

**2017**  
**Chief Legal Officer Survey**  
**An Altman Weil Flash Survey**

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## 2017 Chief Legal Officer Survey

Each year since 2000, the Chief Legal Officer Survey has provided insights into the state of in-house law departments from the perspective of their chief lawyers. Now in its eighteenth year, the 2017 survey identifies long-term trends, highlights new and emerging issues, and explores the reasons behind the findings.

The Chief Legal Officer (CLO) position is a complex job encompassing law, business and leadership roles – and the law departments they lead are not monolithic. They range from solo shops with one lawyer who wears all hats, to departments with 1,000 or more lawyers that have a vast array of resources and an equal number of challenges.

This year, for the first time, the survey includes breakouts by department size to provide more depth and insight on management approaches and spending decisions. In doing this, we have been able to identify where department size is a factor and where it does not appear to be material. We also asked not only about the management tactics law departments are using in a variety of areas, but also whether or not each effort has resulted in a significant improvement in performance.

The report includes data on department personnel and operations as well as outside counsel management – and throughout the survey these internal and external elements intersect. The push and pull of interdependence between law departments (as clients) and law firms (as their primary service providers) is evident. At the same time, non-law-firm vendors and evolving technology tools play a growing role, offering new alternatives to the traditional 'law firm-client' pairing.

### Law Department Staffing

Thirty-eight percent of law departments plan to add in-house lawyers in the next 12 months, according to the survey. That is 4.5 times more than the 8% that plan to decrease their in-house lawyer staff, continuing a recent trend of law department growth. Of those planning an increase, 68% said they plan to add lawyers to cover an overall increase in workload; 49% will do so to fill open positions, and 29% will hire to cover new areas of law. A little over a third (36%) of all departments plan to increase lawyer staff for a more calculated reason – to save money on outside counsel costs.

The Law Department Operations Manager (LDO) position (akin to law firm COOs and executive directors) is relatively new, but it is gaining traction. This year, 37% of law departments report having either a full-time or part-time administrator up from 33% last year. Three quarters of all departments with 50 or more lawyers report having an LDO on staff. These professionals oversee day-to-day operations in the department and manage financial issues, including outside counsel spend, technology and people.

For most law departments with even ten lawyers or more, there can be significant value in transferring administrative functions to a specially qualified professional. Although many CLOs will default to adding another lawyer if they have added resources, it is worth assessing the benefits of freeing up lawyer time from administrative tasks to focus more on practicing law.

### **Improving Internal Efficiency**

Of ten options to improve law department efficiency, the most common response, from 58% of all respondent departments, is a greater use of technology tools. The preference for this tactic directly correlates to department size, with 55% of 1-lawyer departments using it, while 81% do so in departments with over 50 lawyers. This differential is not surprising considering the investment of money and time required to purchase and effectively implement new tech tools.

The second most frequently deployed efficiency technique is greater use of paralegals and other para-professionals, reported by 45% of all departments. Here, there is no significant difference based on department size.

We also asked how effective each of the ten efficiency tactics had been in improving performance. The tactic with the highest effectiveness score is outsourcing to non-law-firm vendors – although it was second to last in frequency, used by only 19% of all departments. This is also a tactic used much more by large departments, likely because outsourcing also requires a significant up-front investment to set up and manage and makes most sense if it can be applied to a critical mass of work over an extended period of time.

In contrast, the second most effective technique is also the second most frequently used – i.e., a greater use of paralegals and other para-professionals. This is an effective, familiar, and easy-to-implement tactic available to all law departments.

We recommend that law department leaders look at each pairing of tactic and effectiveness, considering the investment required and the outcomes reported, in order to identify where potential opportunities may exist to improve their department's performance.

### **Controlling Costs**

We asked Chief Legal Officers about 14 cost control techniques and the effectiveness of each. In this category, the most frequently used tactics are: price reductions from outside counsel (named by 64% of departments); improved internal efficiencies (in 58% of departments), requiring outside counsel budgets; and, alternative or fixed fees (the latter two in 51% of departments each). The use of all cost control tactics on the list has a direct correlation with department size, with larger departments more likely to pursue each option.

Interestingly, outsourcing to non-law-firm vendors again took the top spot as most effective tactic for those that use it to control costs. For departments in which outsourcing is a viable option, it clearly has proven potential.

The second, third and fourth most effective cost control tactics all target outside law firms: shifting law firm work to lower-priced firms, reducing the total amount of work sent to outside counsel, and shifting law firm work to in-house lawyers. Each of these tactics is an example of labor arbitrage in which CLOs are rethinking who should do their work and how it should be done.

### **The Law Department Budget**

We asked CLOs about the change in their total law department budgets from 2016 to 2017, as well as detail on changes to internal spend and spend on outside counsel and vendors. Overall 45% of departments increased total spend in 2017; 36% decreased their budgets; and, 19% made no change.

A majority of law departments increased their *internal budgets* in 2017. Fifty-six percent of all departments report an increase, while only 22% report a decrease. This continues a multi-year trend in which increases in this category have significantly outpaced decreases. For the first time since 2013, law department *vendor budgets* also saw more increases than decreases – with 20% of departments upping their vendor spend, while 12% decreased it.

Outside counsel spend is the only category in which more departments cut their budgets in 2017 than those that increased it. Forty-one percent of law departments report decreasing outside counsel spend, while 32% report an increase. However, the differential between decreases and increases has been narrowing each year since 2015.

The survey found a noteworthy turnaround in law department predictions about future outside counsel spending. When asked about their plans for 2018, 40% of law departments indicate they plan to increase their outside budgets next year as opposed to 33% that anticipate a decrease. This is the first time since 2007 that more departments plan increases than decreases in outside counsel spending.

This anticipated change of direction in outside counsel spending in 2018 may be an extension of the narrowing gap between decreases and increases in actual spending reported over the last three years. It will be interesting to see if this prediction about future spending pans out in real changes next year.

### **Department Size and Spending Trends**

On spending, department size is a clear determinative factor. For total legal spend in 2017 and in each budget sub-category, the largest law departments diverge sharply from departments of other sizes. For example, in law departments with over 50 lawyers, only 22% increased their total spend in 2017, while 59% decreased the budget. At the other end of the spectrum in one-lawyer departments, 77% increased total spend and only 12% decreased spend.

The same pattern holds true for planned outside counsel spending in 2018. While in aggregate 40% of departments say they plan increases and 33% plan decreases, the results by department size tell a more nuanced story. In one-lawyer departments, 70% plan to increase outside spend in 2018, and 5% plan a decrease. In 2 to 10 lawyer departments, 44% plan to spend more on outside counsel, and 25% plan a decrease; and, in 11 to 50 lawyer departments, 36% plan an increase and 39% plan a decrease. In departments with more than 50 lawyers, only 22% plan to increase outside counsel spend while 53% plan a decrease.

Why are so many more large law departments able to hold the line on spending increases? Larger departments have more lawyers to cover workloads, can afford more sophisticated technology, are more likely to have outsourcing capabilities, likely wield more leverage over law firms, and more often than not employ an LDO and staff

to manage processes and metrics. All of these tools equip larger departments to work more efficiently and to control inside and outside costs more effectively. Smaller departments are simply less flexible and have fewer tools at their disposal.

### **Negotiating Power**

Virtually all law departments receive discounts on standard law firm rates that range from an average of 1% to 15% or more, with a median of 10% – a number that holds true across all department sizes. But what obstacles, if any, do departments face in getting greater discounts?

The top reason, given by 55% of CLOs, is that they believe they do not have enough buying power to negotiate more effectively. The next most frequent response, from 51% of departments, is that law firms resist giving greater discounts. An additional 30% of departments say they don't push harder for discounts because they don't want to damage good relationships with their outside counsel.

