THOMSON REUTERS INSTITUTE

2024 State of the Corporate Law Department

Mapping a path to strategic leadership

Thomson Reuters™

Executive summary

The responsibilities of law departments fall relatively well into four key areas of focus:

Effectively advising the business	Efficiently operating their functions
Protecting the business from risk	Enabling the growth of the business

As law departments look to evolve their roles in these areas, they are also seeking to redefine themselves away from being perceived as cost centers and towards a position as strategic leaders within the broader enterprise.

To do this, they must balance their key areas of focus and shift how they tell the story of their contribution to the business. All of this must also be done in alignment with expectations from the C-Suite — in some cases, that means changing how the department operates to be in alignment with leadership's expectations; in other cases, it means influencing company leadership to see the law department in a different light.

This report explores each of these key focus areas for corporate law departments, providing current benchmarks for department performance as well as insights into C-Suite expectations around areas that they would like to see the law departments focus upon. We also offer examples of best practices derived from in-depth, long-term research into law department functions and operations, and provide challenging questions to help guide the evolution of today's corporate legal function.

Key findings:

- Efficiency, technology, strategic enablement, and risk management are all areas of increasing importance within today's law department
- A large number of corporate general counsel (GCs) believe that generative artificial intelligence (Gen AI) will have a transformational impact on the practice of law
- There is a plethora of areas where AI can improve the operations of law departments through improved processes and data analytics capabilities
- Upskilling of staff will play an important role in the law department's future in everything from preparing for new technology to understanding the potential risk horizon
- Law departments are looking to increase efficiency by improving how they perform work in-house and which outside counsel they choose to engage for which types of legal work

- Law departments largely expect that their spend on outside counsel will increase in the coming year, although certain practices and geographies are less inclined to forecast increases
- Data privacy, cybersecurity, and environmental, social & governance (ESG) concerns top the list of potential future risks
- Law department leaders may have a real opportunity to redefine how executive leadership perceives the law department in terms of its ability to enable the growth of the broader enterprise

Methodology

Data for this report was derived from a variety of proprietary Thomson Reuters data and primary research. Chief among these are more than 4,500 interviews and survey responses from C-level executives, GCs, in-house lawyers, corporate legal operations professionals, and risk & compliance professionals, as well as client-nominated stand-out lawyers within outside law firms, all gathered by the Thomson Reuters Institute in 2023. We also bring in cross-learnings from survey responses by more than 360 in-house tax professionals.

The corporate law department in 2024 and where it is going

Many corporate chief legal officers (CLOs) and GCs[1] today find themselves at a sort of identity crossroads. There is a gap between the value a corporation's law department aims to provide to the business and how they are often perceived by the leaders of the broader business.

This gap is driven, at least in part, by how law departments *tell their story*. Much of what many law departments report back to the broader enterprise focuses on metrics related to costs and legal spend. Most law departments have a good understanding of their financial impact on the overall enterprise, but too often find themselves lacking ways to communicate their larger overall contribution. Accordingly, they struggle to move from an identity as a *cost center* to one of a *value center*. Indeed, many CLOs and GCs even aspire to attain status as a strategic leader within the enterprise.

> "One of our key strategic challenges right now is to find a way to quantify the impact of our work as a benefit to the company and that it is not only seen as an expense, but that everything we do in terms of prevention can be quantified and valued… so that we can compete with the initiatives of other areas [of the business] whose economic metrics are much more direct or evident."

However, given the multifaceted challenges faced by the leaders of corporate legal functions — from confronting emerging risks posed by AI to the more run-of-the-mill issues brought on by outside litigation and internal workforce issues — it can be difficult to muster the resources to undertake a redefinition of the law department's identity. So where can law department leaders begin such a process?

We have posited before[2] that the core functions of a corporate law department can be broken down into four key areas of focus: effectiveness, efficiency, protection and, enablement.

1 This report contains insights from a variety of corporate legal professionals of varying titles. For the sake of ease of reference, we use the term GC as a generic term for corporate legal function leader throughout this report.

2 See, e.g., *2023 Legal Department Operations Index* at p. 20; available at: https://www.thomsonreuters.com/en-us/posts/legal/legal-department-operations-index-2023/.

FIGURE 1:

Four categories of law department interests

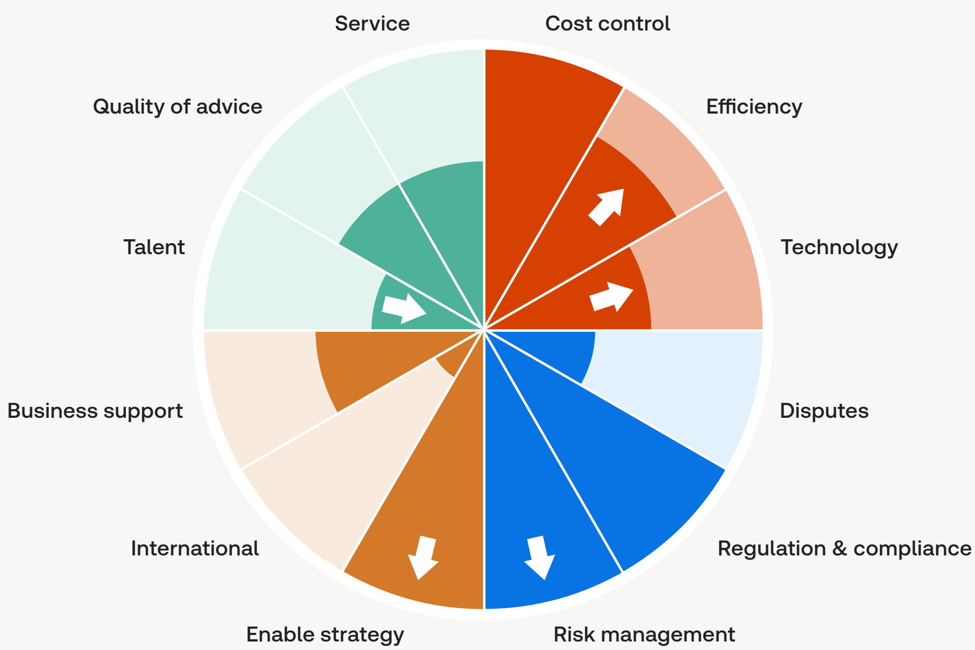
Source: Thomson Reuters 2024

Through these four key areas, we can immediately discern rising priorities for today's corporate law department.

FIGURE 2:

Changing priorities in key areas of focus

Effective			Efficient		
Talent	**Quality of advice**	**Service**	**Cost control**	**Efficiency**	**Technology**
• Recruit • Develop	• Best possible • Consistent • Practical/pragmatic • Law firm management • Educate business	• Responsive • Timely • Internal relationships	• Reducing external spend • Bringing work in-house • Prioritizing	• Processes • Standardization	• Automate • AI



Enable			Protect		
Business support	**International**	**Enable strategy**	**Risk management**	**Regulation & compliance**	**Disputes**
• Support business operations • Commercial • Contracts		• Growth • M&A • New initiatives • Transformation	• ESG • Cyber security • AI		• Prevent • Resolve

Source: Thomson Reuters 2024

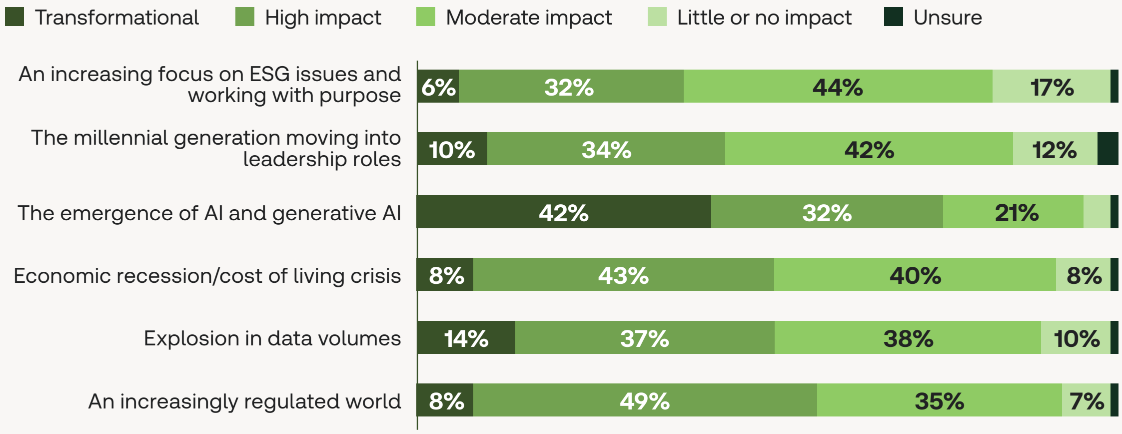
Each of these areas receives in-depth attention later in the report, but a quick glance reveals GCs' growing emphasis on driving department efficiency, updating technology, improving risk management, and enabling corporate strategy.

