Apperio

LEGAL SPEND WITH NO SURPRISES

The legal spend landscape for 2022

How legal departments in financial services have matured over the pandemic, but seek greater control by leveraging technology and data to make strategic decisions.

Dear Reader,

In this report, we discover how in-house legal teams are emerging from the pandemic more valued, not only by their own standards, but also by their peers in finance. This is against a backdrop of increased spending, workload and headcount for the legal departments surveyed.

So for the first time in a long time, reducing spend is not the top priority for legal departments. Improving control and visibility of legal spend are the clear top priorities for legal departments in financial services as we move into 2022.

Whilst it's clear from this survey that there is an abundance of legal spend data available to legal and finance leaders, persistent issues remain that prevent this spend data from being used to inform strategic decision making.

These issues include late invoices, poor transparency over accrued external fees, inconsistent data formats and high volumes of complex legal matters. In our view, these barriers reinforce a sense that legal departments lack control of their legal spend, even if reducing such spend is not the main priority.

The solution to improving control lies in visibility. It lies in understanding and interpreting legal spend data ahead of the invoice. By having real-time visibility of your in-progress matters with law firms, you can make proactive and informed decisions and avoid the inherent risks accompanied with unpredictable legal spend.

This is now possible with specialist technology that automates the collection, processing and visualization of legal spend in real time without requiring additional staff or adversarial billing processes. We believe this is the only viable option for financial services firms to scale effectively and control legal spend in 2022.

We hope you find this report helpful, and would love to hear from you regarding your own experience and what this means for your organization in the year ahead.

Nicholas d'Adhemar
Founder and CEO, Apperio

Executive summary

Apperio commissioned an independent research firm to poll 300 senior legal and finance professionals in late 2021. All respondents work in the financial services sector in the US (67%) or UK (33%) and hold responsibility for legal spend management.

Overall, 59% of respondents reported they were the senior decision-maker around legal spending, while the remaining 41% reported being part of a team of senior decision makers. Collectively, respondents work for, or with, legal departments that employ an average of 22 in-house lawyers and oversee $14.28 million in annual outside legal counsel spending.

Financial businesses value their legal teams more as a result of the pandemic

71% of respondents say the legal team is more valued in the wake of the pandemic. Finance leaders, such as chief financial officers (CFOs), were even more generous – 40% said the legal department was "much more valued" – compared with just 29% of respondents holding titles such as general counsel (GC) and chief legal officer (CLO).

Workload, headcount and legal costs have all grown

Respondents say their legal department's workload (70%), headcount (66%) and legal costs (67%) have all increased over the last three years. Around one in four respondents say each area has "increased significantly" which was quantified as growth of greater than 20%.

Legal data collection improves but barriers remain

About 70% of respondents said the legal department collects a detailed breakdown of legal spend over three common fiscal periods (last year, last quarter, current quarter). However, barriers and conflicting views remain including delayed invoices (54%), lack of data standards (50%), and poor transparency around work-in-progress (WIP) and accruals (48%). Respondents also said the legal department is overwhelmed (47%) and one half (50%) of finance leaders, like CFOs, say it lacks the right skills for obtaining a detailed breakdown of legal spend.

The top legal spend priorities are controlling costs and spend data analysis

Controlling costs (60%) and better leveraging data to make decisions (55%) are the top legal spend priorities for the next 12 months. In contrast, reducing internal legal costs (17%) and reducing outside legal costs (14%) were at the very bottom. This underscores the desire to better control legal costs rather than pursuing a pure reduction in legal expenses.

The most effective techniques for controlling legal costs

Alternative fee arrangement (AFAs) (74%), specialized software for managing legal costs (63%) and centralizing all legal spend through the legal department (49%) ranked among the most effective techniques in-house lawyers have for controlling costs. Interestingly, finance leaders (45%) favor sending more work to alternative legal service providers (ALSPs) at a higher rate than legal leaders (36%).

Investment in legal tech to continue

81% of respondents believe their organization has invested sufficiently in legal tech over the last three years. What's more, over the next 12 months, 72% of respondents said the level of investment in legal tech would increase. CFOs and other finance leaders are even more bullish on legal tech within their organization: 82% said spending on legal tech would grow in the next year compared with 67% of their peers in legal.

Resources dedicated to innovation

Most respondents (85%) say their legal department has a person or team charged with leading innovation. Just over half (51%) of respondents said this was a full-time responsibility.

Measuring value

The majority of respondents (67%) say the in-house team is measuring the value they contribute to the business. The top five measures legal departments in financial services are tracking are the "outcome of legal matters" (66%), the "hourly cost per lawyer" (60%), "spend forecast vs. actual spend" (46%), "risk exposure" (43%) and "overall spend by law firm, matter type or business unit" (40%).

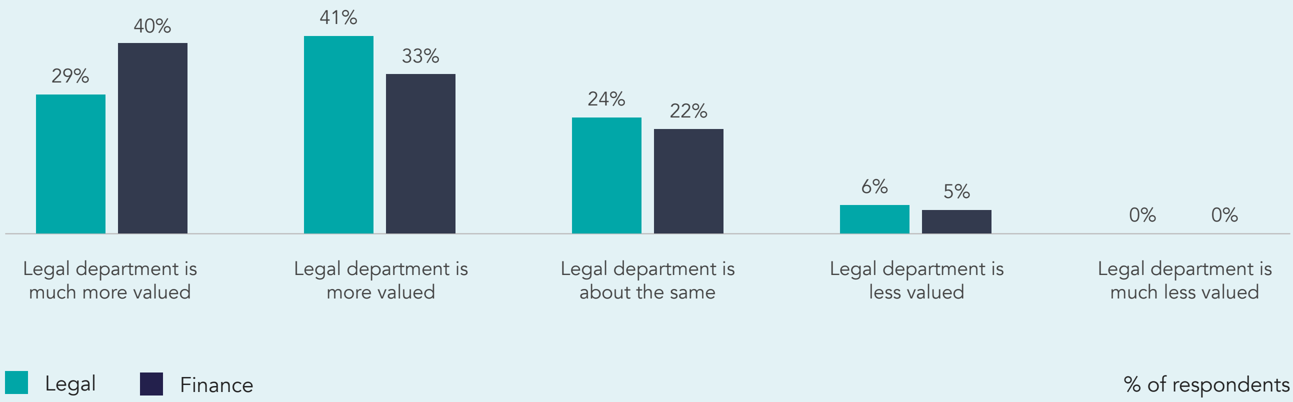
Financial services value their legal teams more following the pandemic

The risk and uncertainty that accompanied the Coronavirus pandemic caused financial organizations to view their legal departments and in-house lawyers in a new light. In-house legal teams are now more valued than ever.

When this survey asked respondents, "What effect did the pandemic have on the perceived value your legal department delivers to the business?" 71% said the legal team was "more valued" (38%) or "much more valued" (33%).

Finance leaders, such as CFOs, were even more generous with their evaluation of the value legal departments provide than the lawyers surveyed. An analysis segmenting answers by role found 40% said the legal department was "much more valued" – compared with just 29% of respondents holding roles such as GC and CLO.

Fig. 1. What effect did the pandemic have on the perceived value your legal department delivers to the business?



Some respondents offered context to these findings in optional open-ended comments when asked “Why?” as a follow-up question. A few representative answers include the following:

New risks. “We have been a more vital asset to the business as we’ve had to process unfair dismissal claims from employees who feel they’ve been unfairly laid off due to the Covid situation.” ~ Principal legal officer for an asset management company.

New challenges. “Because they [the business] had to face challenges they didn’t face before.” ~ Chief counsel at a private equity firm.

Upgrades. “The pandemic enabled us to upgrade a lot of things in our company.” ~ General counsel for an alternative asset fund.

Workload, headcount and legal costs have all grown

The newly heightened level of respect has been hard-earned because the in-house team’s work volume has grown too. Most respondents (70%) said the legal workload has “increased” (40%) or “increased significantly” (30%) over the last three years.

