Findings from the 8th Annual Law Department Operations Survey

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Walking the Walk, Not Just Talking the Talk

For the past eight years, the Law Department Operations Survey has tracked the challenges and wins of the industry. But as the profession matures, it’s no longer enough to complain about outside counsel and other service providers who refuse to innovate and drive change — law departments are failing to innovate in game-changing ways, and that is making us our own worst enemy.

We talk a good game, and so do our law firms. But when it comes right down to it, we often revert to the old ways we like to complain about. Our processes and technologies that have worked well enough for us in the past are the very things that stand in the way of adopting any profoundly new technologies or truly disruptive approaches.

As Clayton M. Christensen notes in *The Innovator’s Dilemma*, “The very decision-making and resource allocation processes that are key to the success of the established companies are the very processes that reject disruptive technologies: listening to customers; tracking competitors’ actions carefully; and investing resources to design and build higher performance, higher quality products that will yield greater profit.”

Many in the legal industry may believe that our problems are based on the failure to develop disruptive technologies or an unwillingness to embrace them because organizations are unable to adapt operationally or technologically. However, the opposite is true — those in positions of authority, like LDO managers, actually fail to value innovations properly. That’s because we expect to apply these innovations to our existing billing structures, matter management systems and other networks we have in place. LDO managers may feel that these new technologies or ideas may be too new, or not yet thoroughly developed for the advanced and mature value networks where we operate. In other words, it may make sense for LDOs to reject new technologies or refuse to apply new methodologies to legal issues.
LDO managers are like those who used to grumble about standing out on street corners in the rain waiting for a taxi, but not brainstorming ways to do away with taxis completely.

However, those who aren’t bogged down with such worries, or who don’t have standards that could be threatened by innovations, can learn by trial and error and make decisions that established players can’t. Consider the ride-sharing company Uber. It didn’t come from those who drive taxis or use them, because drivers and users were not looking to fundamentally change how the system worked. Rather, it was developed by people with little to risk, who could operate nimbly and figure out how to create a structure that allowed them to sustain the business.

LDO managers are like those who used to grumble about standing out on street corners in the rain waiting for a taxi, but not brainstorming ways to do away with taxis completely. We need to see how we only take actions and embrace behaviors that drive change on the fringes. We have failed to truly embrace impactful change like we could and should.

Consider how often we have requested alternative fee arrangements or alternative providers for legal services, claiming that we are open to using them. Yet too often, LDO managers and the law departments we support revert back to the old, steadfast ways. We decide it’s too hard to figure out, it’s too risky, it isn’t the right matter or we’re not clear on what qualifies as a win.

Those within law departments also tend to overestimate the value of many of their cases. In Creating Legal Integrators, William D. Henderson, law professor and Val Nolan Faculty Fellow, Indiana University Maurer School of Law, and Bill Mooz, Visiting Scholar in Residence at Colorado Law at the University of Colorado, peg the total value of the legal market at about $275 billion — yet only $7 billion of that consists of bet-the-company matters. The rest is operational, commodity or retail work.

That means that the truly complicated work is only a fraction of what we do. While much of it may seem difficult and complicated, that’s not the reality. As leaders within our departments, we need to get much better at innovating and driving changes with the $266 billion that really isn’t as crucial as we may think.

When considering our willingness to adopt disruptive technologies and processes, there is also the age gap to consider. As Henderson points out in the article “What’s driving the demographic gap between BigLaw leaders and their CEO/GC clients?” from the Legal Whiteboard in September 2015, a large part of the growing culture divide between law firms and their clients can be traced to aging law firm leaders, compared to their younger counterparts at companies: “It tends to be a lot larger in BigLaw than almost anywhere else: 4% of AmLaw 100 leaders are Gen X compared to 33% of NASDAQ-traded companies.”

So what does all this mean for LDO managers? It means our work isn’t done. We need to be willing to commit the time and energy to becoming disrupters, not enablers. Otherwise, we’ll be the ones driving the cabs and wondering why everyone else is using Uber now.
Driving and implementing change have been priorities for law department operations managers since the launch of the Annual Law Department Operations Survey eight years ago. Yet little has changed fundamentally.

