

THOMSON REUTERS  
LEGAL DEPARTMENT  
IN-SOURCING AND  
EFFICIENCY REPORT



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Thomson Reuters conducted a survey of 303 attorneys working in legal departments to identify their best practices in achieving greater efficiency and productivity across their in-house teams. To no one’s surprise, **stretching too few resources and managing outside legal costs are persistently top of mind for these legal professionals.**

Accordingly, this survey report investigates how departments are looking to improve efficiency and productivity through increased legal department headcount; deploying on-boarding techniques; evaluating new technologies; “in-sourcing”, or handling more work in-house, including specific tasks related to contracts, intellectual property, mergers and acquisitions, and litigation; and challenging the traditional in-house/outside counsel relationship.

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# EXECUTIVE SUMMARY

Legal departments face an array of legal issues, from staying apprised of statutory and regulatory changes, to managing litigation and disputes, to negotiating and drafting contracts, to protecting intellectual property and other company assets.

While a legal department's primary duties and responsibilities have not changed in recent years, the strategies to address them have. Following the 2008 financial crisis, company executives and general counsel scrutinized the cost and management of legal work and mandated that departments reassess the resources used in performing their traditional legal duties. Immediately following the crisis, legal departments focused almost exclusively on their relationships with outside counsel, identifying means to better control external spend, such as requesting discounts or employing alternative fee arrangements.

This single focus response has evolved over the years and has been supplemented by additional methods to drive change. This report highlights how departments are

turning to new ways to achieve efficiency gains in legal departments that extend beyond the outside counsel relationship. Namely, more departments are benefiting from "in-sourcing," and growing headcount and investment in internal resources. This focus on internal teams has allowed companies to retain greater volumes of legal work with highly effective internal teams. Accordingly, before incurring the costs of turning to outside counsel, legal departments are benefiting from redeploying matters and tasks to their in-house teams.

# BIGGEST CHALLENGES

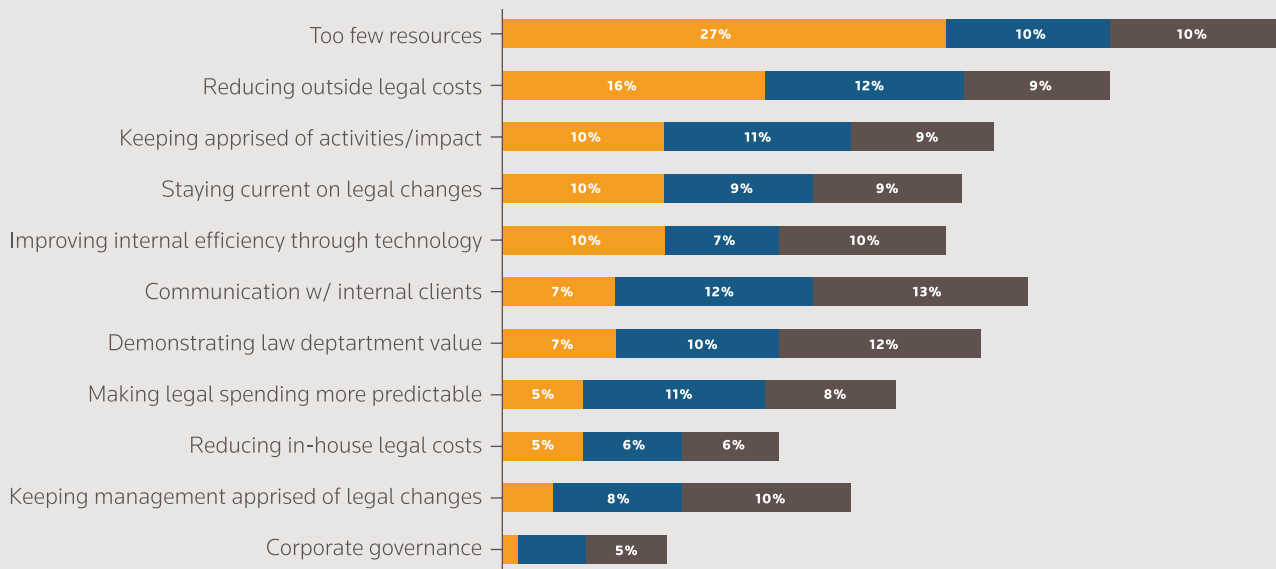
Legal departments of the past were once perceived as mere “middlemen,” relegated to finding and paying law firms to handle the lion’s share of a company’s legal work.

Times have changed as legal departments are faced with budgetary challenges; the days of “carte blanche” with outside counsel are over. As an attorney for a legal department in the construction industry commented, “There is a constant challenge of demonstrating value of the legal department and being forced to do more work with fewer resources.” Accordingly,

many departments continue to explore alternatives to maximize their limited budget and gain a greater return on their total legal spend, whether through better management of outside counsel, increasing internal headcount, exploring legal managed services or investing in technology.

## THE TOP CHALLENGES ARE:

● Ranked 1st   ● Ranked 2nd   ● Ranked 3rd



Legal departments have **broadened the tools and measures to address these challenges.**

Rather than just focusing on their relationships with outside counsel, they are evaluating and implementing additional practices, such as increasing full-time attorney hires to their department, hiring temporary contract lawyers, employing legal managed services and implementing new technologies, to name a few.

