Legal Department Optimization:

Leveraging a Maturity Model to Achieve Operational Excellence

A Framework for Change

It's not unusual for legal departments to have their budgets reduced by as much as five to ten percent in a single year, yet still be expected to maintain the same or greater performance levels. On top of budget pressures, general counsels are often challenged by how to manage risk, improve compliance, save time and get the best possible legal outcomes.

Such challenges demand that corporate legal department attorneys look for ways to use technology and data to improve processes, uncover greater cost efficiencies and deliver better results.

By themselves, though, technology and data aren't enough to meet those challenges, or to help legal departments evolve as business needs change.

A legal department also needs a framework to help identify where it currently stands in key areas of proficiency – matter governance, pricing, vendor management, etc. – as well as what the metrics will look like when the department gets where the general counsel wants it to go. That is, when the legal department achieves operational maturity.

From helping those in legal departments manage manual processes to modeling future scenarios through predictive analytics, this white paper examines how to move up the maturity spectrum to achieve the kind of outcomes that drive meaningful change.

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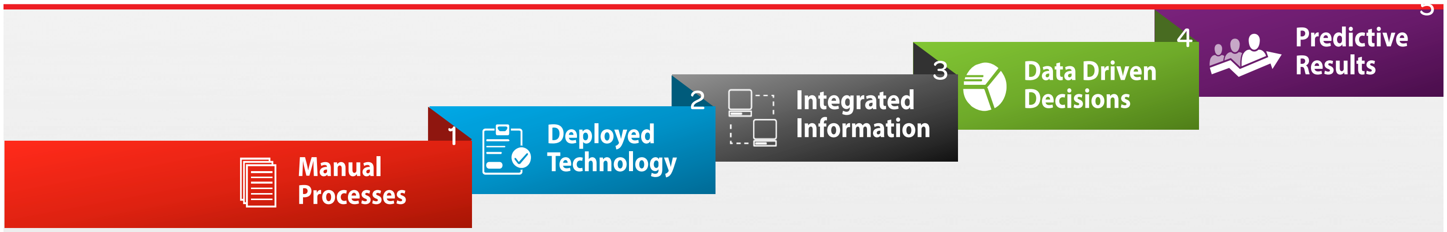
The Legal Department Maturity Model as a Framework: Moving Up the Curve

The Legal Department Maturity Model offers a framework to help legal departments determine where they stand with key proficiencies at present, along with which steps can help them reach the desired maturity level.

Looking at legal department maturity on a spectrum makes it easier to identify areas for improvement.

Figure 1: Legal Department Maturity Model



Area of Proficiency					
Knowledge Management	Spreadsheets	Standard Reports	Dashboards	Analytics	Scenario Modeling
Communication	Email	Matter Journals and Documents	Matter Calendars	Shared KPI Accountabilities	Real-time Alerts
Matter Governance	Manual, One-off	Billing Guidelines	Comprehensive Matter Visibility	Matter Project Plans	Collaborative Decisions
Budget Oversight	Blank Check	Matter Level Budgets	Aggregated Budgets	Variance Analysis	Data-driven Forecasts
Vendor Management	Anecdotal	RFPs	Preferred Firm Panel	Law Firm Scorecard	Law Firm Optimization
Matter Pricing	Hourly	Rate Discounts	Alternative Fee Structures	Strategically Negotiated Fees	Win-Win Pricing

Figure 1 illustrates the model's five levels. Moving from left to right, an organization progresses from very basic or manual processes at Level 1, through increasingly well-defined and streamlined workflows, all the way to Level 5, where technology, analytics and processes converge for optimal operational performance

Most companies begin to the left of the spectrum with manual or lower-level processes – such as working in Microsoft® Excel® or dealing with paper billing – with only the most basic or no technology in place and few defined processes. As needs and proficiency levels improve, one of the first steps along the maturity spectrum is to get rid of paper and move to automated processes.

