



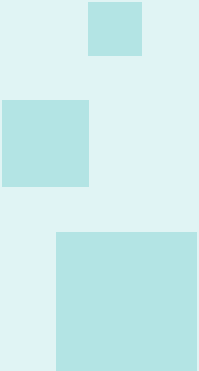
RUN YOUR LEGAL DEPARTMENT LIKE A BUSINESS

The 2019 Apperio legal function Maturity Survey



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Executive summary

A 2017 Deloitte report states: “The notion that an in-house legal team should function like an internal law firm is giving way to a vision of the legal department that’s a commercial function – a function that drives economic value for the business.”

This new role demands legal teams are as efficient, data-driven and capable of delivering commercial insight as every other department. But are they? To understand the legal function’s abilities in this respect, Apperio surveyed 50 legal teams against key criteria of commercial effectiveness – and found a gulf between the leaders and the followers:

- A progressive 50% is well on the way to using real-time data to contribute to their boards and peers.
- The trailing 50% must implement processes and technologies to catch up. In the words of one of the legal professionals we spoke to: “The tools we are currently given to track legal spend don’t actually fit in with what we are doing in the department. We are unable to answer the questions finance are asking us.”

In this report, we will examine Apperio’s survey results – and give GCs a way forward to operational excellence.



Benchmarking the UK's legal function

The legal function is in flux. Technology is empowering leading companies to understand their operations, contribute to the business and forecast their future needs optimally. The direction of travel is clear for the industry: data is at the heart of modern legal operations, equally laggards are falling behind.

To benchmark the effectiveness of the legal function in UK enterprise, Apperio surveyed 50 GCs and their legal teams in some of the UK's leading businesses in sectors as diverse as technology, financial services / banking, FMCG, industrials and food & beverages for a snapshot of operational maturity.

Methodology

We benchmarked respondents across five different criteria:

Matter Lifecycle | Scoping, specification and visibility of the progress of legal work.



- Work is scoped out to minimise uncertainty
- Matters are instructed consistently with measurable KPIs
- WIP is monitored in real-time
- Matters are routinely closed after three months' inactivity

Decision Making | Budgeting, in/outsourcing and routing of work.



- Each law firm's expertise is documented and work goes to the right firm
- Law firms complete standardised templates explaining how work will be resourced and performed

Reporting | Depth, relevance and analysis of management information.



- Clear and timely insight is available at KPI, matter and firm level to timekeepers, GCs and decision-makers
- Finance professionals have a real-time picture of WIP
- Each department has real-time quarterly budgeting data
- Spend is categorised against a formal taxonomy with defined KPIs

Policy Enforcement | Assurance of value throughout the procurement and delivery process.



- All matters have budgets that relate to approved POs
- Firms are guided by clear billing guidelines
- Resourcing is guided by metrics for location, practice group, level and diversity
- AFAs are actively sought where appropriate
- Rates are agreed and tracked against fee earner roles

Service Management | Value and quality assurance in panel relationships.



- Objective supplier selection criteria are documented
- Panel firms have committed to consistent KPIs
- The panel selection and procurement process is data-driven
- All value-add items are reported and valued in real-time
- Panel firms are tasked to collaborate for effectiveness and value

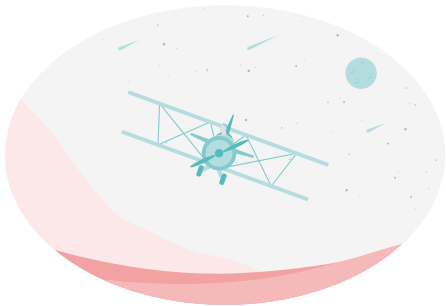
See Appendix 1 for full list of attributes of disruptive data-driven legal functions.

Respondents' organisations were then categorised on each criterion and overall into four stages of operational maturity:



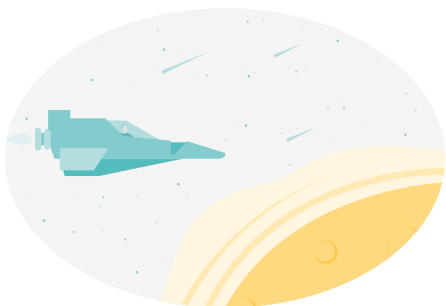
[1] Wanderers

- Limited processes in place
- Data unavailable or unused
- Business falling behind



[2] Explorers

- Basic or manual approaches
- Data in silos
- Business must accelerate use of data



[3] Scientists

- Data driven but requiring manual effort
- Not connecting optimally to external stakeholders
- Business on the cusp of excellence