“Our main challenge is getting work done with our limited personnel and resources,”

**SAID A GENERAL COUNSEL IN THE AGRICULTURAL INDUSTRY.**

“All other challenges pale in comparison.”

Managing the relationship with outside counsel continues to be a major challenge for legal departments. Through greater reliance on in-house resources, technology implementation and use of third-party legal service providers, much of the work once done by law firms has moved in-house or to more cost-effective alternatives.

The cost constraints legal departments face have forced them to address their relationship with outside counsel in recent years, and it continues to be a main point of emphasis. Legal departments continue to rely on firms for their domain expertise, but many are exploring the use of alternative staffing, various technology solutions or legal managed services to perform commodity work, allowing firms and senior in-house resources to focus on the bespoke work.

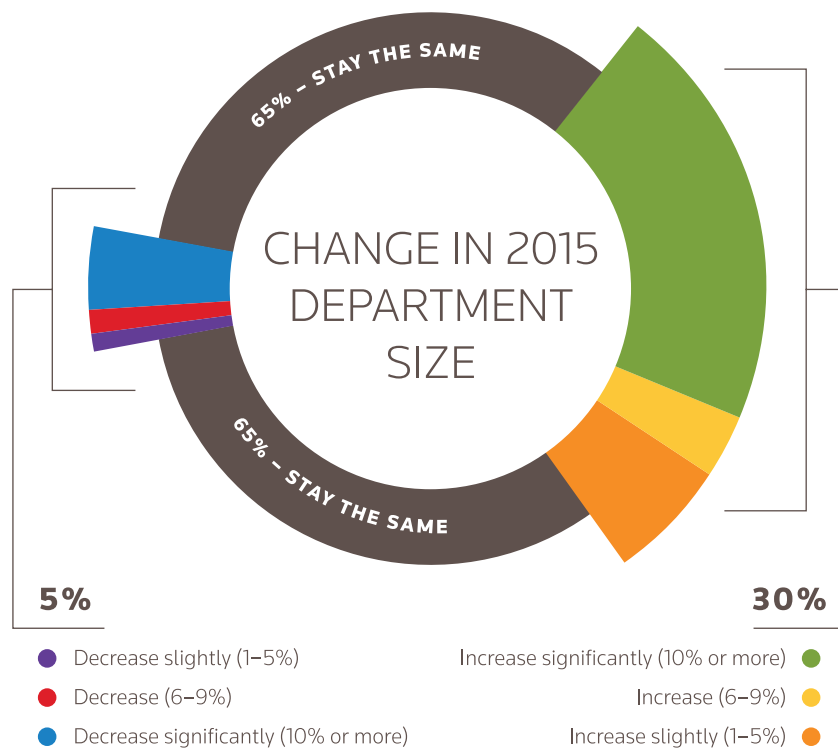
# DEPARTMENT STAFFING TRENDS

In order to address legal department challenges, general counsel look to their internal staff as a means to achieve greater efficiency.

Notwithstanding the prevalence of limited resources, **NEARLY ONE-THIRD** of legal departments (30 percent) anticipate adding staff in the next year, predicting that their hires will be a mix of lawyers from firms, seasoned in-house lawyers and paralegals.

These growing departments are redirecting resources once earmarked for outside counsel to internal staffing. The increase in headcount is meant to address one of the challenges articulated: "communication with internal clients." Departments are discovering the

benefits of an in-house team that is familiar and better aligned with internal clients. This strengthened bond between in-house lawyer and client yields better access and communication; greater knowledge of industry and the business; and improved fluency around business processes. Legal departments that grow in this way improve their relationships with internal clients by continuing to provide responsive, pragmatic and high-quality advice and work product.

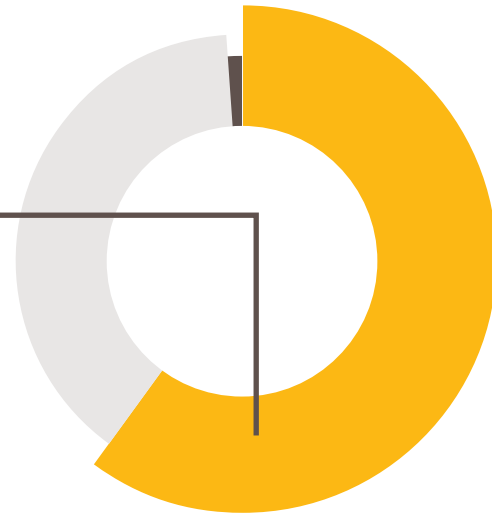


This anticipated growth builds on the hiring undertaken in the recent past.

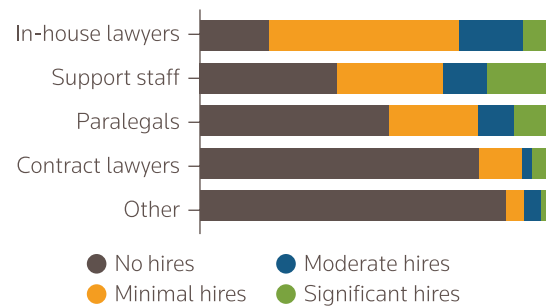
In 2014 alone,  
**60%**

of legal departments hired new staff. The majority of new hires filled newly created full-time in-house lawyer and paralegal positions. Legal departments are looking at the right mix of lawyer-to-staff ratios as they hire. For instance, one corporate counsel from a medical device company stated that an increase “in support staff allows attorneys to do more high-level, less administrative work ... so less has to be farmed out to law firms.”

