

Findings from the 5th Annual Law Department Operations Survey



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Based in Legal, with Enterprise-Wide Influence



By **David Cambria**,
Senior Director, Enterprise
Information Management, CDW, and
Chair, Law Department Operations
Survey Advisory Board

“This year’s survey provides a unique perspective into the operations and trends of today’s legal departments, and the presence that legal can have throughout the business.”

When executives in the C-suite need knowledgeable, experienced people to help develop corporate-wide initiatives, they are increasingly turning to legal department operations managers. For those who have followed the Law Department Operations Survey since its launch in 2008, that’s powerful testimony to the value law department operations managers provide.

In the years since the inaugural survey, we have closely charted the expanding role and influence of LDO managers. This year’s survey once again provides an incisive look into the operations and trends of today’s legal departments, and the presence that legal can have throughout the business.

Earlier this year, LDO managers and experts in the field met in Washington, D.C., to review survey results and discuss how they are dealing with the opportunities and challenges in their own organizations (see the article that starts on the next page).

The 5th Annual Law Department Operations Survey has been developed once again with *InsideCounsel* (InsideCounsel.com/LDO) and the Blickstein Group, in consultation with our advisory board members, who represent some of the largest companies in the country. This unique survey focuses solely on the operations function and seeks to provide benchmarks that are useful to the largest law departments.

I think you’ll find the data and analysis not only revealing and informative, but actionable, too.



Above and Beyond

An Expanded Job Description Has Many Law Department Operations Managers Providing Input, Expertise Organization-Wide, Latest Survey Finds

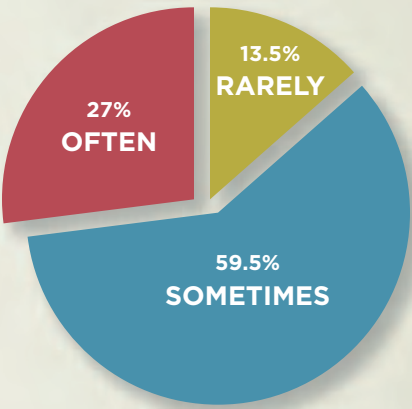
For five years, the Law Department Operations Survey has tracked the changing role of the LDO manager. Back in 2008, those who held the position were just seeking a seat at the table and recognition for their value to the legal department. Fast-forward to 2012, where most respondents to this year’s survey say they are involved in strategic initiatives that reach far beyond legal.

“This speaks to the increasing value that LDO managers bring to their organizations,” says Brad Blickstein, principal at the Blickstein Group, publisher of the survey. “One impact is the evolving relationship between LDOs and other corporate functions. A vast majority of LDOs interact with HR, IT and Finance on at least a weekly basis.” The chart on page 8 illustrates that emerging dynamic.

A group of LDO managers and industry experts met recently in Washington, D.C., at ILTA’s 35th annual educational conference (www.iltanet.org) to review these and other findings from the survey. During the roundtable, the group discussed a wide range of issues, from their strategic role within their organizations to the ongoing work of e-discovery, the growing reality of purchasing goods and services through the procurement

department, leveraging metrics and reporting, and relationships with outside counsel. Participants shared war stories and described best practices, as they continue to assert the importance and relevance of LDO managers throughout their organizations.

CHART 1: How often are you involved in corporate (outside the legal department) strategic initiatives?



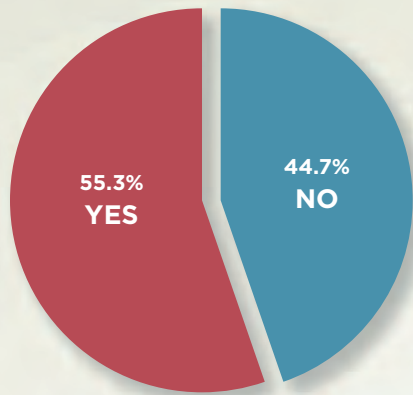
STRATEGIC INITIATIVES

David Cambria, senior director, enterprise information management at CDW and chair of the LDO advisory board, points to the increasingly visible responsibilities that LDO managers have outside the law department as one of the most intriguing results from this year’s survey. Asked, “How often are you involved in corporate (outside the legal department) strategic initiatives?” 86.5 percent of respondents answered “often” or “sometimes” (see Chart 1 on the previous page).