The survey quantified “increased significantly” as a workload that had grown 20% or more. This means almost one in three legal departments experienced such an increase.

The results also showed a strong correlation between work volume and legal department headcount. Indeed, two-thirds of respondents (66%) indicated headcount has “increased” (42%) or “increased significantly” (24%) over the last three years, alongside corresponding increases in workload.

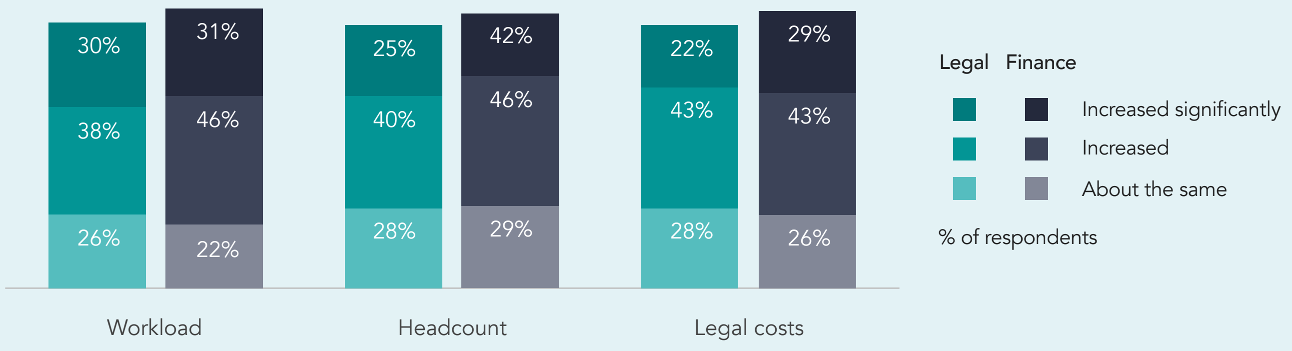
Here again, "significant" growth was labeled as a headcount increase of 20% or more. That's a sizable uptick that arguably no other function in business sustained – especially during the early days of the pandemic. Headcount growth can be viewed as another vote of confidence the financial services sector has cast in favor of their legal departments.

However, there is a cautionary tale in the results as well. As workload and headcount have grown, so too have legal expenses: 67% of respondents said legal costs have "increased" (43%) or "increased significantly" (24%) over the last three years.

On this particular question, an interesting split in views emerged in the survey responses: 29% of finance leaders, like CFOs, said costs had grown significantly, compared with 22% of GCs and other legal leaders.

This is an area for legal departments in financial services to watch closely. Expenses that grow too quickly tend to draw increased scrutiny – as has already happened in subsectors of financial services such as private equity.

Fig. 2. In what ways have the workload, headcount and legal costs changed in your legal department over the last three years?



Some of the open-ended comments around this question explain why legal costs have grown, including the following:

Inflation and cybersecurity. "General inflation and more issues regarding cyber security threats." ~ CFO working in asset management.

Litigation. "Companies have more lawsuits." ~ VP of finance for a retail bank.

Cost of business. "More legal costs are the result of increased overheads and multiple income streams. It is effectively a part of doing business in the financial sector." ~ Legal partner for an alternative asset fund.

Data collection and reporting improves

Legal departments are confident in their legal spend data collection abilities: at least 73% of respondents said their legal department often or always collects a detailed breakdown as to where it is spending on legal services over the past fiscal year.

The survey asked respondents, "To what degree does the legal department have a detailed breakdown of where it spent money on legal services" over three conventional financial reporting periods. The results broke out as follows:

Last year. 76% of respondents said they "always" (37%) or "often" (39%) have a detailed breakdown of legal spending from the last year; 21% said "sometimes".

Last quarter. 73% of respondents said they "always" (31%) or "often" (42%) have a detailed breakdown of legal spending from the last fiscal quarter; 20% said "sometimes".

Current quarter. 75% of respondents said they "always" (36%) or "often" (39%) have a detailed breakdown of legal spending for the current fiscal quarter; 18% said "sometimes".

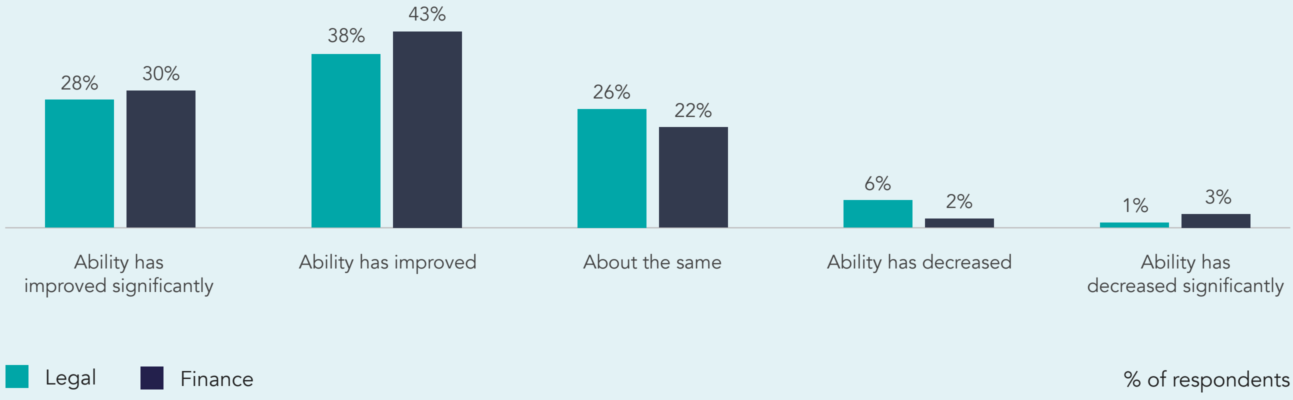
For each of these questions, the number of respondents that said "rarely" or "never" ranged between 4% and 7%.

Better data collection naturally leads to better reporting. Accordingly, the survey found legal departments have improved their reporting on legal spend: 69% of respondents said the legal team's ability to report on spending had "improved" (40%) or "improved significantly" (29%) over the last three years.

Finance leaders such as CFOs seem to agree. In breaking out responses by role, respondents holding finance leadership roles gave a slightly better assessment in this area (73%) than legal leaders gave to their department (66%).

As we will see in subsequent questions, financial businesses have invested considerably in technology which undoubtedly contributed to improvements in legal spend data collection and reporting.

Fig. 3. Which of the following best describes the legal department's ability to report on legal spending over the last three years?



Barriers to legal spend data collection remain

Despite the upbeat assessment of legal spend data collection, some challenges remain. Some of these barriers cast a shadow on the capabilities of in-house teams to obtain a comprehensive understanding of legal expenses across their organization.

The top five challenges identified by the survey included the following:

Delayed invoices

More than half of respondents (54%) cited "late or delayed invoices from service providers" as the top barrier to gaining a detailed breakdown of legal spend in their organization. While relying on invoices to inform budget status is inherently reactive, routinely late invoices can inhibit data collection and reporting for months.

This is especially true if the invoice exceeds expectations. For example, it can be adversarial to negotiate discounts for work that was completed three months previously, despite an invoice only just being received. It's worth noting here, disputed charges (44%) ranked seventh on the list of top challenges.

Business units instructing law firms directly

Just over half (52%) of respondents cited "business units instruct or manage law firms directly" as the second top barrier. This challenge is common to many investment firms, in particular private equity. In many other corporate environments, work with law firms is centralized through the legal department.

However, in highly transactional firms, business units need to move quickly on fast-paced deals to avoid losing out to competitors, requiring such teams to work with a preferred list of law firms directly. This puts the central legal team in the tricky situation of being accountable for legal spend, without necessarily holding the control mechanisms for doing so effectively.

Lack of data standards

Half (50%) of respondents cited "inconsistent data formats from service providers" as a top barrier. When clients ask for budget status updates, they receive it in various formats – spreadsheets, presentations, phone calls and email updates – which are labor-intensive to collate.