Additionally, to further address workloads, contract lawyers and support staff were hired. A chief legal officer of a technology company shared how the department’s growth is aligned with their growing sales activity. “We plan to add staff to support growth in the company’s sales activity. The additional staff will enable the department to be more responsive and to provide work product to internal and external clients more rapidly.”



### NEW HIRES BY POSITION



**Not all departments** enjoyed this growth in headcount.

A small handful of departments (13 percent) saw cuts made to their staff, the majority of which impacted lawyers and support staff.

Looking to the future, this trend to grow legal departments' internal resources will continue.

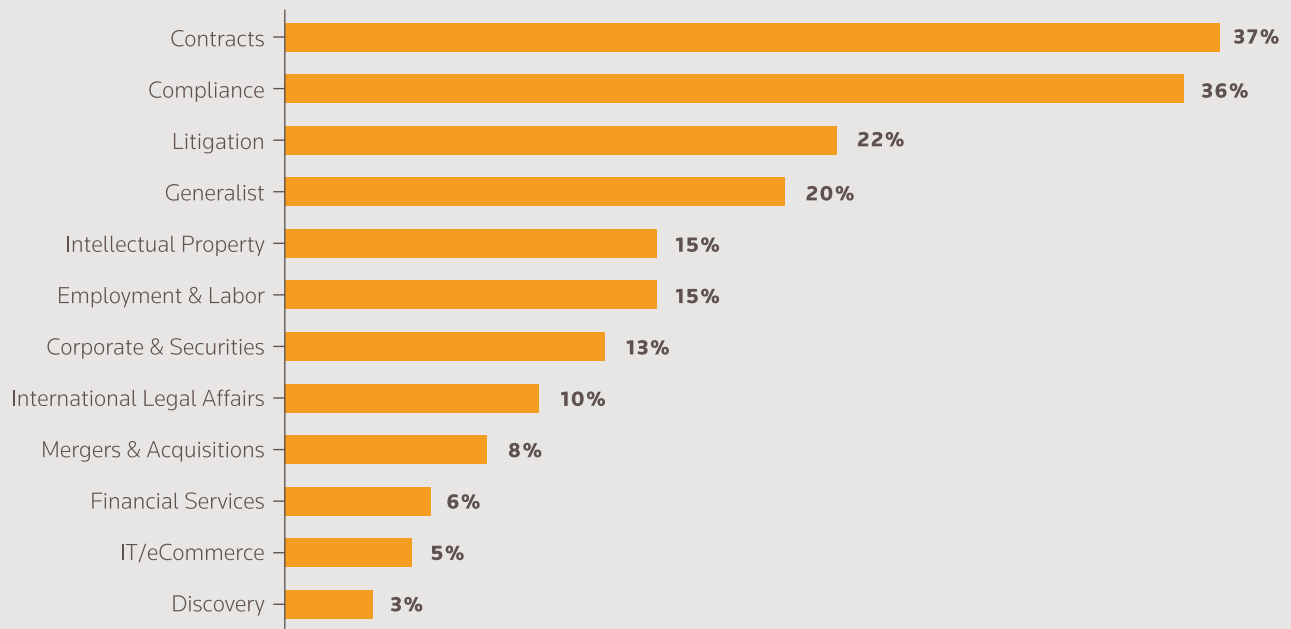
Because of the efficiencies and improvements yielded from this practice, many legal departments expressed their intent to create more positions in the coming years. **Thirty-three percent of respondents have created new positions in the last year,** with the majority of those to address contracts and compliance.

Businesses benefit from an in-house attorney's knowledge of the industry and strategic business goals as it relates to a company's contracts. Additionally, with

continued enforcement actions by regulators, in-house attorneys are best suited to help their organization navigate compliance matters.

These new hires, particularly in specialty areas, allow a legal department to "gain the expertise in-house at a fraction of the cost related to outside counsel," shared a corporate counsel in the insurance industry.

