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Deloitte.



The Evolving Legal
Service Delivery Model

Generative AI Is Already Changing Expectations

DECEMBER 2023

Deloitte.



DEFINING VALUE: TAKING LEGAL OPERATIONS TO THE NEXT LEVEL



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The law department operations function has been growing rapidly for years, bringing greater efficiency, productivity and cost control to corporate law departments. According to the 16th Annual Blickstein Group Law Department Operations Survey, produced in collaboration with Deloitte, that growth may be slowing. As LDO teams stabilize, they have an opportunity to turn their attention to the broader—and much more challenging—question of how they can provide greater value not only to the law department but to the enterprise as a whole.

This represents a new phase for legal operations professionals. Organizations have built their legal operations teams aggressively; fully half of legal operations professionals (52.3%) reported that their organization added its first dedicated LDO professional in 2018 or since. Now, less than a fifth of legal operations professionals (17.9%) expect their team to grow further, indicating that we are at last approaching an inflection point.

In that time, legal operations has evolved from something of a side hustle—an additional responsibility for practicing lawyers to juggle—to a dedicated and independent function. This year, only 21% of our respondents said they serve as in-house counsel in addition to their operations responsibilities.

But despite steady growth, LDO professionals have so far largely restricted their scope to managing the law department's processes and spending. Legal operations teams typically emphasize legacy functions, with 86% managing reporting and analytics, 83% handling billing and invoice approval and 80% managing matters, analyzing finances and selecting and procuring technology.

These functions reflect what was, for most enterprises, the first priority for legal operations: controlling the law department budget. The primary KPIs for legal operations professionals have always been budget-related. Nearly all LDOs (93.9%) track outside spend, while only 30.6% track the performance of their law firms and ALSPs and just 24.5% track their value.

Yet, as the explosive growth phase cools, general counsel seem to be pulling back their support for legal operations. Just 72.9% of legal operations professionals said that they get all the support they need, down considerably from 88.9% last year. Are legal operations teams struggling to provide value in the absence of adequate support, or are law department leaders withdrawing support because their LDO teams have not produced sufficient value? Either way, legal operations teams have an opportunity to win back support by demonstrating that they can do much more than mind the budget and produce reports.

For example, we noted last year that legal operations had an opportunity to expand its reach and cement its position within the enterprise by extracting more value from contract lifecycle management tools. Yet only 55.4% of survey respondents report that they manage their organization's contracts. Additionally, LDO professionals report that contract management tools are among the least effective tools in their tech stack; on a scale of 1 to 10, pre-execution contract management technology earned only a 5.3 effectiveness rating, with post-execution tools even further behind at 5.1. By contrast, e-billing and legal spend management tools scored 7.5 and 7.6, respectively.

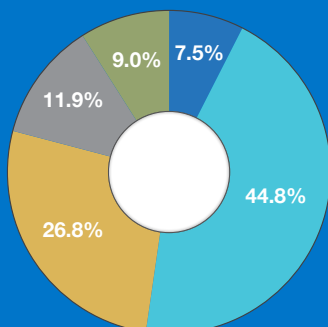
Do these lackluster scores indicate a deficiency in contracting technology? Is contract management inherently ineffective? Or do legal operations teams need to more thoughtfully define and measure the value of entering and fulfilling contracts?

At this point, the primary metric LDOs reported using to evaluate contracts is turnaround time, which is only one element of the value contract management provides to the organization.

Contract management is a microcosm of the larger issue as legal operations continues to mature. LDOs have the opportunity and the capacity to provide substantial value, but to do so, they must first decide what "value" means. This is a notoriously thorny question. Legal operations professionals, including 68.9% of this year's respondents, consistently agree that "measuring the value of legal services is more art than science."