Interestingly, finance leaders (55%) view this as a larger concern than their peers in legal (48%). With that in mind, 40% of respondents also rated "manual collection or analysis process" as a barrier to gaining a detailed understanding of legal spend.

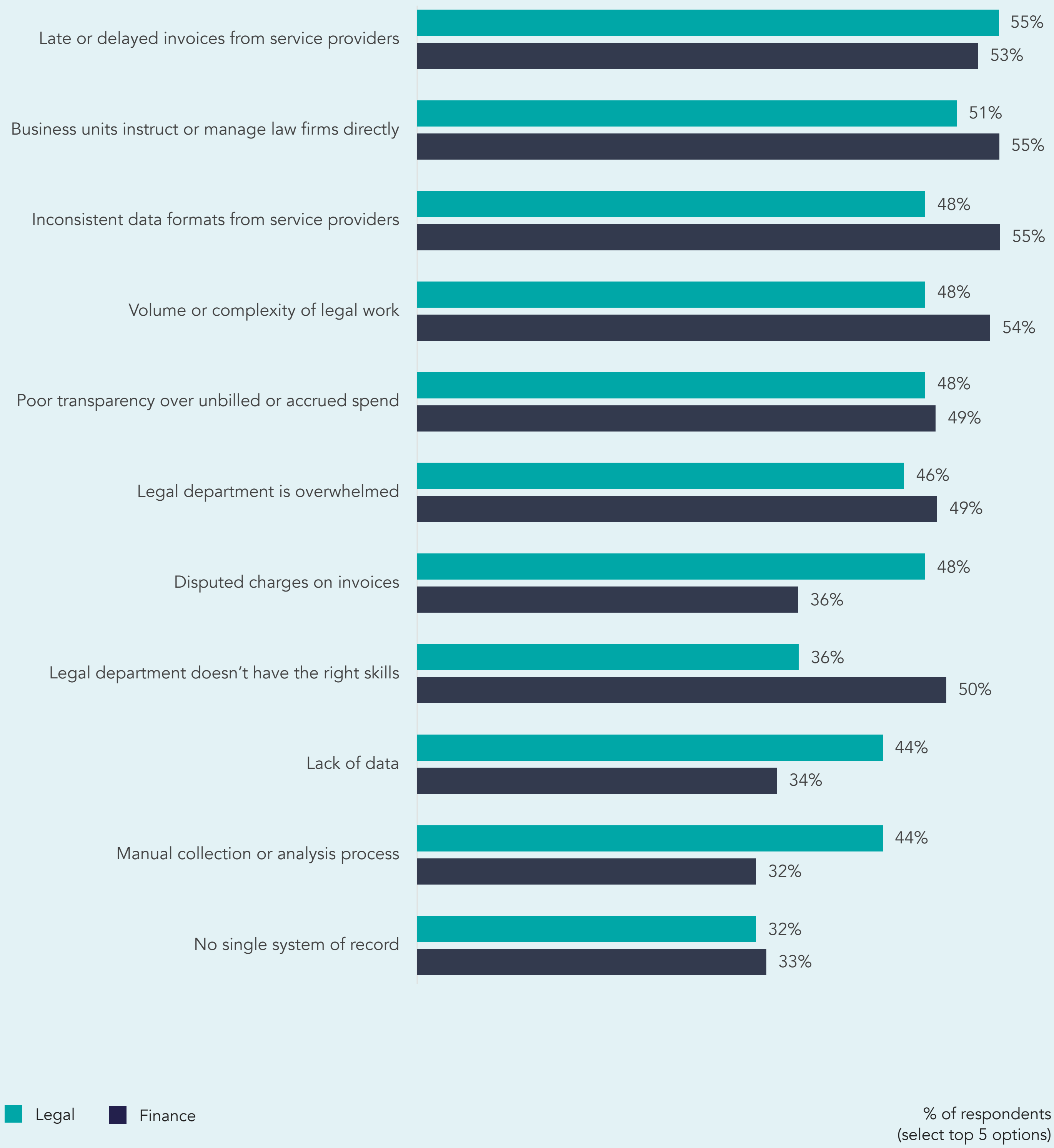
Complexity of legal work

Half (50%) of respondents said the "volume or complexity of legal work" is a barrier to legal spend data collection. Legal work in financial services tends to be dynamic, unpredictable and variable. For example, in fundraising, meeting the specific requirements of each limited partner can significantly increase the legal costs of setting up a new fund.

Transparency in WIP and accruals

Rounding out the top five barriers, 48% of respondents cited "poor transparency over unbilled or accrued spend". Real-time visibility into unbilled WIP and accruals is crucial to control costs. It's a proven way for law firms and legal departments alike to decrease the chances of surprising a GC with a higher-than-expected invoice.

Fig. 4. Barriers to gaining a detailed breakdown of legal spend in your organization



Legal is overwhelmed and may lack the right skills

Two barriers to data collection that didn't rank in the top five, but bear calling out, include the sense that the "legal department is overwhelmed" (47%) and that the legal department does not have the right skills to track legal spend (41%).

First, the sense that legal departments are overwhelmed surfaced in other credible industry surveys. For example, a separate July 2021 survey of 202 corporate lawyers found "54% are exhausted to some degree, with 20% scoring as highly exhausted".

The fact that nearly one in every two legal departments is inundated, despite the growth in headcount, suggests the problem can't be solved by adding human resources alone. Legal leaders must also improve legal processes and tools – and hire (or train) people with proficiency in legal data and analytics.

Second, many respondents overall suggested the legal department lacks the right skills to gain a detailed understanding of legal spend. However, this appears to be a view held more commonly by finance leaders, as half of this cohort (50%) cited the lack of skills as a key barrier to obtaining a detailed breakdown in legal spend – compared with just 36% of legal leaders. This disparity of opinion suggests that there is a perception from finance that legal departments require upskilling, whereas the legal teams themselves perceive a lack of data and manual processes as being greater challenges.

Fig. 5. Legal department doesn't have the right skills to obtain a detailed breakdown in legal spend:

Legal spend priorities and the struggle to make sense of data

When asked about legal spend priorities for the next 12 months, controlling costs (60%) and better leveraging data to make decisions (55%) were at the top of the list. Enhancing the predictability of legal spend ranked in third place with 42% of respondents selecting this option.

Interestingly, reducing internal legal costs (17%) and reducing outside legal costs (14%) were at the bottom of the multi-select priority list. This underscores a stronger desire to better control costs rather than simply reducing costs. The GCs and CFOs alike in financial services are willing to pay for good counsel – but they want to be in full command of that spend.