## FOCUS OF NEW POSITIONS CREATED





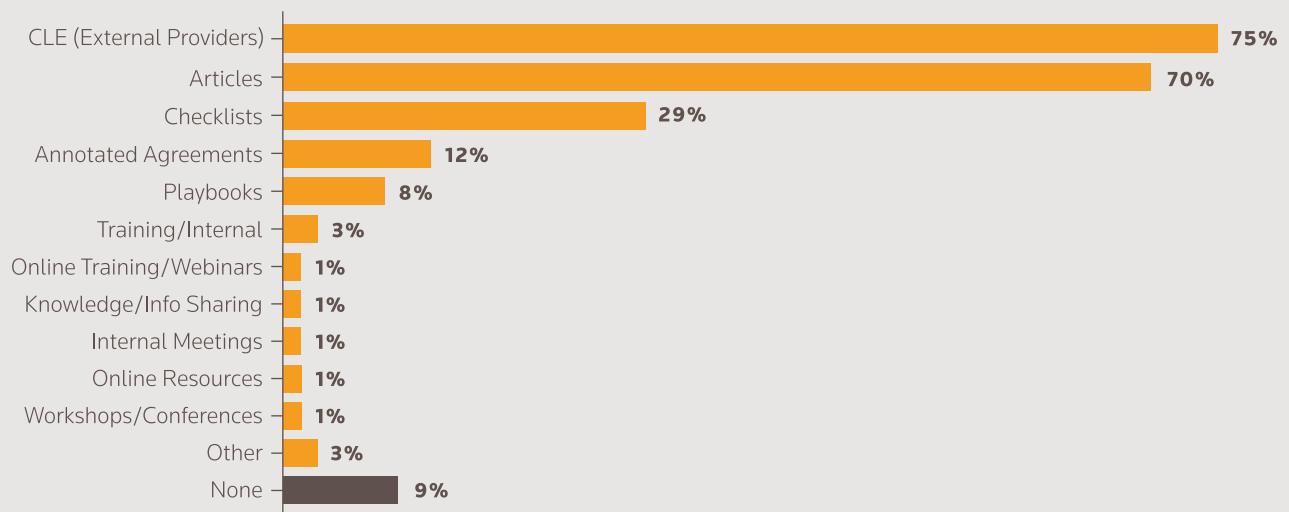
# ON-BOARDING AND TECHNOLOGY

The discussion to grow internal headcount is only the first step to improving the speed and efficiency of delivering legal services to a company.

Effectively on-boarding new members of the legal department is critical. The legal department must educate new team members on broad industry trends and the company's products, business model and risk tolerances. Additionally, new attorneys must build relationships of trust with new internal clients. More departments are proactively creating and procuring resources to facilitate this knowledge accrual for these new hires. Legal departments not only rely on traditional resources like CLE classes and articles but also are creating company- and industry-specific checklists, playbooks, forms and other "know-how" resources to inform and guide these new hires.

One assistant general counsel from a healthcare company shared their department's aim is to "develop a more robust internal playbook and clause bank." These types of materials developed by the legal department not only help on-board new hires but also create efficiencies for the existing legal team and within the greater organization. For instance, one legal department shared that use of these playbooks extends beyond the legal department, describing the benefit of creating a "written knowledge base and handbooks for sales and marketing [departments] so repeatable questions can be answered using those materials," rather than consuming the limited time of in-house attorneys.

## RESOURCES/METHODS TO EDUCATE DEPARTMENT

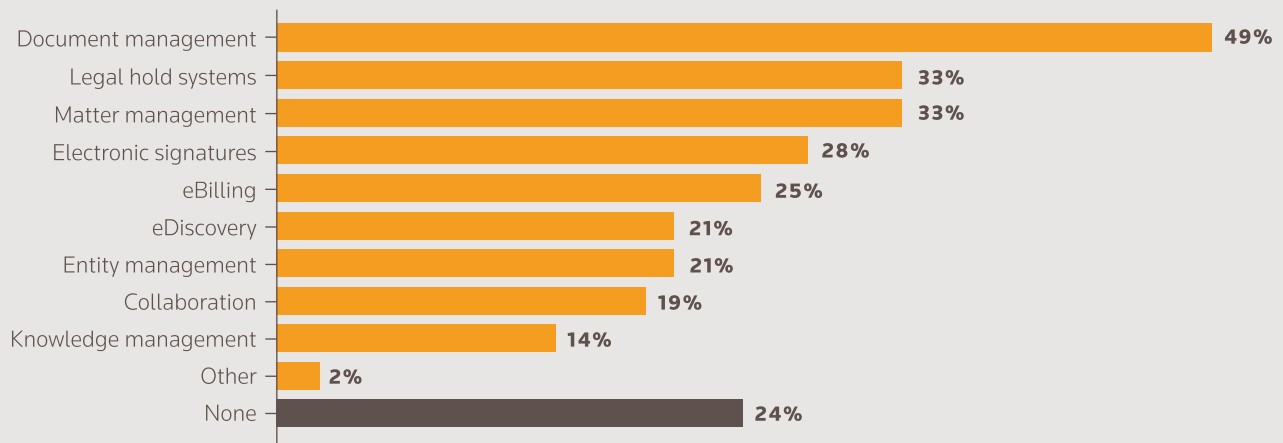


While legal departments look to deliver legal advice to their internal clients more effectively, many turn to technology as an additional opportunity to improve their efficiency and workflow, extend capacity, and minimize or decrease administrative costs. Paper-intensive processes are improved by technology; document management tools have been used by the most departments: nearly half, at 49 percent. Matter management and legal hold technologies have been leveraged by one-third of legal departments in the last year. Additional technology systems are being used to improve operations. For instance, eBilling,

used by one-quarter of the respondents, streamlined a time-consuming manual, paper-based process. Utilization of knowledge management technology reduces time spent searching for buried organization knowledge, forms and templates.

This technological revolution is not entirely universal; 24 percent of departments responded they are not leveraging any additional technology systems to increase efficiency. In addition to having access to technology solutions, the ability to train and understand the available functionality is key to driving efficiency.

## TECHNOLOGY SYSTEMS TO SUPPORT EFFECTIVE LEGAL OPERATIONS



**ONE CORPORATE COUNSEL SHARED THEIR DEPARTMENT'S EFFORTS TO BRING MORE**

“work in-house through the use of more templates and contracting software”

# DIVISION OF LABOR: GREATER RELIANCE ON IN-HOUSE RESOURCES

The evolving relationship between in-house and outside counsel is clearly illustrated in the changing division of responsibilities related to contracting, intellectual property, M&A and litigation matters. This analysis uncovers **which activities and tasks are undertaken primarily by in-house counsel**, and what additional drivers and considerations motivate legal departments to seek help outside of their immediate legal department.