To get a better idea of how much negotiating power law departments really might have, we asked what percentage of their outside fees last year were for work that could have been done by many different law firms. The median response across all department sizes is 41% to 50% of their outside spend. We also asked what percentage of fees went to work that was not price sensitive, and received a median response of 21% to 30%.

A number of factors are in play here. It seems that law departments do, in fact, have considerable negotiating power which they may underestimate. However, there are many costs and considerations in retaining law firms that go beyond pure dollars and cents. There is value in continuity, institutional knowledge and relationships that may equal or surpass a few added percentage points on the discount scale. This is an area where Chief Legal Officers need to thoughtfully assess which law firms merit their loyalty, and when there may be strategic gain in negotiating more aggressively or looking for alternative providers.

### **Outside Counsel Management**

We asked law departments what they routinely do to manage outside counsel. Eighty-one percent say they require budgets for major matters; 79% provide guidelines for billing, expenses, matter staffing and matter management; and, 67% negotiate fixed, capped or alternative fees.

It's noteworthy that although 79% of departments indicate they *provide* standard billing and management guidelines to their law firms, only 60% say they routinely *enforce* the guidelines provided. When we followed up with a question about which outside counsel management techniques are most effective, the number one response was to enforce these guidelines.

To set standards and then fail to enforce them is an obvious and unnecessary omission – and one that should not stand in any law department that is serious about effectively managing law firms.

In considering what changes and improvements they would most like to see from outside counsel, CLOs in departments of all sizes prioritize costs over process. Their top three choices all focus on containing costs, including: greater overall cost reductions, identified by 51% of all respondents; improved budget forecasting, chosen by 46% of CLOs; and, non-hourly pricing structures, chosen by 39% of CLOs. Their second tier of priorities address how their work is done, including: modification of work to match legal risk levels (31%), more efficient project management (30%), and more efficient project staffing (29%).

This preference for cost control over process efficiency is borne out in another question. Forty-five percent of CLOs say they have shifted a portfolio of work worth \$50,000 or more from one law firm to another in the last year in order to get lower fees. In contrast, only 28% have made a similar change to achieve greater matter management efficiency. It is easier for law departments to demand cost reductions from providers and let them determine how to achieve lower fees.

### **Understanding Law Department Challenges**

In a final question, we asked CLOs to rate three key groups of stakeholders on their knowledge and understanding of the challenges of leading a law department. Using a scale of 0 to 10 in which 0 equals 'no understanding, 5 is 'intermediate understanding,' and 10 equals 'sophisticated understanding,' law department leaders rate non-law-firm vendors at an average of 4.2, their organization's executives at 5.7, and their outside counsel at 6.1.

It's striking that neither category of service providers – vendors or law firms – are perceived to have anything approaching a sophisticated understanding of their customers and clients, and surely that is a source of dissatisfaction for Chief Legal Officers. While it should not be the job of the CLO to proactively educate providers on

their department's needs and priorities, such an understanding is another factor law departments can and should consider in making future purchasing decisions.

### **The 2017 Survey**

The *Chief Legal Officer Survey* has been conducted and published annually by Altman Weil since 2000, most recently in September and October 2017. Two hundred and eighty responses were received for the 2017 survey, 21% of the 1,332 law departments invited to participate. Demographic and budgetary data on responding law departments is included in the survey report.

The survey report follows and is online at [www.altmanweil.com/CLO2017](http://www.altmanweil.com/CLO2017).



## **Survey Methodology**

The large majority of survey questions were posed in a multiple-choice format and responses are reported as received. Question text is transcribed in the following report exactly as it appeared in the survey. Where there were special instructions, rating scales, or supplemental definitions, that information is also included.

Free text data submitted by respondents was reviewed and, in a handful of cases, edited to correct obvious typographical errors. For numeric entries, we made a small number of corrections where the intended response was clear. In a few instances we omitted a data point as impossible to derive from the information provided.

## **About Altman Weil**

Founded in 1970, Altman Weil, Inc. is dedicated exclusively to the legal profession. It provides management consulting services to law firms, law departments and legal vendors worldwide. The firm is independently owned by its professional consultants, who have backgrounds in law, industry, finance, marketing, administration and government.

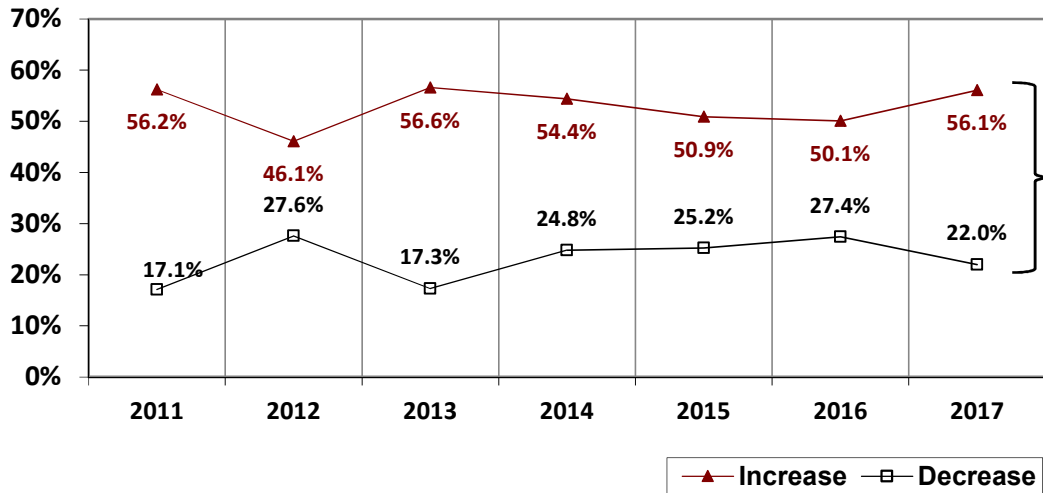
More information on Altman Weil can be found at [www.altmanweil.com](http://www.altmanweil.com).



**TREND: Change in Law Department Budget**

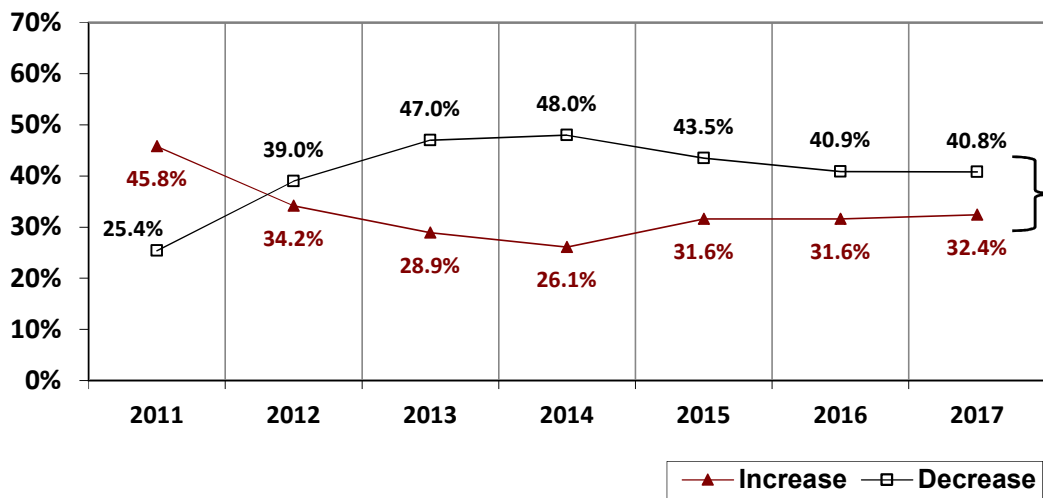
Charts show what percentage of departments increased their budget, and what percentage decreased their budget in each category. The balance of departments, to total 100%, made no change in the budget category and is omitted in these charts.