For Julie M. Richer, legal department technology program manager at American Electric Power, “BYOD,” — bring your own device — is a corporate-wide concern with which she is increasingly becoming involved. With the growing proliferation of smartphones and tablets, “I’m at the table where we are actually writing a policy right now, and it will be a corporate policy specifically about personal devices,” she explains. “For years, we’ve stood firm that employees cannot put work information on their personal PC. This is worse than PCs, because smartphones and tablets and other devices grow feet a lot faster.”

IT, records and legal at Hess Corp. are working closely on several initiatives, according to Charlotte Riser Harris, manager, litigation support. The initiatives encompass records management, information governance and cleaning up servers. “We’ve got a good collaboration going between records, IT and legal. It’s sometimes a struggle, but we are making good progress because we do have that three-prong approach,” she says.

CHART 2: Does your law department have a dedicated e-discovery manager?

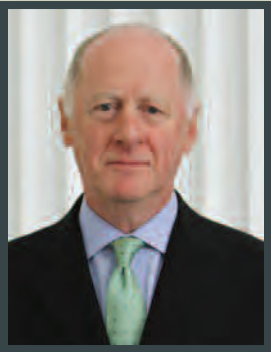


“BYOD — bring your own device — is a corporate-wide concern.”
— Julie M. Richer, American Electric Power

Inside the Numbers

A MULTI-PRONGED APPROACH TO MANAGING EXPENSES

By Frank Orzo, LT Online



Frank Orzo
LT Online

The results of the 2012 LDO survey confirm what many of us already knew: that law department operations managers are most concerned, at least in the short term, with reducing legal costs. While managing legal spend is a perennial concern, the good news is that reducing budgets is more achievable than ever before.

As many LDO managers recognize, a multi-pronged approach is most valuable when striving to reach this goal. Increased dialogue and understanding between law departments and outside counsel are already resulting in new ways to deliver value, defined as results versus cost.

What’s more, legal departments now have access to excellent software tools that make it easier than ever to monitor, support, and measure the delivery of value between department and firm. This is another area where LDO managers recognize that they can demonstrate their value.

At LT Online, we expect to see more collaboration between law department customers and their outside counsel. This enlightened approach reduces legal costs without a fall-off in results. In fact, our findings indicate results actually improve as costs decline. This does require law departments to select software tools that are easy to use and support strategic partnering among law departments, business partners and law firms.

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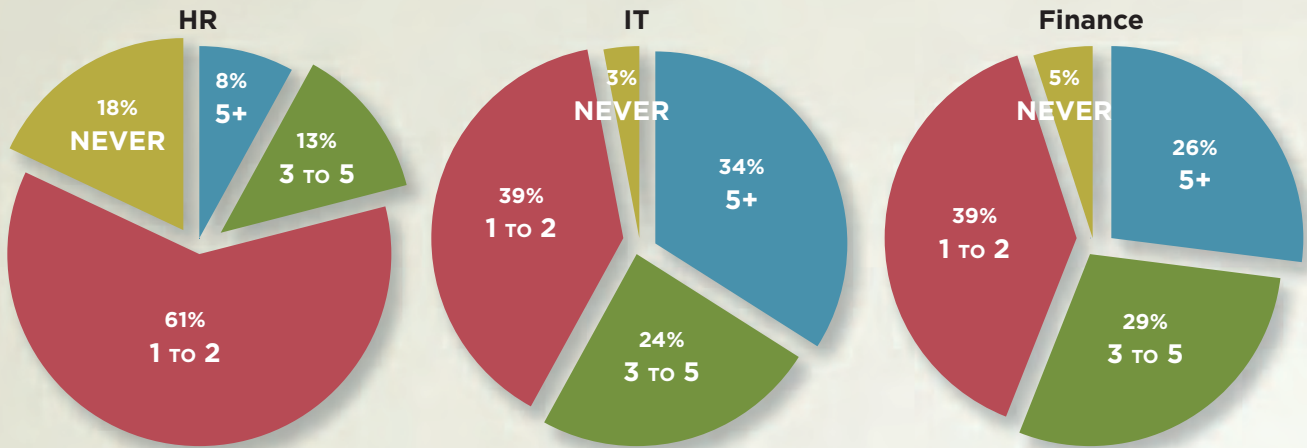
MANAGEMENT SOLUTIONS FOR IN-HOUSE LAW DEPARTMENTS