Consider hourly billing rates. While many legal departments have convinced law firms to use some alternative fee arrangements, the hourly bill doesn’t seem to be going anywhere. Fewer than one in four survey respondents, 23.9 percent, said they expect the hourly billing model will be dead in the next five years.

The hourly billing model will be dead in the next 5 years.

If there is going to be any fundamental change in the way legal departments do business, LDO managers need to be a driving force committed to making that change happen, according to David Cambria, Chair of the Law Department Operations Survey Advisory Board and Global Director of Operations – Law, Compliance and Government Relations at Archer Daniels Midland. “We haven’t done sustainable change, and we keep focusing on low-hanging fruit year after year,” he said. “I think we suffer for that. Every year survey respondents say they would like more innovation, but we need to look in the mirror. Our efforts at disruptive changes tend to be sporadic and schizophrenic — and our law firms know that.”

Reese Arrowsmith, VP, Head of Operations at Lincoln Financial Group, agrees that LDO managers are failing to initiate transformative ways of doing business, even though they have developed many of the tools they need to do so. “LDOs are sitting on a mountain of useful data that could help make decisions and drive cost savings and change in the industry — and we’re not using them,” he said.

“Of course, legal department operations are instituting many successful new programs and are using technology like never before,” said Brad Blickstein, Principal at the Blickstein Group and Publisher of the Annual Law Department Operations Survey. “But they are increasingly seen as a ‘regular’ business unit and perhaps the biggest gap is in the use of analyzed data to make better decisions.”

The Eighth Annual Law Department Operations Survey once again provides a unique glimpse into the opportunities, challenges and pressures facing those who manage the LDO function. “It’s always helpful to see what other people are doing, to help you with your own direction,” said Elaine N. Deutch, Legal Operations Manager for PPL. “There is value in finding how other companies are structured and operate to try to come up with best practices.”
THREE STEPS TO CREATING A TECHNOLOGY PLAN

By Bret Baccus, Managing Director, Huron Legal

Technology plays a critical role in achieving law department operations goals and effectively managing disparate activities. But simply rolling out a variety of systems will not lead to success, as some law departments have learned. Cohesive, department-wide interface and a positive user experience are the foundations for successful technology adoption. Developing a technology plan that will accomplish these requires appropriate input and time.

Law department operations managers understand this. According to this year’s Survey, 35 percent plan to develop a technology strategy or three-year road map, and nearly half say they intend to develop a plan.

But how? Getting started is often the biggest challenge.

A systematic approach is best: LDO managers should review their available options, understand what they really need and then realistically evaluate the proposed technology’s return on investment (ROI).

1) Look at the options

When considering available technology, law departments should first think in terms of core systems – those that facilitate the department’s ability to track and offer legal services. These generally include matter management, e-billing, contract management, document management and IP management.

Core systems should integrate smoothly with other technology that the law department uses, such as e-discovery and legal hold software. They should also mesh with enterprise-wide systems like records management and risk management.

2) Assess the organization’s technology needs

A law department’s and its clients’ needs should drive the choice of technology instead of the reverse – allowing shiny new technology to drive buying decisions. Technology that is adopted without a thorough needs-assessment often fails to serve its intended purpose or is not adopted by targeted users – in other words, wastes time and money.

Thus, before adopting new technology, law departments should ask themselves these questions:

- What is the business need?
- What technology do we currently have?
- How are we currently using it?
- Where do we see opportunities for improvement?
- What trends and best practices in the legal technology industry can we successfully adopt?

Cloud-based legal technology systems are becoming increasingly common as law departments have overcome their initial hesitations. Reputable cloud providers can offer security, control and accessibility equivalent to or better than traditional on-site options. “Private clouds” offer the best of both worlds.

3) Evaluate ROI

There can and should be significant ROI when adopting sophisticated legal technology, but the gains often go unmeasured. With the cost pressures on today’s law departments, it is important to justify and fully leverage any technology expenditures. Realistically evaluating the ROI will help clarify whether and why the department should upgrade current technology or purchase new technology. Any evaluation should take a mid- to long-range view and factor in hard and soft costs.

As with all strategic change, before implementing any new technology law departments need a plan. Taking the time to develop realistic, workable solutions will pay off in the short term and for years to come.
USE OF METRICS

LDO managers are collecting data, and more seem to be embedding metrics and reporting programs thoroughly in their departments. This year’s respondents reported a significant increase in the use of formalized metrics and reporting programs — more than half (56.2 percent) said they have such programs, up from 34.4 percent last year.