**IN-HOUSE BUDGET**



More than twice as many departments increased in-house budgets this year, as those that made cuts – continuing a multi-year trend.

**OUTSIDE COUNSEL BUDGET**



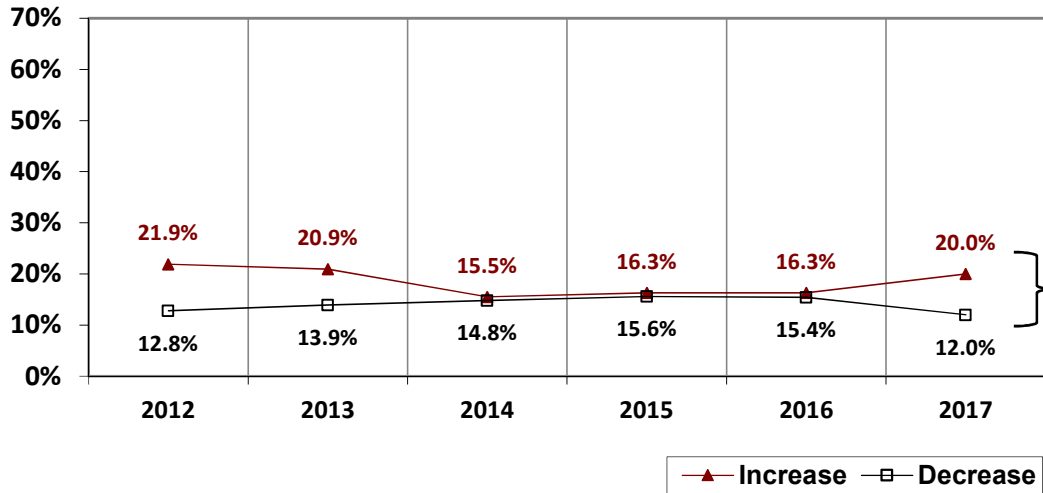
In 2017 more law departments decreased outside counsel spending than increased that part of their budget – but the differential has been shrinking since 2015.

Trend data compiled from 2011 - 2017 Chief Legal Officer Surveys.

**TREND: Change in Law Department Budget**

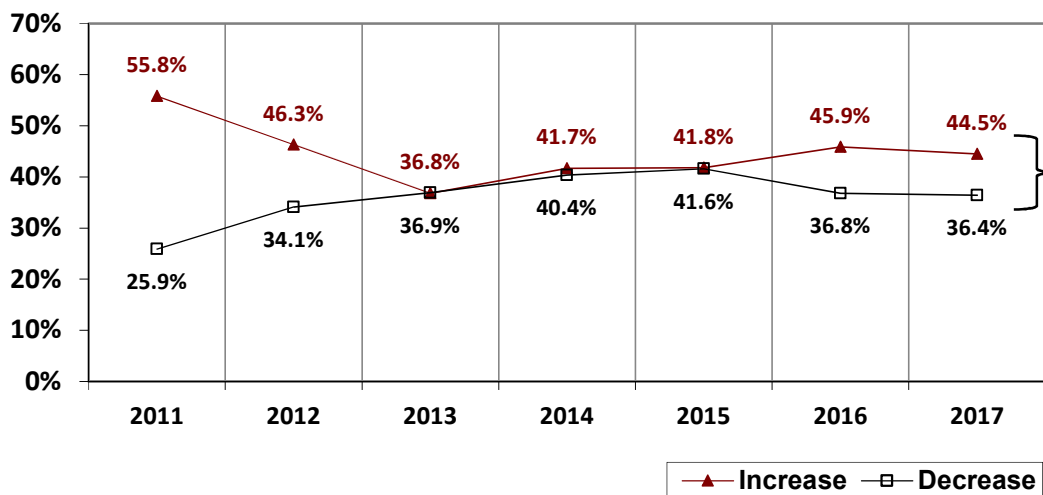
Charts show what percentage of departments increased their budget, and what percentage decreased their budget in each category. The balance of departments, to total 100%, made no change in the budget category and is omitted in these charts.

**VENDOR BUDGET**



This year, for the first time since 2013, significantly more law departments made increases in their vendor budgets, compared to those making decreases.

**TOTAL BUDGET**



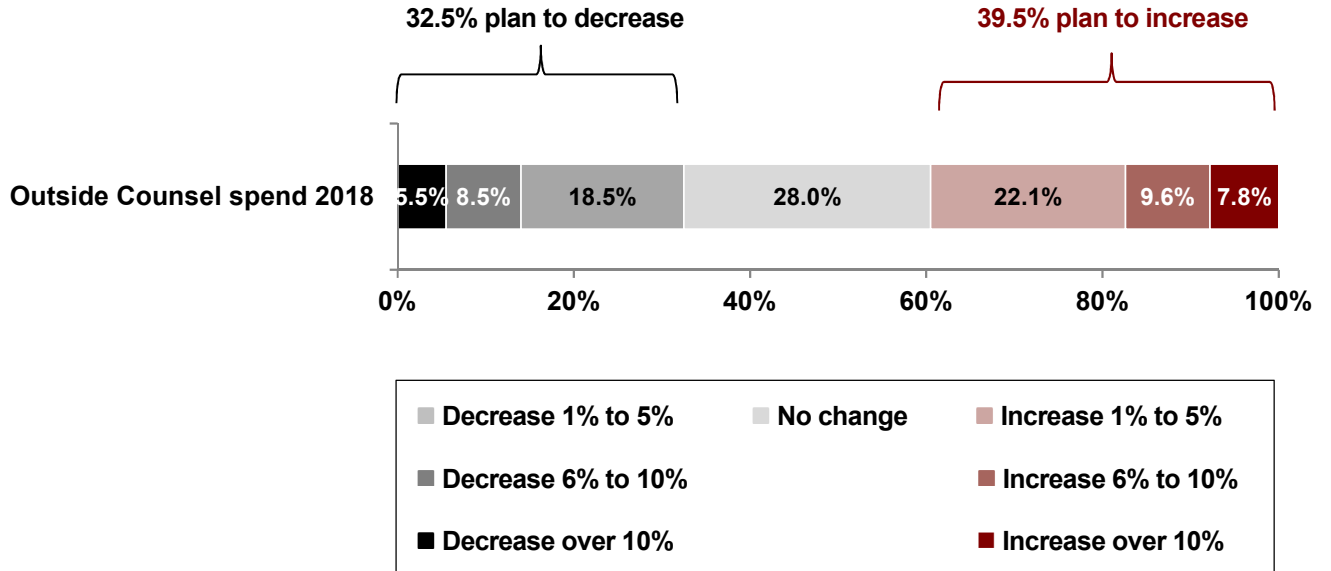
For the second year in a row, more departments report an increase in their overall budget, compared to those reporting decreases.

Trend data compiled from 2011 - 2017 Chief Legal Officer Surveys.