[4] Disruptors

- Automated and well-structured
- All stakeholders have real-time insight to support decision making
- Business leader

Research findings

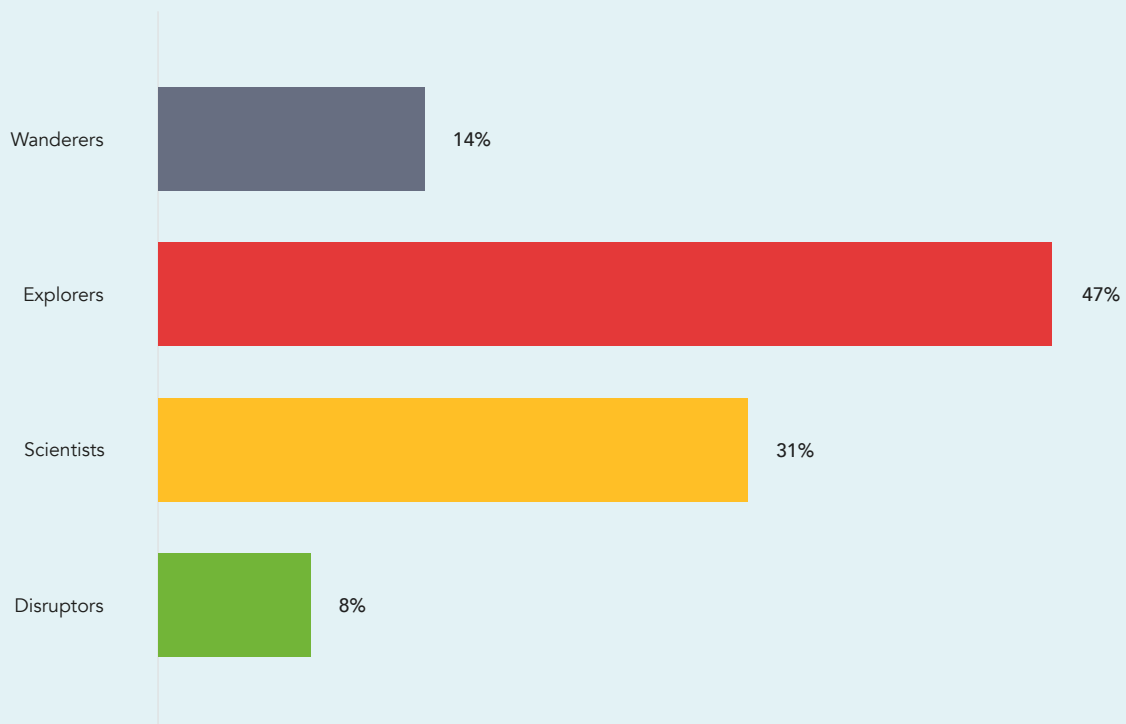
Our key findings were as follows:

Legal departments are making progress

While only 8% of our respondents could lay claim to [4] **Disruptor** status, almost one-third have achieved [3] **Scientist** status, attaining a significant degree of data-driven decision-making. Similarly, almost half are [2] **Explorers** with at least some process and visibility in place.



Apperio Maturity Assessment – Overall results



Success breeds success

All businesses which achieved [4] **Disruptor** status overall had no criterion below the level of [3] **Scientist**. This tells us that once data-driven processes are implemented across the operation, developing from [3] **Scientist** to [4] **Disruptor** is a natural and uncomplicated progression. It also suggests that a gulf is developing between those businesses which have made significant progress and will therefore move rapidly towards a fully data-driven environment and the competitive disadvantage of those who have not – half of the industry is currently at risk of falling behind. It won't be a surprise, then, to find that similarly, of our overall [1] **Wanderers**, only one company achieved any criterion above [2] **Explorer** status (and even then, a solitary [3] **Scientist** achievement in Reporting).

Size doesn't matter

While the sample size is not large enough to draw a truly representative conclusion, our research suggests that size of organisation (and indeed sector) is immaterial to maturity in the legal function – there is no discernible correlation between overall business size and performance in our maturity model.

Progress is uniform and uniformly beneficial

Only three of our respondents had criteria which included both [1] **Wanderer** (underperformance) and [4] **Disruptor** (outperformance) statuses. This shows us that maturity is a steady process which yields benefits uniformly across the organisation.

Apperio maturity assessment – Result by question



Service management is a challenge

A whole 50% of our respondents rated as [1] Wanderers, the lowest degree of maturity, for Service Management (compare this with Reporting, for example, where only 8% of organisations are [1] Wanderers). This suggests businesses are particularly challenged by obtaining and using data pertaining to their panels and external firms.