Do you have a formalized metrics / reporting program?

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<tr>
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<th>2014</th>
<th>2014</th>
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<tbody>
<tr>
<td>YES</td>
<td></td>
<td>56.2%</td>
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<tr>
<td>NO</td>
<td>65.6%</td>
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</table>

Recently, the legal department at Lincoln Financial has attempted to use metrics in more meaningful ways to identify performance across firms. “We use analytics to try to determine win rates — and it’s hard to quantify a win,” said Arrowsmith. “These are not performance evaluations, we are applying a value to an outcome based on matter categorizations to ensure we are comparing apples to apples.”

His department looked at one particular business that has a high volume of three different types of matters. Then, he focused on the minimum, maximum, average and total case cost by firm, including outside counsel spend and settlements. “The bottom line is that we saw very different results across firms. We talked to the attorneys who handled these cases to make sure there were not unique and specific reasons for the results, such as jurisdiction,” he said. “Most companies separate outside counsel spend and settlements. I would much rather pay a firm more if they can save us substantially on total case cost.”

Based on these results, the company is moving new matters to firms that offer the best results. “We aren’t moving matters away from our current firms yet,” he said. “This is not a situation where we flip the switch and forget it. We are moving the needle slowly and monitoring our results to see if we get the expected outcomes.”

Which of the following metrics do you track?

- Percentage of legal spend (inside, outside and both) as a percentage of revenue and total expense: 58.9%
- Percentage of legal spend versus dispute resolution for company and business units: 28.8%
- Percentage of hours received at discounted rates: 23.3%
- Average or median bill rate by law firm for particular groups of matters: 45.2%
- Total expenses by law firm for particular types of matters: 80.8%
- Days to resolution by law firm for particular types of matters: 42.5%
- Attorney headcount per $b of revenue: 42.5%
- Total cost of outcome OR total cost of outcome vs. budgeted cost of outcome: 43.8%
- Metrics related to ethics and compliance: 16.4%
- Other: 0%
Ford Motor Co. is also carefully tracking costs and using that information to make changes, according to Jon Osgood, Assistant General Counsel & Director – OGC Operations. For the last four years, Ford has conducted an annual global cost management review that involves an in-depth comprehensive review of all legal-related costs including internal staff, outside counsel and expert costs, payouts, judgments and other costs associated with providing legal, tax, audit and compliance services to the client.

“Doing this every year, on a global basis, now allows us to identify emerging trends and respond accordingly,” said Osgood. “While overall legal costs are decreasing, there are lots of moving parts and having visibility into all of those components is very helpful for a variety of reasons. We continue to rely heavily on alternative billing strategies, with more than half of our legal spend on nontraditional arrangements including retainer agreements, flat fees and contingency arrangements. We have also spent quite a bit of time better understanding how to best maximize value in our outside counsel engagements, and a metric we closely monitor is the percentage of spend on ‘premium’ firms, to ensure we are optimizing our resources in that regard.”

According to survey respondents, those who track metrics are increasing the stakes, at least in terms of salary. When asked if there are compensation ramifications based on law department metrics, nearly 30 percent of respondents said yes, up from 22.7 percent in 2014.

**Are there compensation ramifications based on law department metrics?**

![Pie chart showing percentage of respondents who said yes or no to compensation ramifications based on law department metrics.](chart.png)

When asked to select the top three key performance indicators, respondents were most likely to rank actual spend versus law department’s total budget, followed by total outside counsel spend and total outside counsel and service-provider spend.

Respondents are also using data mining and analytics to make predictions, at least some of the time and in several different areas. Slightly more than half said they always or sometimes make predictions for matter budgets, and 35.3 percent always or sometimes use data mining and analytics to predict discovery costs.

