

The Right Way to Measure – and Improve

A Checklist of Recommended Metrics to Measure Corporate Law Department Performance

Thomson Reuters Legal Tracker™



Most in-house legal departments recognize the need to track their legal spend and use metrics to measure performance and benchmark themselves against their peers. Many general counsel cite their top priorities as reducing costs, working more efficiently, and increasing their effectiveness – therefore, adding value to their organization. But how do you reliably benchmark your progress? What specific criteria should you use to monitor and enhance the efficiency of your legal department?

This convenient checklist of recommended metrics can help measure your improvements over time against your own benchmarks and those of industry peers.

Area	Metric	Why it's important
Budgeting	<input type="checkbox"/> Total Legal Spend vs. Budget <input type="checkbox"/> Spend by Matter vs. Budget <input type="checkbox"/> Spend by Law Firm vs. Budget <input type="checkbox"/> Total AFAs by Matter and Type <input type="checkbox"/> AFAs by Law Firm <input type="checkbox"/> AFA Spend as a Percent of Total Outside Spend	<p>Tracking budgets and/or setting AFAs on matters is perhaps the single most effective way a legal department can predict and control costs. Tracking budgets and spend on matters over time also provides a useful benchmark as to what certain types of matters should cost, so the legal department can set budgets or AFAs based on how much similar matters cost in the past.</p> <p>In addition to tracking budgets against matters, tracking budgets for each law firm is a useful tool for ensuring a law firm's ability to accurately estimate budgets. This allows the legal department to keep on top of the firms that are not keeping to their budget, so that spending will be more predictable and surprises minimized. This also helps determine the ideal mix of in-house and external firms.</p>
Managing Cost	<input type="checkbox"/> Expense Guideline Violations <input type="checkbox"/> Timekeeper Rates <input type="checkbox"/> Invoice Write-Downs <input type="checkbox"/> Total Savings Against Billing Guidelines	<p>Managing expenses, timekeeper rates and rate increases, and billable hour invoice line items can provide insight into the total cost of matters. Savings in these areas are easily achievable by enforcing your company's billing and expense guidelines. That said, it is surprising how many legal departments fail to adequately review bills for these types of violations. Reviewing line items and hours billed may be time-consuming for in-house attorneys, but e-billing software, such as Legal Tracking can streamline this process to catch mistakes and overbilling. Furthermore, these are metrics that can be used to demonstrate to the business the effort being made by the legal department to control costs.</p>
Where Legal Spend Is Occurring	<input type="checkbox"/> By Practice Group <input type="checkbox"/> By Substantive Area of Law <input type="checkbox"/> By Business Unit <input type="checkbox"/> By Matter Type	<p>Monitoring legal spend by substantive area (intellectual property, employment, real estate, M&A, claims, etc.) can help you:</p> <ol style="list-style-type: none"> 1) Manage Risk – Is there a practice area that has a surprising amount of cases, and if so, why? 2) Evaluate External/Internal Mix – Would it be more cost-effective to bring more work in house? <p>Knowing which business unit is generating legal spend can help identify divisions or subsidiaries that may have training requirements or merit greater focus to keep their costs in check. In addition, benchmarking your legal spend against comparative companies by industry, matter type, and other criteria can raise potential red flags if your legal department's spending patterns differ from the norm in your industry.</p>
Legal Team Workload	<input type="checkbox"/> Number of Open and Closed Matters <input type="checkbox"/> Number of Matters per In-House Counsel/Area of Law <input type="checkbox"/> Matter Cycle Time <input type="checkbox"/> Matters/Spend per Law Firm	<p>To allocate your resources efficiently, it's important to have visibility into your team's workload. This will likely help highlight several areas, such as turnaround time on internal matters, whether work is being fairly distributed – particularly if you're part of a big disparate team – and whether certain matters can be brought in house. This may also bring to light areas that need reviewing, such as timelines, and ensuring that the right people are working at the right level to add value to the legal department.</p>
Legal Ops Workflow	<input type="checkbox"/> Number of Days to Create Matters <input type="checkbox"/> Number of Days for Law Firms to Submit Invoices <input type="checkbox"/> Number of Days for Invoices to be Approved	<p>Making sure your legal operations workflow is running as efficiently as possible will help reduce staff time, lower costs, and prevent human errors.</p> <p>Having law firms submit invoices well past the time the work has been done can cause problems with accruals and the finance department. Often legal departments, as a part of their billing guidelines, will require law firms to submit invoices 30, 45, or 60 days within the time the work was done for them to receive payment. Inversely, if law firms aren't getting their invoices paid, relations can be strained and legal departments waste a great deal of time looking for the latest unpaid invoice that a law firm has inquired about.</p>

