**2022**	**2022 vs. 2021**	**2022 vs. 2020**
Partner	$515.25	$531.48	$546.68	2.9%	5.7%
Of Counsel	$527.76	$537.03	$560.95	4.5%	5.9%
Associate	$388.00	$401.88	$416.58	3.7%	6.9%
Paralegal	$189.35	$195.78	$202.40	3.4%	6.4%
From $500M to $2B	**2020**	**2021**	**2022**	**2022 vs. 2021**	**2022 vs. 2020**
Partner	$503.56	$533.28	$533.17	0.0%	5.6%
Of Counsel	$522.20	$579.53	$592.67	2.3%	11.9%
Associate	$360.56	$392.31	$391.64	-0.2%	7.9%
Paralegal	$194.98	$204.98	$211.34	3.1%	7.7%
Under $500M	**2020**	**2021**	**2022**	**2022 vs. 2021**	**2022 vs. 2020**
Partner	$464.30	$467.88	$469.29	0.3%	1.1%
Of Counsel	$505.60	$524.77	$535.63	2.1%	5.6%
Associate	$350.68	$364.00	$366.55	0.7%	4.3%
Paralegal	$186.60	$195.43	$193.60	-0.9%	3.6%

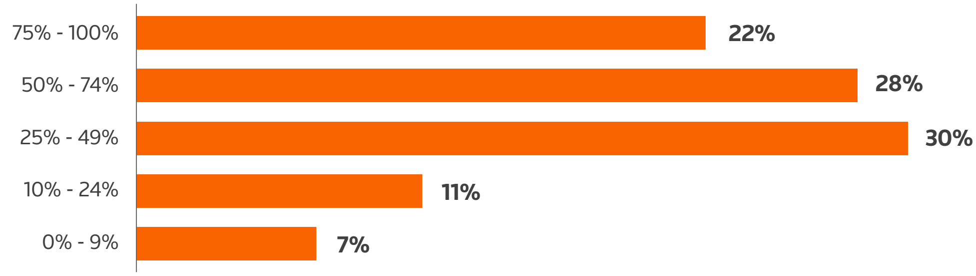
Source: Thomson Reuters 2022

1 https://legal.thomsonreuters.com/en/insights/reports/2022-state-of-corporate-law-departments-report/form

Even as legal department leaders say that it's an increasing priority to handle more work in-house, the bulk of departments continue to see the majority of their work being done by outside counsel.

Relying on outside counsel

Figure 5: **Legal work handled by outside counsel** n=107



Q: Please estimate the overall percentage of legal work handled by outside counsel. *Source: Thomson Reuters 2022*

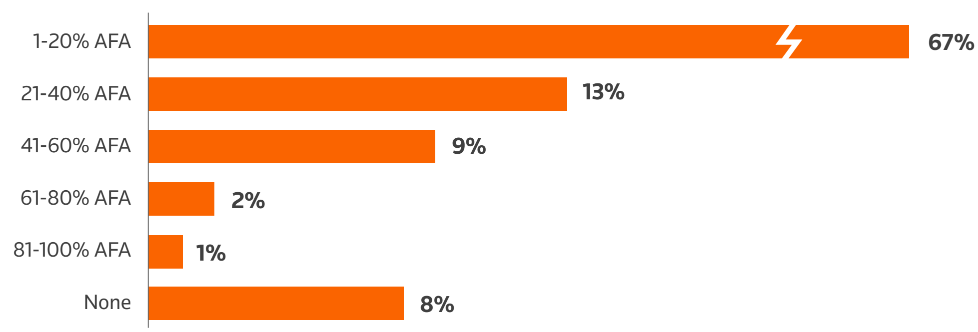
Specifically, roughly 80% of in-house legal departments reported that one-fourth or more of their work was handled by outside counsel, with 50% saying that about half or more of their legal work went to outside law firms. And for 22% of respondents, more than three-fourths of their legal work was handled externally. Given these statistics, it's even less surprising that getting a closer handle on outside counsel spend would be a priority.

And as can be seen in Figure 6, the work being done by outside counsel continues to be billed primarily on a traditional hourly rates basis.