**To what extent do you use data mining and analytics to predict the following:**

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Always</th>
<th>Sometimes</th>
<th>Never</th>
<th>We plan to do more of this</th>
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<tbody>
<tr>
<td>Case outcome</td>
<td>4.4%</td>
<td>25.0%</td>
<td>52.9%</td>
<td>17.6%</td>
</tr>
<tr>
<td>Matter budgets</td>
<td>17.4%</td>
<td>33.3%</td>
<td>36.2%</td>
<td>13.0%</td>
</tr>
<tr>
<td>Discovery costs</td>
<td>8.8%</td>
<td>26.5%</td>
<td>51.5%</td>
<td>13.2%</td>
</tr>
<tr>
<td>Selection of counsel</td>
<td>7.2%</td>
<td>29.0%</td>
<td>42.0%</td>
<td>21.7%</td>
</tr>
<tr>
<td>Selection of venue</td>
<td>3.0%</td>
<td>19.7%</td>
<td>66.7%</td>
<td>10.6%</td>
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Ford is one company working to do more with predictive coding, which has had a significant impact on litigation, according to Osgood: “By using this tool, Ford can process and store data on Ford’s own network servers, resulting in significant cost savings in monthly hosting fees which would otherwise be paid to an external vendor.” Ford is saving more than $2 million annually for hosting and processing charges alone, he said.

This tool has also helped get through huge document collections quickly. “This not only allows us to better assess our cases early on in the process, but saves significant outside counsel cost in terms of document review,” he said. “The coding capabilities of the tool allow Ford’s counsel to weed through hundreds of thousands of documents and identify highly relevant documents in a very short time period. We have secured the ability for our outside counsel to use this tool as well, which has also added speed and efficiency into our litigation practices.”
“I know I can get ahead when they have my back.”
This is you getting the expertise, efficiencies, and cost savings to succeed. This is you taking advantage of a full range of services like discovery, law department management, legal analytics, and information governance and compliance. This is what better looks like…

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FACING THEIR CHALLENGES

Respondents to the survey were asked to list their top three challenges as they relate to managing law department functions. The number one answer was driving and implementing change, and 81.8% of respondents believe that “corporate legal departments will be the primary driver of innovation and change in the legal sector.”

“It’s fascinating to me that LDOs feel so responsible for legal sector innovation, or that others believe they are or should be the primary drivers of change. I think it’s basically unfair for the legal industry to think any one segment is more or less responsible for innovation,” said Jeffrey D. Paquin, Chief Counsel, Legal Operations for General Motors. “Innovation can be driven by any sector, whether it’s law firms, legal vendors or corporate legal departments.”

Since legal departments pay the bills, they often escape any criticism for a lack of innovation, according to Paquin — which often shifts the blame to law firms and vendors. “Some law firms are really creative, and some corporate legal departments are not so innovative,” said Paquin, who has worked at law firms and vendors before his current role at GM.

Driving and implementing change was followed by identifying opportunities for business improvement and cost savings, then obtaining funding and/or resources (i.e., for staffing, technology, etc.). Managing staff ranked as a distant fourth.

As the LDO, what are the top three challenges you face related to managing law department functions?

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<th>Answer Options</th>
<th>Times Chosen</th>
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<tbody>
<tr>
<td>Driving / Implementing change</td>
<td>52</td>
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<tr>
<td>Identify opportunities for business improvement &amp; cost savings</td>
<td>58</td>
</tr>
<tr>
<td>Obtain funding and / or resources (i.e., for staffing, technology, etc.)</td>
<td>40</td>
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<tr>
<td>Managing staff</td>
<td>25</td>
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<tr>
<td>Stay abreast of law department technology</td>
<td>18</td>
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<tr>
<td>Managing current technology</td>
<td>16</td>
</tr>
<tr>
<td>Document ROI of the LDO position to the corporation</td>
<td>14</td>
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<tr>
<td>Managing a budget</td>
<td>12</td>
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<tr>
<td>Communicate successfully with the general counsel</td>
<td>8</td>
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<tr>
<td>Gain attorney respect</td>
<td>6</td>
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<tr>
<td>Other</td>
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These results indicate that many respondents are also now concerned with seeking new opportunities and concretely improving the bottom line. This may indicate that LDOs may have finally used up all the low-hanging fruit and need to seek out more fundamental changes.

Respondents were also asked about the biggest challenges they expect to face in the next one to three years. The top three responses were containing/reducing legal costs, in-house talent development and retention and identifying key technologies to drive productivity. Those answers were followed by compliance matters, IT spend and identifying key technologies to drive productivity.