Looking into the future, corporate legal professionals were asked what impact they expect certain trends today to have on the legal profession over the next five years.

FIGURE 3:

GC's predicted impact of current trends on the legal profession

Corporate legal view – impact on legal profession



Source: Thomson Reuters 2024

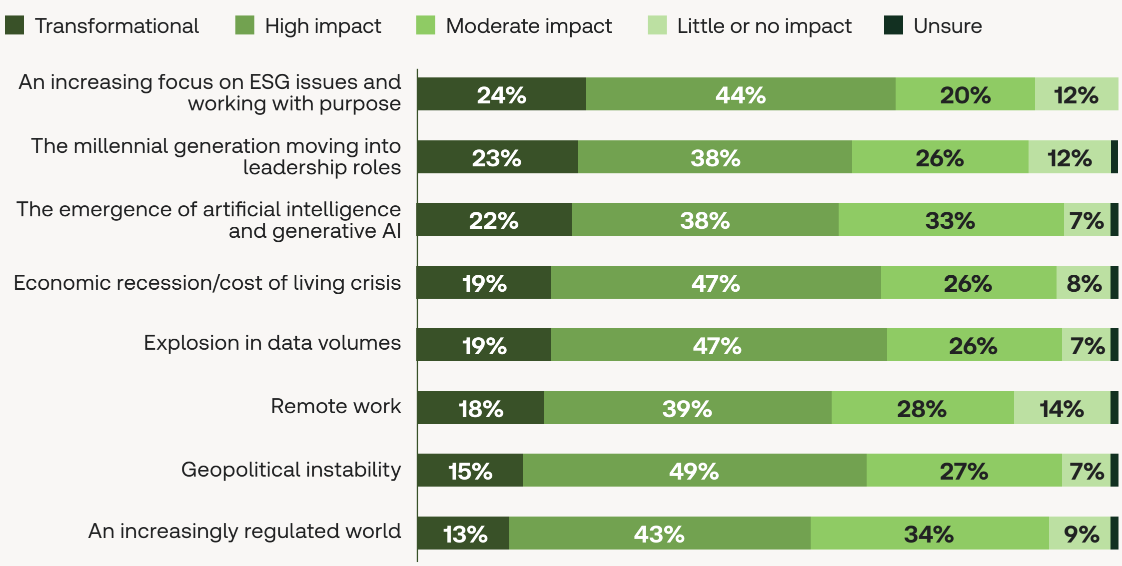
The emergence of AI in general, and Gen AI in particular, was viewed as the most likely area for transformational change in the legal profession. More than 4-in-10 respondents (42%) said that they anticipate AI to transform the legal profession.

GCs must anticipate not only changes in the legal profession, but also what trends may be impacting the business more heavily. And in this regard, GCs should look not only to their own instincts, but also to those who lead the overall enterprise as their perspectives will include filters and expertise different from those of the GC.

FIGURE 4:

C-Suite predicted impact of current trends on the enterprise

C-Suite view – impact on organizations



Source: Thomson Reuters 2024

Clearly, C-Suite leaders see much broader potential for transformational change. More than half of respondents predicted high impact if not transformational changes in every area covered in the relatively near future.

For GCs looking to position their law department to meet future enterprise needs, this means that issues such as ESG and the movement of millennials into corporate leadership roles will likely be weighing just as heavily on the minds of business leaders as Gen AI. As GCs prepare their departments to be tomorrow's *value center*, they will need to be as ready to advise the business on these future issues as they are comfortable today advising on labor and litigation matters.

With this view toward the future in mind, let us turn to an analysis of how today's corporate law departments are performing relative to their four key areas of focus and how they can position themselves within each area to meet future challenges.

Analyzing the four key areas of focus

Effectiveness

Effectiveness relates to how a corporate law department provides high-quality service to the overall business through accurate, commercially focused advice geared toward achieving a desired outcome. This includes a sharp focus on talent, not only within the department itself but also how outside counsel are staffing matters.

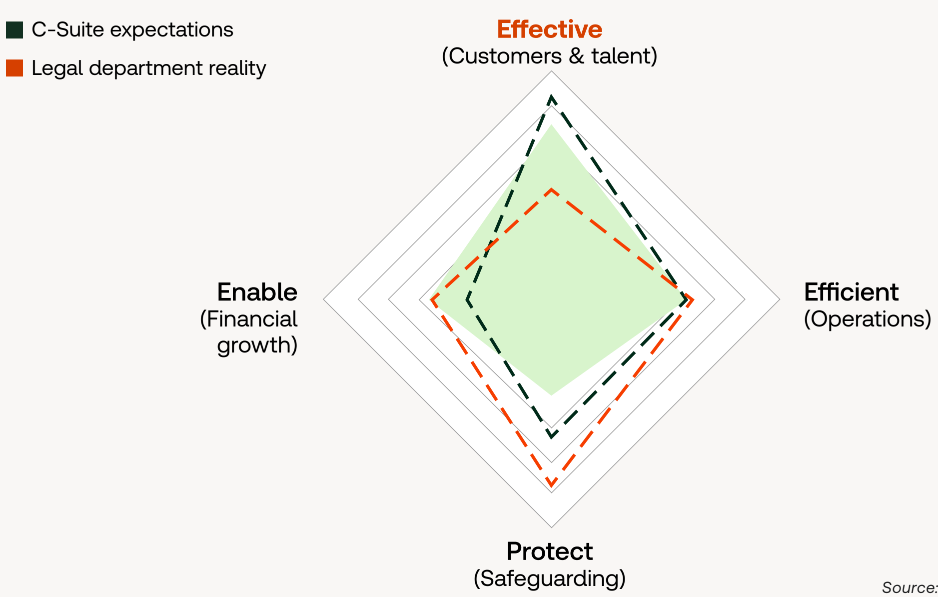
Interestingly, there appears to be a gap between C-Suite expectations regarding the prioritization of effectiveness within the law department and how the law department itself views effectiveness, more so than with any other focal area.

> "Competence and effective delivery of services to our internal clients. Quick and accurate responses."

FIGURE 5:

Gap between C-Suite and law department view of effectiveness

Interpretation note: Bar charts show % of C-Suite and legal department respondents selecting each item in their top 5 highest priorities for legal departments. Top chart shows the sum of organizational priorities selected within each quadrant (light green), overlaid with sum of legal department priorities – as expected by C-Suite (dark line) and as perceived by legal department professionals (orange line). See e.g. the gap between lines for Effective, indicating C-Suite selected these options much more commonly than did professionals.



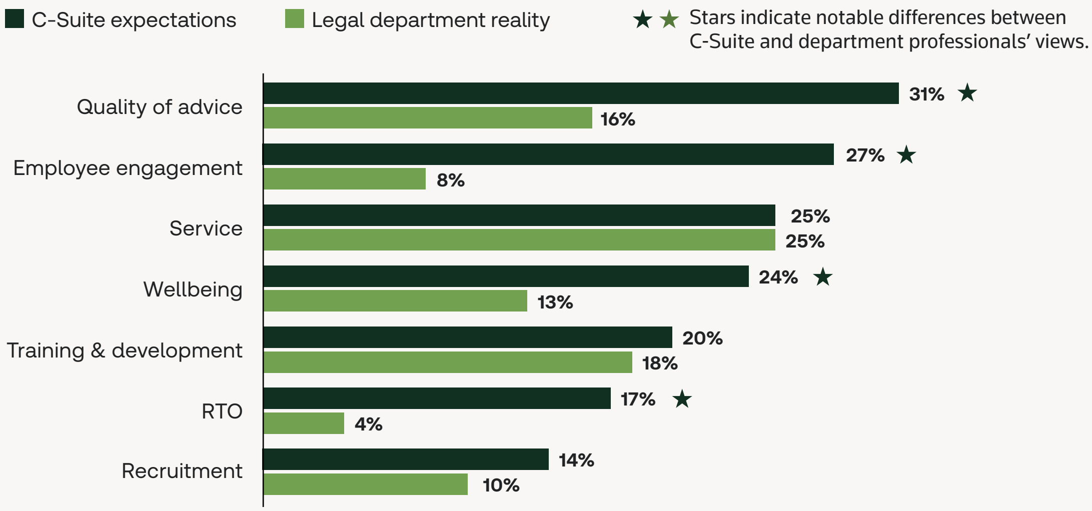
Source: Thomson Reuters 2024

C-Suite officers place high importance on effectiveness for the overall enterprise. Accordingly, they expect it to be a top priority among the leaders of the company's legal function as well. However, this is the key area that the *fewest* GCs actually identify as a priority. Exploring a bit deeper, we can see where some of this gap originates.