# CONTRACT DRAFTING AND NEGOTIATION

Many legal departments responded that contract drafting and negotiation is a “core competency” of the in-house legal staff, noting that they have sufficient staff able to handle contracting needs. Other respondents recognized that in-house attorneys have a superior grasp of the business and industry, making them a more effective contracting resource. This pragmatic approach is less pronounced in their outside counsel.

One general counsel in the oil and gas industry made an observation shared by many in the in-house practice, notably preferring to keep work in-house “because in-house lawyers have more experience in our business.”

Two-thirds (66 percent) of legal departments stated that they “never” or “rarely” use outside counsel for the negotiation and drafting of company contracts. Accordingly, multiple tasks related to the company’s contracting needs are handled primarily

and overwhelmingly by in-house resources, including document drafting, review and approval (81 percent); negotiations with counterparties (79 percent); and discussion of transaction details, including negotiation status, with internal business clients (76 percent).

Twenty-nine percent of companies that do contract drafting stated they don’t use outside counsel at all for this type of legal work. On the other end of the spectrum, 6 percent of departments claim to have a regular operating procedure wherein all contracting goes to outside counsel. As it pertains to contracts, three reasons dominated in-house counsel’s use of outside counsel: complexity of contract/drafting issues (45 percent); overflow caused by high volume of contracts (42 percent); and significant risk associated with the contract (38 percent).

## CONTRACT DRAFTING & NEGOTIATION TASKS HANDLED BY LEGAL DEPARTMENTS

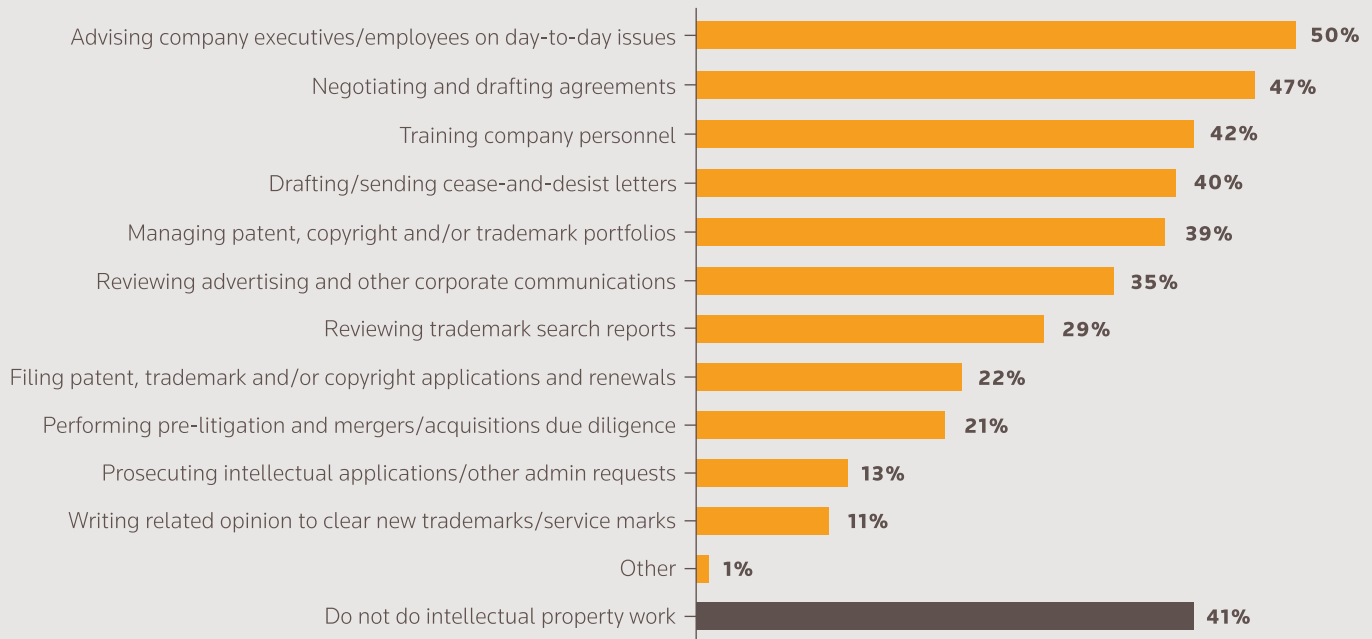


# INTELLECTUAL PROPERTY

According to the survey, two out of five (41 percent) departments do not handle intellectual property work. But for those who do, corporate counsel concentrate on advice and counsel-related activities: namely, half (50 percent) of the respondents stated they advise company executives and employees on day-to-day issues related to intellectual property, with slightly less than half (42 percent) naming “train company personnel” as part of their responsibilities. Said one assistant general counsel, “We have very little of this kind of work. Usually another party is making a claim of trademark infringement, and we are giving advice as to how to proceed. We provide some education regarding how to avoid trademark and/or copyright

infringement.” More than three-quarters (78 percent) of respondents anticipate no change this year in use of outside counsel for intellectual property matters. However, the top reasons a legal department would turn to outside counsel for help in connection with an intellectual property matter included the complexity of the intellectual property issues (59 percent) and the involvement of multiple or international jurisdictions (47 percent).