Use of alternative fee arrangements

Figure 6: **Non-hourly based AFA outside legal spend**

Percent non-hourly based (flat or fixed fee) n=107



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

Source: Thomson Reuters 2022

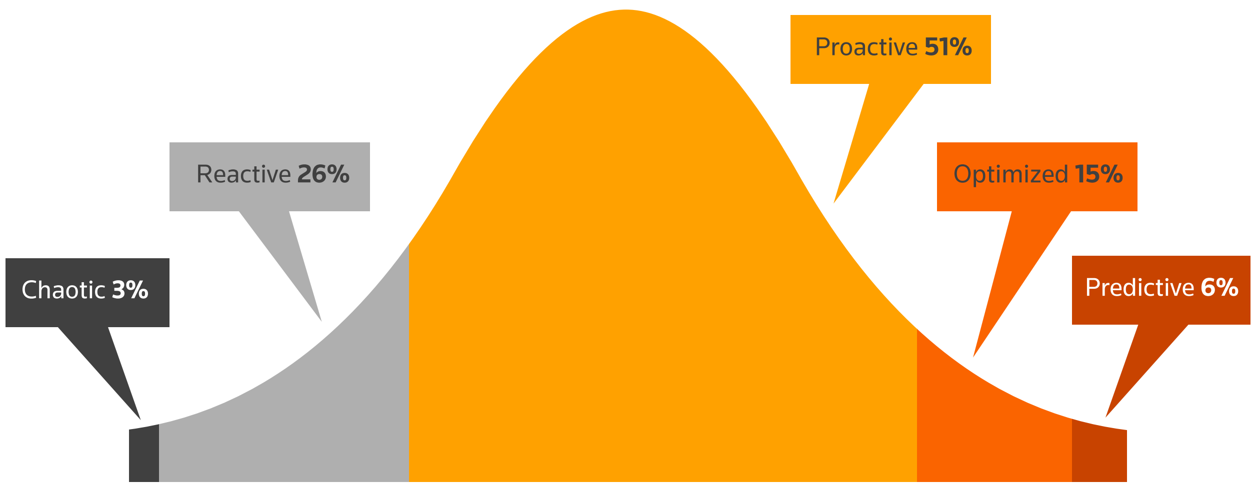
Almost all respondents said they have at least some of their outside legal spending structured on a non-hourly or AFA-based fee system, but most rely on AFAs for less than 20% of their work.

Anecdotal observations from conversations with many in-house lawyers indicate that many still rely on hourly fees because they feel their outside counsel firms have not provided them with acceptable alternatives to hourly billing. It may be incumbent upon these outside law firms to provide clear options for AFAs to their in-house clients — options that should include a requirement for some education of in-house counsel on how any proposed AFAs will be mutually beneficial for both the client and the law firm.

Spend management sophistication

As has been the case throughout the lifespan of this report, self-ratings on legal spend management sophistication form a clear bell curve (See Figure 7).

Figure 7: **Legal spending management sophistication** n=107



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

Q: How would you rate your company's sophistication in management of legal spending?

Source: Thomson Reuters 2022

The majority of respondents placed their level of spend management sophistication in the Proactive category, which includes such practices as using billing guidelines, conducting invoice audits and legal bill reviews, and having defined processes for management of timekeepers and matters for outside counsel.

Only 15% of respondents report having an Optimized level of spend sophistication, and use tactics such as centralized management of rates, utilization of request for proposals (RFPs) or bidding processes, and use of internal processes to drive down costs. Even fewer report a Predictive approach to legal spend management.