Outside Counsel Spend – Planned for 2018

**OUTLOOK 2018**

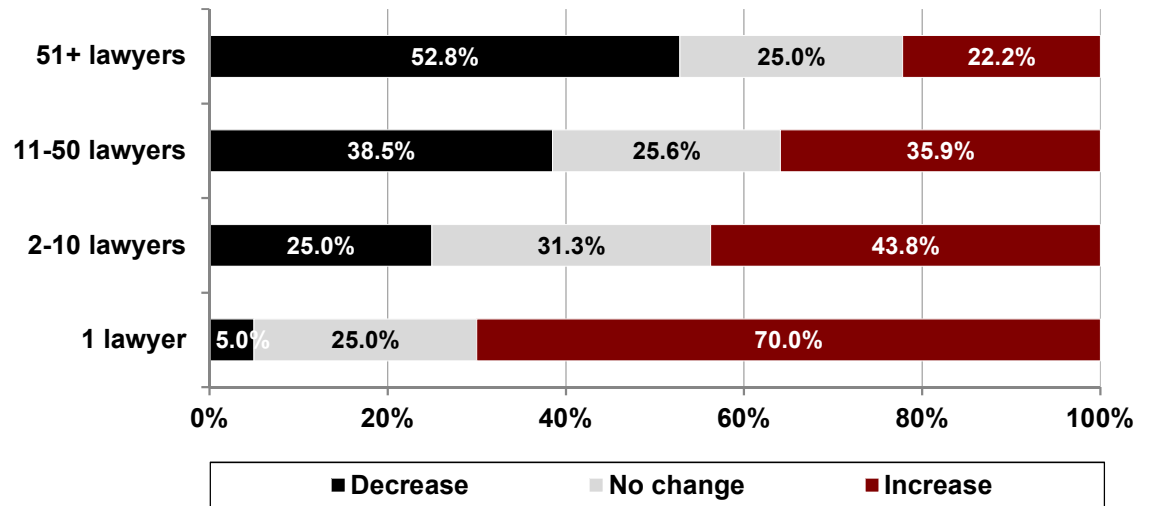
**In your fiscal year 2018 budget, have you/will you increase or decrease your overall spend on outside counsel?**



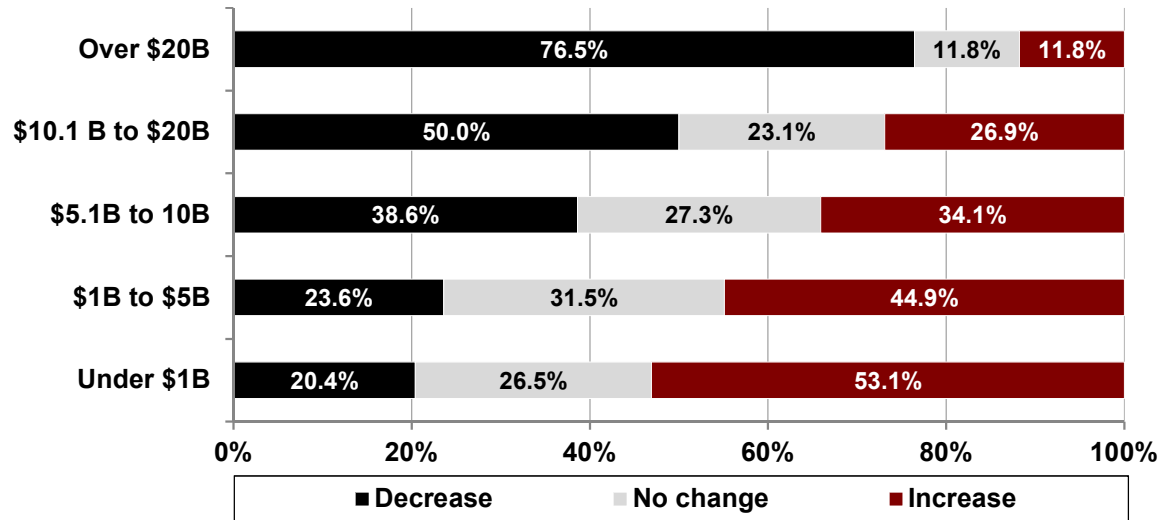
Outside Counsel Spend – Planned for 2018

**OUTLOOK 2018**

**BY DEPARTMENT SIZE:** Planned change in outside counsel spend in 2018

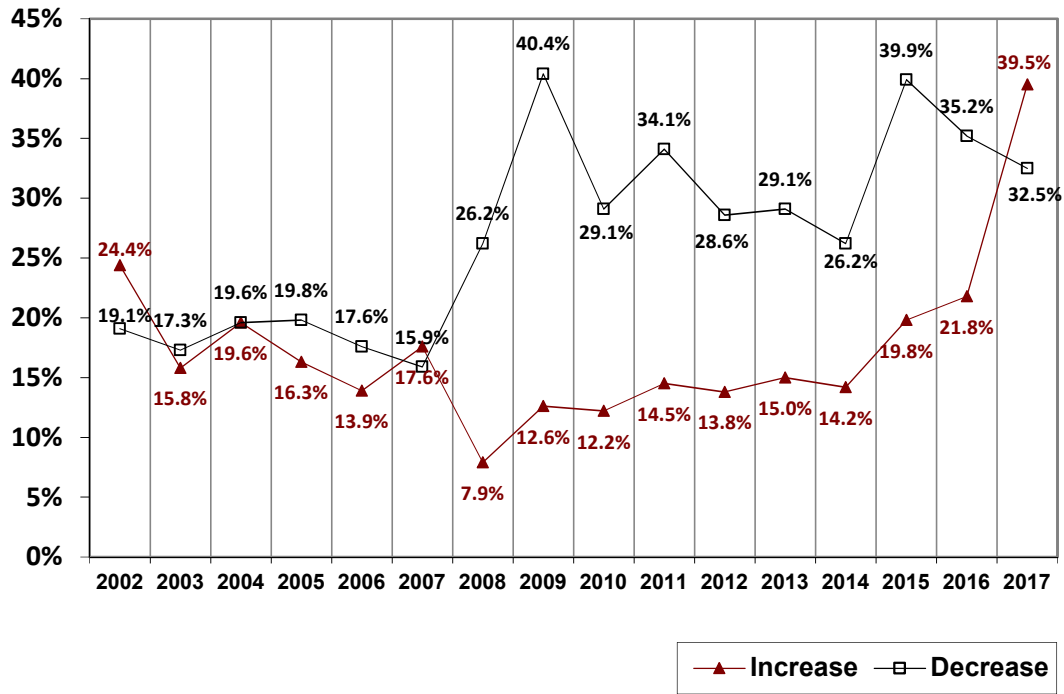


**BY ORGANIZATION REVENUE:** Planned change in outside counsel spend in 2018



**TREND: Plan to increase / decrease Outside Counsel spend in the following year**

*This chart shows what percentage of departments planned to increase their outside counsel spend in the next year, and what percentage planned to decrease outside counsel spend. The balance of departments, to total 100%, planned no change and is omitted in this chart.*



For the first time since 2007, more law departments plan to increase outside counsel spend in the coming year, compared to those planning to decrease outside counsel spend.

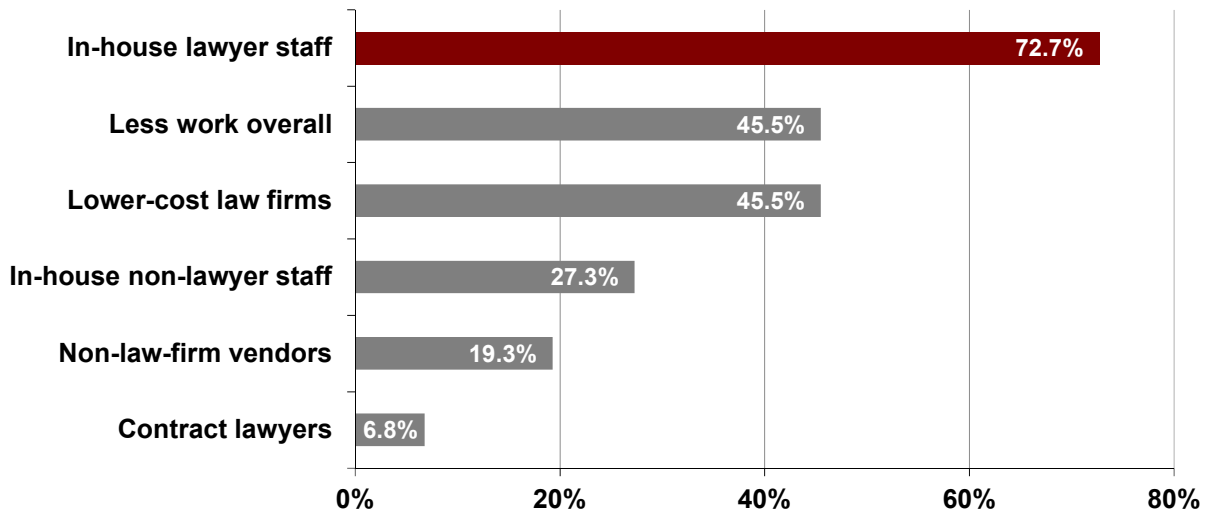
*Trend data compiled from 2002 - 2017 Chief Legal Officer Surveys.*

Reallocation of Outside Counsel Spend

OUTLOOK 2018

FOLLOW-UP QUESTION...