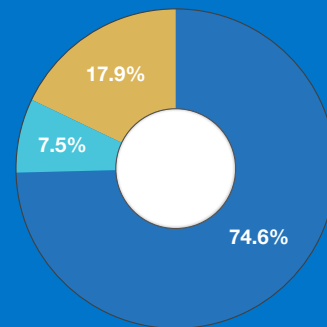
Whether it is art or science, the ability to define, measure and deliver value will be a major differentiator as legal operations moves to the next level of its development. Those legal operations professionals who succeed in providing true value, especially in cross-functional tasks that benefit the entire enterprise, will prove their own worth.

In what year did your company add its first dedicated LDO professional of any kind?



2023 2022 - 2018 2017 - 2008 2008 or BEFORE DO NOT HAVE AN LDO PROFESSIONAL

We expect the size of our legal ops team to _____ over the next 12 months.



STAY THE SAME SHRINK GROW

The Evolving Legal Service Delivery Model

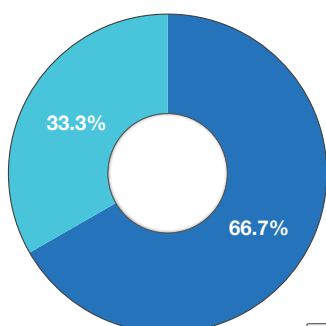
Generative AI Is Already Changing Expectations

One of the major consequences of the rise of law department operations has been a shakiness in the long-standing relationship between law firms and law departments. A collaboration that was once based on lawyer-to-lawyer interactions with a focus mainly on quality legal work that minimizes risk at all cost now involves operations professionals who are concerned with budgets, inefficiencies, unhygienic billing practice and more.

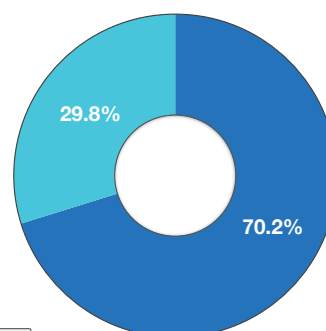
The results of the 16th Annual Law Department Operations Survey created by Blickstein Group, in collaboration with Deloitte, demonstrate that the relationships between law departments and law firms remain strained.

Meanwhile, generative AI is being hailed as the solution to everything from boring term papers to legal document assembly. And that leads to the big questions we tried to explore in this year's survey: Will generative AI improve law department/law firm relationships by enabling firms to deliver work faster and more cost effectively? Or will it just create more uncertain expectations as clients send mixed signals about how their firms can and should use the tools and work to set up generative AI to take some of those tasks back for themselves?

Do you expect generative AI to enable you to bring more work in-house?



Do you think wider adoption of generative AI will lower your law spend?





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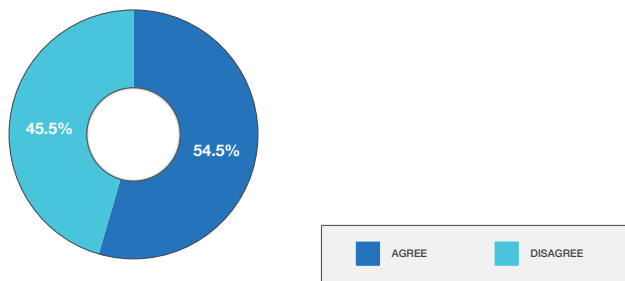


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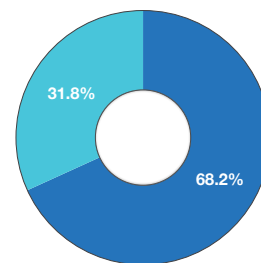
Corporate law departments are overwhelmingly confident in the promise of generative AI to aid in both substantive legal work and legal operations. The large majority of legal operations professionals—85.1%—said that they believe most law departments and most law firms will be using generative AI substantially in the next three years. The majority expect that generative AI will help them bring more work in-house (66.7%) and lower their legal spend (70.2%).

While LDOs are clearly planning to use generative AI themselves, what they expect from their firms is not nearly as clear. Two-thirds (63%) said that they encourage their firms to use generative AI, but the substantial remainder reported that they either discourage (28%) or outright forbid its use (10%).