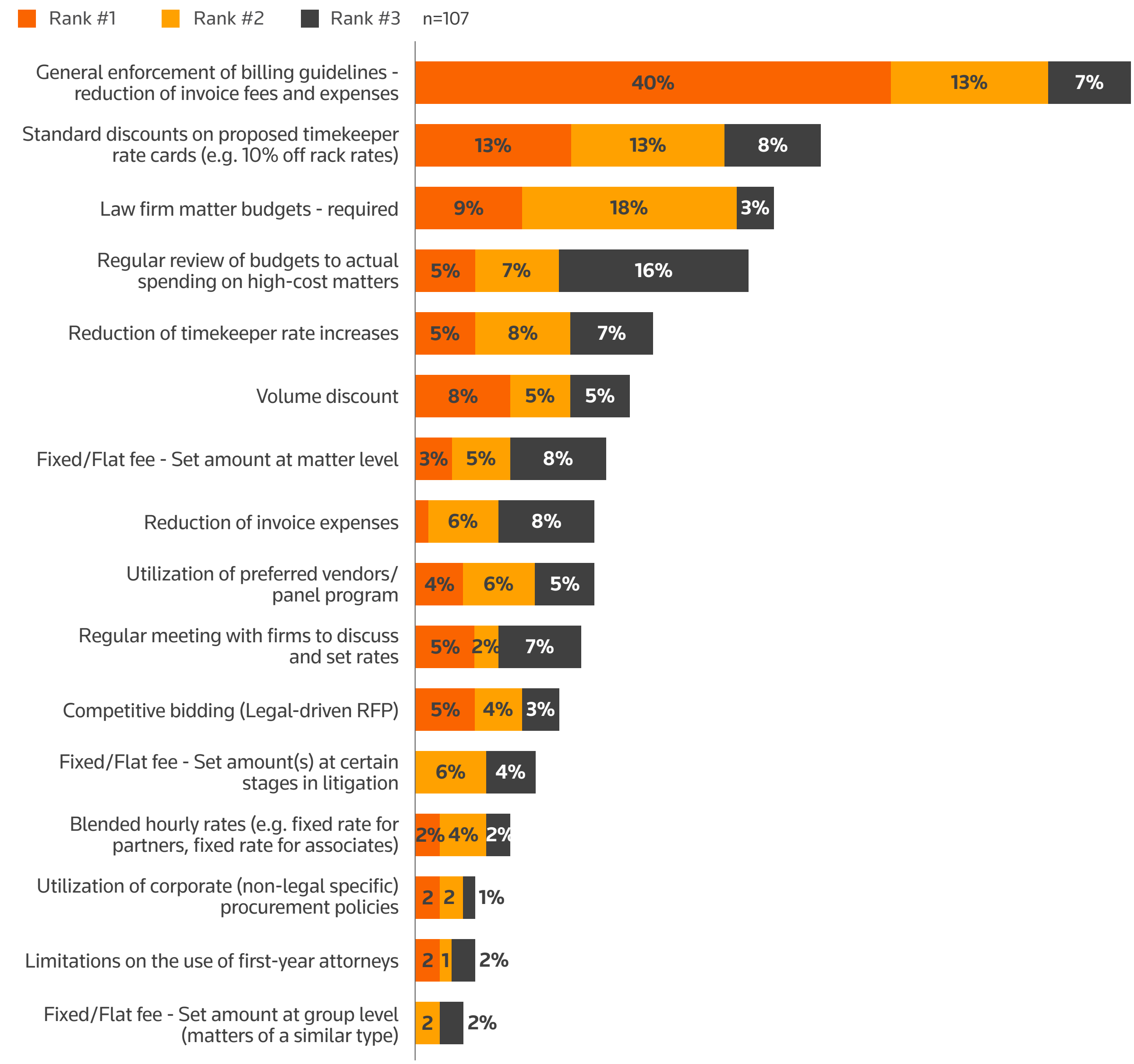
In fact, more corporate law departments report being Reactive if not Chaotic in their approach to managing their legal spend than report having an Optimized approach. In fact, respondents whose departments are in the Reactive or Chaotic categories are likely well aware that their approach needs refinement.

This has become even more critical as control of outside legal counsel spending maintains its position as a top priority for in-house legal departments. Those departments that see their legal spend management as either Reactive or Chaotic will find it difficult to effectively manage their outside counsel costs.

Cost control priorities

For those corporate law departments looking to improve their spend management approach, respondents provided insight into which cost control measures they found to be the most effective.

Figure 8: **Cost control measures**



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

Source: Thomson Reuters

When asked to rank such measures from 1 to 3 in the order in which they are most effective, *General enforcement of billing guidelines* — including reduction of invoice fees and expenses — was a clear leader in terms of its effectiveness. Likewise, *Standard discounts on proposed timekeeper rate cards* ranked highly as an effective cost control measure as well.

It is worth noting however, that these approaches, while clearly effective for many legal departments, do not require an especially high level of sophistication. Many of the more sophisticated approaches to cost management remain relatively underutilized.

In addition to adoption of AFAs, other approaches — such as utilization of preferred vendors or panel programs, competitive bidding, or blended rates for outside counsel — ranked low on the list of effective cost control measures. While it's possible that these tactics have a low ranking simply because they have not proven particularly effective, it's more likely that they are viewed as less effective *because* their actual use remains relatively rare. Even comparatively simple measures to deploy, such as regular meetings to discuss fees, remain low on the list of effectiveness.