FIGURE 6:

Drivers of the effectiveness priority gap

Effective (Customers & talent)



Source: Thomson Reuters 2024

The biggest gaps between C-Suite executives and GCs appear in quality of advice, employee engagement, well-being, and return-to-office strategies.

The TR Institute's View:

There may well be good reasons, at least in part, for these gaps. First, GCs are justifiably focused beyond just the basic effectiveness of their operations. While C-Suite executives identify *quality of advice* as a priority for the legal department (and understandably so), the GC likely considers that to be the bare minimum of their department's role, not a key focus. Similarly, C-Suite executives may place higher priority on return-to-office policies because they are tasked with setting them for the enterprise, while many GCs are simply abiding by enterprise-wide policies.

However, GCs should be mindful of these gaps. The C-Suite will be looking for metrics and measurements to demonstrate the law department's effectiveness. Recognizing this reality, GCs can shift how they report on the performance of their departments *away* from simply reporting on costs and *toward* larger enterprise priorities. Metrics related to quality of outcome and results, employee engagement, and return-to-office are as important as cost metrics.

Managing the in-house team: preparing for an AI future

The full impact of AI generally, and Gen AI in particular, within the legal industry will likely not be understood for years to come. However, given what we understand today, corporate legal professionals see many opportunities for AI to help them achieve their goals, particularly those related to the effective operation of the law department. According to insights from the Thomson Reuters Institute's ongoing body of research into the Future of Professionals, the vast majority (91%) of in-house legal professionals said they expect basic AI training will be mandatory within 5 years — and 26% said they expected it to be required by the end of 2024.

At the same time, however, many also see the potential for the rise of new technologies to complicate certain goals.

FIGURE 7:

The potential for AI to help or hinder

Departmental goals most commonly expected to become more challenging due to AI:	Example negative quotes from in-house legal professionals:	Example positive quotes from in-house legal professionals:
Employee engagement and wellbeing	*"Employees may fear or become disengaged if they consider AI is taking over or taking aspects of their jobs away creating a fear of job losses and or less job satisfaction."* *"A big change in working, a fear of the unknown, a feeling of being redundant."*	*"AI allows for open-ended questions to be posed, answered, and evaluated with a fresh lens. Theoretically, this can reduce confirmation biases. Challenging our own thinking is a first step to being open to diverse and differing (but completely valid) viewpoints. When we are genuinely heard and understood in our unique and genuine selves, we are more highly engaged and enabled to thrive. That all leads to massive improvements in wellbeing for an organization."*
Training and development	*"People will need to be trained on how to use AI and may be opposed to learning."*	*"I could see AI creating tests or grading tests which we use to train employees."* *"Streamlining work so that junior lawyers are available to support on more complex projects."*
Recruitment	*"I think recruiting true talent will be more difficult because lack of skill will be concealed by applicants' use of AI."*	*"Younger people are more in tune and interested in the emerging technology. The legal field is historically slow to adjust and update, so having AI can help recruit younger and more well-versed employees."*

Source: Thomson Reuters 2024

On balance, legal professionals say they believe that AI has the potential to both help and hinder their departments' efforts to meet their objectives related to employee engagement and well-being, training and development, and recruitment.

The TR Institute's View:

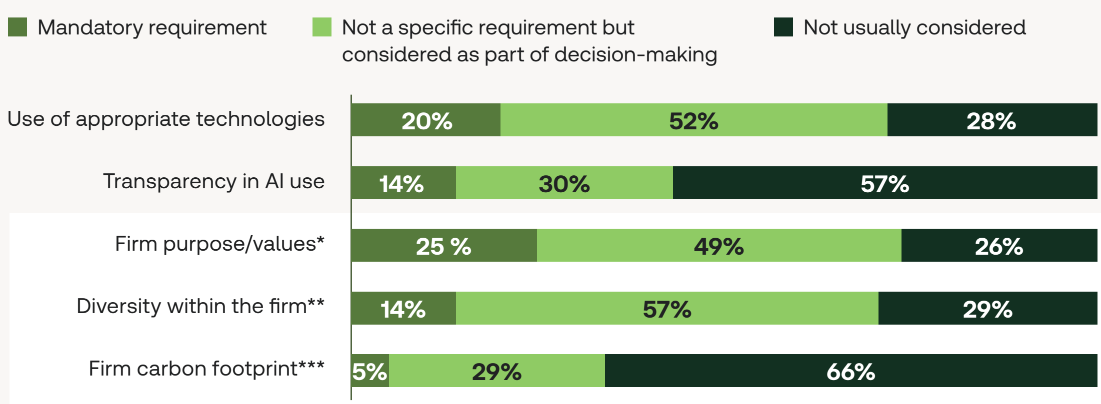
Uncertainty leads to worry. GCs and other department leaders will increasingly need to engage with their people to understand and address concerns related to AI and provide clarity on plans for use of any new technology as well as the resource implications.

The fact is, Gen AI is already an unavoidable reality — something many GCs have characterized as a "*can't say no*" proposition. Leaders at all levels need to embrace these changes with a growth mindset, asking questions like "how can we leverage AI to improve the way we recruit and train new people?"

Managing outside counsel

Effectively managing outside counsel is vital to the overall effectiveness of an in-house law department, and one critical component is how outside counsel are selected. Factors such as expertise and client service of course remain paramount. On top of this, however, many departments are starting to include criteria relating to two prominent trends: emerging technologies and environmental, social & governance (ESG) issues.

FIGURE 8:
Choosing the right law firm



Global variation

*Mandatory requirement for 39% of UK law departments. Not considered at all by 33% of US depts and 34% of Canada depts.

**Mandatory requirement for 19% of US law departments. Rarely mandatory for departments in Asia Pacific, but the majority do consider diversity when selecting firms.

***Mandatory requirement for 20% of UK law departments. Not mandatory for any of the US depts interviewed, and in fact not even considered by 80% in the US.

Source: Thomson Reuters 2024

It was barely a year ago that 83% of corporate legal professionals reported that they had no idea whether their outside law firms were using generative AI. Today, 14% of GCs mandate the disclosure of that information, and another 30% said they take it into consideration.

It's also noteworthy that each of the listed categories are significantly more likely to be mandatory for panel selection than for ad hoc firm selection.

The TR Institute's View:

Selecting the right firm is a vital starting point. Having a law firm that aligns with the GC's vision in terms of its use of AI, firm values, diversity goals, or even carbon footprint will help departments demonstrate their understanding of enterprise-level technology and ESG objectives.

Once the firm has been selected, it is equally vital to craft a meaningful partnership with outside lawyers to ensure a legal matter outcome that is in line with what the client has envisioned. That requires further steps of preparation, project management, and partnership.[3]

This comprehensive approach to selecting and working with outside counsel will bolster the overall effectiveness of corporate law departments, giving GCs additional ways to communicate improved departmental effectiveness to the C-Suite. Each of these priority areas should be managed and measured in such a way that it can meaningfully add to a department's value story.

3 For a more comprehensive discussion of the key components to more successful outside counsel relationships, see *Secrets to Successful Matters*, Thomson Reuters Institute, 2024. Available at https://www.thomsonreuters.com/en-us/posts/legal/successful-matters-report-2024/.

For your consideration:

As a GC or legal function leader, are you paying sufficient attention to the *effectiveness* of your department? Does the business want you to be focusing more here?

How do you monitor employee engagement and well-being within the legal team?

Do you have the right skills for the future in place within your team? If not, what is your training and recruitment strategy?

Have you considered how the rise of generative AI may affect your team structure? Have you discussed this with your team?

Do your selection criteria for law firms reflect enterprise priorities such as AI and other technology or ESG?

Could your team improve the way it works with external law firms or legal services providers?

Is your team leveraging new technology to improve the legal service it provides to the business?

Measure your progress in 2024: three suggested metrics

- Employee engagement score across the legal team, compared with a company-wide benchmark
- Matter success score (1-10 score ratings on how well a matter's outcome met business objectives) — this can be rated by outside law firms, the in-house legal team, and stakeholders across the business.
- Satisfaction with outside counsel (rated by the in-house legal team and comparing scores across the firms with whom your department works on a periodic basis)

Efficiency

Efficiency is an area of department focus that can more readily reflect a perception of the department as a *cost center*. As much as GCs want to transition away from this label, legal services are an inherently costly part of doing business. Particularly at this time when law departments are increasingly pressured to *do more with less*, focusing on efficient and cost-effective departmental operations is a necessity.

> "We are trying to be better equipped to handle various matters as they come up and guide our internal team more efficiently, to determine when to use outside legal resources or use internal resources."

GCs have increasingly clarified certain key areas for their efforts toward building greater efficiency.

