Gartner for Legal & Compliance Leaders

Five investment lessons from cost-effective legal departments

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Legal departments expect demand for their services to increase, yet they already operate under resource constraints. Legal leaders face this reality even as the complexity of their support for the business increases.

How should they handle this dilemma? Typically, they resort to ad hoc cost cutting (e.g., reducing training events, delaying technology purchases) and reinforcing head count restrictions. But while these actions might temporarily help a department run more frugally, they fail to make it more efficient in the long term.

As it turns out, lower-cost legal departments take steps for sustainable savings.¹ Their investments, not their cuts, differentiate them.

Leaders of any function can consider adopting the tactics below.

Perform more work in-house

Lower-cost legal departments allocate 55% of their legal budgets in-house, on average, compared to higher-cost legal departments that allocate less than 47.2% in-house (see Figure 1). Instead of relying on outside counsel to execute work, lower-cost corporate law departments identify opportunities to shift work in-house, where the implied billing rate is 59% of a law firm associate’s billing rate and 40% of a law firm partner’s rate.²

Figure 1: Percentage of legal budget allocated in-house

<table>
<thead>
<tr>
<th>Legal Departments</th>
<th>Outside Spend</th>
<th>In-house Spend</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower-cost</td>
<td>45.1%</td>
<td>54.9%</td>
</tr>
<tr>
<td>Median</td>
<td>49.8%</td>
<td>50.2%</td>
</tr>
<tr>
<td>Higher-cost</td>
<td>52.8%</td>
<td>47.2%</td>
</tr>
</tbody>
</table>

n = 95 legal leaders
Source: 2018 Gartner State of the Legal Function Survey
**Hire dedicated operations professionals to efficiently manage workload**

The legal operations role is becoming common: 34% of legal departments have a dedicated legal operations professional. Of those, 70% employ multiple legal operations roles. Legal operations professionals typically focus on activities and processes that are distinct from traditional legal work, including driving in-house efficiency (e.g., maintaining legal technology, ensuring communication, building internal knowledge management processes) and controlling costs (e.g., coordinating billing with law firms, tracking internal and outside counsel spend).

Companies that invest in legal operations have 30% lower legal spend than companies that don’t, illustrating the functional benefits of the legal operations profession (see Figure 2).

**Invest in training**

Training and development help increase personnel productivity without increasing head count — leading to a decrease in spend on other items, such as expert or outside support. The percentage of in-house budget lower-cost legal departments invest in training and development is twice that of higher-cost legal departments (see Figure 3).

**Introduce economies of scale by standardizing more work**

Legal departments that standardize legal work and provide templates spend, on average, less than their peers (see Figure 4).

About 63% of work owned by in-house legal teams can be codified and standardized to some degree, even if the full workflow cannot. Low-cost legal departments work to address common tasks with a set of repeatable decision rules and criteria, which reduces the amount of lawyer input required on a matter. This approach provides a significant opportunity to offload low-value work (e.g., standard contract reviews, nondisclosure agreements) to business partners and other corporate functions.

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**Figure 2: Cost-effectiveness of legal operations**

Legal spend as a percentage of company revenue

```
<table>
<thead>
<tr>
<th>Departments without legal operations capabilities</th>
<th>Departments with legal operations capabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td><img src="image" alt="0.78%" /></td>
<td><img src="image" alt="0.59%" /></td>
</tr>
</tbody>
</table>
```

n = 99 legal leaders

Source: 2018 Gartner State of the Legal Function Survey

**Figure 3: Percentage of in-house legal budget allocated to training and development**

```
<table>
<thead>
<tr>
<th>Lower-cost legal departments</th>
<th>Median legal departments</th>
<th>Higher-cost legal departments</th>
</tr>
</thead>
<tbody>
<tr>
<td><img src="image" alt="2.04%" /></td>
<td><img src="image" alt="1.47%" /></td>
<td><img src="image" alt="1.04%" /></td>
</tr>
</tbody>
</table>
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n = 142 legal leaders

Source: 2018 Gartner State of the Legal Function Survey

**Figure 4: Difference in legal spend based on degree of standardization**

Legal spend as a percentage of company revenue

```
<table>
<thead>
<tr>
<th>Low standardization of legal work</th>
<th>High standardization of legal work</th>
</tr>
</thead>
<tbody>
<tr>
<td><img src="image" alt="0.62%" /></td>
<td><img src="image" alt="0.48%" /></td>
</tr>
</tbody>
</table>
```

n = 95 legal leaders

Source: 2018 Gartner State of the Legal Function Survey
Work with a consolidated group of external service providers

A smaller network of external service providers lowers the amount of resources required to manage third parties. This approach also allows legal departments to negotiate lower hourly rates and alternative fee arrangements in exchange for work volume (e.g., through volume discounts), even if law firm rates are increasing overall.

Lower-cost legal departments work with 55% fewer firms than the median legal department (see Figure 5).

1 Lower-cost legal departments are defined as the departments in the lowest quartile of spend within their Gartner TruePeer group (a benchmark set of legal departments that have a similar company size by revenue and by the number of legal entities). According to our statistical model analysis, these two factors have the clearest relationship to legal spending. These departments spend comparatively less than their peers when managing a similar volume and portfolio of work.

2 “2016 Real Rate Report,” Wolters Kluwer and Gartner

3 2018 Gartner State of Legal Function Survey

4 This number is based on data from our 2016 State of the Legal Function survey and includes the following activities: legal marketing review and support, procurement contracts, leasing contracts, sales and distribution contracts, licensing contracts, product and development contracts, securities and filings, mergers and acquisitions, other corporate transactions and commercial litigation.

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