Asked of the 32.5% of departments that plan to decrease outside counsel spend in 2018:  
**If you plan to decrease your spend on outside counsel in the next 12 months, how will you cover the work? (Check all that apply.)**



*Less work overall* – “due to changing business priorities, preventative law efforts, higher risk tolerance, etc.”

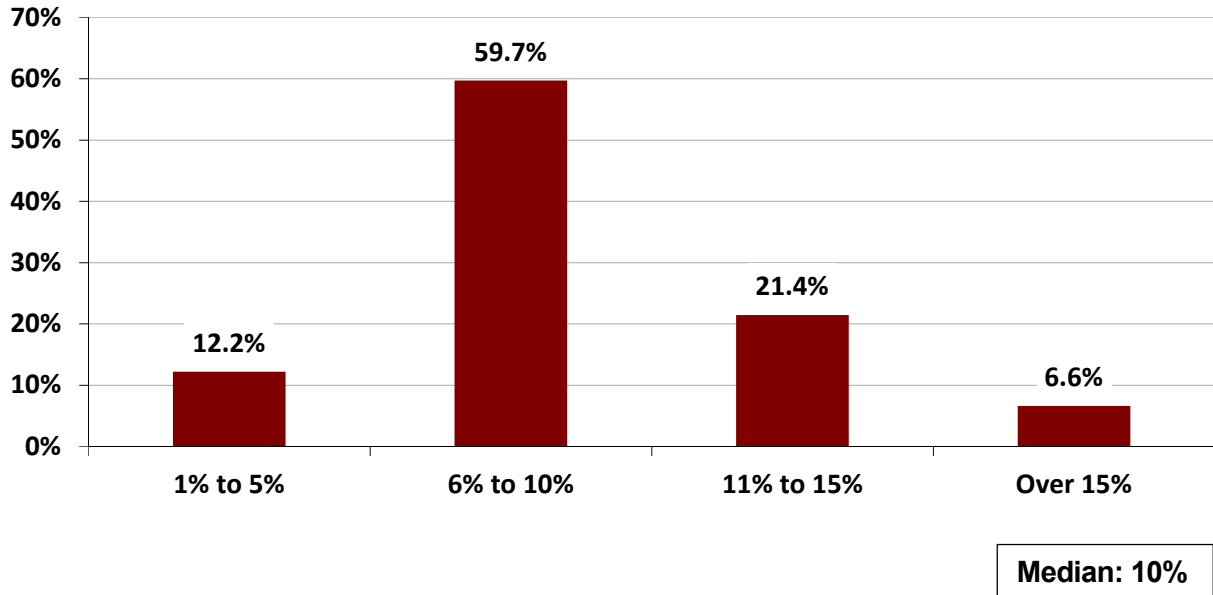
*Non-law-firm vendors* – “e.g., for e-discovery, document review, due diligence, legal research, etc.”

**OTHER (representative responses)**

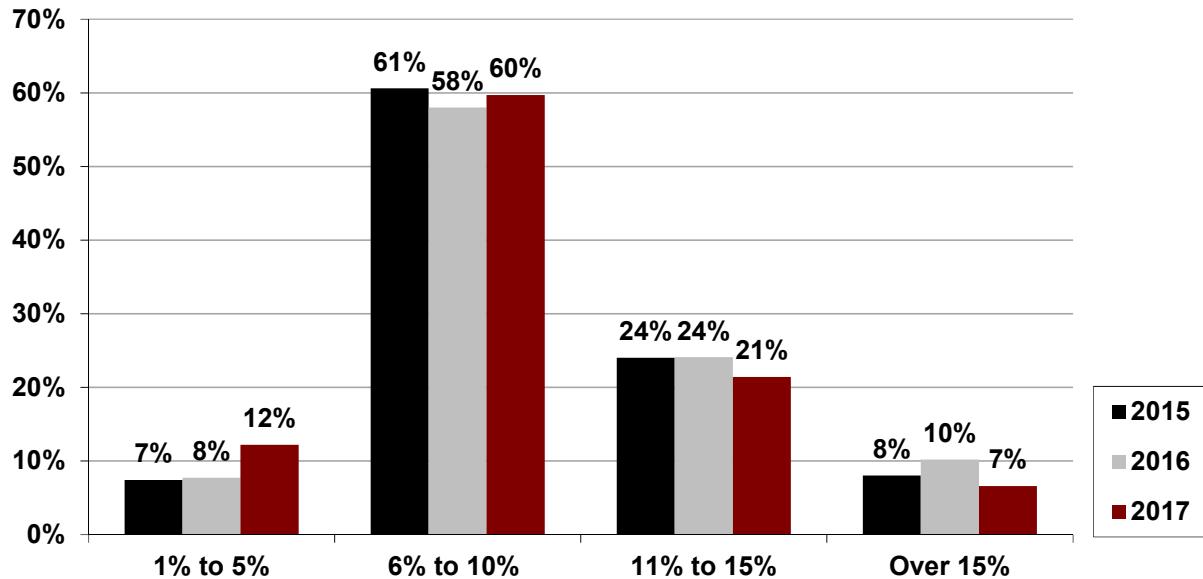
*Use of technology*

## Discounts on Outside Counsel Rates

If you received discounts on standard rates from outside counsel in the last 12 months, what was the average price reduction received?



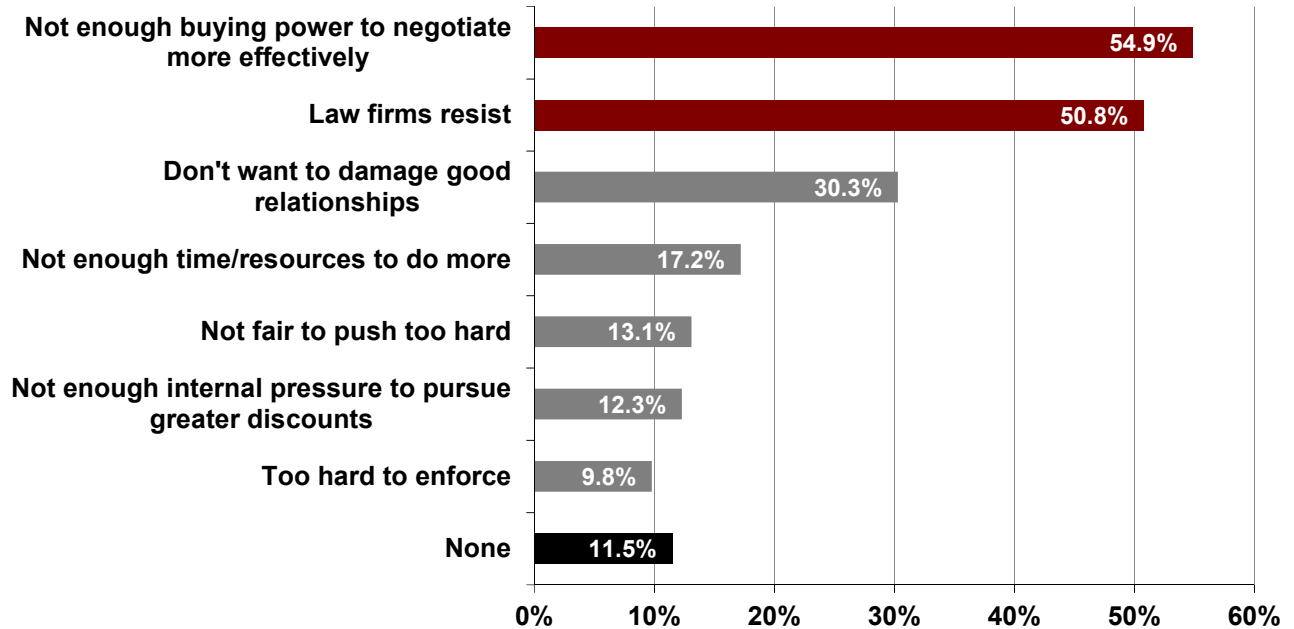
### TREND: Average Price Reductions from Outside Counsel by year