- **Complete in-house work more efficiently** — While technologies like Gen AI are not yet widely deployed for the actual practice of law, many in-house law departments have begun to explore its potential benefits for process improvement to create greater capacity for high-value work.
- **Triage and reallocate work** — Seeking to bring a greater share of work in-house while reallocating existing or new legal matters to lower-cost law firms and also potentially to alternative legal services providers.
- **Drive greater value from law firms** — This often takes the form of seeking greater discounts on hourly rates from outside counsel, particularly as we see law firms driving aggressive rate growth strategies.[4] However, many corporate law departments cite greater use of alternative fee arrangements (AFAs) as a key part of their cost control strategy.

69% of General Counsel globally are under moderate to significant cost pressure from business leaders.

4 See, e.g., *2024 Report on the State of the US Legal Market*, Thomson Reuters Institute; available at: https://www.thomsonreuters.com/en-us/posts/legal/state-of-the-us-legal-market-2024/. See also, Thomson Reuters Institute *Q4 2023 Law Firm Financial Index*; available at: https://www.thomsonreuters.com/en-us/posts/legal/lffi-q4-2023-improving-fortunes/.

FIGURE 9:
Cost control strategies

1. Complete in-house work more efficiently

72%
Efficient processes

52%
Technology/automation

2. Triage and reallocate work

68%
Bring work in-house

48%
Move work to lower cost firms

45%
Triage new matters

22%
Move work to ALSPs

3. Drive greater value from firms

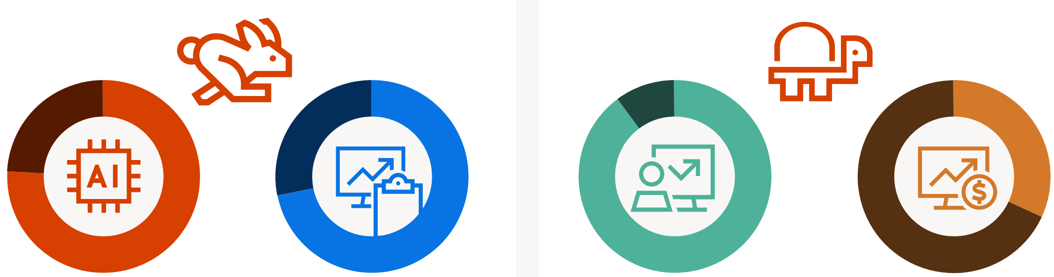
67%
Seeking more discount on rates

52%
Alternative fee arrangements

Proportion of GCs globally indicating each tactic forms a significant part of their cost control strategy. *Source: Thomson Reuters 2024*

In general, technology is seen as a clear way to help departments be more efficient and meet cost control goals; however, many law departments have yet to be able to drive the introduction of new technologies to the extent they perhaps would like. More than three-quarters (76%) of in-house legal professionals said they believe that AI has the potential to help them achieve their goals of greater internal efficiency, while 72% see using technology to simplify their workflow as a high priority. However, while law departments seem high on aspiration, 90% admit to making only slow to moderate progress in adopting new tech and only 32% report anticipating an increased legal tech budget.

FIGURE 10:
Two perspectives on the importance of technology



76%
AI has the potential to improve efficiency

72%
Using technology to simplify workflow is a high priority

90%
Report only slow to moderate progress on adopting new technology

32%
Report increase in legal tech budget

Source: Thomson Reuters 2024

"Generative AI can be a tool for lawyers to complete more basic tasks more efficiently. For example, research, first drafts of documents, memos, etc. While it is not a fail-safe tool, used appropriately it can create more efficiency for lawyers in how they spend their time."

"AI can be used to do a lot of the heavy lifting, initial reviews, synopsis, and tracking that we do with contract review, allowing members of our legal department to focus on substantive review rather than data entry."

FIGURE 11:

Total legal spend as a proportion of revenue (median)

Total legal spend as a proportion of revenue (median*)

By region	By size of business: $50m–$1bn	By size of business: $1bn–$6bn	By size of business: Over $6bn
Overall	**0.83%**	**0.18%**	**0.05%**
Latin America	–	0.04%[b]	
Asia Pacific	0.67%[a]	0.09%	0.03%
Mainland Europe	–	0.10%	0.02%
United Kingdom	0.50%	0.19%	0.05%
Canada	0.93%	0.23%	0.07%
United States	0.92%	0.30%	0.09%

By industry	
Overall	**0.26%**
Consumer	0.13%
Manufacturing	0.13%
Energy/natural resources	0.23%
Healthcare/pharmaceuticals	0.45%
Financial Institutions	0.50%
Technology/media/telcoms	0.57%

*High variance of values. Median used to indicate typical values and avoid data skew by small number of very high values. [a]Figures for Australia only. [b]Median/mean across companies of $1bn+ revenue in Latin America.

Source: Thomson Reuters 2024

It is readily evident that law departments can enjoy significant economies of scale. Smaller businesses spend several times as much as a percentage of revenue on legal services compared to larger businesses. Geography, too, appears to play a role that businesses should consider when benchmarking their legal spend or considering areas for geographic expansion. For the largest businesses, for example, total legal spending accounts for nearly *twice* the share of revenue in the United States as compared to Latin America or even the overall global average.

Similarly, certain industries spend far more on legal services than others. Consumer and manufacturing businesses report a median total legal spend that is nearly half of the overall average, while total legal spending by healthcare, financial, and technology businesses dramatically exceeds the overall average figure.

The TR Institute's View:

Broad average figures are a good starting place for a law department to begin its endeavors to benchmark. As with many things, however, granularity also provides clarity. Size, sector, and location are important comparisons, but to truly tell the story of any given law department, additional layers of comparison, such as department size or matter type, may be necessary. The more angles from which spending data is examined, the more well-equipped a GC will be to report on success or build a case for strategic growth.

FIGURE 12:

Median number of in-house lawyers

Number of lawyers (median*)

	By size of business		
By region	$50m-$1bn	$1bn-$6bn	Over $6bn
Overall	**3**	**9**	**22**
Latin America	–	8[b]	
Asia Pacific	4[a]	10	20
Mainland Europe	–	10	20
United Kingdom	4	9	30
Canada	4	7	21
United States	3	9	35

By industry	
Overall	**7**
Consumer	7
Manufacturing	6
Energy/natural resources	6
Healthcare/pharmaceuticals	6
Financial Institutions	10
Technology/media/telcoms	10

*High variance of values. Median used to indicate typical values and avoid data skew by small number of very high values. [a]Figures for Australia only. [b]Median/mean across companies of $1bn+ revenue in Latin America.

Source: Thomson Reuters 2024

The scale of larger businesses is also apparent in the size of the law department. The largest businesses typically employ several times as many lawyers as their smaller counterparts, regardless of geographic region. In fact, this could account for at least part of the economies of scale seen in the data as these larger businesses will have more in-house resources available to handle a greater number of legal matters. The data on the number of in-house lawyers did not, however, show the same high degree of variability by industry sector seen in the spend data.

The TR Institute's View:

As law departments look to bring more work in-house, leveraging technology will undoubtedly play a crucial role in creating capacity. However, businesses should be careful not to overlook the necessary investment in their legal talent as well. Care and attention should be paid to adequate staffing levels, employee engagement, and well-being as the costs associated with hiring and training replacement attorneys can quickly cancel out any savings from in-sourcing work.

FIGURE 13:

Proportion of internal legal spend (mean)

Proportion of spend that is internal (mean)

	By size of business		
By region	$50m-$1bn	$1bn-$6bn	Over $6bn
Overall	**47%**	**45%**	**45%**
Latin America	–	46%[b]	
Asia Pacific	56%[a]	54%	51%
Mainland Europe	–	46%	47%
United Kingdom	42%	45%	40%
Canada	48%	35%	47%
United States	48%	45%	43%

By industry	
Overall	**46%**
Consumer	47%
Manufacturing	43%
Energy/natural resources	37%
Healthcare/pharmaceuticals	46%
Financial Institutions	46%
Technology/media/telcoms	49%

[a]Figures for Australia only. [b]Median/mean across companies of $1bn+ revenue in Latin America.