Turning data into insights

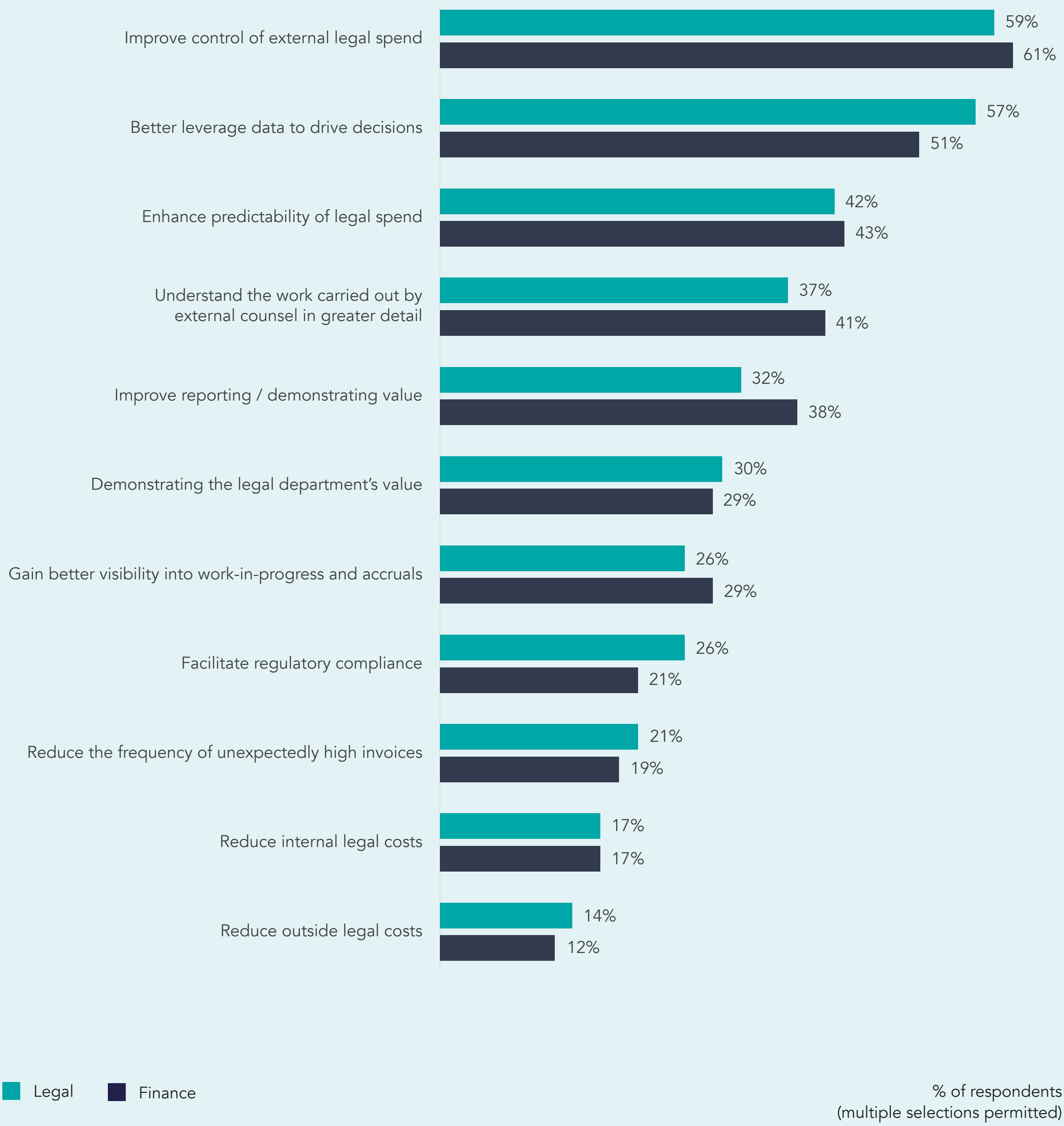
In the context of the previous questions, these findings cast a shadow of doubt over the extent of useful insights provided by the detailed breakdowns of legal spend data. Inconsistent data formats, the lack of appropriate skills, and the expressed need for better control all suggest legal departments can collect expense data, but struggle to aggregate and analyze this to find actionable insights.

In other words, the ability to obtain a detailed breakdown of legal spend is not in question. In-house teams are asking for – and receiving – detailed budget status reports from their law firms. In theory, they can collect data and report on spending at any point in time, but it's likely to stagnate and will be limited to a specific matter or law firm.

The alternative is to automate the collation and aggregation of spend data from law firms, ideally prior to invoices being received. This can allow for a real-time view on spending and accruals, allowing comparisons to be made across different time periods, law firms and similar matter types, to improve control and drive strategic decision making.

This is an important conclusion because it's the next logical progression in legal spend management process maturity. And it may well be a step towards relieving that sense of being overwhelmed.

Fig. 6. Which of the following are the top legal spend priorities for your legal department over the next 12 months?



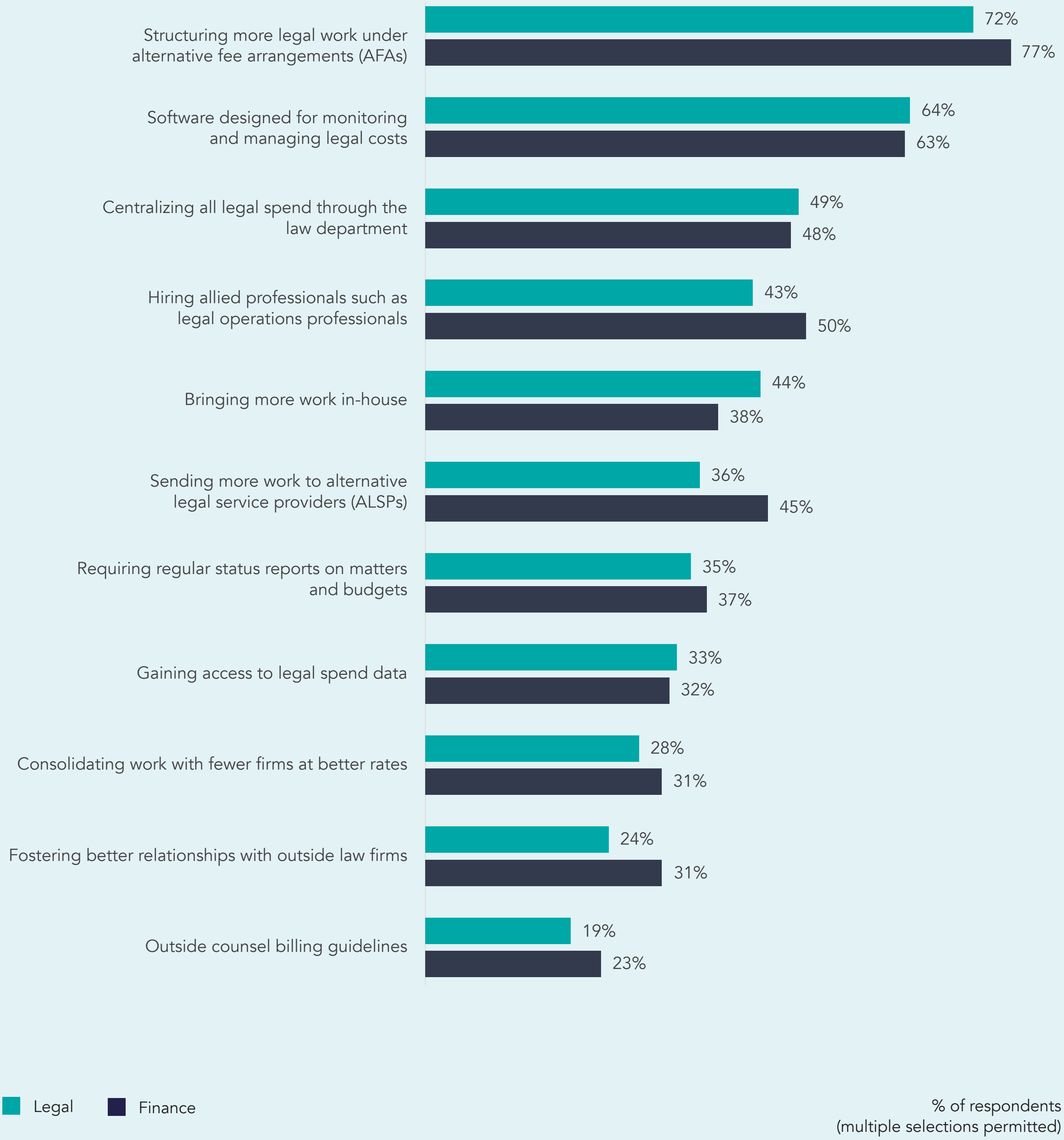
Most effective techniques for controlling legal costs

The survey found that a number of techniques are used to control legal costs. The three ranked most effective are: structuring more legal work under alternative fee arrangements (AFAs) (74%), utilizing specialized software for monitoring and managing costs (63%) and centralizing all legal spend through the legal department (49%).

AFAs are an effort to eliminate the asymmetry that exists in legal time, billing and invoicing. Specialized software promises to automate manual tasks – like aggregating and analyzing non-standard legal spend data to drive better decision-making. The centralization of legal spend speaks to the paradox legal departments in financial services face over the growth in legal costs: they lack control but are still held accountable.