Outside Counsel Rates – Obstacles to Greater Discounts

What obstacles, if any, do you face in getting greater discounts from outside counsel? (Check all that apply.)

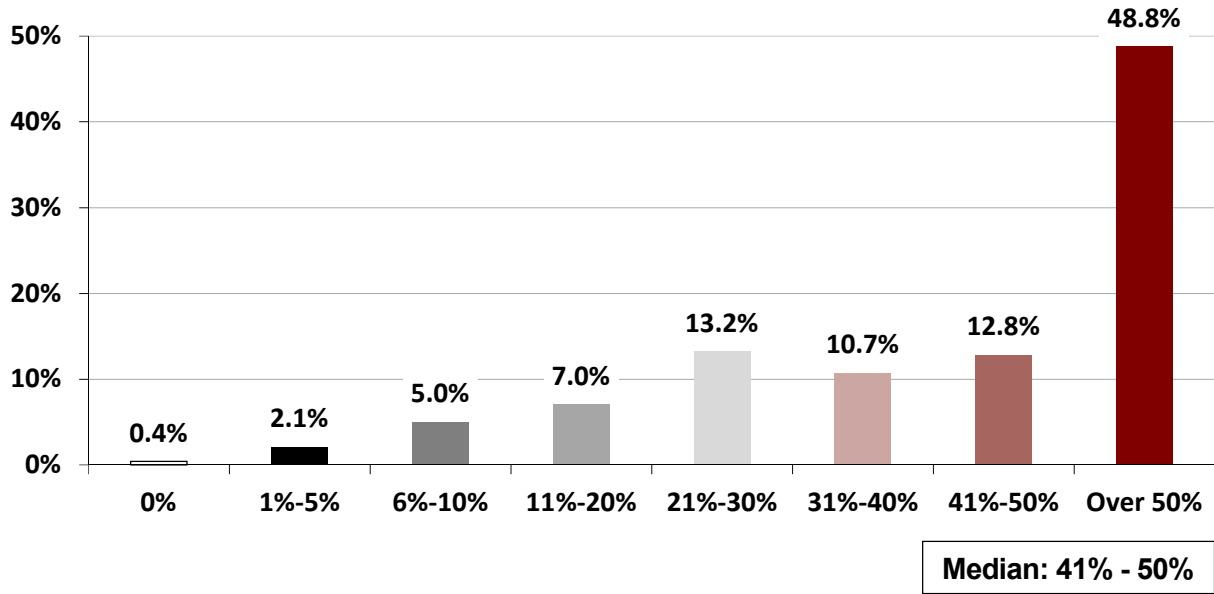


**BY LAW DEPARTMENT SIZE**

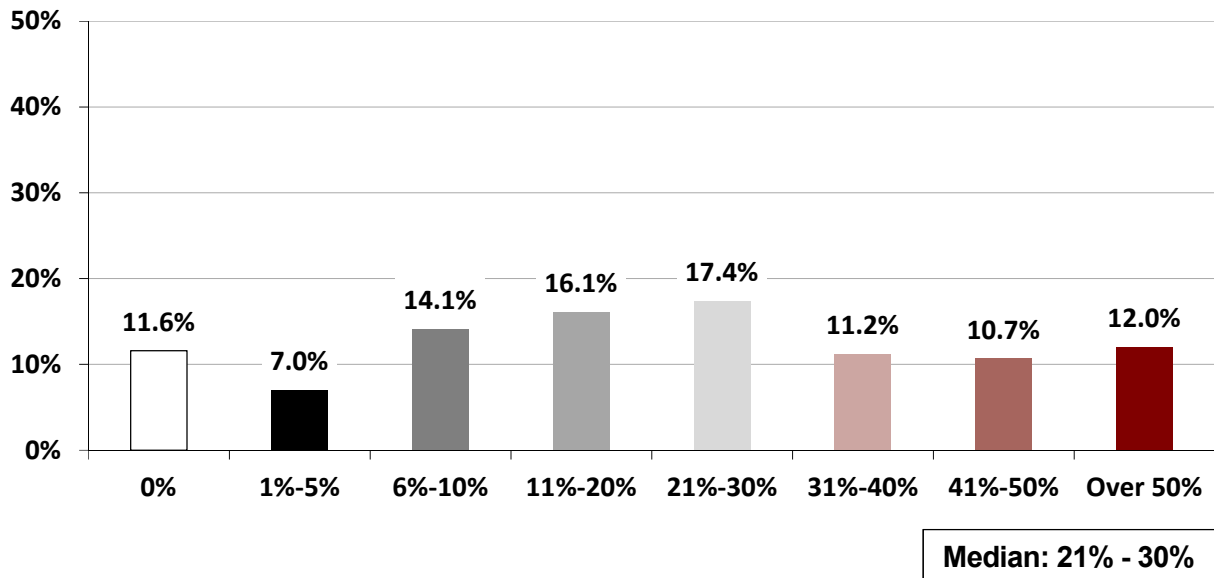
	1 lawyer	2-10 lawyers	11-50 lawyers	51 lawyers or more
Not enough buying power to negotiate effectively	52.6%	61.1%	61.5%	33.3%
Law firms resist	31.6%	51.6%	50.0%	66.7%
Don't want to damage good relationships	47.4%	28.4%	28.2%	33.3%
Not enough time/resources to do more	21.1%	20.0%	12.8%	19.4%
Not fair to push too hard	10.5%	12.6%	15.4%	11.1%
Not enough internal pressure to pursue	26.3%	11.6%	6.4%	13.9%
Too hard to enforce	5.3%	8.4%	15.4%	2.8%
None	10.5%	8.4%	11.5%	13.9%

## Outside Counsel Rates – Negotiating Power

Approximately what percentage of your outside counsel fees last year was for work that could have been done by many different law firms (i.e., work where you had significant negotiating power over fees)?