Source: Thomson Reuters 2024

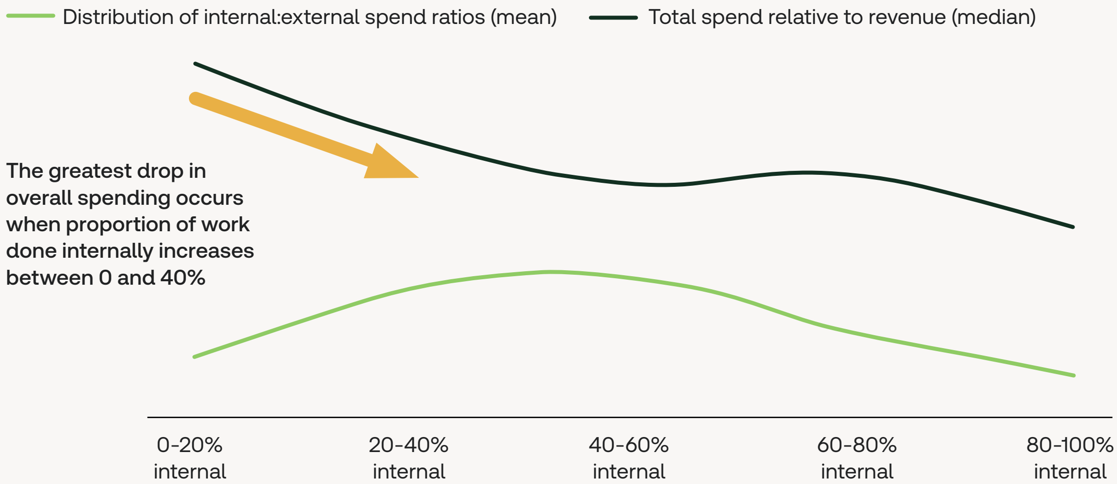
Examining the average proportion of legal spend dedicated to internal resources rather than to outside counsel shows a surprising amount of uniformity. While spending in the Asia-Pacific region or among energy-related businesses does depart somewhat from the mean, nearly every other example follows quite closely to the same path. However, examining averages alone disguises the true variation between departments, which runs to both extremes in the proportion of work done internally versus that carried out by external advisors. This raises a question: Are businesses truly optimizing the allocation of their legal spend?

Balancing inside and outside legal spend

Clearly, the bulk of businesses allocate between 40% and 60% of their total legal spend to internal legal resources. Not surprisingly, the data shows that such businesses typically enjoy a large advantage in terms of lower legal spend as a proportion of revenue compared to businesses that rely more heavily on outside counsel.

FIGURE 14:

The advantage of internal spend



Source: Thomson Reuters 2024

Figure 14 shows a clear scale of return for companies as they increase the amount of legal spend dedicated to internal resources. In fact, the decline in total spend relative to revenue from businesses that are nearly totally reliant on outside counsel to those with between 40% to 60% of spend dedicated internally is quite steep, indicating a large advantage to be gained by reallocating work to in-house resources.

However, the decline in total spend relative to revenue is not a straight line. There is a slight uptick in spend relative to revenue for those businesses that direct 60% to 80% of their legal spend internally. And while the downward trend does continue as businesses approach 100% of legal spend directed internally, the slope of that advantage is not nearly as appreciable as it is for businesses approaching the middle of the distribution. In short, it appears that businesses potentially have much to gain as they approach a point in which 40% of their legal spend is dedicated internally, but perhaps less so as that allocation exceeds 60%.

The TR Institute's View:

While it may seem a desirable outcome to drive the lowest possible ratio of legal spend to revenue, it is likely not possible for most corporate law departments to actually handle 100% of their legal work internally due to considerations of staffing, matter volume, complexity, and more. There are also potentially unanticipated costs associated with not having longstanding relationships with outside law firms.

This is not to suggest that law departments must work with outside counsel in all cases. Nor should the data be interpreted to suggest that law departments should endeavor to get as close as possible to 100% internal work. Rather, GCs should carefully consider the potential consequences of either extreme, as they seek to find the point on the spectrum that is optimal for their individual department.

How work is shifting

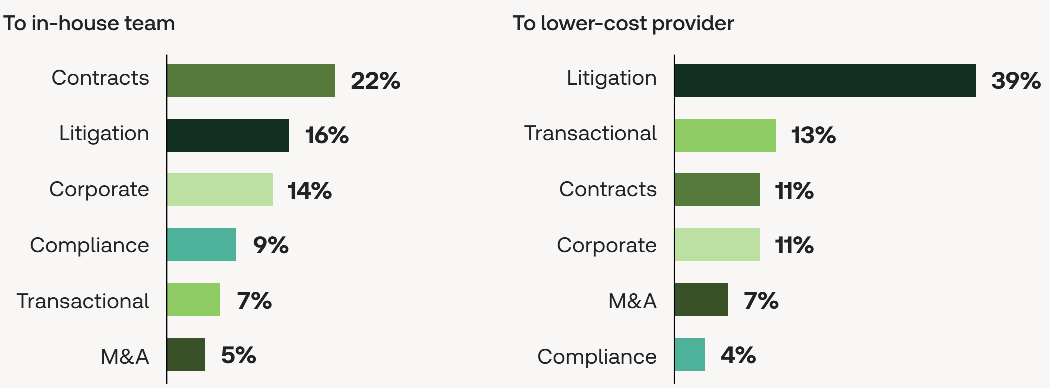
GCs today are shifting their portfolio of legal work, as some types of work are being brought in-house while other types are being moved to lower-cost law firms.[5] It is interesting, therefore, to look at how GCs are choosing how they handle various types of work.

As part of the research for this report, we posed a question to respondents regarding what type(s) of work they were looking to reallocate, either internally or to a lower-cost external legal provider.

FIGURE 15:

Reallocating work[6]

Movement of work (% of respondents who are moving work)



Source: Thomson Reuters 2024

Litigation is clearly the area in which most clients are seeking out lower-cost providers, but transactional work is certainly not immune. As is reflected in findings from the *2024 Report on the State of the US Legal Market*, these efforts have been underway for some time, and have proven relatively fruitful for GCs in terms of realized savings on the average rates they are paying for legal services.[7]

It is also interesting to examine the types of work viewed as most prime for absorption in-house. Contracts work emerges as a clear leader; and given the stated goal of many law departments to increase the use of technology to streamline work, this may be a logical choice as contract management has been an area in which Gen AI shows much potential.

5 See, e.g., *2024 Report on the State of the US Legal Market*, at 20-22.

6 For purposes of this figure, respondents were asked an open-ended question regarding which types of work they intended to move. The responses in the table reflect the verbatim responses given. Accordingly, there is overlap between respondents who chose to specify particular types of work that would typically be considered transactional matters, such as M&A or contracts work, while others discussed transactional work more generally. The distinctions are included here because, for example, contracts work is more typically brought in-house while other types of transactional work may continue to be outsourced, but to lower-cost firms.

7 *2024 Report on the State of the US Legal Market* at 20-22.

Deriving value from firms

GCs are not only looking to reallocate work among law firms, they are also looking to derive greater value from their outside counsel. Much of this effort is still geared toward seeking greater discounts from law firms — an understandable effort given that agreed rates with US law firms increased by an average of 6.5% at the end of last year.[8]

However, AFAs are increasingly re-entering the conversation. When considering an outside law firm, 80% of GCs said that whether the law firm is able to offer an AFA is a factor in their determination, with 17% of those GCs saying such ability is mandatory for their outside counsel. This is even more prevalent in Europe where 41% of GCs say the ability to offer AFAs is mandatory for outside law firms.

At the same time, however, hourly billing continues to dominate law firm billing arrangements. In the US, for example, 78% of legal operations professionals report that only about 20% of their total outside legal spend was done on an AFA, while the remaining majority was based on billable hours.[9]

The TR Institute's View:

Two-thirds of corporate law departments said they intend to seek greater discounts on law firm rates in the coming year. While not all companies have the same degree of purchasing power in fee negotiations, data can help to strengthen a negotiation position. This starts with harnessing the department's own data. Nearly all large law firms, and increasingly even midsize firms, are now employing skilled pricing professionals tasked with parsing data to build a case for their desired pricing structures. While many law departments may not yet be able to match this work, most do possess at least the foundational data building blocks to compete on a more level data-driven playing field.

The extent to which Gen AI will accelerate the move away from hourly billing is debatable, and we are unlikely to resolve that question anytime soon. Yet, utilizing this technology will give law departments the opportunity to capture and utilize better data around billings and rates which then can be leveraged in future fee negotiations.