Lawtrac

Frank Orzo, president of LT Online, offers the real-life example of an elevator company that was leveraging legal-specific information to minimize risk and cost. The company’s legal department noticed a large number of slip-and-fall claims near elevators and escalators at department stores. When they drilled down into the data, they saw that many of those slip-and-falls happened near

perfume counters. Parents or guardians would apparently let go of their children’s hands or become distracted trying on perfume and cologne, and the children would run to the escalators or elevators and fall. With analysis, the legal department realized those situations were leading to more claims.

CHART 3: How many times per week do you interface with ...?



Inside the Numbers

PROGRESS ON THE TECH FRONT, WITH PLENTY OF ROOM TO GROW

By Rich Seleznov, Huron Legal

The 2012 survey results highlight the growing prominence — and, perhaps, the increasing sophistication — of technology in managing today’s law department. Indeed, survey respondents spent the second-largest share of their time on technology, after internal law department operations, but ahead of key functions such as financial reporting and forecasting, administration, and strategy. They also report having more frequent contact with IT than with their finance or HR departments.

Just less than 60% of respondents now generate management reports via technology such as matter management systems, e-billing systems, and dedicated report-writing tools, up significantly from 41.7% in 2011, while fewer respondents have plans to evaluate a new matter management and/or e-billing system in the next 12 months — 41.7%, down from 55.6% a year ago.

Matter management and e-billing systems are foundational law department technologies. Survey data may suggest that many



Rich Seleznov
Huron Legal

law departments now have these foundations in place. Forward-looking departments are now building on these foundations, integrating them with other departmental and enterprise systems, often through web-based technology. They are also using technology to share information — in both directions — with outside counsel.

As technology evolves, a growing challenge is to motivate user involvement. As a new generation enters the workplace, for example, we are beginning to see the “game-ification” of business applications in an effort to incentivize use and drive desired conduct. Awarding “badges” for submitting documents to knowledge repositories,

or scores for not exceeding matter budgets, or for completing specific tasks, are examples of that trend.

When thoughtfully implemented, these kinds of tech tools and strategies will help law departments identify opportunities for business improvement and cost savings.

“This company was able to go back to some of their retail customers and tell them, ‘If you move the perfume counter away from the escalator, we will see fewer claims,’” he recounts. “That was an innovative way to take information that the legal department had and use it to avoid business disputes.”

E-DISCOVERY

The rise of the e-discovery manager is another trend that grows more pronounced in this year’s survey. More than half of respondents, 55.3 percent, reported having someone dedicated to that role (see Chart 2 on page 6).

These companies recognize the value of having an internal point person to manage various complexities in the e-discovery process, according to Kevin Clem, senior director at Huron Legal, a part of Huron Consulting Group, “They are no longer just relying on outside legal counsel to manage the process. They are hiring discovery process managers to oversee the work of their firms and vendors, streamline their processes, and leverage alternative pricing models. Some have even built their own in-house collections teams supplemented by discovery vendors to provide a baseline of internal resources to support the initial data gathering.”

For Riser Harris of Hess, bringing more discovery work in-house has been a thoughtful, deliberate process. Her company has purchased a tool and hired someone to

oversee the collection, but the company has no plans to handle the e-discovery work entirely within the legal department. “It’s an iterative process,” she says. “We’re talking about baby steps. We have a directive to do this, but it’s a different world. We want to be careful to not overstep and get ahead of ourselves.”

Companies recognize the value of having an internal point person to manage various complexities in the e-discovery process.