For work that is augmented with the use of generative AI, do you expect that firms will increase their use of AFAs/modified billing?

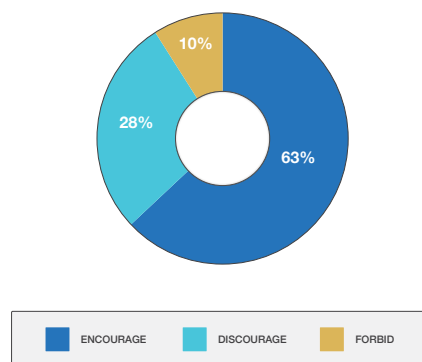


Do you feel the value of legal services provided by law firms will go up if generative AI/ large language models are integrated into the service delivery model?



Meanwhile, more than half expect generative AI will allow their firms to increase the use of alternative fee arrangements (54.5%), and 68.2% expect it will improve the value of the legal services that their law firms provide.

We ___ our law firms to use generative AI



This division traps law firms—which, naturally, have more than one client to cater to—between a rock and a hard place. Do they invest in tools they may not be able to use? Or do they wait and see, potentially falling behind their competitors?

Even aggressive firms may find this a difficult road as the track record for delivering value through technology is already not great; only 31.9% said that their law firms are currently leveraging technology to deliver legal services more effectively and cost-efficiently, down from 48.9% last year. For all its promise, there's no guarantee that generative AI will provide marked improvement in any aspect of legal services or in legal operations—and it may in fact exacerbate the relationships between law firms and their clients. This will be worth watching.

The Promise—and the Threat—of Generative AI

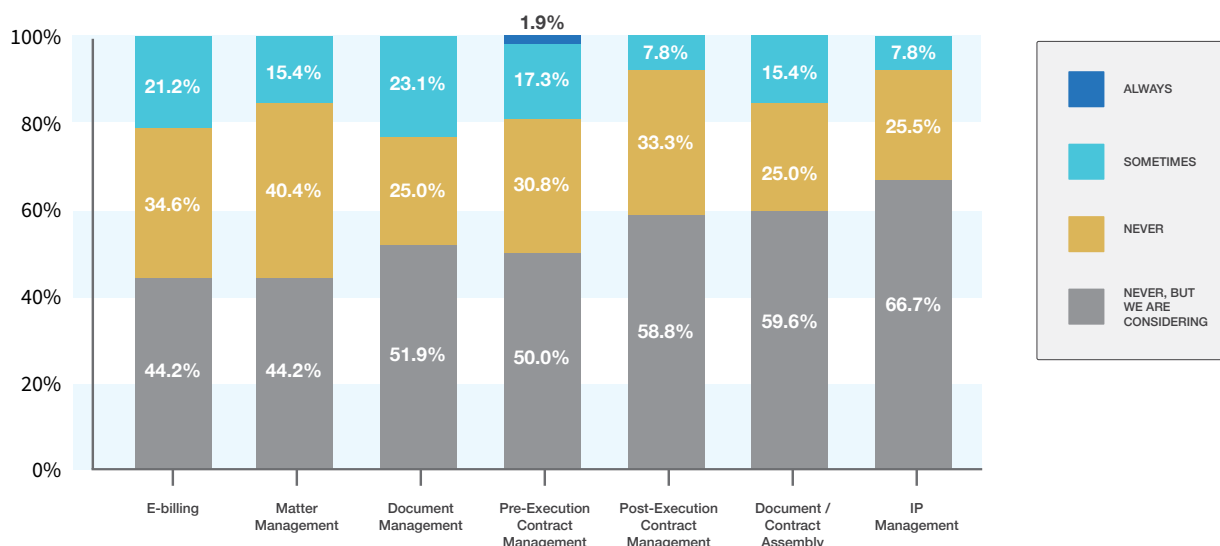
"By harnessing the power of generative AI, legal professionals can focus their energy on higher complexity and high-risk tasks, providing better quality services to clients and fostering innovation. However, concerns regarding bias, errors, data ownership and privacy require careful management of the implementation and testing of generative AI tools and technology. The industry must balance the productivity and consistency generated with the mitigation of risks."