Assessing the future of legal spend

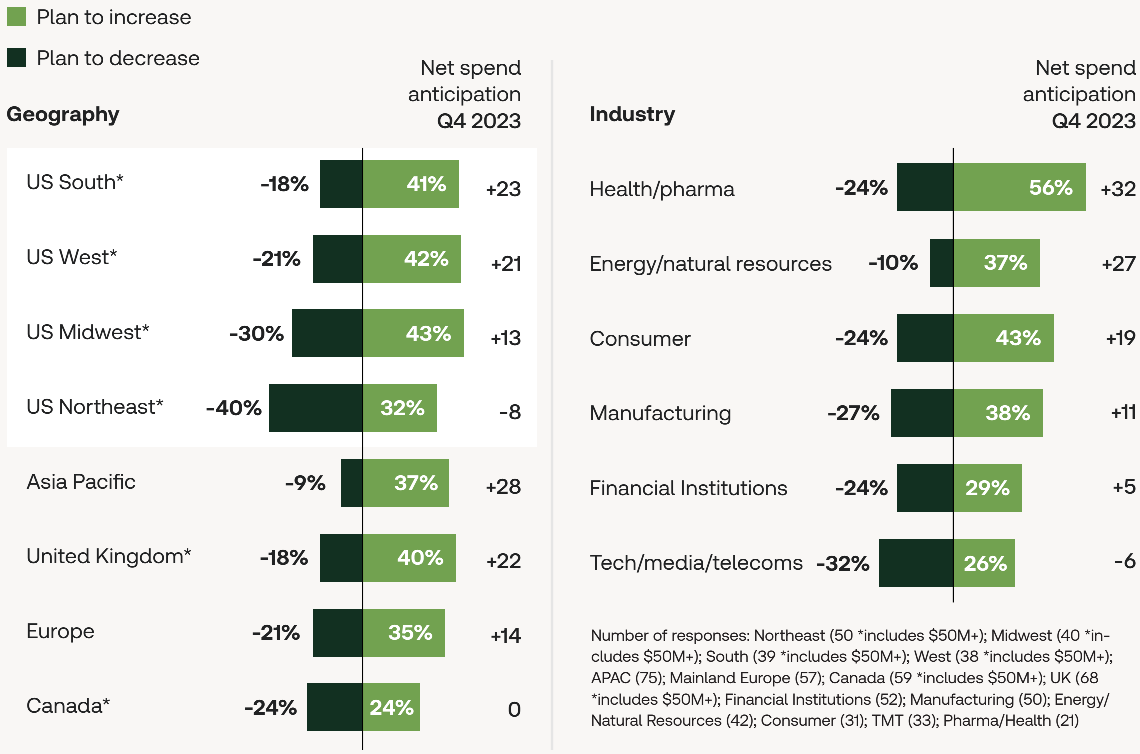
Spending predictions from peers can be highly valuable to law departments in setting budgets for the coming year.

Overall, 36% of respondents from corporate law departments said they expect their spend on outside legal counsel to grow in the coming year. At the same time, 22% predict a decrease. These two factors combined create a Net Spend Anticipation (NSA) score of 14 for the coming year; however, this figure varies widely as we explore more granular aspects of this data.

8 Thomson Reuters Institute *Q4 2023 Law Firm Financial Index*; available at: https://www.thomsonreuters.com/en-us/posts/legal/lffi-q4-2023-improving-fortunes/.
9 *2023 Legal Department Operations Index*; available at: https://www.thomsonreuters.com/en-us/posts/legal/legal-department-operations-index-2023/.

FIGURE 16:

Net Spend Anticipation by geography and industry



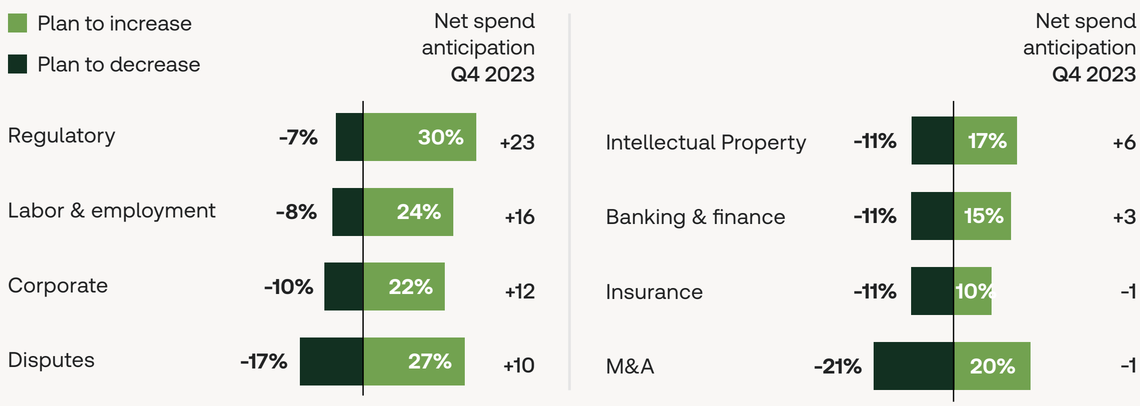
Number of responses: Northeast (50 *includes $50M+); Midwest (40 *includes $50M+); South (39 *includes $50M+); West (38 *includes $50M+); APAC (75); Mainland Europe (57); Canada (59 *includes $50M+); UK (68 *includes $50M+); Financial Institutions (52); Manufacturing (50); Energy/Natural Resources (42); Consumer (31); TMT (33); Pharma/Health (21)

Source: Thomson Reuters 2024

Generally, NSA scores remain solidly positive across the sample. Some, such as in the Southern US, Asia Pacific, the United Kingdom, and in the healthcare and energy industries were widely positive, with each exceeding an NSA score of 20. However, other areas were less positive, with some even showing negative NSA scores. For example, the Northeast US posted an NSA of -8, while tech/media/telecom businesses posted an NSA of -6.

Unsurprisingly given the ongoing increase in regulations, the vast majority of GCs predict the need for spending on regulatory advice to at least remain at current levels; almost one-third (30%) predict an increase. M&A predictions are mixed, however, reflecting organizations' differing growth strategies.

FIGURE 17:
Net Spend Anticipation by practice



Number of responses: Q1 2023 (468); Q2 2023 (381); Q3 2023 (365); Q4 2023 (293)

Source: Thomson Reuters 2024

For your consideration:

As a GC or legal team leader, do you have the opportunity to demonstrate value delivered to the business, as well as costs saved?

Have you struck the right balance between work done internally and by external legal providers?

What actions are your department taking to ensure you get maximum value from your spending?

How can new technologies, including those with Gen AI functionality, help your team to automate and increase efficiency?

How can you make the business case for investment in new technologies?

Measure your progress in 2024: three suggested metrics

- Proportion of revenue spent on legal, benchmarked against industry and geography
- Internal to external spend ratio
- Time saved through automation

Protection

> "Our department's current strategic [priority] is reviewing risk management policies and procedures."

> "This is really the tsunami of regulations that we are managing. How we implement it pragmatically in the organization via processes, is our main activity at the moment."

Protecting the enterprise from risk, serving as a *guardian* of sorts, is perhaps the central function of the corporate law department, especially around implicating regulatory compliance, dispute mitigation or avoidance, and overall risk management. Regulatory risk and compliance routinely fall among the top five responses when GCs are asked to list their strategic priorities — and it is noteworthy that the responses to this question are unprompted, meaning these priorities hold a top-of-mind position for GCs.

FIGURE 18:
Risks on the horizon

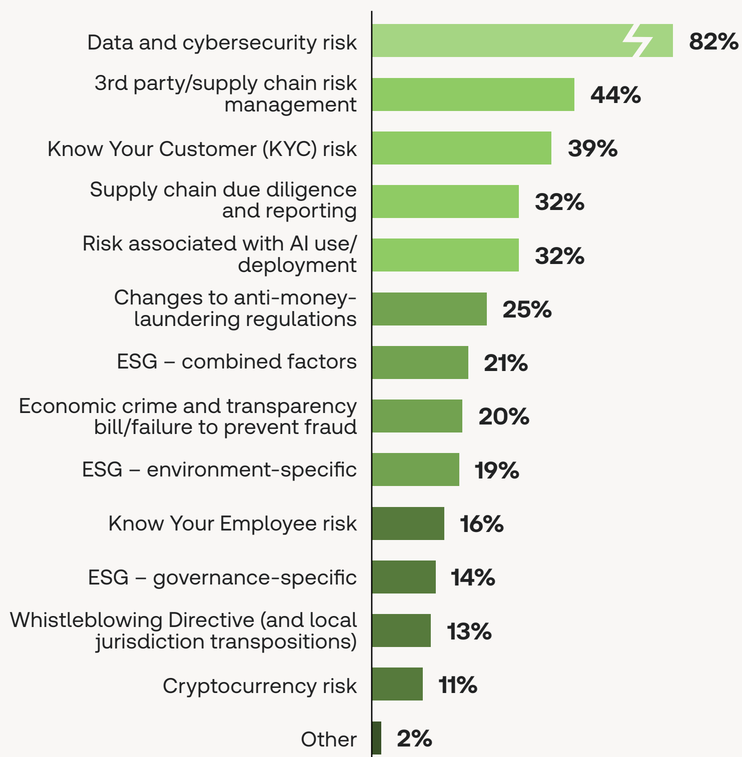
63%

of GCs globally consider their organization to be 'reasonably protected' from risk

61%

of risk & compliance professionals in the UK and North America would describe the current state of strategic risk management and compliance within their organization as 'adequate but with room for improvement'.