As a legal department deploys more sophisticated technologies and integrates information across the enterprise, it achieves new efficiencies and moves forward on the maturity curve. One such change might include using software to automate invoice approval, providing the legal department immediate savings in time and money.

Over time, legal departments can see the benefits of integrating information, processes and technology to bring data sources (AP, HR, contract management, etc.) together in one place. By doing so, they achieve clear visibility into all legal information and performance parameters, allowing general counsels to make data-driven decisions, such as budgeting on both a matter and department level.

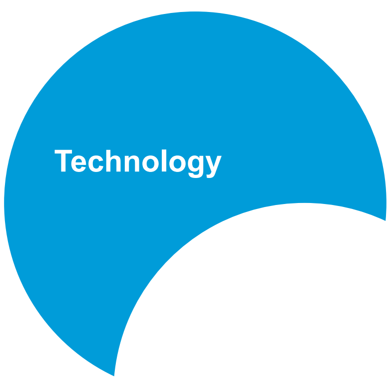
Legal departments reach full maturity when they become more proficient with technology and analytics, continue improving operations overall and use analytics to predict results and provide answers to high-level questions such as:

- Where are we going to be at the end of this year from a spending perspective?
- What's the likely outcome of matters that we have in our portfolio, based on similar matters we've seen historically?

As illustrated in Figure 1, the Maturity Model can be applied across any of the six common legal department operations areas of proficiency: knowledge management, communication, budget oversight, vendor management, matter pricing and matter governance. Each of the six areas can be improved across the five maturity levels based on the drivers of change that take place within the department.

The Path to Maturity:
Three Drivers of Operational Maturity

No legal department magically transforms from Level 1 to Level 5. For organizations to successfully move through the maturation process, all three drivers – technology, analytics and processes – must be employed and leveraged in unison.



TECHNOLOGY

The path to high-level maturity requires enterprise-level systems that capture information, drive workflows and automate tasks. These systems help establish processes and make it more efficient to route matters, documents and information between parties inside the department and with external vendors.

Such processes eliminate much of the time spent manually performing tasks, time better spent on key legal work, which is obviously the best use of legal counsels' time and efforts.

Enterprise-level legal software is designed to capture information, drive workflows and automate tasks, including:

- Matter Management
- E-Billing
- Document Management
- Contract Management

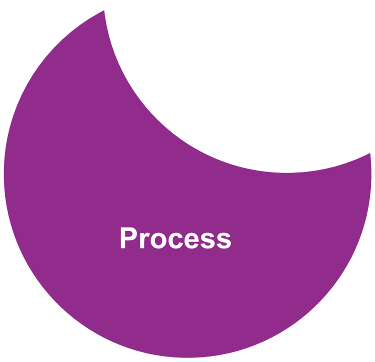
ANALYTICS

While deploying technology can provide a short-term return on investment – such as cost savings from invoice processing and automatic adjustments to the system – the sustainable savings and long-term ROI result from mining legal department data.

Analytics is the discovery and communication of meaningful patterns of data: Data that can look at outside counsel spending and the outcomes achieved in certain matters. Data that can tell how long matters are taking and how they're performing against budgets.

Analytics tools provide the general counsel with:

- Spending analyses
- Outcomes analyses
- Counsel assessments
- Efficiency improvements
- And more



PROCESSES

The series of actions or steps taken to achieve a particular end – the processes – are the third driver of operational maturity.

Examples include:

- Budgeting
- Law firm assessment
- Panel management
- And more

Let's look at an example more closely: vendor management. Without technology in place, most legal departments choose their vendors based on whom they know, which firms they've worked with before and other anecdotal evidence.

With technology in place, general counsel can approach vendor management in a more sophisticated way, such as by utilizing RFPs to aggregate and store vendor data.

Becoming even more advanced or by using analytics, they may develop a panel and start measuring key metrics associated with law-firm vendors who participated in the RFP, using a scorecard with real data to better inform their decisions.