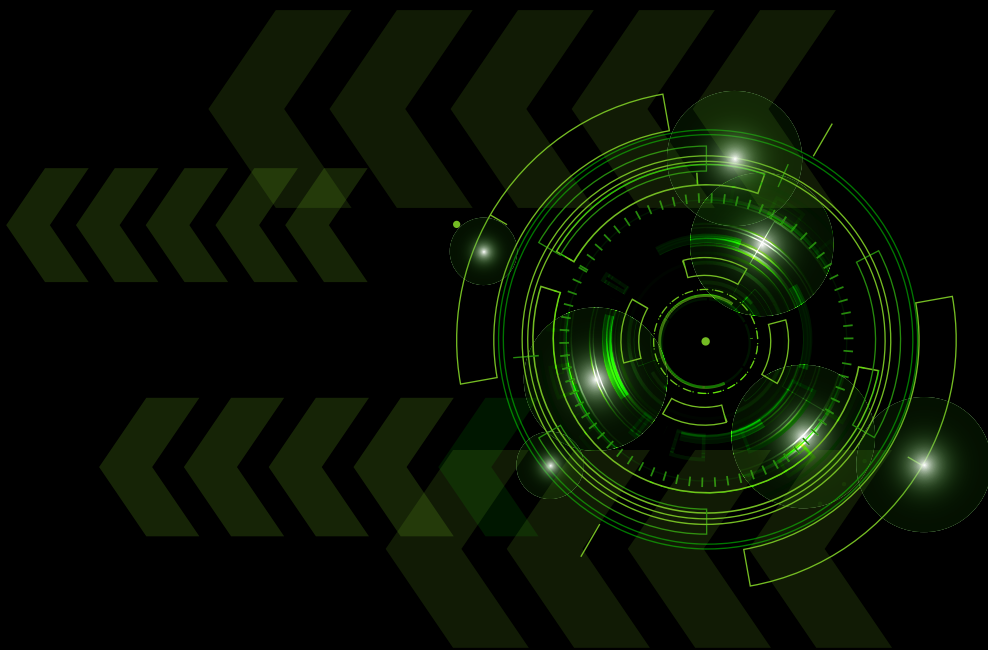
KIRAN MALLAVARAPU | Executive Vice President & Senior Manager, Legal Strategic Services, Liberty Mutual Insurance

While there are valid reasons to be trepidatious, generative AI offers a promise that's familiar to those who have spent any time exploring the vast field of legal technology offerings: better results in less time with a lower price tag. And while we've heard this refrain before, generative AI truly is different in both its capabilities and its risks, which explains why, even though law departments are fairly united in their enthusiasm about using generative AI, there isn't widespread adoption yet. The majority of law departments indicated that they either already have generative AI-driven tools and are planning to update them (24%) or they do not yet have those tools but have plans to add them (36%). Only 14% said that they do not have generative AI tools and do not plan to add them.

The only task for which any LDO professionals said they always use generative AI was pre-execution contract management, and that was only at 1.9% of law departments. But another 17.3% of law departments sometimes use generative AI for pre-execution contract management, and a similar number do so for tasks such as document management (23.1%), e-billing (21.2%), e-billing (21.2%) and document/contract assembly (15.4%).