USE OF TECHNOLOGY

Survey respondents have become very comfortable using different technology systems on a regular basis. To a lesser degree, law firms are also utilizing systems to access this information directly. This represents a necessary trend to improve efficiencies going forward. When asked how often they access electronic billing on a weekly basis, nearly half of respondents, 47 percent, said they do. According to respondents, slightly more than one-third of law firms access e-billing systems every week.

Who accesses the electronic billing system on a weekly basis?
When asked about who accesses matter management software on a weekly basis, 44 percent of respondents say they do, while 15 percent of law firms do.

Contract management systems are also on the radar for legal department operations managers. Those surveyed listed contract management as the least effective of several technologies, including matter management, electronic discovery, intellectual property management and document management systems. However, most respondents — 63 percent — said they are planning to update, evaluate or implement contract management systems in the next 12 months.

**How effective is the following technology?**

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<th>Technology</th>
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<tr>
<td>Matter Management</td>
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<td>Document Management</td>
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When asked if they integrate their contract management systems with their enterprise legal management technology, 26 percent responded yes, compared to 36 percent that integrate their document management systems. Of those who don’t integrate contract management systems with the enterprise legal management technology, one-quarter said they would like to. That compares to 18 percent of those who said they don’t integrate their IP management systems but would like to, and 17 percent who don’t integrate their document management systems but would like to.

Since installing a contract management system, compliance has improved at NetApp, according to Connie Brenton, chief of staff and director of legal operations. “It takes time to implement a contract management system, but once the system is in place, you can derive all kinds of key metrics from it,” she said.

The NetApp system isn’t yet designed to leverage the contract create functionality. However, contracts are tracked throughout their life cycle, are easily searchable, share a standardized naming convention and reside in a central repository. Contracts can also be signed electronically, which is a particularly valuable feature for users — although electronic signatures are not technically part of the contract management system, she said.

“It’s a challenging implementation, and there are various components to it,” she said. “But we know where and how to quickly locate every contract we create, and our compliance standard is at an all-time high.”

The survey also asked law department operations managers to rank the effectiveness of matter management, electronic discovery, IP management and document management systems. Respondents ranked all their technologies very tightly (between 5.5 and 6.7 on a 10-point scale), with contract management the least effective at 5.5, and electronic discovery the most effective at 6.7.

Law department operations managers take a variety of approaches to how they handle different e-discovery tasks and whether those are managed in-house, outsourced or handled by both in-house counsel and law firms. While respondents staff these differently, they seem generally satisfied with their current methods, and few indicated that they wanted to bring in-house preservation / legal holds, collection, early case assessment, processing, analysis, hosting, predictive coding, document review or production.
DISRUPTION CAN BE A COMPETITIVE ADVANTAGE FOR YOUR ORGANIZATION

By Jason Parkman, Chief Executive Officer, Mitratech

While disruption appears to be the word of the day in the legal sector, disruption isn’t a new phenomenon in our industry. Traditional ways of doing business have been experiencing disruption for years, driven primarily by the economics of the legal industry. Still, most legal departments have viewed these changes as something happening to them, rather than something they are participating in. What is changing today is how proactive legal departments themselves are not only embracing, but driving disruptive change, and through it, creating competitive advantage for their organizations.

When the recent recession hit, legal departments’ budgets were under increased scrutiny for reductions even as the amount of work never slowed. To cut costs, many legal departments brought work in-house, and AFAs became standard for many. While the country has slowly crept out of the recession, the expectation that legal departments will find ways to achieve cost savings has persisted, as it has in many other areas of business. Many legal departments, however, have used the required changes for cost efficiency to drive other, more structural and more disruptive changes within their departments. These departments have used the drive for cost control and containment to make changes that have been incredibly difficult in the past — changing the relationship with their outside counsel, changing the expectations for timeliness and responsiveness, changing the expectations for performance and measurement and ultimately changing what it means to create value as a successful legal department.