Case Study 1: **Law Firm Performance Assessment Scorecard**
Primary Objective: **Implement scorecard system for data-driven firm selection**

A CounselLink insurance company customer found the answer in a data-driven assessment tool that allowed the company to measure law firm performance based on various criteria – some subjective and others objective – for a better firm selection process. That tool came in the form of a law-firm scorecard.

When each matter closes, in-house attorneys evaluate the law firm on a pre-determined set of criteria input onto a scorecard. Once enough information is captured, data is provided for either an overall firm assessment or a matter-by-matter assessment.

The scorecard can also serve as a systematic, closed-loop process to give law firms feedback on their performance, making them aware of their standing and alerting them to opportunities for improvement so the relationship can continue.

VENDOR SCORECARD

Law Firm	Cost	AFA Offering	Complies with Billing	Lawyer Turnover	Community Outreach	Outcome	Expertise	Div
Adams & Burr	6	8	3	10	8	8	6	6
Adams Hamlin	3	10	10	8	8	6	3	3
Barkley & Kennedy	6	8	0	6	10	6	6	3

The result:

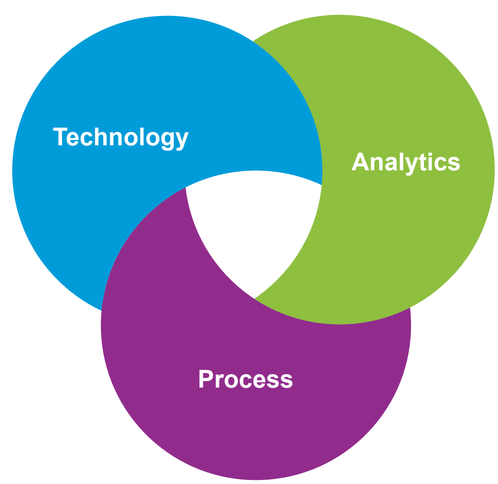
- A more data-driven process for law-firm selection
- Lowered costs as a result of limiting the number of law firms to those that provide the most effective counsel
- Improved outcomes

Ultimately, vendor management evolves into a formal process of law firm optimization, with the ability to identify the best law firms available to help manage particular matters.

While all three of the drivers – technology, analytics and processes – are important building blocks to realizing operational excellence, the best outcomes occur when all three drivers work in unison.

Technology captures information. Analytics uncover meaningful patterns, which enables legal departments to put processes in place to fully leverage both analytics and technology.

That's when it becomes possible to create outcomes that drive meaningful change.



Case Study 2: **Panel Consolidation**

Primary Objective: **Consolidate outside counsel from over 100 firms to fewer than 20**

The general counsel of a large consumer-products company boasting significant global operations was charged with scaling down the sizable number of firms working on their litigation matters. The company had over a hundred firms in the U.S. alone, making management and oversight difficult.

It also wasn't sure about the outcomes being achieved and put pressure on the legal department to come up with a solution.

The company began an extensive program to pare down its list from over a hundred firms to fewer than twenty.

The first step was to capture all data, both historically and moving forward, and assign matters into types. That made it possible to gauge the quantity and different complexities of the matters.

The next step was to assess the firms on the basis of past performance and send RFPs to give them an opportunity to communicate why they were interested in continuing to work with the corporation, which types of work they were capable of and why they should be selected.

Following completion of the assessment process, the corporation allocated work, assigning a primary and secondary firm to each matter type and region. Within those regions, law firms were given ownership of different matter types.