Any effort to centralize legal spend is likely to be met with substantial operational hurdles. For example, in deal teams the speed required to pursue investment opportunities is crucial to their success, and requires immediate access to the law firms working on such deals. An easier path is to improve internal processes and visibility, with tools that enable in-house teams to oversee and manage legal spend without requiring investment managers or deal teams to change the way they work.

Fig. 7. Which of the following techniques do you think are most effective at helping to control legal costs?



People, process and technology

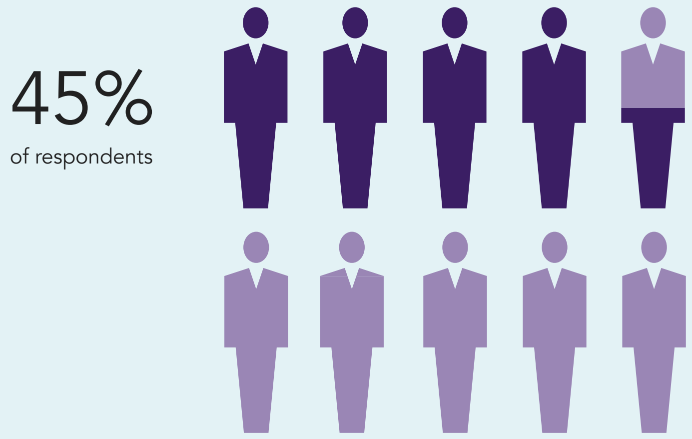
Modern problem solving involves people, process and technology – and the human element was evident in the next three techniques: hiring allied professionals such as legal operations (45%), bringing more work in-house (42%) and sending more work to alternative legal service providers (ALSPs) (39%).

Interestingly, the finance and legal leaders had slightly different views on how best to deploy human resources to control legal costs. For example, finance leaders (50%) were more likely to favor hiring allied professionals compared with legal leaders (43%).

Similarly, 44% of legal leaders favor bringing more work in-house – compared with 38% of finance leaders. Anecdotally, we've seen indications that the trend of in-housing is slowing, and financial objections to the cost of adding headcount is a key argument to watch.

Finally, finance leaders (45%) favor sending more work to alternative legal service providers (ALSPs) at a higher rate than legal leaders (36%). This is an interesting finding since the legal community has watched warily as the "Big 4" accounting firms edge into the ALSP market. Suffice to say, these firms have existing relationships with CFOs that could enable them to bypass the GCs – adding to the loss of control over legal spending given the organizational dynamics in financial services.

Fig. 8. Respondents hiring allied professionals, such as legal operations, to help control legal costs



Most effective principles for gaining control of legal costs

Principled remedies for controlling legal costs invoke words like transparency, visibility, predictability, accuracy, and timeliness. The survey pressure tested these to identify which single improvement the respondents believed would have the greatest impact.

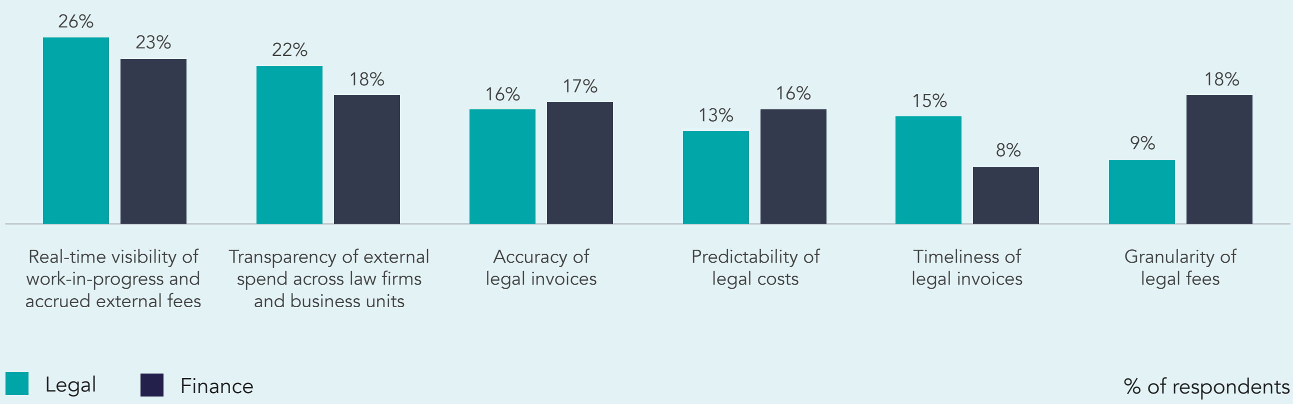
One in four respondents (25%) believe that "real-time visibility of work-in-progress and accrued external fees" is the biggest lever available to legal departments in financial services.

"Transparency of external spend across law firms and business units" landed second on the list drawing 21% of responses. The remaining answers were clustered with similar results – accuracy (16%), predictability (14%), timeliness (13%), and granularity (12%) of legal fees and invoices.

When answers are segmented by job role, two areas showed subtle differences. First, legal leaders would prefer invoices were timelier (15%) – compared with just 8% of finance leaders (who tend to be protective of cash flow). Second, finance leaders would like to see more granularity of legal fees (18%) versus legal leaders (9%).

The even distribution of answers in this question shows how divergent the views are, even within a single vertical market. Indeed, every organization has its own unique risks and tolerance to risk. However, it is clear that the majority of respondents who wish to improve control of their legal spend, seek to do so by improving the visibility and transparency of their external legal spend.

Fig. 9. If you could improve one of the following areas, which would have the biggest impact on your legal costs?



How EQT use Apperio to manage legal spend

"Prior to using Apperio, we'd obviously identified an issue in legal spend but never really found a solution.

We now see law firms making sure their teams complete time entries promptly. Previously there could be a gap of weeks, and fees would suddenly unexpectedly jump. For EQT transparency and predictability are key when it comes to legal spend."

Read the full case study here: https://www.apperio.com/stories/eqt.

Ample investments in tech and innovation – more to come

Legal departments in financial services say they've made ample investments in legal tech – and fully intend to keep pressing forward.

The vast majority of respondents (81%), "agreed" (48%) or "strongly agreed" (32%) that their organization had invested sufficiently in legal tech over the last three years. What's more, over the next 12 months, 72% of respondents said the level of investment would "increase" (43%) or "increase significantly" (29%).

CFOs seemed to be even more bullish on technology investments within their organization: 82% said spending on legal technology would grow in the next year compared with 67% of their peers in legal.

The top technology tools respondents are considering implementing in the next year include, risk management (63%), legal spend management (52%), e-billing (49%), contract management (40%) and compliance tools (35%).

Fig. 10. Moving forward, which of the following best characterizes the level of investment your organization is planning to make in legal technology over the next 12 months?