Legal departments that are able to embrace and create change not only are able to achieve the minimum success of cost containment, but are also able to realize competitive advantage for their organizations. These legal teams:

1. **Operate with more forethought than afterthought**, using data to inform future decisions
2. **Understand that sometimes the best defense is a good offense**, which means acting in concert with broader corporate positioning, sales execution and strategic resource planning
3. **Optimize overall spend** — moving beyond simply cutting legal costs to aligning spend with business outcomes, often outcomes of other business units
4. **Protect intangible assets like corporate brand reputation proactively**, allowing the organization to realize the full value of these assets
5. **Proactively mitigate risk** by aligning an understanding of markets and the compliance environment in a way that allows other departments to focus on their core areas of expertise
6. **Facilitate decisions by predicting successful business outcomes**, and using this information to allow others to move forward with reduced future risk
7. **Minimize commercial friction through process and technology improvements**, creating a legal department that accelerates, rather than slows, commercial activity
8. **View effective legal management as a core business function**, driving value just as any other business function would; and
9. **Focus on continuous improvement**, working to stay ahead of competitors in each of these areas

In the end, disruption is all about displacing old ways of doing things with new ways, and in so doing, creating new value and new expectations. Legal departments who recognize the industry’s changes and embrace the opportunity to be a part of its disruption will create competitive advantage for their organizations over those who do not. These legal departments constantly question the way they think about people, process and technology, and ultimately the way they think about their own success, measuring it not only against traditional measures of a successful legal department, but against the value created by the best run functions in any organization.
More respondents are turning to alternative fee arrangements (AFAs), even if it’s only at the fringes. Only 6.5 percent of this year’s respondents don’t use AFAs for any matters, compared to 10.1 percent last year. When asked about the biggest impediment to using AFAs, respondents listed the unpredictable nature of matter activity, followed by law firm acceptance. Yet “no internal impetus to change internal system” ranked third.

When it comes to AFAs, respondents were most likely to have tried discounted hourly rates (82.9 percent), followed by fixed fee per matter (68.6 percent), then flat fees to handle all matters in a given area (54.3 percent) and flat fee by matter stage (37.1 percent). “While some might quibble about whether discounted hourly rates should even be considered to be AFAs, we include them in order to gauge how popular they are compared to other alternatives,” said Blickstein. “The fact that they still dominate is probably because they are so simple to implement, although it could also be because they are guaranteed to show a quantifiable cost savings (despite the fact that savings aren’t always achieved in the final analysis). Some of the other AFAs focus more on predictability than simple cost reduction.”

More than 70 percent of those who use AFAs do so by UTBMS phase, followed by 12.9 percent who use them by matter type and practice area, respectively.
The number of respondents willing to consider using offshore legal process outsourcing also significantly increased this year, from 21.2 percent in 2014 to 39 percent.

Would you consider using offshore legal processing outsourcing?

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<th>Yes (%)</th>
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<tr>
<td>2014</td>
<td>21.2</td>
<td>78.8</td>
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<tr>
<td>2014</td>
<td>39</td>
<td>61</td>
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Respondents were also asked if they are using alternative staffing / non-law firm vendors for a variety of different tasks:

- E-discovery processing — 53.7 percent
- E-discovery hosting — 48.5 percent
- Document review — 47.8 percent
- E-discovery collection — 37.9 percent
- Contract review — 27.5 percent
- Contract drafting — 17.9 percent

CONTINUED WORRIES OVER CYBER SECURITY

Last year’s survey reflected how little confidence legal department operations managers have in their law firms’ ability to protect their data. Despite the continuing growth in high-profile cyber attacks against companies, only slightly more than half of respondents ranked their law firms’ ability to protect data as highly effective or somewhat effective — down slightly from last year.

Within their own organizations, the legal department seems to be taking a more active role. When asked to rank departments as “meaningful influencers” for cyber security, 62 percent of respondents ranked the legal department higher than the audit function or records management.

CONCLUSION

The overall picture painted by the Eighth Annual Law Department Operations Survey is a positive one. Perhaps the best news is that continued trend towards reliance on metrics, and the new trend of compensation being impacted by those metrics. Both are good things for LDO managers.

“While LDO managers still face many challenges in driving fundamental changes, they have the skills, knowledge and talent to do that, and even more,” said Blickstein. “Over the years, LDO managers have proven their worth, and as more and more departments embrace data there will be a growing amount of evidence to show just how critical they are to the success of their departments and clients.”
Results of the Eighth Annual Law Department Operations Survey are based on responses from large U.S. companies

The Law Department Operations Survey Advisory Board

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Connie Brenton
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PPL Services Corporation

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The Eighth Annual Law Department Operations Survey
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