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TOP 10

metrics to increase
the efficiency of your
legal department



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Historically, in-house legal departments have tended not to track their legal spend or use metrics to measure their performance and benchmark themselves against their peers. However, there is now increasing interest in reducing costs, managing efficiencies and generally increasing the performance of the legal department.

The question then becomes, what metrics should you be using to monitor and enhance the efficiency of your legal department?

1. SPEND TO BUDGET

Based on our experience working with our customers, tracking budgets is the single most effective way a legal department can predict and control costs. Tracking budgets and spend on matters over time also provides a useful benchmark as to what certain types of matters should cost so the legal department can set budgets based on how much similar matters cost in the past.

In addition to tracking budgets against matters, tracking budgets for each law firm is a useful tool for ensuring a law firm's ability to accurately estimate budgets. This allows the legal department to keep on top of the firms that are not keeping to their budget, so that spending will be more predictable and surprises minimised.

2. GAIN VISIBILITY OF YOUR TEAM'S WORKLOAD

In order to allocate your resources efficiently, it is important to have visibility of your team's workload. This will likely help highlight a number of areas such as turnaround time on internal matters, whether work is being fairly distributed – particularly if you are part of a big disparate team, and whether certain matters can be brought in-house. This may also highlight areas that need reviewing such as timelines, and ensure that the right people are working at the right level to add value to the legal department.

3. REVIEWING MATTERS BY TYPE AND BUSINESS UNIT

These metrics help answer a basic question: where is the majority of my department's legal spend generated? Determining legal spend by practice area (intellectual property, employment, litigation, transactions) can help determine:

- 1) Managing risk: is there a practice area that has a surprising amount of cases, and if so, why?
- 2) Would it be more cost effective to bring the work back in-house?

Determining which business unit is generating legal spend can help identify divisions or subsidiaries that may have training requirements or greater focus to keep their costs in check. In addition, there are now reporting tools that enable legal departments to benchmark their legal spend against comparative companies' by industry, matter type and other criteria. This can raise potential red-flags if your legal department's spending patterns differ from the norm in your industry.

4. EVALUATE YOUR EXTERNAL LAW FIRMS

There is one key principle behind this metric: work should be given to external law firms that provide the greatest value to your organisation. Value can be determined by a number of factors such as cost, performance, efficiency and responsiveness, among others.

Evaluating counsel at the close of a matter or at set intervals if it is an ongoing matter, will allow you to build a repository of data on your external law firms so that when a new matter comes up, finding the best outside counsel to work with is as easy as reviewing that firm's evaluation data and picking one of their most highly rated lawyers. This can be achieved using a simple scorecard and will help highlight other important areas, such as customer satisfaction, turnaround time and price.

5. INTERNAL AND EXTERNAL SPENDING AS A PERCENTAGE OF COMPANY REVENUE

This metric is interesting to track because it calculates the entire cost of your legal department, both internally and externally. This is a more accurate measure of whether there has been a reduction in legal costs than looking at absolute legal spend – which could increase in a given year but still represent a reduction in legal spend as a percentage of company revenue. Reducing this metric over time is a powerful selling point to stakeholders seeking proof of the value that the legal department provides. Secondly, tracking this percentage over time helps a legal department find the ideal mix of in-house counsel and external law firms that provides the greatest value to the company.

6. MEASURING COSTS

This is a metric that can be broken down into several categories including reductions in expenses, timekeeper rates and billable hours. Some of these savings are easily achievable simply by enforcing your company's billing and expense guidelines. That said, it is surprising how many legal departments fail to adequately review bills for these types of violations. Reviewing line items and hours billed may be time consuming for in-house lawyers, but is necessary to catch mistakes and over-billing. For example, a violated rule can and should be rejected. Furthermore, this is a metric that can be used to demonstrate to the business the effort being made by the legal department to control costs.

7. TRACK AND BENCHMARK TIMEKEEPER RATE INCREASES

There are several reasons why it is important to track and benchmark timekeeper rates. Tracking rate increases over time allows a legal department to know whether the law firm's proposed increases are abnormal or in line with historical averages. Many legal departments will have a cap on rate increases for their firms or have a rate freeze for the years or for certain matters, so tracking actual rate increases is vital for enforcing these requirements.

Rate surveys are useful data points, but they suffer from the same problems of all self-reporting surveys – sometimes the data is reported inaccurately. More recently however, some software services have launched real-time timekeeper rates; benchmarking across all clients and allowing you to filter by location, industry or location. This knowledge is power when negotiating rate increases with external law firms.

8. TRACK LITIGATION EXPOSURE

Within a legal department's litigation matters, tracking exposure, (at least for the larger cases) is an important metric for corporate counsel to be able to manage and reduce risk. Tracking maximum and minimum exposure, along with likely outcome, allows you to keep key stakeholders apprised of potential risks and avoid surprises. This can help you to decide on how to handle a case and work out whether a certain case should perhaps be settled if you find that you are paying disproportionately compared to the amount at risk.

9. VALUE OF INTERNAL TRAINING PROGRAMMES

This is another metric that allows the legal department to manage risk and show value. Tracking types of regulatory breaches such as breaches of money laundering, allows the legal department to target training to those departments most at risk. Showing these trainings and complaints over time shows the effectiveness of putting a training programme in place and highlights the eventual costs saved by reducing these types of claims.

10. CAPTURING LESSONS LEARNED BY MATTER

Like tracking external law firm performance, capturing lessons learned allows a legal department to build up a repository of information on the types of matters you deal with regularly. Whether it is certain types of contracts that you regularly negotiate, common types of litigation cases, or dealing with regulations specific to your industry, collecting and sharing knowledge learned makes for a more efficient and effective legal department. This also is an invaluable resource when there is turnover in a department so that hard won knowledge is not lost when experienced lawyers move on.

Thomson Reuters provide legal solutions for corporate counsel and the legal profession as a whole. To hear more about Thomson Reuters Legal Tracker or to arrange a demonstration on the service, please contact:

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