## INTELLECTUAL PROPERTY TASKS HANDLED BY LEGAL DEPARTMENTS

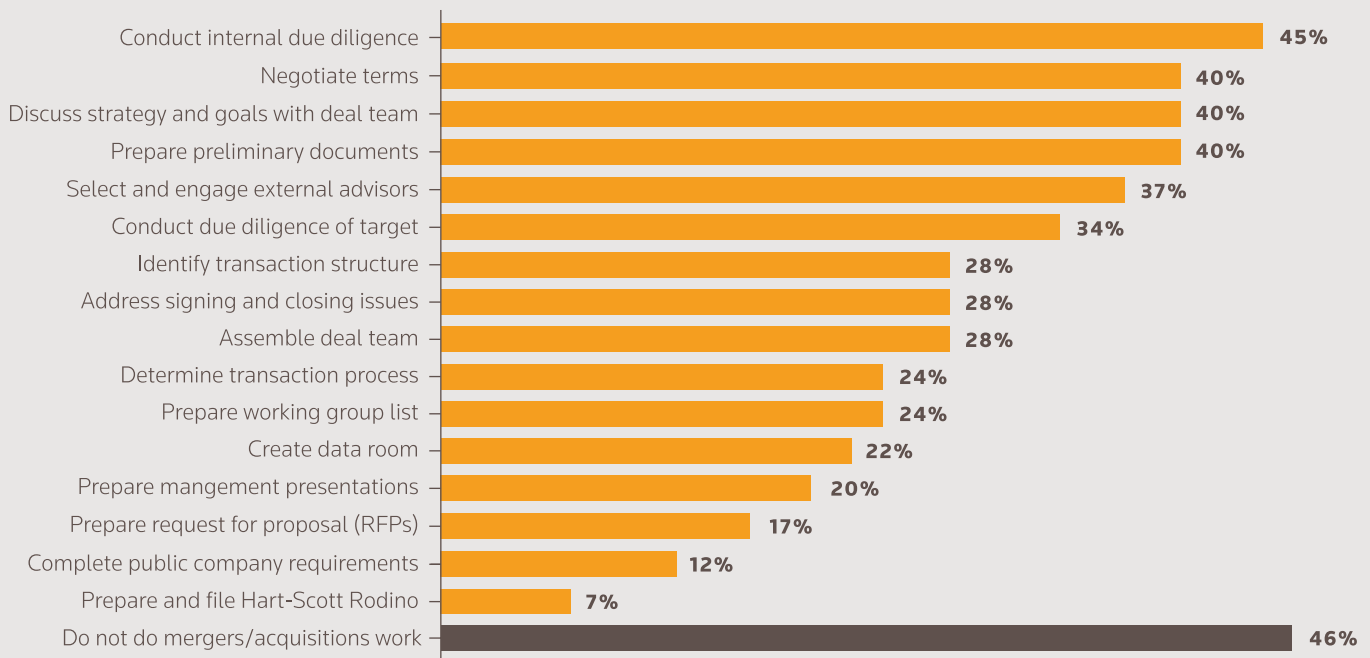


# MERGERS AND ACQUISITIONS

Legal departments handled a wide range of tasks related to a company's M&A transactions. When assessing the company's transactional work, a legal department in the healthcare industry shared, "We have internal experts that can handle [this] work, and it is more cost-effective to handle in-house." Due to the corporate counsel's proximity and deep understanding of the business, it's no surprise that the top tasks handled in-house included conducting internal due diligence (45 percent), negotiating deal terms (40 percent), and discussing strategy and goals with the team (40 percent). For M&A transactions, when does it make sense to turn to outside counsel? Fifteen percent of legal departments noted that they turned to outside counsel because they lacked the requisite expertise to handle these types of transactions.

However, the top reason to turn to outside counsel was attributed to the significance of the transaction (76 percent) and complexity (68 percent). Perhaps as an indicator of the health of the market and the growing number of M&A transactions, 44 percent of legal departments stated that they turn to outside counsel because of the large volume of deals causing overflow. Many departments noted an increase in M&A activity overall, including growth in international transactions and increased complexity of deals. Finally, 88 percent of departments anticipate their reliance on outside counsel for M&A matters to stay the same or increase.