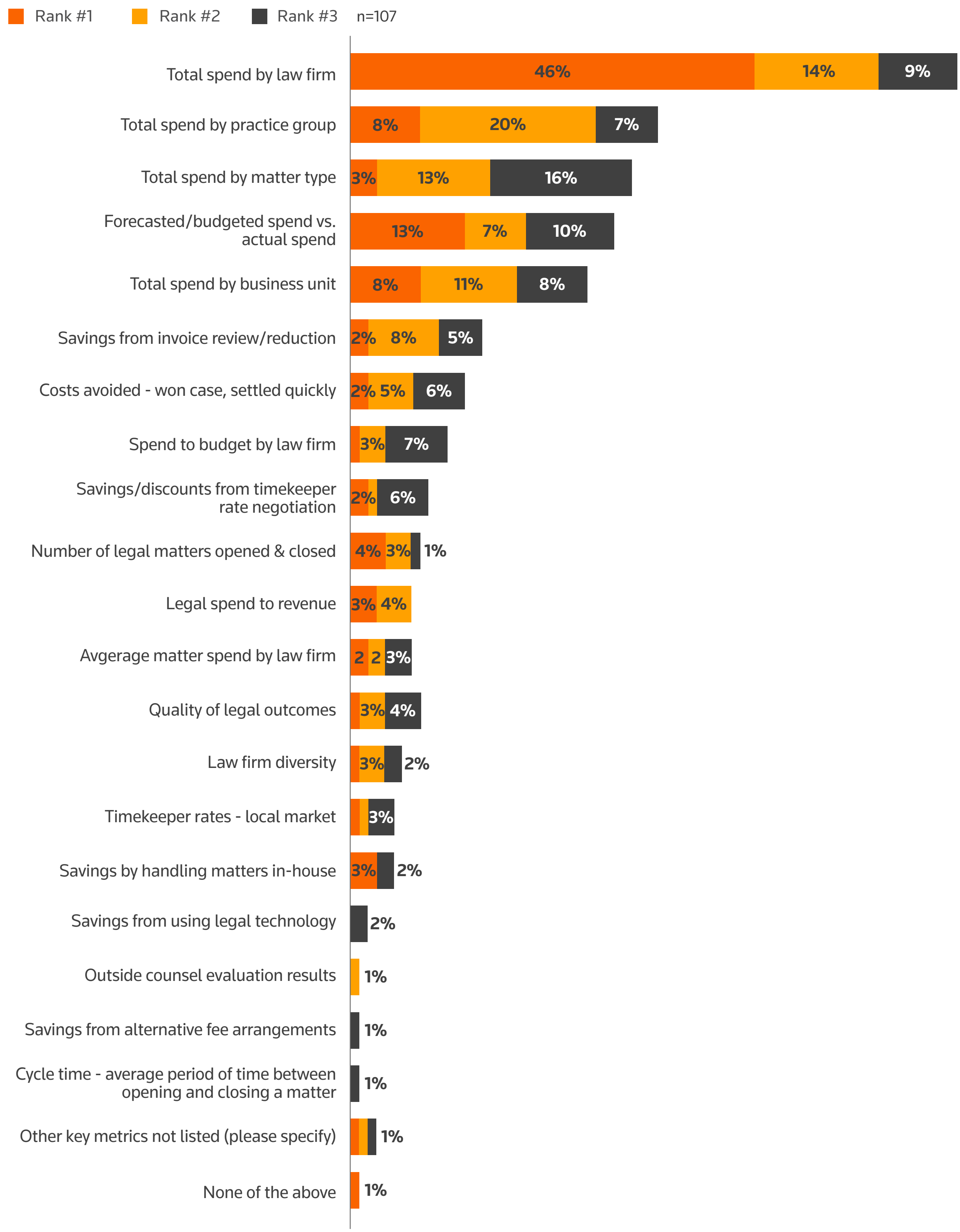
While it's possible seemingly more sophisticated approaches to outside cost management rank low because they've not been particularly effective, it's more likely they are, instead, still relatively rare.

In what may be viewed as good news by both in-house counsel and their outside law firms, utilization of corporate, non-legal specific procurement processes ranks near the bottom of the list in terms of effective cost control measures. Both in-house and outside lawyers have expressed dissatisfaction with general procurement processes for years.

It's not a surprise that legal department professionals would view procurement processes as not a particularly effective way to control costs. Such processes are widely viewed as ineffective because buying legal services does not equate with buying more common goods and services that are generally part of a business's procurement process.

Of course, determining the effectiveness of cost control measures requires an ability to track how those measures are performing against historical comparisons. To do so, corporate law departments need to employ effective metrics to measure and track how their improvement initiatives are performing.

Figure 9: **Important legal department metrics**



Q: Please rank the top five most important metrics that are routinely reported on in your legal department? 1 is most important, 2 next most important and so on.

Source: Thomson Reuters

The most common metric tracked by legal departments today is total spend by outside firm, by a wide margin. However, this metric, while undoubtedly important, also provides little granularity in terms of insight. In fact, many of the most common metrics tend to look at data at a high level, whether tracking spend by practice group, matter type, or business unit.