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Area	Metric	Why it's important
Benchmarking Analytics	<input type="checkbox"/> Hourly Rate Comparison for Similar Attorneys <input type="checkbox"/> Staff Ratio Comparison per Peer Group	<p>It's helpful to compare your legal department processes and performance metrics to best practices with others in your industry and/or geographical area. Comparing metrics – such as the rates you're paying for similar attorneys in a specific city, the allocation of work based on the Am Law 200 ranking, and staffing ratios – will help you improve your organizational efficiency and raise red flags.</p>
Law Firm Evaluation	<input type="checkbox"/> Timekeeper Rates <input type="checkbox"/> Staffing Ratios <input type="checkbox"/> Diversity <input type="checkbox"/> Law Firm Scorecard	<p>Work should be given to the external law firms that provide the greatest value to your organization. Value can be determined by many factors, such as cost, performance, efficiency, and responsiveness, among others.</p> <p>It's important to track and benchmark timekeeper rates. Tracking rate increases over time allows a legal department to know whether the law firm's proposed increases are abnormal or in line with historical averages. Many legal departments will have a cap on rate increases for their firms or have a rate freeze for a set number of years or for certain matters, so tracking actual rate increases is vital to enforcing these requirements.</p> <p>Increasingly, law departments are measuring the diversity in their law firms. Having the ability to understand a firm's diverse (or not) staffing on your matters shows that they're embracing your organization's commitment to diversity. In the same vein, you want to make sure law firms are staffing appropriately with the right mix of associates and partners.</p> <p>Evaluating counsel will allow you to build a repository of data on your external law firms so that when a new matter comes up, finding the best outside counsel to work with is as easy as reviewing that firm's evaluation data and choosing one of their most highly rated lawyers. This can be achieved using a simple scorecard and will help highlight other important areas, such as customer satisfaction, turnaround time, responsiveness, and price.</p>
Risk Exposure/Mitigation	<input type="checkbox"/> Value of Settlements <input type="checkbox"/> Min/Max Total Exposure <input type="checkbox"/> Likely Outcome for Open Cases <input type="checkbox"/> Types of Breaches <input type="checkbox"/> Claims by Business Unit	<p>Within a legal department's litigation matters, tracking exposure (at least for the larger cases) is an important metric for corporate counsel to be able to manage and apply to reduce risk. Tracking maximum and minimum exposure, along with likely outcome, allows you to keep key stakeholders apprised of potential risks and avoid surprises. This can help you to decide how to handle a case and work out whether a certain case should be settled if you find that you are paying disproportionately compared to the amount at risk.</p> <p>Tracking types of regulatory breaches and claims allows the legal department to target training to those departments most at risk. Examining these trainings and complaints over time illustrates the effectiveness of putting a training program in place and highlights the eventual costs saved by reducing these types of claims.</p>
Overall Department Spending Efficiency	<input type="checkbox"/> Area of Law/Fully Loaded Cost of the Legal Department as a Percent of Company Revenue	<p>Calculating the entire cost of your legal department, both internally and externally, is a more accurate measure of whether there has been a reduction in legal costs versus looking at absolute legal spend – which could increase each year but still represent a reduction in legal spend as a percentage of company revenue. Making sure this metric aligns with other industry legal department benchmarks is a powerful selling point to stakeholders seeking proof of the value that the legal department provides. This metric, along with benchmarking your legal portfolio by area of law compared to peers, can help raise red flags in your legal department that you may not have noticed otherwise.</p> <p>Secondly, tracking this percentage over time helps a legal department find the ideal mix of in-house counsel and external law firms that provides the greatest value to the company. Also tracking work by area of law (e.g., IP litigation) vs. the fully loaded cost of an in-house attorney (e.g., an in-house IP litigator) helps build the business case for a new hire and will help your department run more efficiently.</p>

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Lessons Learned

Tracking your performance is important, but it's equally important to capture lessons learned that will allow a legal department to build up a repository of information on the types of matters you deal with regularly. Whether it's certain types of contracts that you regularly negotiate, common types of litigation cases, or dealing with regulations specific to your industry, collecting and sharing knowledge learned makes for a more efficient and effective legal department. This is also an invaluable resource when there is turnover in a department, so that hard-won knowledge is not lost when experienced lawyers move on.

It's Possible with Legal Tracker

While understanding and tracking these metrics for your law department is no simple task, it's made easier with an automated analytics solution such as Thomson Reuters Legal Tracker. Designed to give you a clear view of your entire legal landscape, Legal Tracker gives you the power to make critical, data-driven decisions that raise your legal department's profile.

Consistently rated number one

Legal Tracker is the world's leading legal matter management, e-billing, and legal analytics system designed for corporate legal departments and law firms. Part of the Thomson Reuters Legal business unit, Legal Tracker is consistently ranked as the top-rated solution for its ease of use, international features, and quick implementation.

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