— Kevin Clem, Huron Legal

While culture and concerns about risk cause some companies to proceed slowly, budget limitations also represent a challenge. The Wendy’s Company is taking a long-term approach to bringing a limited amount of e-discovery work in-house, according to JoAnn Fair, manager, legal technology. She’s the singular liaison between IT and Legal when it comes to electronic data discovery. “But my grand plan over the past three years has been trying to secure the right people in IT who I can always call and ask for what I need to have done,” she says, adding that she wants to eventually acquire an in-house tool for at least some of the collection and develop master service agreements with several trusted discovery vendors. “I think that will be probably more valuable than trying to add on extra people in-house to handle e-discovery.”

Inside the Numbers

HOW ALIGNED IS YOUR DEPARTMENT’S LDO?

By Blane Erwin, Bridgeway

Respondents to this year’s law department operations survey have again ranked “Identifying opportunities for business improvement and cost savings” and “Driving and implementing change” as their two greatest challenges, just as they did last year. Meeting these two very formidable challenges becomes even more difficult when factoring in three more key data points from the survey: 52% of respondents lack dedicated IT support, 54% lack a distinct operations budget, and 56% lack a budget for legal technology.

As the survey data reveals, many LDOs are tasked with producing tangible results but do not have direct control over the key resources necessary to make it happen. Either they are forced to operate in departments that can be characterized as order-takers,



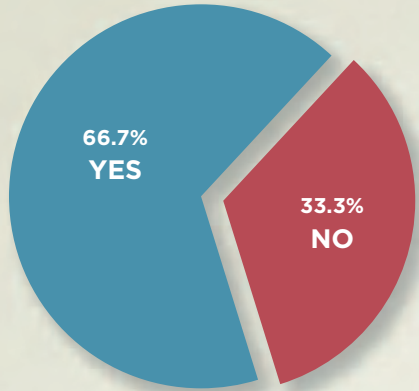
Blane Erwin
Bridgeway

or they have a limited view of who is doing what and, more importantly, who should be doing what.

A full description of this “reactive” and “emergent” behavior can be found on a framework called the Law Department Maturity ModelSM. This model enables an evaluation of a legal department’s allocation of resources, sophistication of process, and utilization of technology as a means of determining its current level of operational maturity. That analysis then yields a roadmap to becoming a “business-aligned” corporate services organization.

The path to becoming a truly aligned, business-oriented legal department is different for each company, and how one gets there depends on the starting point. To determine where your firm resides on the Law Department Maturity ModelSM, go to www.bridgeway.com/maturity.

CHART 4: Do you have a formalized metrics/reporting program?



“Delivering a stack of reports isn’t effective — stick to generating reports about the important factors to avoid ‘report overload.’”

— Lisa C. Girmscheid, Rockwell Automation

METRICS AND REPORTING

Roundtable participants also discussed ongoing efforts to leverage the value of metrics and reporting systems. Less than two-thirds (60.9 percent) of survey respondents with a metrics program say they make effective use of the information their program provides (see Chart 5 on page 12). Cambria points to a common scenario among LDO managers who generate reports that attorneys specifically ask to see but that no one ever looks at.

Convincing attorneys of the value of the information that resides in the system has been effective for Lisa C. Girmscheid, legal administrator in Rockwell Automation’s Office of the General Counsel. “It’s not always necessary to use reports to find information,” she says. “Answers can be found within data stored in matter screens or by using a simple query. When it’s necessary to go beyond these basic steps, the reporting system can provide a higher level of analytics. Delivering a stack of reports isn’t effective — stick to generating reports about the important factors to avoid ‘report overload.’

“Another way to maximize the benefit of the system is to take paper-based processes and automate them,” she continues. “As an example, we removed the outside counsel evaluation section from our post-matter evaluation paper form and moved it to our matter

Inside the Numbers

WHICH PERFORMANCE METRICS MATTER MOST?

By Bennetta Trahan, Datacert

Among the top key performance indicators identified by respondents to this year’s LDO survey, “actual spend versus the law department’s total budget” earned the top spot — by a wide margin.

This financial performance metric, along with other top-ranked KPIs identified in the survey, could be considered a minimum starter set of metrics providing the general counsel a better handle on the department’s primary operational concerns. Others that should be included in this starter set are:

Significant matters — It’s vital to track matters, cases and claims that are identified as high-risk or that may require significant reserves. In addition to tracking the actual spend associated with these matters, the ability to track critical narrative information pertaining to the matter could also be beneficial.