Roughly 30% of survey respondents said that measuring forecasted spend versus actual spend was among their most important metrics. Indeed, this is a crucial metric for law departments seeking to control their costs.

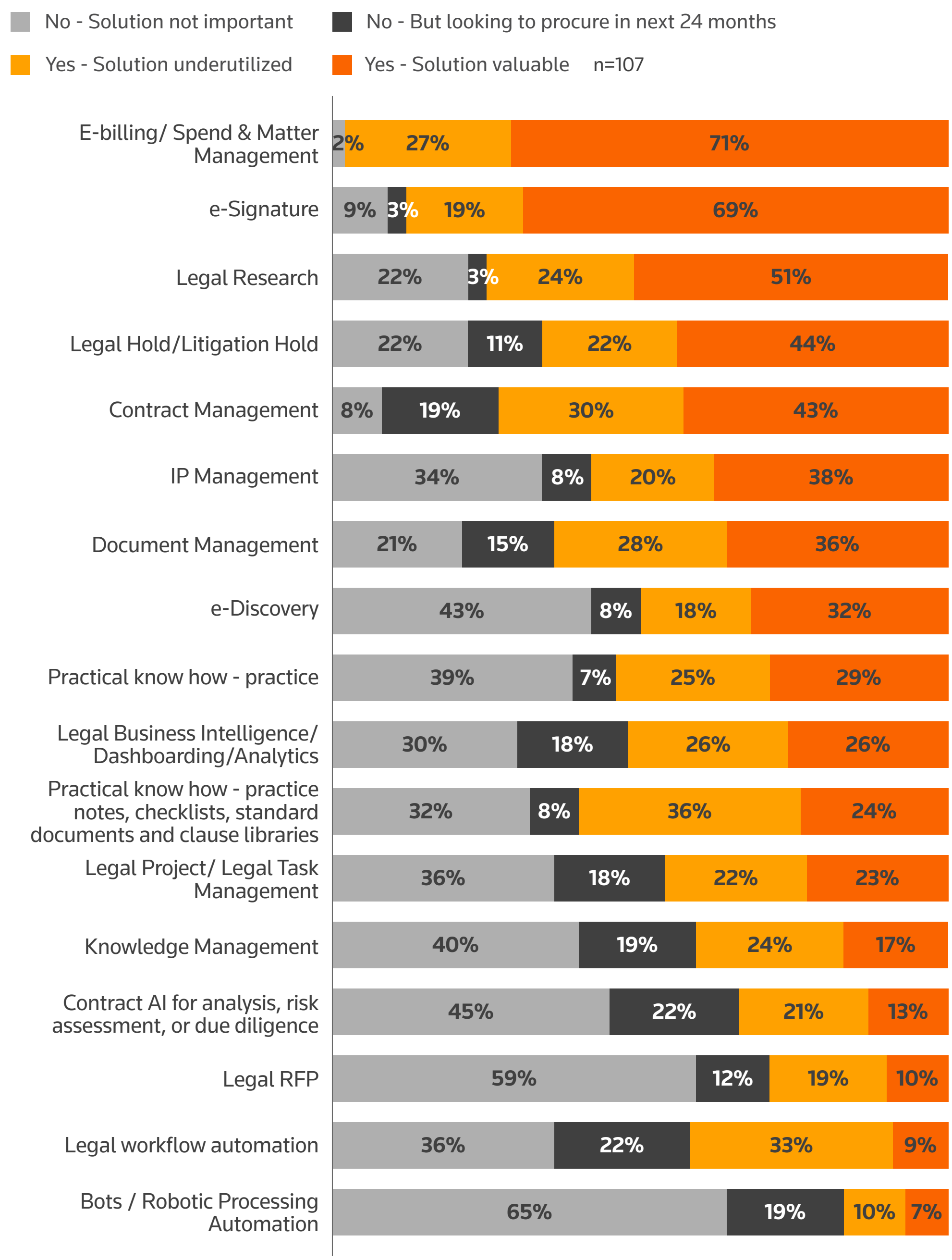
It is notable that outside of the top five ranked metrics, the number of respondents ranking any listed option as an important metric to be tracked falls off quickly as other metrics struggle to even break 10% of responses.

While it is possible that legal departments are simply tracking metrics that were not included on the list provided to them, we must also note that when given the option to specify *other* key metrics that they are tracking, very few respondents chose to do so. This begs the question as to which metrics law departments are tracking as they seek to control costs and improve their performance.