This is no surprise. Where Excel and time management tools can be stretched to just about suffice for internal metrics, they simply will not extend beyond the office walls.

Reporting looks progressive but masks underlying complexity

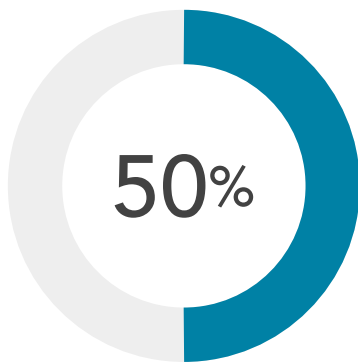
Almost 60% of respondents are classed as either [3] **Scientists** or [4] **Disruptors** in the Reporting category. Yet legal functions are consistently considered to face challenges in reporting. How can both be true? The answer comes when we see that in all the other four criteria, only around 35%-40% of businesses achieve [3] **Scientist** or [4] **Disruptor** status.

This suggests companies are reaching the upper limit of their reporting capabilities, likely using manual and highly-labour intensive or unconnected processes. If their systems were automated, they would be able to translate reporting excellence into maturity in the other four categories. Instead, large amounts of effort are achieving diminishing marginal gains in operational visibility.

Policy Enforcement is a conundrum

Policy enforcement should be an obvious commercial priority. It is at the heart of obtaining value for the team. Yet policy enforcement is the lowest performing criterion for [3] **Scientist** + [4] **Disruptor** status.

Why? It is only speculation, but a clue may come from the fact it is also the criterion with the largest number of businesses at [2] **Explorer** status. This suggests many companies are making progress towards effective value assessment, but bumping up against problems. Not only is it the criterion which expects Legal Ops to ask important questions about value across the increasingly complex range of engagements, it is also the area in which process is as important as data. It may be that more work is required to put knowledge to work across the business, or to give processes the focus that they deserve. This could be an important priority for the Legal Ops role moving forward.

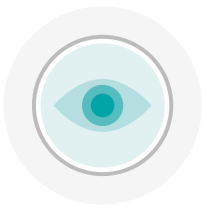


Of the industry is at risk of falling behind.

The way ahead

While our data suggests that 50% of the industry is at risk of falling behind, the path to a data-driven legal operation is clear.

Apperio's work with both corporate GCs and law firms has highlighted the following priorities:



Transparency

Track your external legal spend and store the documentation on a platform that can be accessed by all relevant parties across the business. Use this data to give your finance team confidence in legal reporting and to refine your use of and value from panel firms.



Clarity and collaboration

With the clarity of accurate and real-time matter data, meet regularly, face-to-face, with panel firms and in-house teams to improve the quality and relevance of resourcing. Use AFAs and retainers where appropriate and develop a guidance document on how to instruct legal matters so that all the efficiency tools at your disposal are used effectively.



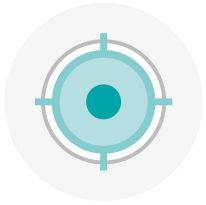
Real-time metrics

Use defined metrics to measure performance, both in-house and externally. These can be based on commercial criteria such as strategic thinking or delivering P&L, for example. Provide real-time feedback to your panel so they can fully contribute to your corporate objectives.

APPENDIX 1

The behaviours of truly disruptive organisations

Matter lifecycle benchmark



Matter scoping

Work is fully scoped to ensure as little uncertainty is present as possible. Law firms should be asked to push back on starting work where the scope is not clearly defined and to provide accurate estimates. If scope changes during the matter, law firms agree changes with the business and a record of the scope change is recorded with an updated estimate. Law firms are evaluated on how frequently scope and estimates change.



New instruction process

Matters are instructed consistently through a system that records the business dimensions for monitoring KPIs together with agreed scope, budget and purchase order numbers. Law firms are aware of the mandatory use of the system and will not accept instructions that bypass the process.



Billing process

Legal team monitor accruals (WIP) in real-time, with the business and law firm able to access a source of truth on invoices and WIP. Invoices are prepared regularly by the law firm with all work billed within 90 days or written down by the law firm.



Matter closing process

Matters are routinely closed after three months of no work (time, disbursement, invoice, payment). Closure triggers feedback cycle and re-allocation of budget to legal budget. Any general matters are closed annually with the fiscal cycle and new fiscal year matters opened to ensure budgets can be monitored.

Decision making benchmark



Work routing

The type of work that can be undertaken by each law firm is documented and work is instructed with the correct firm. Mini-tenders are in place for work over a predefined threshold to ensure the correct team is selected to complete the work.