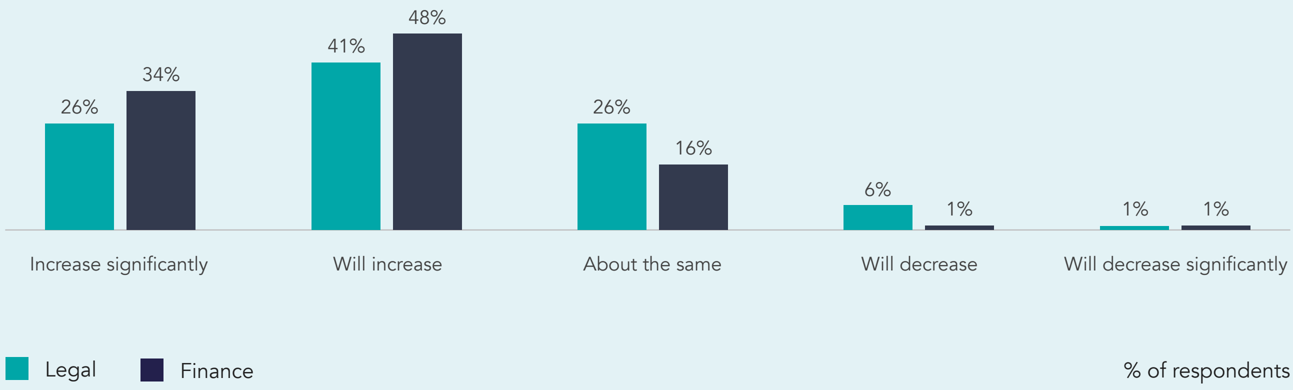
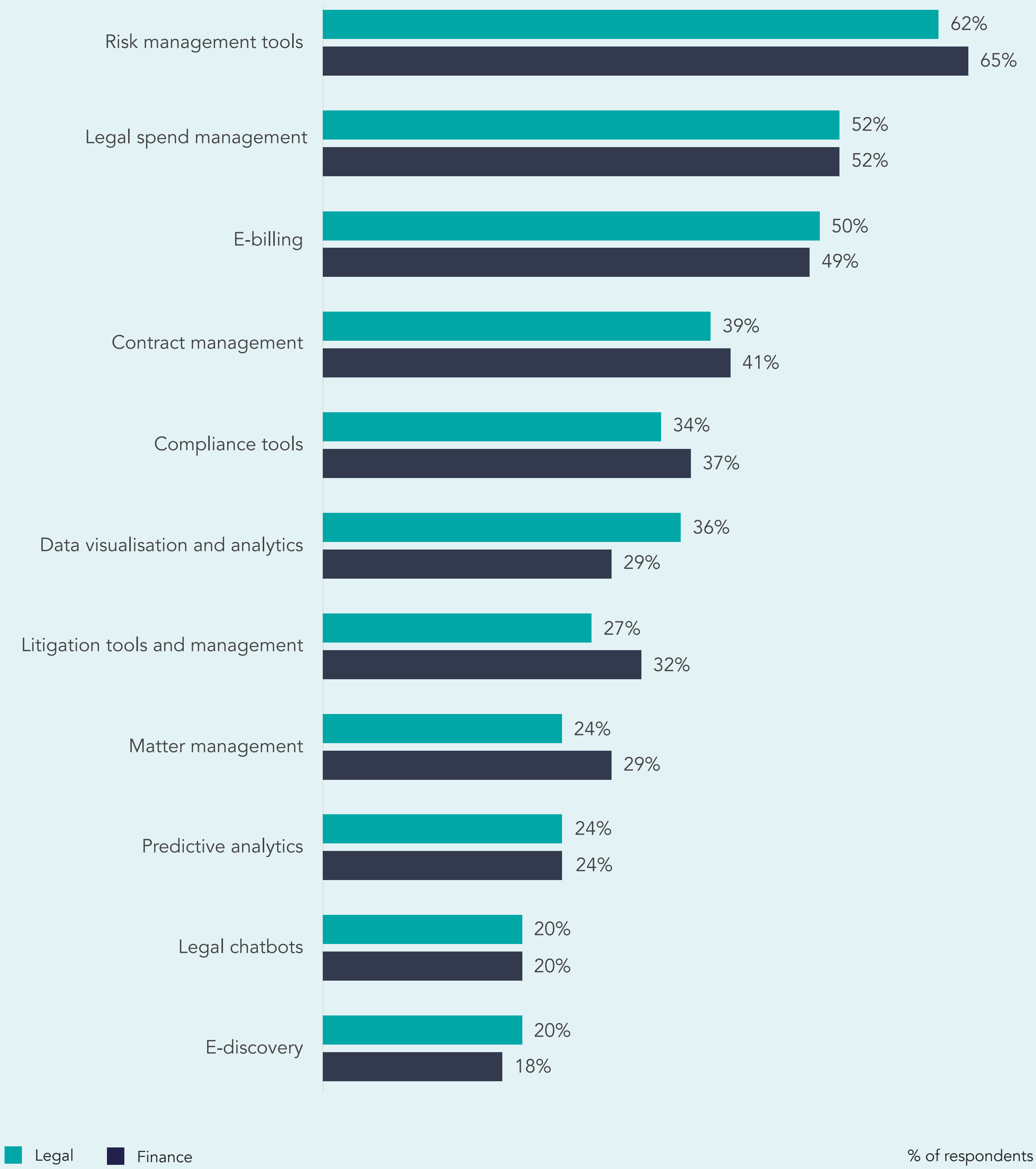


Fig. 11. Which of the following types of legal and compliance technologies would your organization consider implementing in the next 12 months?

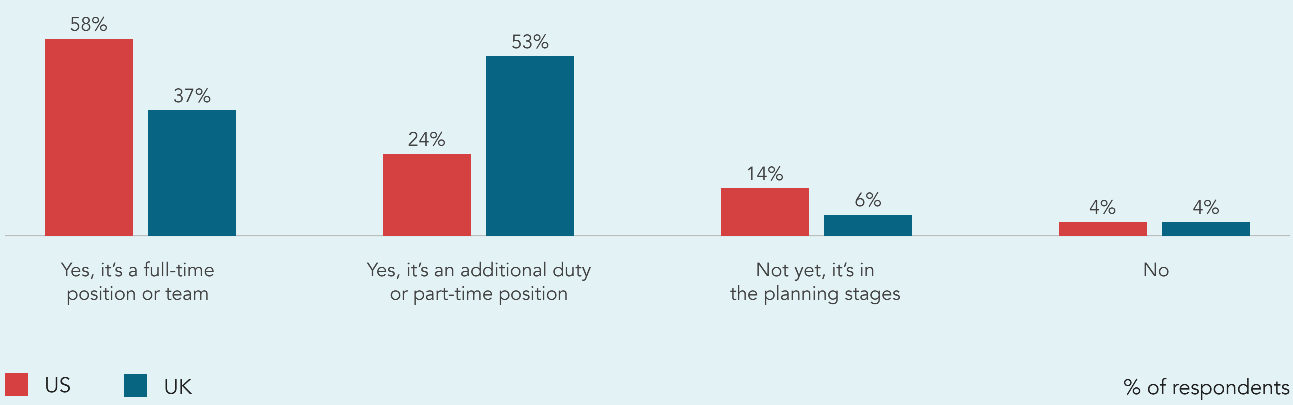


The organizational structure of legal departments in financial services lends itself well to implementing such technology tools. Most respondents (85%) say their department has a person or team charged with leading innovation.

Just over half (51%) of respondents said this was a full-time responsibility while 34% said it was a part-time responsibility. Another 12% said they didn't have a designated resource charged with innovation, but such a position was in the planning stages. Just 4% of respondents did not have a person or team charged with innovation.

When analyzing the geographical split of answers to this question, it's interesting to note that attitudes in the US appear to be more advanced than in the UK. 58% of US respondents reported having a full-time person or team responsible for innovation, compared with only 37% in the UK.

Fig. 12. Does your legal department have a person or team charged with innovation?

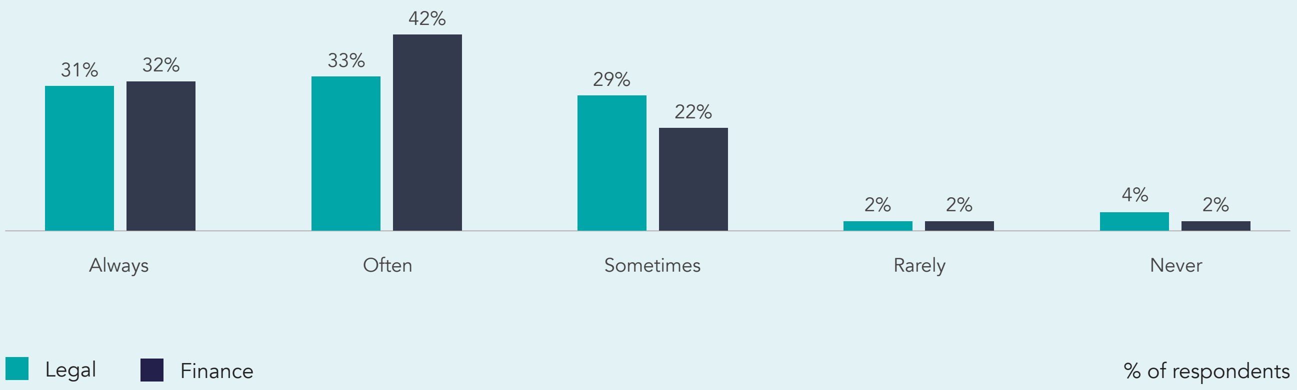


Measuring value

Most respondents (67%) say the in-house team is measuring the value they contribute to the business "always" (31%) or "often" (36%).