The outcome of their efforts:

- A smaller number of firms, resulting in lower negotiated rates
- Simplified management and streamlined coordination processes
- Improved outcomes as a result of closer partnerships with firms selected through a strong set of criteria

PANEL CONSOLIDATION

Context:

Panel consolidation from >100 firms to <20

Actions:

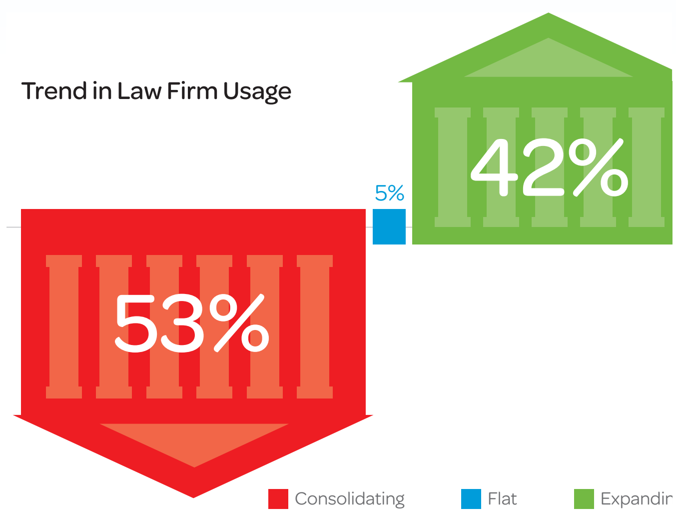
- Assignment of all matters into types
- Assessment of all firms based on existing data and RFP responses
- Allocation of work by matter type and geography

Outcomes:

Lower negotiated rates, simplified management and coordination, improved outcomes

Did You Know?

According to the CounselLink Enterprise Legal Management Trends Report, the majority of legal departments have cut the number of firms they use. This has helped manage rates and spending and achieved better outcomes.



In 2013, 53 percent of corporations used fewer firms.

Case Study 3: **Collaborative Budgeting**
Primary Objective: **Predictability**

When a large, multi-national financial institution sought to create an annual budget for their 500 largest litigation matters, saving money was not their primary objective. Predictability was.

The corporation, which had an extensive amount of outside counsel spend, managing a host of different matters, had their law firms submit detailed annual budgets on each of the largest 500 litigation matters in the CounselLink system. The firms provided not only data, but also commentary and notes to justify certain assumptions. This was done on a very detailed level which included phase codes and timekeeper levels.

The corporation then reviewed individual budgets and had discussions with each firm to "pressure test" the assumptions. Together, each law firm and the corporation arrived at an assessment of what a matter would cost in outside counsel services for the year. They then arrived at a fixed fee for each of the matters on an annual basis, allowing for some wiggle room such as information changes.

In this way, a budgeting baseline was established for the corporation's spending on outside counsel.

While this budgeting process was instrumental in helping the corporation save on outside counsel costs, the real purpose was achieving predictability through more robust conversations with their law firms in advance of work taking place.

Through the CounselLink system, the corporation was able to **forecast within one percent its total costs for outside counsel across matters.** Predictability was the driver it sought and the outcome it achieved.

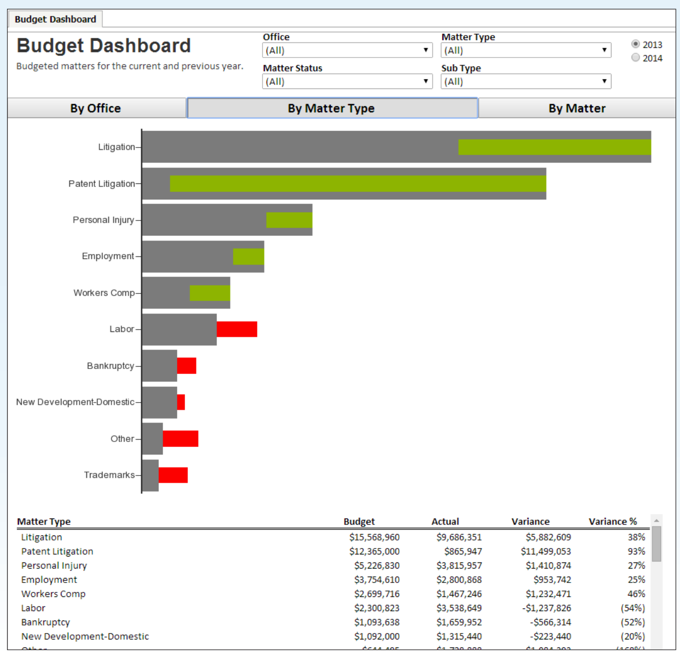
The corporation achieved Level 5 operational maturity by combining technology to capture law-firm information, analytics to achieve a better understanding of its data, and processes for collaborating with law firms to review and switch to fixed fee arrangements. From there, the corporation was able to monitor those arrangements on an ongoing basis throughout the year.