## MERGERS AND ACQUISITIONS TASKS HANDLED BY LEGAL DEPARTMENTS

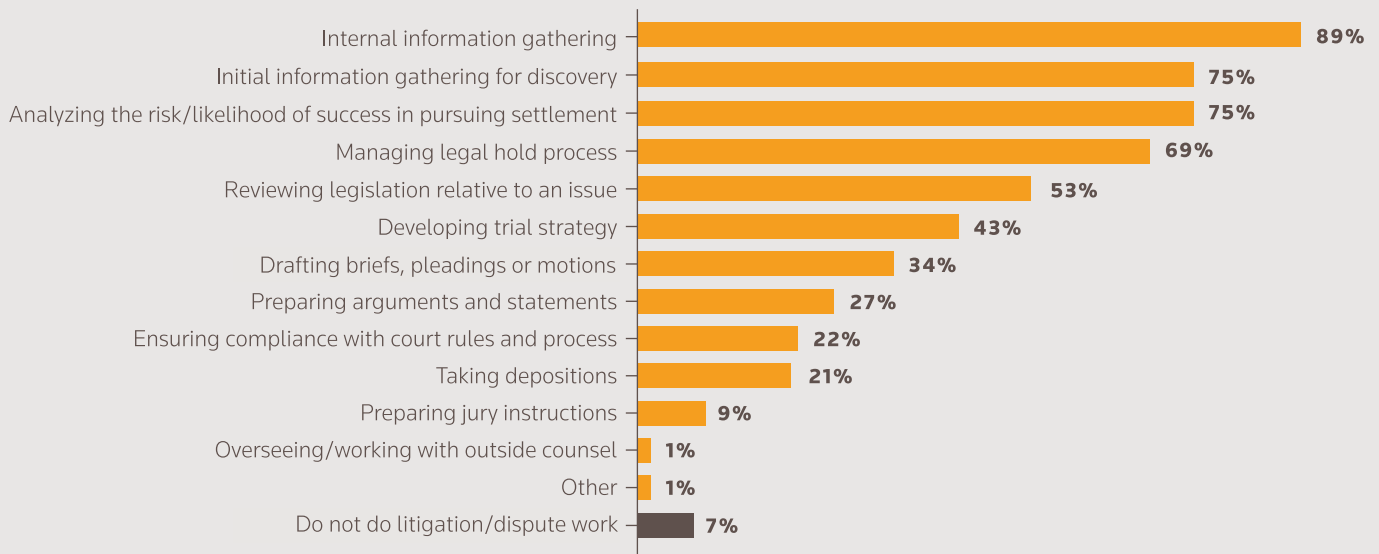


# LITIGATION AND DISPUTE MANAGEMENT

The pressure to better control external budgets has encouraged departments to handle portions of litigated work using in-house resources. One assistant general counsel stated, “Our budget is flat for next year, and as part of a large corporate department, we strive to conduct more litigation activities in-house when we can.” As part of this trend, legal departments are likely to own a handful of tasks related to these litigated matters, specifically those activities associated with early case assessment, including conducting internal information gathering (89 percent); gathering of discovery (75 percent); and analyzing the risk/liability of success in pursuing settlement (75 percent).

More than two-thirds of legal departments (68 percent) responded that they “usually” or “always/almost always” turn to outside counsel for litigation and disputes. In-house attorneys are dependent on outside counsel for “high stakes” litigation, with more than half (59 percent) of these respondents citing this as the top reason to turn to outside counsel for disputes. Complexities in legal issues or jurisdictions followed as other top drivers to partner with outside counsel on litigation: “multiple or international jurisdictions involved” (49 percent) and “litigation/dispute involved complicated legal concepts” (47 percent).

## LITIGATION/DISPUTE TASKS HANDLED BY LEGAL DEPARTMENTS



# THE COSTS OF OUTSIDE COUNSEL

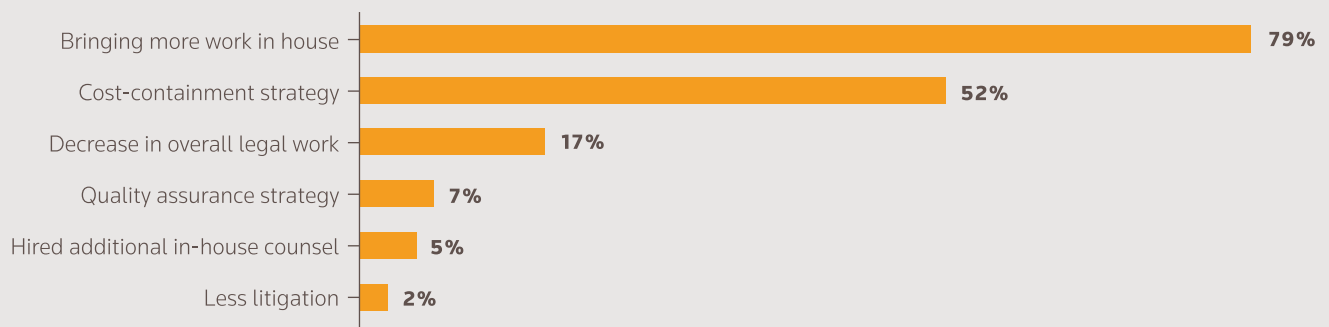
Notwithstanding the growing trend of legal departments' headcount and providing them additional tools and technology resources, very few internal teams are in a position to handle the entirety of the company's legal work without some form of partnership with outside counsel. Accordingly, departments continue to wrestle with the ideal split of legal work performed by in-house resources versus work sent to outside counsel. The preference to keep work in-house remains strong; according to the survey, 84 percent of legal departments stated they outsource half or less of their company's legal work to outside counsel. Along those lines, a small handful of legal departments (4 percent) noted all legal work is done internally with no assistance from outside counsel.

**WHEN EVALUATING LEGAL WORKLOAD OVER THE PAST TWO YEARS, MORE THAN ONE-THIRD OF LEGAL DEPARTMENTS (35 PERCENT) REPORTED AN OVERALL DECREASE IN THEIR RELIANCE ON OUTSIDE COUNSEL.**

This trend has evolved as some of these departments experienced a decrease in volume in overall legal work (17 percent) and litigation (2 percent), therefore yielding less reliance on outside counsel. But largely, the decrease on use of outside counsel has little to do with a company's overall volume of legal work.

Of the respondents who reported a decrease of their reliance on outside counsel, **AN OVERWHELMING 79%** have attributed this decrease to the redirection of work to in-house resources.

## REASONS FOR DECREASED RELIANCE ON OUTSIDE COUNSEL





Not only are legal departments **decreasing the amount of work** sent to outside counsel, but many are **engaging fewer firms**.

Compared with the prior two years,

**23%**

of respondents noted they are consolidating the number of firms with whom they work, shifting their legal work or experiencing a decrease in the amount of legal work.