Top new/upcoming compliance risks facing organizations in the UK and North America



Source: Thomson Reuters 2024

Data and cybersecurity risks are widely seen as the top compliance risks facing businesses in the UK and North America. This is understandable, as in many respects, every business is now a data business. Given the proliferation of customer data within businesses, the ferociousness with which bad actors seek to steal it, and the ever-changing landscape of regulations meant to protect it, this is indeed an area ripe for risk.

However, the fact that so many response options were seen as top-risk areas by so many respondents indicates that law departments and their colleagues in compliance face a potentially Sisyphean task when it comes to protecting the enterprise.

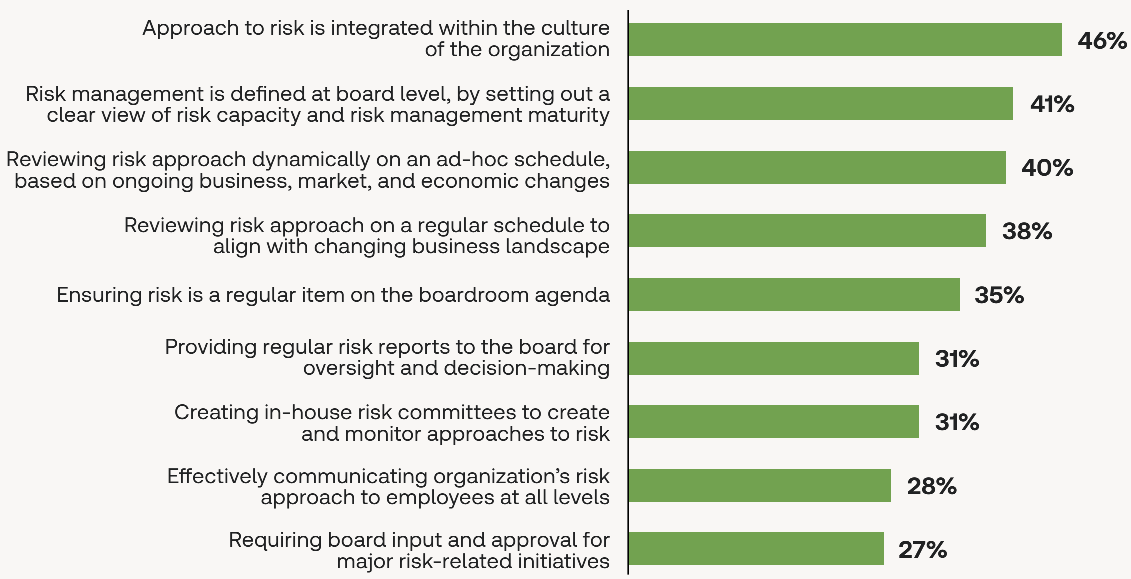
The TR Institute's View:

It can be difficult for law departments to know how to quantify the value they provide in protecting the enterprise, as much of the value comes from the *absence* of negative events — no lawsuits, no regulatory fines — which essentially prove the value of risks being avoided. Indeed, one can draw parallels to under-resourced corporate tax departments that have been shown to suffer more significantly from negative events such as audits and tax penalties.[10] Corporate law departments should consider using similar metrics to demonstrate the value of investment in the legal function.

GCs and their risk counterparts seeking to safeguard their businesses report using various risk management approaches.

FIGURE 19:

Approaches to risk management



Source: Thomson Reuters 2024

10 See, e.g, *2023 State of the Corporate Tax Department*. Available at: https://tax.thomsonreuters.com/en/corporation-solutions/c/state-of-corporate-tax-report/. Findings from this report show that self-reported under-resourced tax departments fared worse in their crucial ability to avoid audits and penalties. They were more likely to face audits (72% compared to 61% overall average for all tax departments) as well as incur higher-cost penalties in the previous year (average $40,000 compared to $20,000 overall average).

A number of options prove to be popular with a wide range of businesses, with many employing several different tactics. For the largest share of businesses, incorporating risk management into the culture of the organization is a favored approach, seeking to head off potential risks before they arise. Many businesses also employ an ad hoc approach to reviewing risk, allowing for re-evaluation based on changing business, market, or economic circumstances. Nearly as many make risk review a regularly scheduled activity.

Businesses are also employing a variety of methodologies for assessing organizational risk such as dialogue-driven inputs from outside experts or internal stakeholders, as well as more data-intensive methodologies leveraging technology including specialized risk assessment and compliance tools.

Risk & compliance professionals also have offered insight into what they feel are the top actions an enterprise can take to reduce the complexity and cost of compliance. These include:

- Streamlining and automating manual processes
- Standardizing risk and compliance frameworks across the organization
- Enhancing collaboration and communication between departments
- Investing in training and education for employees on risk and compliance
- Enhancing regulatory knowledge and staying updated on industry changes

The TR Institute's View:

It's noteworthy how closely many of the tasks identified by risk professionals align with stated goals of the law department. As GCs oversee efforts to streamline internal workflows, improve collaboration with their business partners, and enhance their ability to track changing regulatory and legal landscapes, a conscious effort to include the enterprise risk function while engaging in both dialogue- and data-driven assessment methodologies could yield multifaceted benefits.

FIGURE 20:

The potential for AI to aid risk management

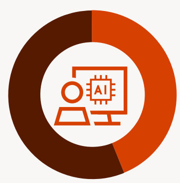
71%

Identifying and mitigating emerging risks is a top priority

58%

Keeping abreast of upcoming regulation/ legislation changes is a top priority

BUT ONLY



44%

Say there's an opportunity for AI to help achieve their risk management goals

Do law departments *underappreciate* the potential for AI?

How some say it could help:

"It can scan information sources for the most relevant updates and rephrase [them] to more digestible form."

"Tracking new legislation is very difficult for a small legal department. AI can automate that function."

"AI will be able to detect, based on patterns, where risk of losses may occur."

"I believe that in the future, AI can scan contracts in any language and create a risk profile."

Source: Thomson Reuters 2024

For your consideration:

Do you feel you have a clear understanding of the organization's risk appetite?

How confident are you that your department is aware of all the risks on the horizon?

How does your organization approach risk management?

- Do you include quantitative and qualitative techniques to map risks?
- How frequently do you map risks?
- Do you use internal and external data gathering?

Are members of your team exploring how Gen AI and other new technologies could assist in new approaches to managing risk and regulatory compliance?

How are you telling the story of the value of protecting the enterprise that the legal function does?

Measure your progress in 2024: three suggested metrics

- Number of risks mapped compared to the number of critical incidents
- The amount of fines, penalties, and payouts compared to similar companies (this may be anecdotal rather than hard data but is a good way to show the value of the absence of risk)
- Prevalence of risk awareness and compliance training across business

Enabling the Business

> "Supporting the company and meeting its strategic priorities. We've got a value-led growth strategy, and [our priorities] are very much focused on supporting that strategy."

Enabling the broader business goals of the enterprise may be the focus area with which GCs are the least familiar. Yet it is perhaps one of the more readily accessible areas in which GCs can demonstrate the strategic value of their department to the broader business and become more than just a cost center in the minds of the C-Suite.

Enabling the business encompasses both supporting standard business operations and proactively focusing on and contributing to the overall strategic direction of the company. The goal should be to encourage the business to think of the legal function as a competitive advantage to be nurtured — the department of *How* rather than the department of *No*.

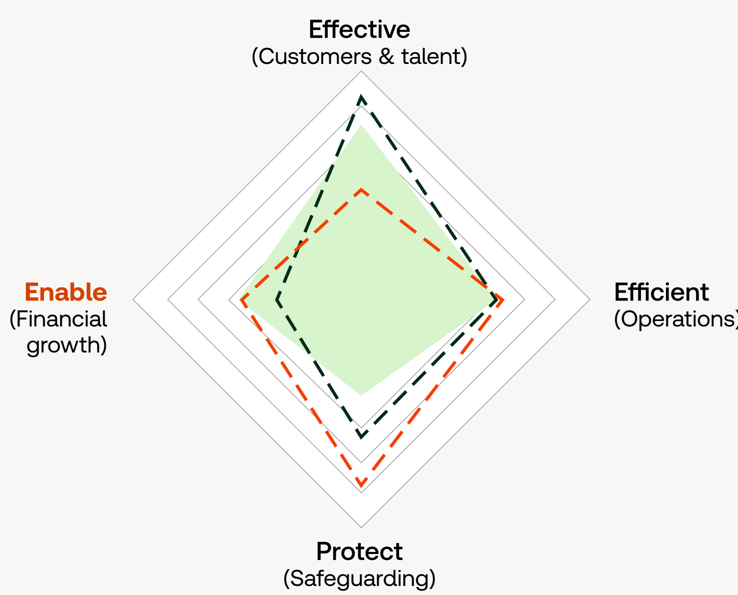
Aligning leadership's vision with the GC's

Earlier, we saw a clear misalignment between the priority the C-Suite placed on the law department's need to prioritize effectiveness compared to priority placed by GCs. An inverse situation is present regarding enabling the business.