When asked specifically on how they measure value, the "outcome of legal matters" (66%) and the "hourly cost per lawyer" (60%) rose to the top of this list. These two measures were also the only metrics out of a list of 12 options to accumulate a majority of votes. Rounding out the top five metrics were "spend forecast vs. actual spend" (46%), "risk exposure" (43%) and "overall spend by law firm, matter type or business unit" (40%).

Fig. 13. Does your legal department measure the value it contributes to the business?



One in five respondents (21%) cited the "diversity of outside counsel" as a measure of value. A segmented analysis by job role shows finance leaders like CFOs (28%) place a greater emphasis on measuring diversity than their legal peers (18%).

In open-ended comments, some respondents wrote:

No measurement. "This is dealt [with] by a different department." ~ Deputy or associate general counsel in investment banking.

Cases won. "By showing the amount of cases they win." ~ Senior legal counsel at a hedge fund.

Volume. "We monitor and assess the transactions that the legal department handle." ~ Principal legal officer in asset management.

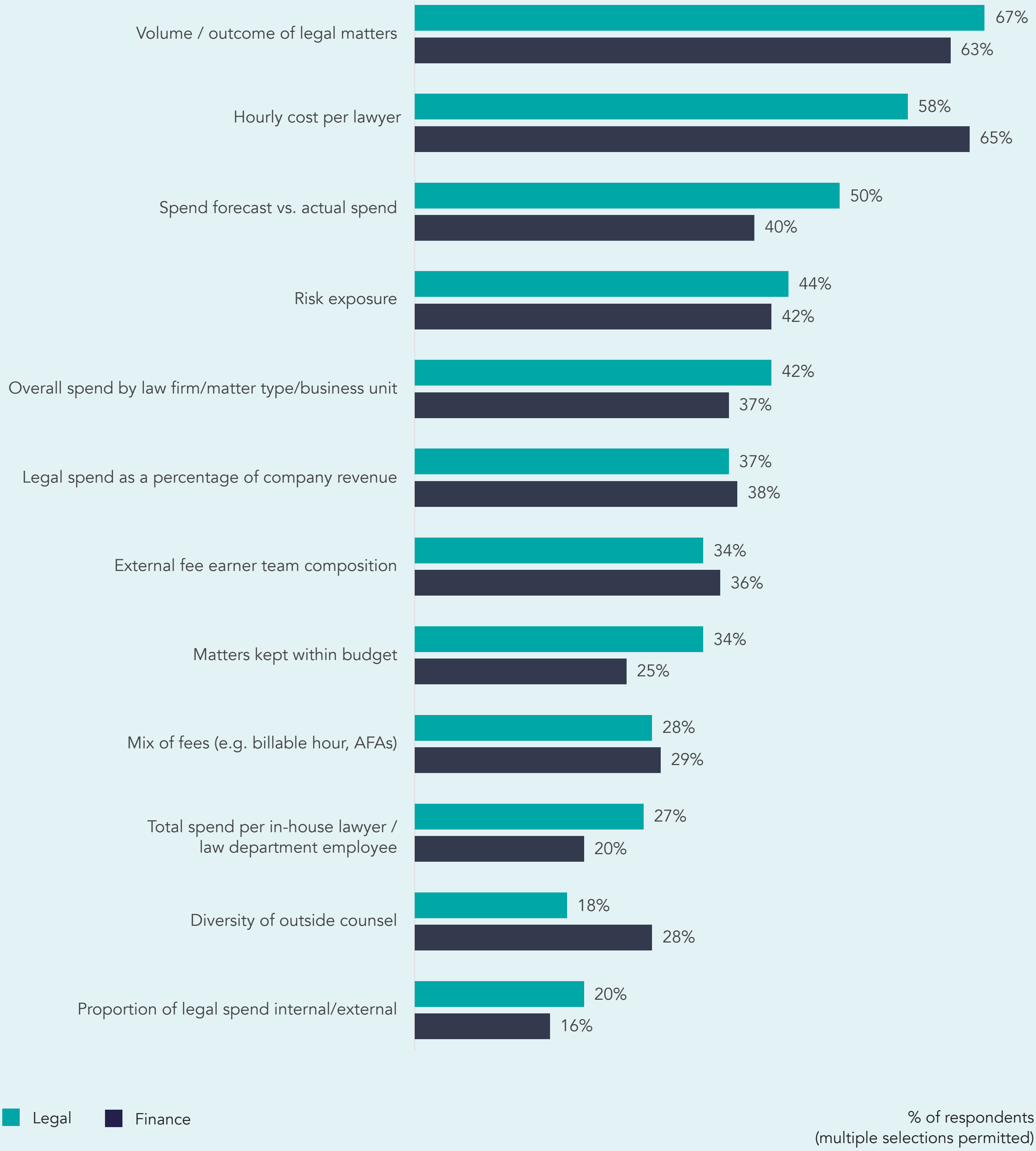
Revenue-generating legal department. "By defining the revenue it brings in." ~ Finance director or controller in asset management.

Spreadsheets and meetings. "Value is measured in a number of ways. One being 3D charts and spreadsheets. We have weekly and sometimes daily meetings to keep on top of things always."
~ Legal partner at a hedge fund.

Discussion. "We have several meetings each month to discuss and manage the value it contributes."
~ GC at a venture capital firm.

Time tracking. "We keep track of the hours and the projects we work on and categorize their success."
~ Finance director or controller in asset management.

Fig. 14. Which of the following performance metrics does your legal department track and monitor?



Conclusion

The uncertainty brought on by the global pandemic has cast a sharp focus on the value legal departments provide to financial services firms. As the resulting volume of work has grown, financial services have willingly invested in legal department headcount and technology alike.

Legal departments too have stepped up. They've largely charged someone with the responsibility for innovation and worked to improve their data collection and reporting. Even so, legal costs are growing and challenges remain in understanding the total legal spend across the organization.

Without a comprehensive understanding of spend in real-time, legal departments lack the security of feeling in control, and struggle to utilize data to make informed, strategic decisions.

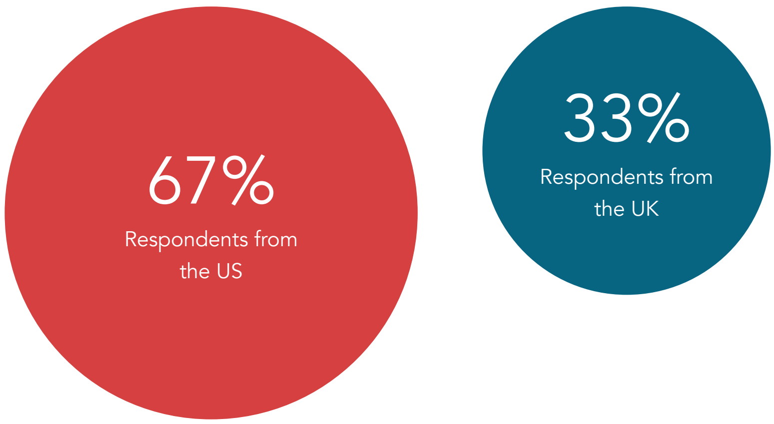
In-house leaders in financial services have a unique opportunity. Their legal departments are well-positioned to parlay the goodwill their teams have earned and the willingness of their organizations to continue to invest in the department. This will allow in-house teams to take legal spend management process maturity to the next level.

Survey methodology

The survey, commissioned by Apperio and conducted by the independent research firm Coleman Parkes, polled 300 respondents working in financial services in the US (67%) and UK (33%) in September and October of 2021. The respondents were senior leaders from areas of financial services including private equity, asset management, investment banking, retail banking and venture capital, among others.