The top reasons for consolidation of firms working on a company's legal matters included improved efficiencies and cost containment. This reduction in overall use of outside counsel, along with the trend in consolidation, is sure to create more competition among law firms. Accordingly, legal departments will require that their retained law firms have a more comprehensive understanding of their needs. Law firms are not only competing against other firms,

but with their in-house counterparts; this competitive market yields value-added practices from law firms to legal departments such as the delivery of early case assessments and budgets as well as the implementation of additional legal project management techniques. In this competitive market, legal departments can control the rules of engagement with clear guidelines on how best to secure, perform and maintain the legal department's work.

## NUMBER OF LAW FIRMS ENGAGED COMPARED TO 2 YEARS AGO

23% - FEWER

55% - SAME AMOUNT

22% - MORE

Despite a growing base of legal departments citing a decrease in their use of outside counsel over the past two years, some departments faced an increased reliance on their law firms; about one-quarter (24 percent) of the legal departments stated they planned to increase their use of outside counsel.

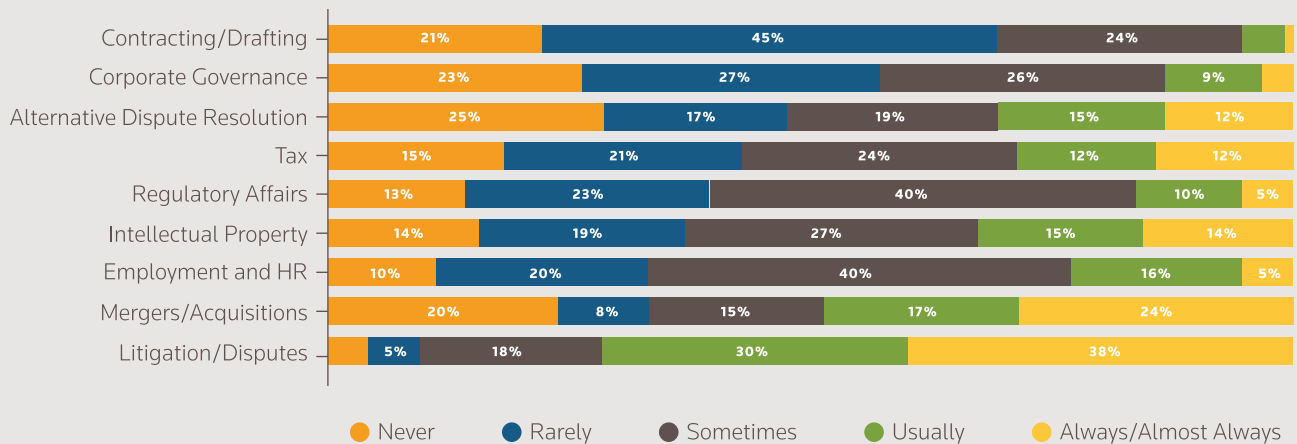
For these departments turning to law firms at a greater clip, the increase in reliance may be attributed to **overall increase in volume of work (78 percent)** and an **increase in litigation (5 percent)**. Other specific drivers yielding an increase in use of outside counsel included staffing cuts within the legal department and the company's strategic plan to expand and grow.

In addition to considering volume of work, **the decision to turn to outside counsel** takes into account numerous additional factors, including the **complexity of such work** and the need for **subject matter expertise**.

For instance, most legal departments are not staffed to handle the complexity of litigation. Not surprisingly, more than two-thirds of legal departments (68 percent) responded they “usually” or “always/almost always” turn to outside counsel for litigation and disputes. Similar to significant litigation, few legal departments are in the position to internally staff complex M&A transactions; accordingly, M&A work follows behind litigation as the type of work for which outside counsel is most often used. According to the survey, 41 percent of departments stated they “usually” or “always/almost always” rely on outside counsel in connection with M&A work. Conversely, work that is voluminous, repetitive and less complex is often kept in-house.

Two-thirds (66 percent) of legal departments stated they “never” or “rarely” use outside counsel for the drafting and negotiation of company contracts. **THIS DEPENDENCY ON IN-HOUSE RESOURCES FOR CONTRACTING CAN BE ATTRIBUTED TO THE SPEED AT WHICH IN-HOUSE COUNSEL CAN TURN AGREEMENTS, THEIR ABILITY TO LEVERAGE INTERNAL RELATIONSHIPS AND COMMUNICATION CHANNELS, AND THEIR DEEP UNDERSTANDING OF THE COMPANY’S RISK TOLERANCES AND PRIORITIES RELATED TO SUCH AGREEMENTS.**

## FREQUENCY DEPARTMENT ENGAGES OUTSIDE COUNSEL



# CONCLUSION

The demands on legal departments to better manage their resources and maximize opportunities to improve productivity and efficiency are persistent and never-ending.

Accordingly, legal departments, in an effort to demonstrate their value across the enterprise, are turning to multiple practices to achieve these goals. The initial means focused on managing outside counsel to achieve these higher levels of efficiency and cost control. In addition to the evolving dynamics of the in-house/outside counsel relationship,

more departments are investing in internal resources, increasing headcount, better leveraging technology and evaluating legal managed services — all to improve legal services to their internal partners.

These trends illustrate that departments have several levers to pull to **achieve efficiencies** and will **continue to redefine** the ways legal work is addressed by internal resources within the legal department and with outside counsel for the time to come.