Bennetta Trahan
Datacert

Matter portfolio — The overall matter portfolio includes the total number of open matters and an indication of which matters are the key drivers of outside counsel spend. The goal is to get an understanding of the mix and volume by type of matter or practice area.

Firm performance — Law firm performance should be measured objectively with such yardsticks as budget compliance and subjective ratings of the firm’s legal knowledge and responsiveness.

Once a minimum set of operational KPIs become embedded in department processes, the legal department can begin looking at more strategic considerations, such as liability and exposure, alternative fee arrangements, internal versus external matter staffing, and firm and timekeeper benchmarks.

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Likelihood to win or lose?

Settle or go to trial?

How much to offer to settle?

How much to reserve?

Have the best outside counsel been selected?



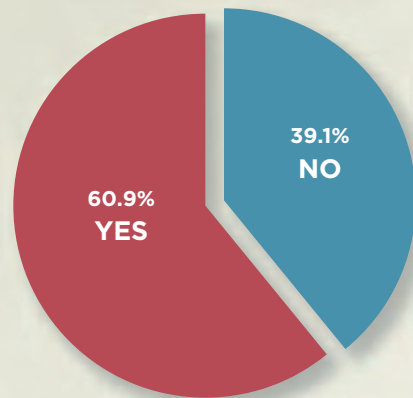
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CHART 5: **If you have a metrics program, do you feel your law department makes effective use of the information it provides?**



“My grand plan over the past three years has been trying to secure the right people in IT who I can always call and ask for what I need to have done.”

— JoAnn Fair, the Wendy's Company

management system. We used the same factors and rating system, but now we can view and report this data electronically rather than track on paper or in a spreadsheet.”

Kris Satkunas, director of analytic consulting at LexisNexis CounselLink, suggests focusing more on reports and information that explains why something happened, rather than just what happened. “You want to be able to get into the drivers of whatever the issues are that your legal department is facing,” she says. “If you’re not digging underneath it to peel back the onion, you are not going to effectively be able to use it.”

Closing matters and including information about the disposition of each matter are a focus for AEP’s Richer. Now that attorneys are entering that in the system, she is trying to encourage them to provide even more matter-specific data. “We’ve started to add fields about the type of disposition, final amounts and settlement. We’ve added about three fields, and we are going to make them required,” she says. Richer has managed to convince attorneys to complete those fields by showing them how little time it takes, and how it will enable the legal department to demonstrate its value to the company.

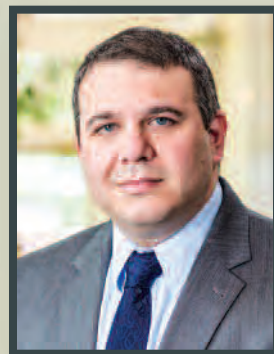
Inside the Numbers

BEYOND METRICS: CONNECTING DATA TO DECISION-MAKING

By **Jonah Paransky**, LexisNexis CounselLink

In 2011, more than a third of survey respondents felt their law departments did not make effective use of information from their metrics program. In 2012, that percentage rose to nearly 40%.

This result is not surprising. Most legal department managers have a wealth of data and metrics available to them, due in part to data captured by matter management systems such as LexisNexis CounselLink. But having data and metrics doesn’t automatically translate into having information, and knowing what to do with the metrics. Ultimately, if legal departments want to make effective use of *information* from their metrics program, they need a structured approach to using data as part of their decision-making processes. At CounselLink, we have dedicated experts on the CounselLink Analytics team to help legal



Jonah Paransky
LexisNexis CounselLink

departments build this discipline of connecting data to their decision making.

Relying on your own data isn’t enough though. Until your data are compared with other companies of your size, industry, or region, it’s almost impossible to identify what you’re doing really well, or act on areas for improvement.

Fortunately, there are benchmarking resources — such as CounselLink Insight — with a database that aggregates legal fees and invoice data from thousands of law firms, enabling users to slice and dice industry data to see how they stack up in terms of time, total cost, and types of fee

structures on comparable matters.