COLLABORATIVE BUDGETING

Context:
Detailed collaborative budgeting on 500 large matters annually

Actions:
- Law firms submit detailed budgets with comments into the system
- Company reviews each budget with law firm
- Fixed fees set for each matter for the year

Outcomes:
Able to forecast outside Counsel expense on these matters within 1%



Matter Type	Budget	Actual	Variance	Variance %
Litigation	$15,568,960	$9,686,351	$5,882,609	38%
Patent Litigation	$12,365,000	$865,947	$11,499,053	93%
Personal Injury	$5,226,830	$3,815,957	$1,410,874	27%
Employment	$3,754,610	$2,800,868	$953,742	25%
Workers Comp	$2,699,716	$1,467,246	$1,232,471	46%
Labor	$2,300,823	$3,538,649	-$1,237,826	(54%)
Bankruptcy	$1,093,638	$1,659,952	-$566,314	(52%)
New Development-Domestic	$1,092,000	$1,315,440	-$223,440	(20%)

Characteristics of Legal Departments with Mature Processes

Corporate legal departments that have successfully achieved operational maturity learn that the greatest savings come not just from deploying technology or changing a few processes, but from making comprehensive changes. These legal departments are able to improve pricing and panel selection and create strategies for matter management to make informed settlement decisions through data mining.

Armed with the right technology, information and a data-driven approach, general counsels are better able to demonstrate their value to the organization, extracting information to show savings generated and other trends over time.

While a common pain point of legal departments is being perceived as very expensive cost centers, having the right drivers in place can help change perceptions of how they're viewed within the corporation.

Legal departments that have reached full operational maturity benefit from:

- Streamlined productivity and efficiencies
- Legal spending control
- Optimized resource utilization
- Fast and informed data-driven decision-making
- Productive collaboration with outside counsel

About the Authors

Kris Satkunas – Director of Strategic Consulting

As Director of Strategic Consulting at LexisNexis, Kris leads the CounselLink team in advising corporate legal department managers on improving operations with data-driven decisions. Kris is an expert in managing the business of law and in data mining, with specific expertise in matter pricing and staffing, practice area metrics and scorecards. Prior to joining CounselLink, Kris served as Director of the LexisNexis Redwood Think Tank, which she also established.

Kris has authored numerous articles and spoken at legal industry conferences and events. She came to LexisNexis in 2000 after having honed her finance skills as a Senior Vice President in Strategic Finance at Suntrust Bank. She holds a B.B.A. in Finance from The College of William & Mary.

Justin Silverman – Senior Director, Product Management

Focused on the core CounselLink solution and its capabilities for Matter Management, Legal Spend Management and Legal Hold, Justin is responsible for all aspects of product and market strategy and the end-to-end experience for corporate legal department customers. He joined the CounselLink team one year ago, coming from a two-year assignment as Senior Director of Global Strategy and Business Development for LexisNexis. Prior to that, he managed a professional services business at Gerson Lehrman Group, and also acquired more than six years of management consulting experience, equally split between Oliver Wyman and the Boston Consulting Group. He earned a J.D. degree from Northwestern University Law School, and an MBA from the Kellogg School of Management.

About CounselLink

The CounselLink solution is an Enterprise Legal Management solution suite for matter management, legal spend management, legal hold, analytics and strategic consulting services. LexisNexis CounselLink Solution is positioned in the "Leaders" Quadrant of the Gartner's Magic Quadrant for Enterprise Legal Management and has earned an industry reputation for helping to improve legal department performance and outcomes.

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