Legal and finance teams in financial services tend to have a unique relationship – so the researchers sampled respondents with titles from both departments. The 200 legal respondents held titles such as chief legal officer (CLO), general counsel (GC), associate or deputy general counsel, and senior legal counsel. The 100 finance professionals surveyed held titles such as chief financial officer (CFO), senior vice president of finance, vice president of finance or accounting and finance director or controller.

Fig. 15.



Overall, 59% of respondents reported they were the senior decision maker around legal spending, while the remaining 41% reported being part of a team of senior decision makers. Collectively they work for legal departments that employ an average of 22 lawyers and oversee $14.28 million in annual spending on outside legal counsel.

Fig. 16. How much does your legal department spend annually on external counsel?

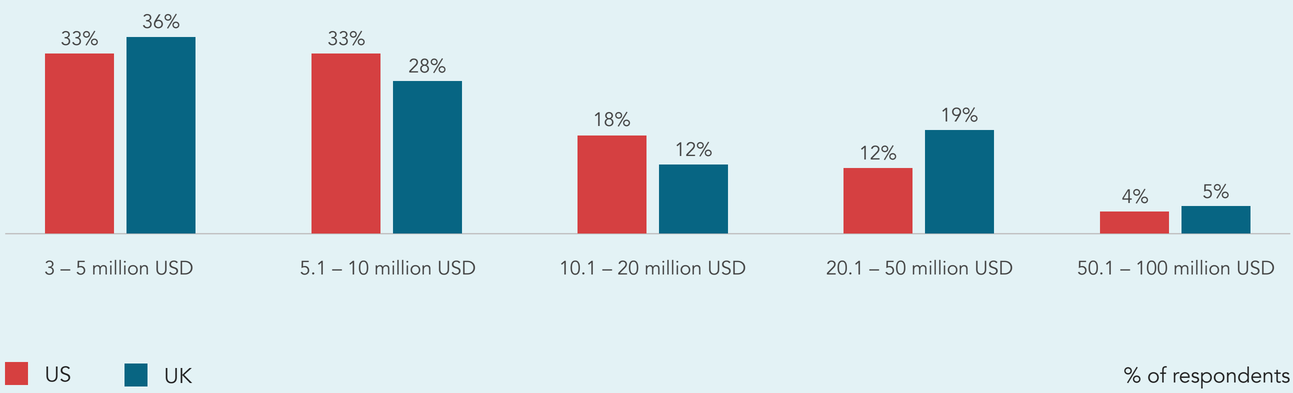
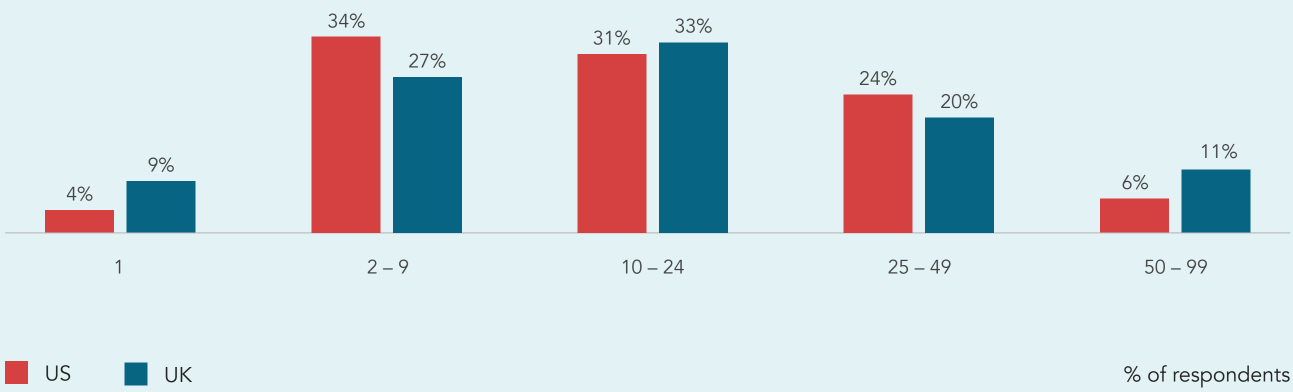


Fig. 17. How many personnel are employed by your legal department (including lawyers and allied professionals)?



About Apperio

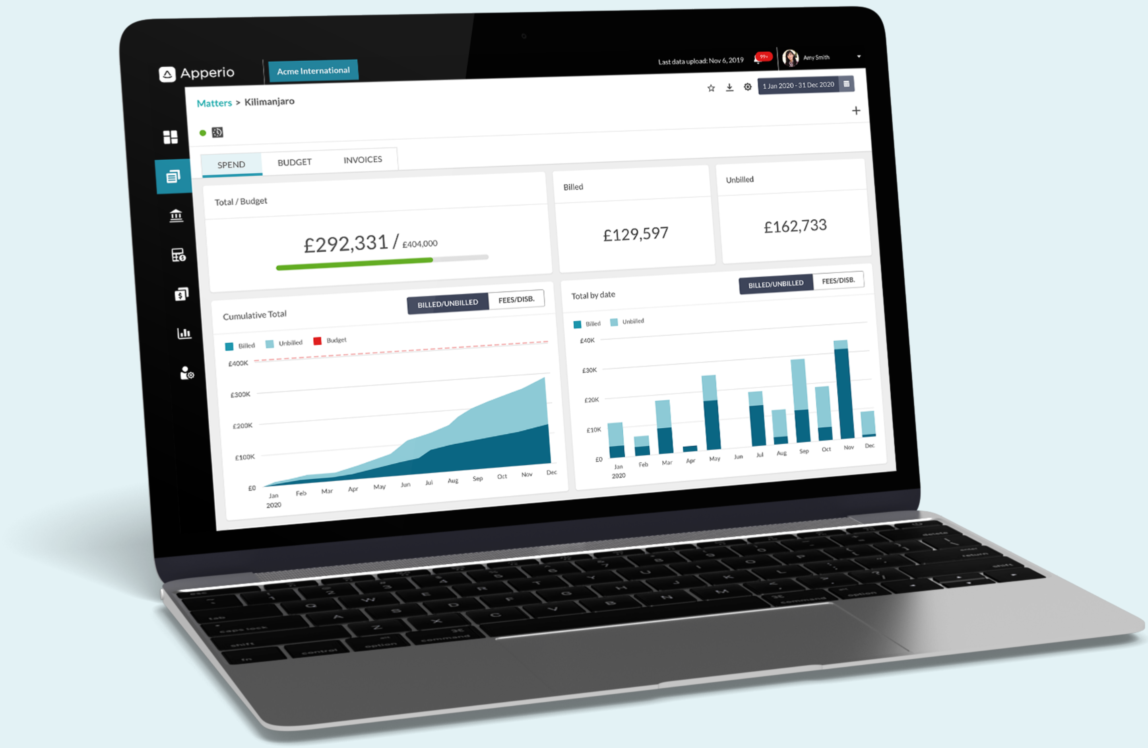
Apperio's legal spend management software is designed specifically for in-house legal, finance and investment teams. Apperio helps companies to stay in control of their external legal spend and drive efficiencies in their legal department.

Apperio uniquely connects directly to law firms' practice management systems to provide a live view of all matters. This is an automated process that does not rely on spreadsheets or manual updates. The data is collected, structured consistently and presented simply for analysis to help our customers make informed business decisions.

Unlike e-billing solutions, which only provide visibility of invoiced matters that may have a lag of several weeks, Apperio provides an instant view of both historical and unbilled legal spend data.

Apperio helps corporate legal departments to stay in control of their spend and build trust with external counsel by offering a collaborative, rather than adversarial approach to legal spend management. Currently, the platform is used daily by more than 50 in-house legal teams including Epiris, EQT, FSCS, Marex, Monzo, Finastra and Royal London.

To book a demonstration of the platform and understand how Apperio could help manage your legal matters and control spend, visit www.apperio.com or simply email us at info@apperio.com.



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