The most progressive law departments realize the significance of these solutions to help manage risk, justify legal spend, and highlight the value of the entire legal department.

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Results of the Fifth Annual Law Department Operations Survey are based on responses from large U.S. companies*

* Most companies surveyed are listed among the *Fortune 500*.
This year’s survey was conducted online June 18-Sept. 4, 2012.

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A special thank you to the International Legal Technology Association (ILTA) for hosting the LDO roundtable at their annual event. For more information on ILTA, please visit iltanet.org.



Using cheaper law firms, e-billing and aggressive rate negotiations ranked as the most effective cost-containment options.

PROCUREMENT

Participants also discussed the increasing presence that the procurement department plays in working with legal department operations.

“It’s a big issue,” observes D. Mark Poag, senior vice president of legal, marketing and strategic alliances at Datacert. “Legal department operations managers are concerned about using the procurement department, particularly with the selection of outside counsel.”

So it doesn’t reach a point where the procurement department dictates which outside counsel can be hired for a particular matter, some legal departments are developing requisitioning processes and applications. Then they can show those to procurement as a way to answer questions and alleviate concerns.

RELATIONSHIPS WITH OUTSIDE COUNSEL

Containing outside counsel costs remains a top priority for LDO managers. According to the survey results, using cheaper law firms, e-billing and aggressive rate negotiations ranked as the most effective cost-containment options, while respondents ranked alternative fee arrangements and quick-pay discounts as only somewhat effective, or not effective (see Chart 7 on page 18). “Are we heading towards diminishing returns in squeezing outside counsel?” Blickstein asked participants during the roundtable. “And if that’s the case, what do we need in order to turbocharge the returns in terms of reducing outside counsel spend?”

Some roundtable participants report more success with AFA initiatives through service providers, rather than law firms.

A logical starting point for AFA initiatives would be with document review providers, suggests Riser Harris.

Difficulty measuring the true cost savings of AFAs has hampered their more widespread use.

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“Document review providers track the hours their attorneys are spending on review and how much they are paying the attorneys. They know exactly what it would cost if it were an hourly rate instead of a per-document rate, for example.”

Fair says that in one case, a Wendy’s Company outside vendor explored a review of costs for technology-assisted document review, then compared that with what a manual review would have cost. “That was extremely helpful. We could extrapolate from there what other cases might be like. Definitely for larger cases the technology for this review is going to be much less expensive and probably a lot more accurate.”

CHART 6: What are the biggest challenges that you expect to face in the next 1 to 3 years?

ANSWER OPTIONS	TIMES CHOSEN
Reducing legal costs	16
In-house talent development and retention	12
Globalization of legal issues	11
Identifying key technologies to drive productivity	11
Compliance matters	7
IT spend	4
Other: Managing work with few resources	2

Difficulty measuring the true cost savings of AFAs has hampered their more widespread use, according to several participants. “It’s great to know that this is how much something will cost, so you know there is not going to be a surprise,” says Richer. “At the same time, you’re always questioning whether it would have been cheaper had we done it another way.”

Shadow billing is one way to measure the cost-effectiveness of AFAs, but that approach can also be problematic. Shadow billing can change the incentives for law firms and affect how they are managing work, even if it is unconscious on their part. “It’s the law of unintended consequences,” explains Clem of Huron. “Requesting shadow billing suggests there is some level of uncertainty

Inside the Numbers

THE FOUR PILLARS OF INFORMATION MANAGEMENT

By Liza Madden, Autonomy iManage

This year’s LDO survey asked respondents to identify the biggest challenges they expect to face in the next one to three years. Not surprisingly, “identifying key technologies to drive productivity” landed near the top of their list. Today’s mobile, cloud-enabled organizations require a modular and flexible, meaning-based platform to address current and future information-management challenges. To maximize the value of enterprise information, next-generation enterprise content management systems must be built upon four pillars, according to Autonomy, an HP company:

1 Information capture and management — Manage legal emails and documents in a single, unified matter structure that’s available across all devices to drive efficiency and reduce legal spend.