Technology for workflow & process improvement

Survey respondents ranked use of technology to simplify workflow and manual processes as their second highest priority, per Figure 1. Therefore, it seems worthwhile to explore more fully what *types* of technologies corporate law departments are using and how those technologies have been adopted.

Figure 10: Software solution and importance



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

Source: Thomson Reuters

Legal departments show high rates of adoption of those technologies related to electronic billing, electronic signatures, and online legal research. Each of these technology tools undoubtedly meets law departments' needs to simplify their workflows and improve otherwise manual processes. In fact, technology systems that allow for legal electronic billing or electronic signatures have quickly become almost standard practice in business, particularly since 2020.

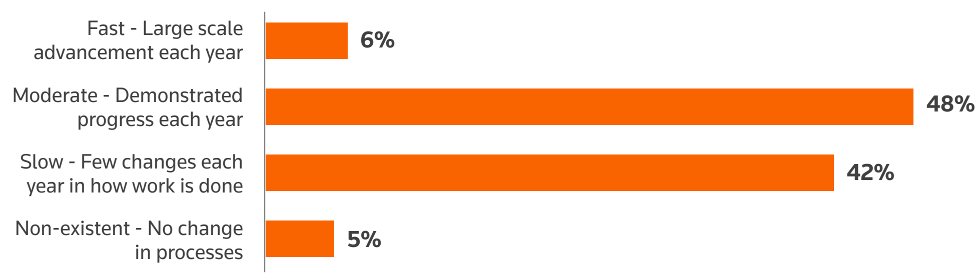
Legal departments also report however, that many of the technology tools they have purchased remain underutilized. When examining their responses, we find that more than 20% of survey respondents say that their existing technology is underutilized in at least 13 different technology categories, including systems for electronic billing and legal research, but also other key operational systems such as contract management, document management, practical know how, knowledge management, and legal workflow automation.

These results indicate that many legal departments have taken the first step to improving their workflows and manual processes by identifying and purchasing solutions to address known inefficiencies. Now they must take the next step by driving better adoption through training and employee education so that those technologies can be better utilized within the department.

There are also a number of technology systems that respondents say they now are looking to procure within the next two years, including artificial intelligence (AI) for contract analysis, legal workflow automation, contract management, knowledge management, and robotic process automation.

Figure 11: **Pace of technology change**

Process/technology advancement change n=107



Q: How would you characterize the pace of change in terms of process or technology advancements in your law department?

Source: Thomson Reuters 2022

The seeming frequency of underutilized technology systems is also evident in what could potentially be characterized as a sense of frustration among legal department operations professionals concerning the pace of change around technology within their departments.

Only 6% of respondents report fast or large-scale advancement each year around technology change. The balance of respondents reported moderate progress in terms of the pace of change within their law department, if change moved even that quickly. Approximately 42% of respondents said that the pace of advancement in technology and processes in their department was slow with few changes made each year, while 5% of respondents said that change in processes was nonexistent.

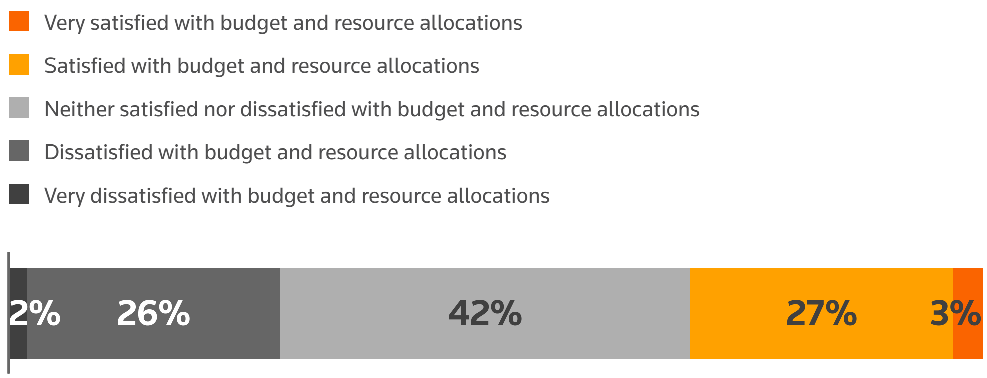
The state of play for in-house legal ops

As previously noted, increasing the use of technology is a primary goal for many legal operations professionals. Yet uptake of technology remains slow and many department leaders view existing available technologies as underutilized.

There is a similar sense of overall dissatisfaction in terms of budget and resource allocation.

Figure 12: **Resource allocation**

Satisfaction with resource and budget allocation n=107



Q: How would you rate your company's allocation of resources and budget to support the volume of legal work?