FIGURE 21:

Gap between C-Suite and law department view of enabling

Interpretation note: Bar charts show % of C-Suite and legal department respondents selecting each item in their top 5 highest priorities for legal departments. Top chart shows the sum of organizational priorities selected within each quadrant (light green), overlaid with sum of legal department priorities – as expected by C-Suite (dark line) and as perceived by legal department professionals (orange line). See e.g. the gap between lines for Effective, indicating C-Suite selected these options much more commonly than did professionals.

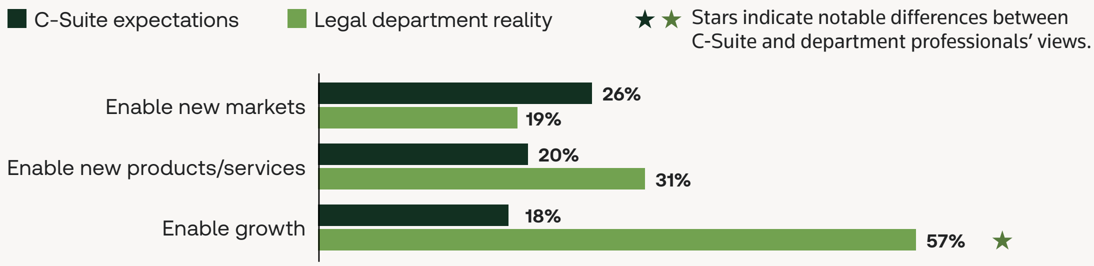


Source: Thomson Reuters 2024

FIGURE 22:

Drivers of the enablement priority gap

Enable (financial growth)



Source: Thomson Reuters 2024

The C-Suite generally places less emphasis on the legal department's ability to enable service development, and in particular, enable growth, than does the GC. This represents a potential area for the GC to help shift the C-Suite's perception.

The TR Institute's View:

While proactive GCs may have an opportunity to demonstrate to their C-Suite that they have the potential to play a larger role in enabling the business, this will definitely be a case in which actions speak louder than words. Many other enterprise functions or business units view the law department, fairly or unfairly, as a place where ideas run into roadblocks. It is incumbent upon GCs to foster a culture of guiding their organizations toward fruitful avenues as opposed to simply stopping risky propositions. Roadblocks are something to be avoided, of course, but some alternate paths may actually yield a smoother journey.

FIGURE 23:

Fostering visibility and trust with the Board

16% of GCs sit on their company's Board

67% of GCs have a voice with the Board

17% of GCs do not have a voice with the Board

Tips from GCs who have a voice with the board/sit as board members to maximize the effectiveness of boardroom relationships.

Checklist of practical skills

Technical excellence	*"They need to build the credibility of the legal advice; they need to believe in business. They need to be strong on the legal aspect and be commercial with the larger goal of the organization - these have to marry."*
Regular communications	*"Maintain regular communication, provide definitive recommendations and proactively provide information about business events beyond what is requested."*
Solutions oriented	*"They have clarity in their communication, expose risks in an objective way or the famous not to be the lawyer who says "no", but the lawyer who says "how".*
Concise	*"Be concise, be accurate, and be proactive."*
Clarity	*"Top lawyers have to be able to speak more like the board members and tell them exactly what they need to know."*
Transparency/honest	*"I think it would simply be to be as transparent as possible. Make sure that they are in a position to make the most enlightened decision based on the information available."*

Best practice approach

Source: Thomson Reuters 2024

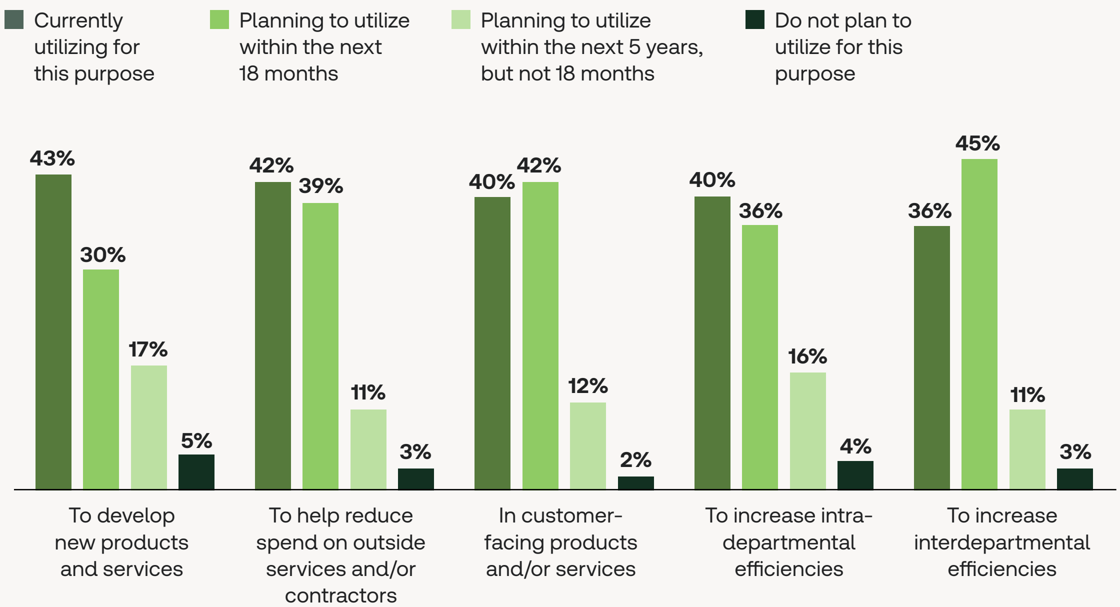
Preparing the business for an AI future

The rapid development of AI technology does not grant permission for a lawyer's typical deliberate, measured approach to adopting new technology. Most C-Suite executives say that if they are not already using AI for a wide variety of functions, they will be within the next 18 months.

FIGURE 24:

C-Suite embracing generative AI

Planning to use Gen AI for the following...



Source: Thomson Reuters 2024

What this means is that even those GCs who do not feel that AI has reached a level at which it's ready to be used in their department — or perhaps that their department isn't yet ready for AI — the broader enterprise already may be moving toward AI rapidly. Thus, it's incumbent upon the law department to enable that growth by outlining a safe path for AI adoption within the enterprise.

Preparing for change: Best practices for AI adoption

1. **Be savvy** — Consider what AI is good for and not good for and how that may be changing. Look for partners who are honest about whether AI is helpful or not.
2. **Realize that not everybody is an early adopter** — Identify your champions and assess your risk appetite and trust levels.
3. **Get comfortable with AI** — Try things out, experiment, and see what AI can do. Where can you get started?
4. **Not everything is custom** — Know when you need a specialist tool and when a general one is the better fit.

For your consideration:

How do you talk about the law department and position it with other parts of the business?

Are you confident that your department's goals are aligned with company objectives?

How well does the team know the business?

Are you making the most of opportunities for dialogue with C-Suite and Board members; and do you understand what matters to them?

Is your law department at the forefront of embracing new technologies and driving positive change with the enterprise through safe, reliable, and effective use of AI?

Measure your progress in 2024: three suggested metrics

- Percentage of legal team's individual objectives aligned to company's vision and goals
- Number of new product or service pitches in which the law department was asked for an assessment of costs and risks
- Legal attendance at Board meetings and early consultation on strategic decisions

Conclusion

As corporate law departments seek to navigate the path from cost center to strategic leader, some parts of the journey will be easier than others. In some instances, GCs have already identified the processes they need to perform, such as analyzing costs. Now, they need to learn how to conduct those processes in a different way, demonstrating to the enterprise how the department is optimizing resources and operating toward driving the enterprise forward.

In other cases, GCs will need to develop entirely different approaches to operating their departments, particularly when it comes to enabling the business of the enterprise. Earlier in this report, we issued the challenge to transform the in-house legal team from the department of No into the department of How. A few steps to consider for GCs looking to begin or continue on this path:

1. **Align** — Enter into dialogue with the C-Suite to discuss not just where upper management thinks the law department should be focused, but also wider company objectives. Then, use that opportunity to explain how your department can enable the company's goals
2. **Measure** — Set metrics that are aligned to strategic priorities to measure progress and demonstrate value
3. **Compare** — Identify benchmarks and qualitative insights as to what other corporate law departments are doing and use them to tell the story of your department's strengths and build your case for future investment
4. **Innovate** — Explore how to leverage Gen AI and other new technologies, as well as new ways of working to improve efficiency but also, critically, to fuel innovation and generate greater strategic value to the business

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