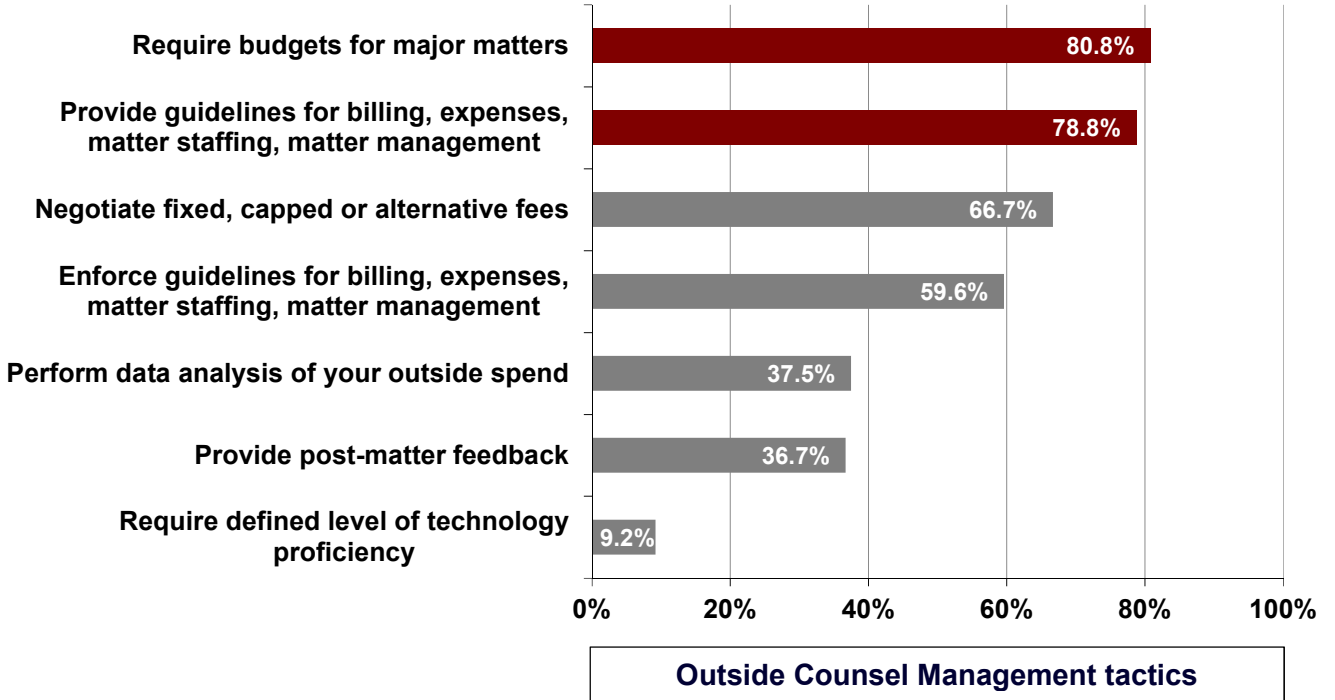


Approximately what percentage of your outside counsel fees last year was for work that was not price sensitive (i.e., work so important that costs were not an issue)?



## Outside Counsel Management Tactics

Does your law department routinely do any of the following to manage outside counsel? (Check all that apply.)

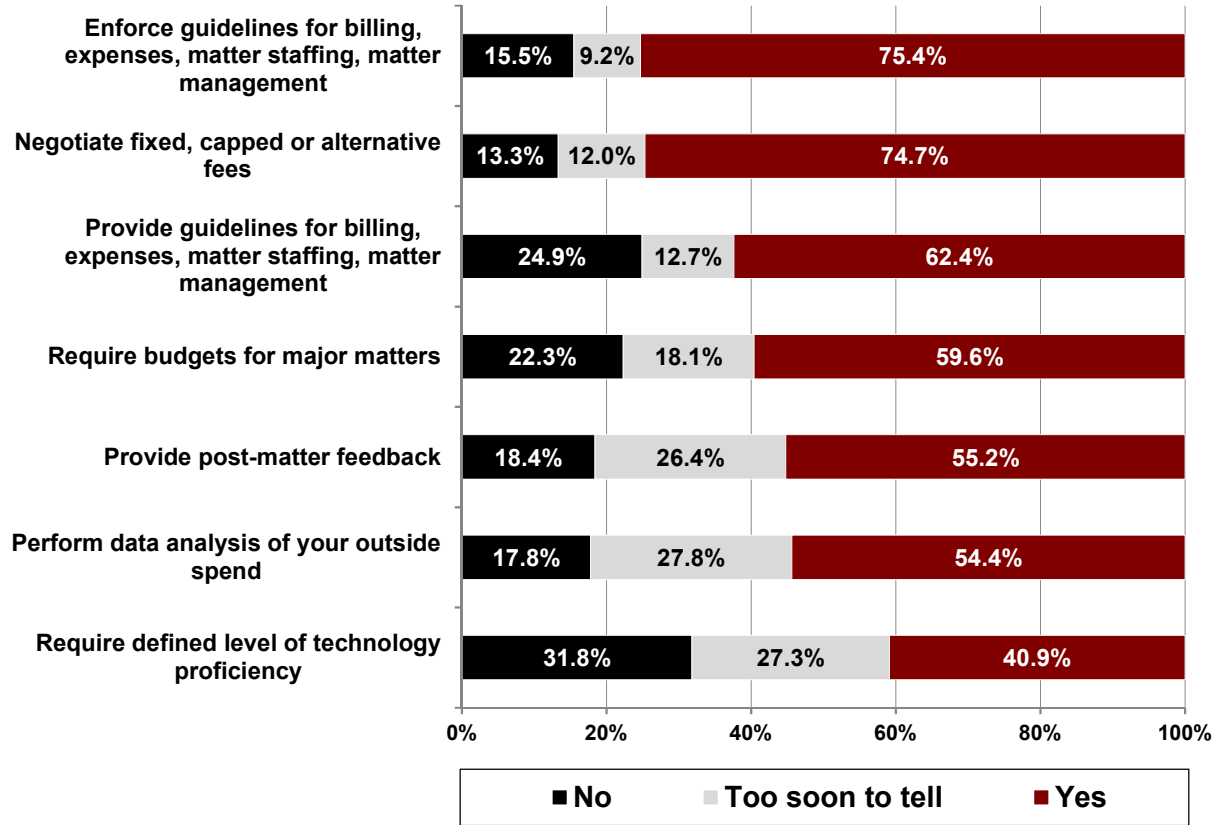


### BY LAW DEPARTMENT SIZE

	1 lawyer	2-10 lawyers	11-50 lawyers	51 lawyers or more
Require budgets for major matters	68.4%	77.2%	85.9%	89.2%
Provide guidelines for billing/expenses/staffing etc.	42.1%	64.1%	96.2%	94.6%
Negotiate fixed, capped, or alternative fees	42.1%	64.1%	73.1%	78.4%
Enforce guidelines for billing/expenses/staffing etc.	31.6%	52.2%	62.8%	83.8%
Perform data analysis on outside spend	10.5%	33.7%	39.7%	54.1%
Provide post-matter feedback	36.8%	38.0%	37.2%	37.8%
Require defined level of technology proficiency	5.3%	6.5%	7.7%	18.9%

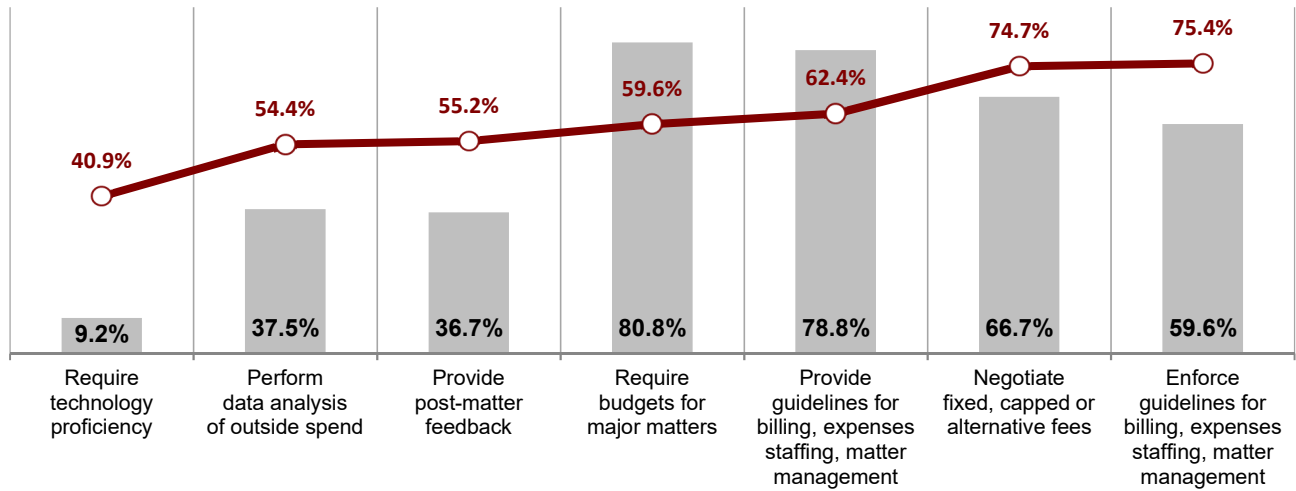
## Outside Counsel Management Tactics – Significant Improvement

For each of the outside counsel management techniques your law department uses, has it resulted in a significant improvement in outside counsel performance?