Our law department uses generative AI/GPT for the following:





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department



We Re-define & Integrate
with process enhancement &
enabling technologies



We Transform & Elevate
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business strategy**



**Transform legal
operations**



**Reduce risk,
improve outcomes**

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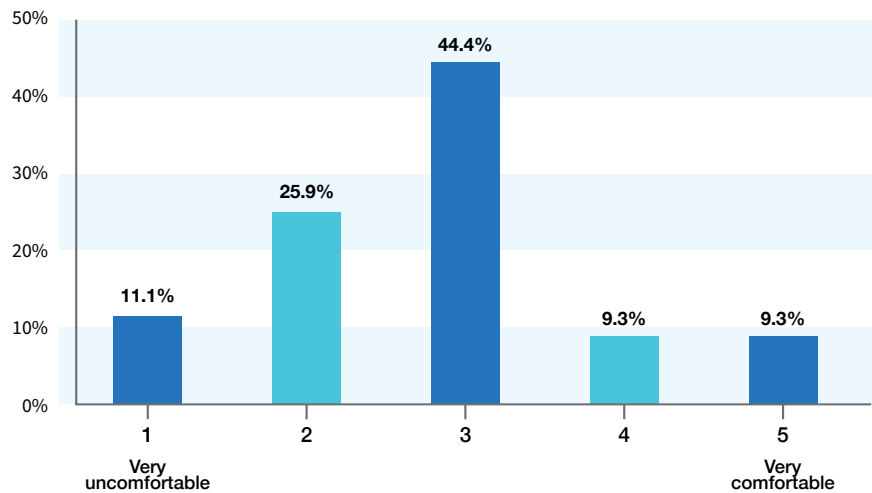


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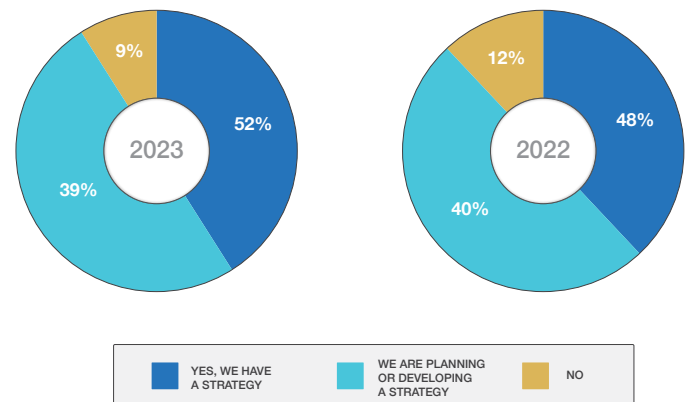
Law departments are more likely to report using generative AI on tasks that concern the practice of law than those that concern solely the business of law, which is surprising considering that business of law applications come with less legal and client risk. Their reticence may be a reflection of their own discomfort with generative AI technology. While some legal operations professionals stated that they are very or somewhat comfortable using generative AI (with 9.3% reporting each answer), considerably more were either very uncomfortable (11.1%) or somewhat uncomfortable (25.9%) with those tools.

On a scale of 1 to 5, what is your level of comfort with generative AI tools today?



Notwithstanding that discomfort, most law departments have adjusted their technology strategy in light of the rapid evolution of generative AI or expect to do so within the next 12 months. Only 13.2% said the recent growth of generative AI capabilities has had no impact on their technology strategy, timelines or budgets and resourcing.

Do you have or plan to develop a legal department technology strategy or multiyear roadmap which addresses how you integrate, evolve and replace your systems to support the legal department's processes and needs?



“GenAI has the potential to unlock numerous opportunities for the legal industry by streamlining and automating various processes, enhancing research capabilities, improving document review and management and increasing overall productivity.”

KIRAN MALLAVARAPU | Executive Vice President & Senior Manager, Legal Strategic Services, Liberty Mutual Insurance

IMPROVING THE LEGAL DEPARTMENT METRIC GAP

Mike Ferrara
Managing Director, Legal Operations Consulting
 FTI Consulting



For today's legal department, the strategic use of metrics is increasingly recognized as a key element in bolstering operational rigor and improving the quality and speed of legal service delivery. But many legal operations teams struggle with how to leverage metrics to support the department's goals.