Source: Thomson Reuters

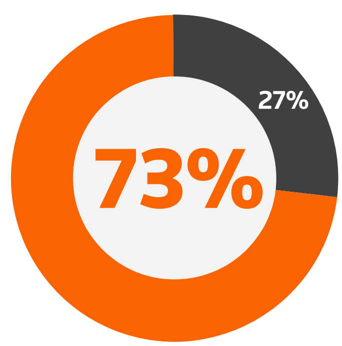
Only about 30% of respondents reported being satisfied or very satisfied with their company's current allocation of resources and budget to support the volume of legal work the department is currently undertaking. In contrast, 28% report being either dissatisfied or very dissatisfied with budget and resource allocation.

This is, perhaps, an understandable reaction given the number of legal departments that report a growing volume of work and an increase in the number of matters being handled in-house — all without any increase in departments' budgets.

At the same time, we must also keep in mind that very few legal departments are reporting an increase in legal operations support staff. This means that the additional matter load departments are facing likely brings with it additional administrative burdens as well, and this could also be the source of some dissatisfaction over resource allocation.

Figure 13: **Legal operations staff**

Percent with staff dedicated to legal ops functions n=107



Source: Thomson Reuters 2022

As has been true for the last several versions of the *LDO Index* report, the vast majority of respondents report having some staff dedicated to legal operations functions, although this appears to be a very limited number. In fact, many respondents who provided more detailed responses to the question of how many staff are dedicated to their department's legal operations functions said that it was perhaps one or two people. And in some cases, legal operations were handled by paralegals and perhaps one coordinator, but those were not truly dedicated roles.

One commenter stated that while they had been doing legal operations work for years, it was only added to their title in the past year — and the company is still hesitant to use the term "legal ops."

Figure 14: **Average legal ops staff**

Business size	Number of legal operations staff
Small (Less than $500M)	2.2
Moderate ($500M-$2B)	2.7
Medium ($2B-$10B)	5.6
Large ($10B+)	4.3

Source: Thomson Reuters 2022

Part of the reason that the number of dedicated legal operations staff seems so low may be related to the fact that legal operations is a difficult function to define. From our own experience in conducting this survey, we have learned that it is hard to target potential survey respondents because the function of managing legal operations is spread very widely across roles within in-house legal departments. Also, legal operations tasks are unlikely to be confined to one particular role or job title. At the same time, however, dedicated legal operations management roles within an in-house department may still be somewhat nascent, despite this report being in its 7th edition and the function of legal operations being a much-discussed topic among law department leaders.

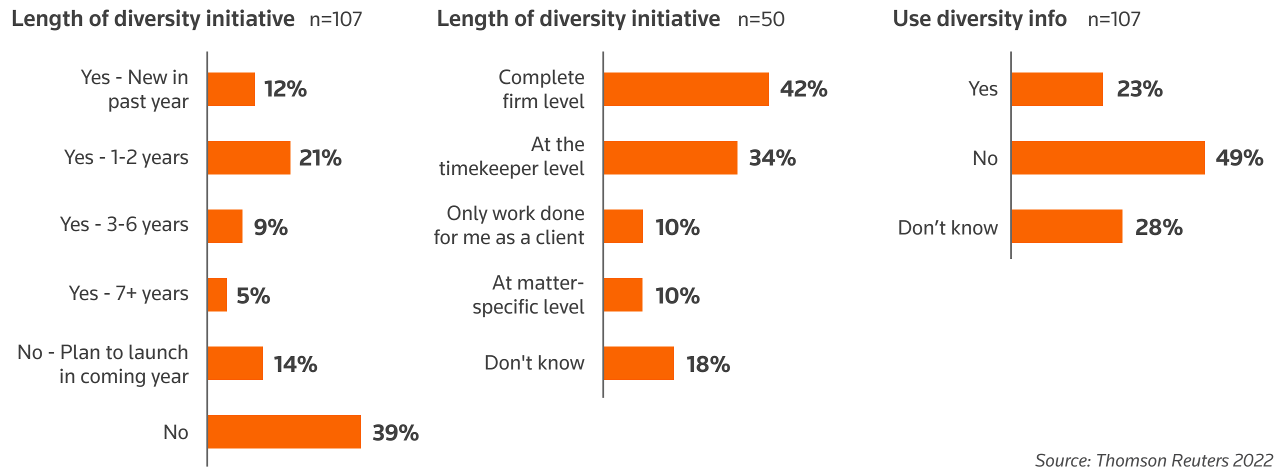
Similarly, the difficulty in defining specific legal operations roles within a law department may also reflect the high degree of evolution that is occurring within the legal operations function itself.