## Outside Counsel Management Tactics – Comparison of Use and Results

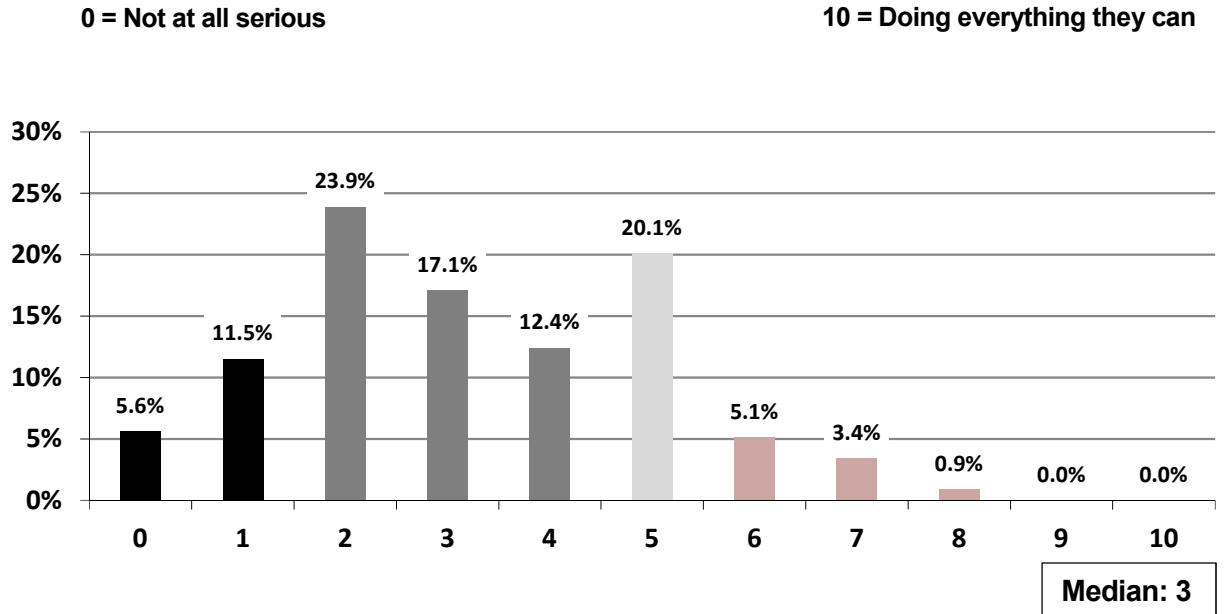
This chart combines findings from the two prior questions. Each bar shows the percentage of law departments using that tactic. Data points on the line show the percentage of those departments using each tactic that report it has delivered a significant improvement in performance.



■ % using tactic    ○ Of those using tactic, % experiencing significant improvement in performance

### Inside / Outside Relationship – Law Firm Change Efforts

In your opinion, in the current legal market, how serious are law firms about changing their legal service delivery model to provide greater value to clients (as opposed to simply cutting costs)?



### TREND: Law Firms’ Seriousness About Changing Service Delivery Model

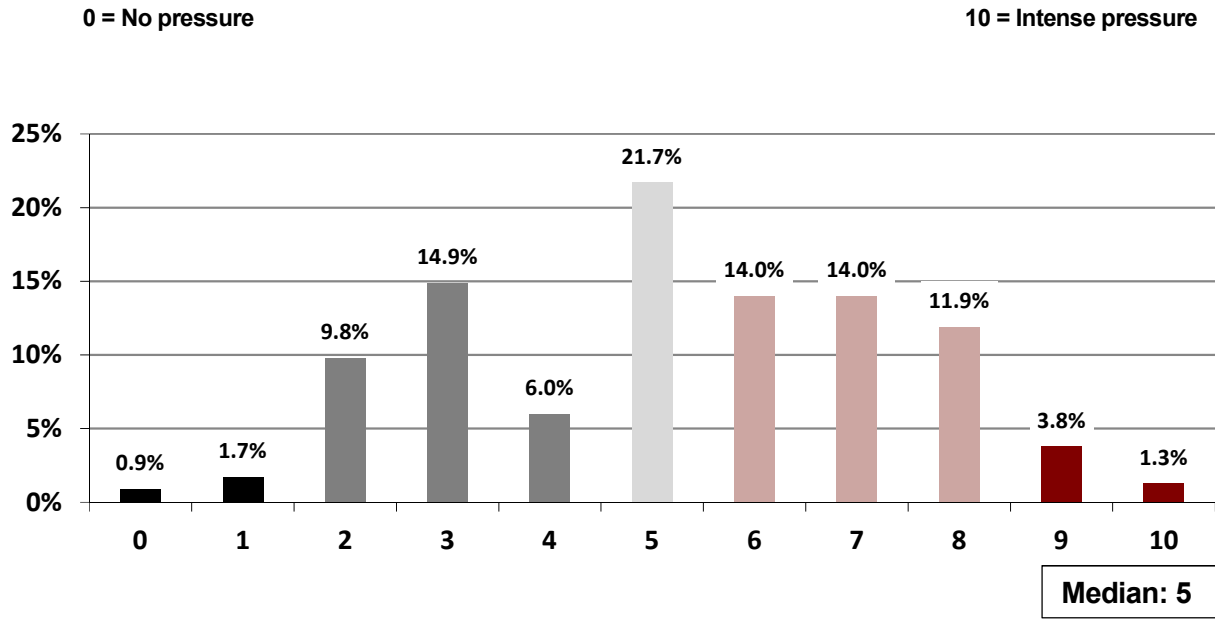
BY DEPARTMENT SIZE		
	Median	Average
1 lawyer	2.5	2.8
2-5 lawyers	3	3.3
6-10 lawyers	3	3.0
11-50 lawyers	3	3.3
50-100 lawyers	3	3.3
100+ lawyers	3	3.4

BY YEAR		
	Median	Average
2013	3	3.6
2014	3	3.4
2015	3	3.4
2016	3	3.4
2017	3	3.2

Trend data compiled from 2013 - 2017 Chief Legal Officer Surveys.

Inside / Outside Relationship – Pressure on Law Firms

In your opinion, in the current legal market, how much pressure are corporations putting on law firms to change the value proposition in legal service delivery (as opposed to simply cutting costs)?



**TREND:** Level of Pressure on Law Firms to Change Value Proposition

BY DEPARTMENT SIZE		
	Median	Average
1 lawyer	5	4.7
2-5 lawyers	5	4.8
6-10 lawyers	5	5.3
11-50 lawyers	5	5.4
51-100 lawyers	6	5.9
100+ lawyers	5	5.7

BY YEAR		
	Median	Average
2013	5	5.4
2014	5	5.3
2015	6	5.6
2016	6	5.5
2017	5	5.2

*Trend data compiled from 2013 – 2017 Chief Legal Officer Surveys.*