Tendering & pitching

Law Firms complete a standard template explaining how the work will be resourced and performed. Details of any KPIs are shared with the law firms. After the tendering process, feedback is provided to losing law firms on how they could have improved their tender.



Insource vs outsource

Internal work is tracked, given an equivalent cost and compared to external work. Broad trends are investigated to plan internal staffing to meet demand for certain types of work / geography combinations.



Budget authority

Legal team controls budget authority and budget for all legal work. Legal are able to demonstrate to any business budget holder their spend by work type and progress against budget, including billed and accruals when required.

Reporting benchmark



Management information on billed work

MI software provides insight from the KPI and law firm level through the matter level to the time keeper and narratives. Legal are not dependent on the finance team or system for this data.



Accruals / WIP process

WIP is available in real time with finance having direct access to control. Accruals are not dependent on fee earner estimates but are taken from recorded unbilled work.



Budgeting process

Each department has a detailed budget per quarter with real-time tracking information. Business as usual, project based costs and unplanned litigation are budgeted separately and based on certainty. BAU costs are budgeted year-on-year based on the previous year's actual totals. Budgets are not overestimated to be "safe", allowing the business to properly allocate its available capital, and are revised at least quarterly based on accurate billed and accrued totals.



Insights and analytics

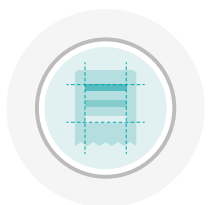
Spend is categorised against a formal taxonomy along with key metrics / KPIs (e.g. average cost for a type of work). Information gathered is used to inform other behaviours, specifically service management behaviours.

Policy enforcement benchmark



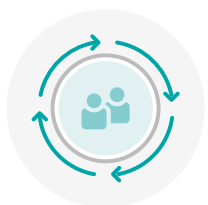
Matter budgeting

All matters have budgets that relate to approved purchase orders. Progress against budget and scope are monitored throughout the life of the matter on total spend (billed and accrued). Complex matters have a detailed phase / task budget per workstream. Total budgets are adjusted when scope changes, by agreement. Automated notifications are available when matter totals breach a percentage of budget and conversations are initiated on remedial action.



Billing guidelines

Clear billing guidelines exist specifying straightforward expectations of what will be acceptable (e.g. no travel time to be charged). Time entries and disbursements are reviewed at billing and rejected if not compliant. Law firm fee earners are aware of the billing guidelines and the importance of adhering to them for prompt payment and recovery. Law firms are able to verify these guidelines automatically pre-bill.



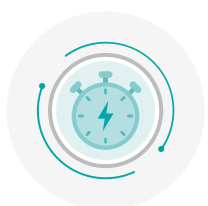
Team shape

Metrics for Location, Practice Group, Level and Diversity are monitored to ensure the correct staffing mix. In-house lawyers are able to assess the proportion of time spent on each matter by fee earner role and individual fee earners.



Use of Alternative Fee Arrangements (AFAs)

AFAs are actively sought where appropriate and law firms price AFAs at 'value to the business' or 'salary + overhead + margin' rather than the status quo of 'hourly rate + risk' to inform the behaviours in Service Management. Law firms commitment to any alternative arrangement is monitored so that risk and value are appropriately share.



Rate management

Rates are agreed and tracked against fee earner roles. Correct rates are assigned by law firms to matters and fee earners, not discounted during the billing process. Rates are assessed on tenders from comparable firms, not by percentage discount from standard rates. Comparisons between firms are made on the basis of value and total cost of the work provided, not only the headline rate.

Service Management Benchmark



Supplier Selection

Objective assessment criteria for selecting suppliers are documented and followed including those for when work should be tendered.



Panel Design

Panel firms are committed to a range of consistent KPIs and agreements. Failure to meet KPIs puts meaningful fees at risk. Sharing knowledge and best practice within the panel is encouraged in a collaborative atmosphere where panel firms are working towards the best interests of the business rather than in competition with each other.



Procurement Process

Panels are selected through a full procurement tender process that is driven by the legal team's needs using real data to inform future commitments. Law firms are provided with detailed breakdowns of prior spend by work type so that they can quote competitively on a volume basis.



Value Add Monitoring

All value add activities are reported in real-time together with monetary value – helplines, meeting rooms, training etc. These are understood, valued and agreed with the legal team and the broader business.



Relationship Reviews & Performance Management

In addition to regular, scheduled, reviews of KPIs, direct relationships between the in-house team and lawyers within the law firm are cultivated to promote understanding of business goals.



Service Innovation

Law firms are tasked with working with other panel firms to deliver work in the most effective manner. Delivery models are reviewed frequently with law firms challenged to provide a range of alternatives for commodity work.



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