On the law firm side, legal operations roles may include everything from pricing to finance to business development, and in some cases even legal technology and litigation support. This broad definition has evolved substantially over the last several years. And a similar state of evolution may be occurring within in-house departments as they work to cope with the same changes that law firms have been experiencing in terms of the evolution of legal technology and the emergence of new ways of working.

Rising prevalence of ESG & the impact of DEI initiatives

Environmental, social, and governance (ESG) topics been sources of conversation for many years. And the rise of ESG as an overarching way of conceptualizing these disparate topics under a common framework has placed a growing focus on how corporations, their law firms, and other vendors are working to establish and meet common goals for ESG priorities.

Figure 15: **Diversity information**



Source: Thomson Reuters 2022

Despite the rising prominence of diversity, equity & inclusion (DEI) as a key component of ESG initiatives, nearly 40% of survey respondents report that their law departments have no diversity initiative and no plan to create one. Another 14% say they do not have a diversity initiative yet, but plan to launch one in the coming year. Some 12% report starting a new diversity initiative within the past year.

Among the roughly 47% of legal departments that report having a diversity initiative, it was far more common to collect diversity information at either at the overall outside firm level or at the timekeeper level. Only a few respondents reported collecting data at a matter-specific level, and some departments collected data only on work done for them as a client.

Close to 20% of respondents reported that they did not know what type of diversity information was collected. Further, almost 50% said that the data collected was not used to determine which law firms to use, and almost 30% said they did not know how the data was used.

These findings show that some companies are making efforts to become more sophisticated in how DEI data is collected and utilized as part of their ESG initiatives. Yet, there are concerns over what type of data is being collected and how it can be used, particularly in international markets.

The possibility of increasing regulation and compliance considerations around ESG may spark a surge in demand for that collected information. Those companies that have already begun efforts to collect, analyze, and utilize diversity information from their outside counsel may well find themselves ahead of the game if and when those compliance considerations become reality.

The path forward

It has been clear for some time that the future of law, both for in-house counsel and their outside law firms, will depend at least to some degree on their increasing reliance on dedicated legal operations professionals. The growing prevalence of such disciplines as pricing, legal project management, and oversight of ESG considerations will require the expertise of specialists who can broadly be grouped under the umbrella of *legal operations*.

It also is clear from the stated priorities of many corporate law departments and the trends that they recognize that departments are well aware of the rising challenges they face. The question is, and has been, how to best address them.

Unlike the Great Financial Crisis of 2008, the legal market is better positioned to handle an increase in AFAs as both law firms and many in-house legal departments now employ skilled pricing professionals who can craft mutually beneficial and agreeable alternative pricing arrangements.

Many companies, particularly those large enough to take advantage of economies of scale, have already begun to deploy professionals dedicated to these roles and challenges. As with many things, smaller companies will be faced with the challenge of doing more with less. The good news for these smaller businesses is that the marketplace is increasingly populated with experienced professionals who are well acquainted with these types of challenges, having gained experience within other corporate law departments or law firms.

It is likely, as we look toward next year's edition of the *LDO Index* report, that controlling outside counsel costs will continue to be a major priority. At the same time, it is likely that the amount of work being handled by in-house legal teams will continue to increase as well. Legal departments that can deploy skilled professionals to confront pricing, technology, and ESG challenges will be able to make measurable progress.

Taking into consideration the overall economic situation, it seems likely that the market may be poised for an increase in the adoption of alternative fee arrangements. Unlike the Great Financial Crisis of 2008 and ensuing recession, the legal market is better positioned to handle such a sea-change as both law firms and many in-house legal departments now employ skilled pricing professionals who can craft mutually beneficial and agreeable alternative pricing arrangements.

Indeed, increasing reliance on these skilled professionals may also help more companies to move further up in their legal spend management sophistication. This is another area where we could potentially see noticeable progress in the 2023 version of this report as corporations seek to become not just *Proactive* but *Optimized* in their spend management.

With technology, many companies likewise have identified solutions to help address known problems. A focus on training and adoption in the coming year could help to move more companies that currently see their identified solution as underutilized where they consider the solution to be valuable.

Finally, there is a constantly growing list of best practices with regard to DEI and ESG initiatives. Companies looking for examples of how to collect meaningful diversity data and how to leverage that data will find many examples from a variety of industries and across the globe. The next challenge, of course, lies in how to put that data to work in a meaningful way that drives operations toward positive outcomes.

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