- 2 Information workflow** — Enhance productivity through automation that integrates process, content and people.
- 3 Information insight** — Develop talent by providing access to information assets and expertise throughout the organization.
- 4 Information governance** — Protect the organization by applying policy to content across repositories.

It’s incumbent upon corporate legal departments to address their information management challenges, increase attorney productivity and enable effective management of external counsel, at the same time, in real time. Next-generation ECM tools enable organizations to thoroughly understand their information assets, take action on them and leverage the implicit knowledge to drive better business decisions.

Autonomy Enterprise Content Management

Four Pillars of Information Management:

- Information Capture and Management
- Information Workflow
- Information Insight
- Information Governance

Maximize the value of all enterprise information



CHART 7: Please rate the following initiatives that you may use to control external costs.

	DON'T USE	NOT EFFECTIVE	MARGINALLY EFFECTIVE	SOMEWHAT EFFECTIVE	EFFECTIVE
Preferred provider network	9	2	3	8	12
Electronic billing	5	1	3	9	14
Aggressive rate negotiation	0	1	4	15	14
Direct relationships with vendors	8	2	4	12	8
Rate freezes/capped increases	4	2	1	18	9
Volume discounts	6	1	4	14	9
Limits on disbursements	3	0	7	10	13
Quick-pay discounts	19	3	3	4	4
Use less expensive firms	3	2	4	8	15
Require less expensive attorneys	7	0	3	18	5
Invoice review training	14	3	2	9	5
Secondments	18	3	0	7	4
Alternative Fee Arrangements	7	0	7	11	8
Other: Not specified	4	0	1	0	0

that the client is getting a fair deal. Rather than focusing on efficiencies and doing the work in the best way, law firms often feel the need to justify the fee through the shadow invoice, and this changes the efficiency incentive. It goes to the question of defining what success looks like for an AFA. If you define success as hitting the exact same amount of a fixed fee arrangement through a shadow invoice, that changes the game. Success should be a great outcome or managing to the scope that the firm and the client discussed upfront.”

AFA’s make the most sense when they benefit both the firm and legal department, says Orzo. “You’ve got to keep reaching for the good and it will come to you.”

For more survey info, insight and findings, please visit [InsideCounsel.com/LDO](https://www.insidecounsel.com/lbo).

Inside the Numbers

GETTING C-SUITE BUY-IN FOR TECH INVESTMENTS

By Rob Thomas, Serengeti, a Thomson Reuters business

The 2012 LDO survey results underscore the industry-wide focus on driving down legal costs and identifying opportunities for business improvements — often stretched across multiple global locations. While much of their time (23%) is devoted to internal law department operations, many law departments still inefficiently manage significant volumes of legal spending and legal exposure with a cobbled-together array of spreadsheets, files and basic reports that require manual updates.

A whopping 84.2% of the legal departments surveyed indicated they are supported by IT resources that do not report to the legal team, while only 43% of those legal departments have a budget. Without direct-report IT resources or a budget, it’s no wonder requests to employ systems that automate the electronic billing and matter management processes, and ultimately reduce costs, often meet resistance.

“Why does the law department think it needs new technology to manage its work when the rest of the company is cutting back?” is the popular refrain.

For law departments to measure up, though, CFOs must become knowledgeable about the effective financial control provided by today’s matter management systems, including compliance and auditing. Law departments can provide detailed financial reporting, meeting the same standards that apply to the rest of the company. The end result is a comprehensive view of all legal work performed on behalf of the company and dramatic, reportable cost savings that can easily justify such systems.

To translate your rationale for implementing a matter management and e-billing system into a solid value proposition, download our free whitepaper, “Legal Spend Reduction any CFO Can Embrace: The Value of Law Department Management Technologies” at [serengetilaw.com/learn](https://www.serengetilaw.com/learn).



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A photograph of three people standing in a laboratory or office environment. In the center is a man with grey hair, smiling, wearing a dark suit, white shirt, and a red and blue striped tie. To his left is another man with grey hair, smiling, wearing a white lab coat over a light blue shirt and a striped tie. To the right is a woman with blonde hair, smiling, wearing a white lab coat. The background shows laboratory equipment, shelves with bottles, and large windows.

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