Consider that in this year's survey, only 46% of respondents said they make effective use of the information that metrics provide—down from 56% last year. Even worse, a mere 30% said that their business units make effective use of the information that metrics provide, and only 27% feel that their law firms are positively impacted by tracked metrics.

The survey also suggests that the majority of legal departments track spend-related metrics but not performance-related metrics and other qualitative data points. Furthermore, only 42% use consistent evaluation criteria for outside counsel and other vendors, and only 34% share this information with them.

The Metric Gap

Many legal operations teams lack the necessary resources to effectively extract insights from data and to leverage it internally and with business partners and outside counsel. The desire is there, but the function is not fully formed. For others, the challenge may be a glut of available data points across many disjointed systems that only provide diminishing returns. Regardless of the situation, it's clear that for many, it's time to reassess what metrics are collected and how to use those metrics to improve data analytics capabilities.

Here are three suggestions for improving data-driven operational opportunities:

1. Focus on Capabilities. While it's true that many legal teams are resource-deficient and lack the necessary funding to invest in sophisticated analytics tools, it's

also true that those same teams might have access to best-of-breed platforms through their organization. Partner with IT and shared services teams to better understand the tools and technologies that are available in-house before going to market. Teams are often surprised by how many capabilities are available when they simply look in the right places.

2. Prioritize and Standardize. Begin by identifying the most critical metrics that directly impact the department's goals and objectives. This could include KPIs such as contract cycle time, cost savings or legal service request volume. Streamlining metrics helps in focusing on what truly matters, reducing the complexity and scope of data to manage. It's important to ensure these metrics are not just quantitatively driven but also include qualitative aspects like client satisfaction or legal outcome effectiveness.

3. Foster Transparency. A significant step forward would be to establish consistent evaluation criteria for outside counsel and ALSPs and ensure that these criteria are transparently communicated. Regular meetings to discuss these metrics can create a platform for feedback and improvement. This approach not only aligns expectations but also fosters a more collaborative relationship where outside counsel becomes a partner in achieving mutual goals.

While organizations expect decreased legal costs and cycle time for legal services, they also expect the demand for legal services to steadily increase. To meet these expectations, legal operations professionals must reassess and refine their approach to metrics. By focusing on what metrics to collect, improving collaboration with external partners and utilizing the right tools for data analysis, departments can transform their operational efficiency and service delivery. Ultimately, the goal is to move beyond mere data collection to a more strategic use of metrics that drives informed decisions and adds tangible value to the organization.

Costs Remain the Top Priority for Legal Operations Professionals—and They’re Headed Up

Cost containment and budget management led the list of challenges that survey respondents said they currently face and expect to face in the future, both by a comfortable margin. That emphasis is consistent with what LDO professionals reported as their top three KPIs, all of which concern spend—actual spend versus budget, total department spend and outside counsel savings.

What are the top three challenges you face related to managing law department functions?

	CURRENT	EXPECTED in the next 3 yrs	
Cost containment and savings/managing the budget	58.3%	56.7%	
Implementing business process improvements	46.7%	40.0%	
Staying abreast of law department technology managing and handling IT issues	41.7%	41.7%	
Obtaining funding for new initiatives	28.3%	33.3%	
Prioritizing objectives and tasks	26.7%	26.7%	
Service providers (e.g., managing outside counsel, effective AFAs)	18.3%	8.3%	
Inter-departmental relationships (e.g., legal intake, communications with business units)	15.0%	13.3%	
Operational excellence	15.0%	8.3%	
Risk management	8.3%	10.0%	
Intra-departmental relationships (e.g., gaining attorney buy-in, communicating with GC)	6.7%	5.0%	
Finding the right ALSP partners	6.7%	6.7%	
Performance (e.g., documenting ROI of the LDO position, reporting to stakeholders)	5.0%	10.0%	
Department expense transformations	5.0%	6.7%	
Determining what work to keep inside vs. outsource	5.0%	15.0%	
Data protection	3.3%	6.7%	

Navigating Legal Department Economic Uncertainty with Tech Solutions

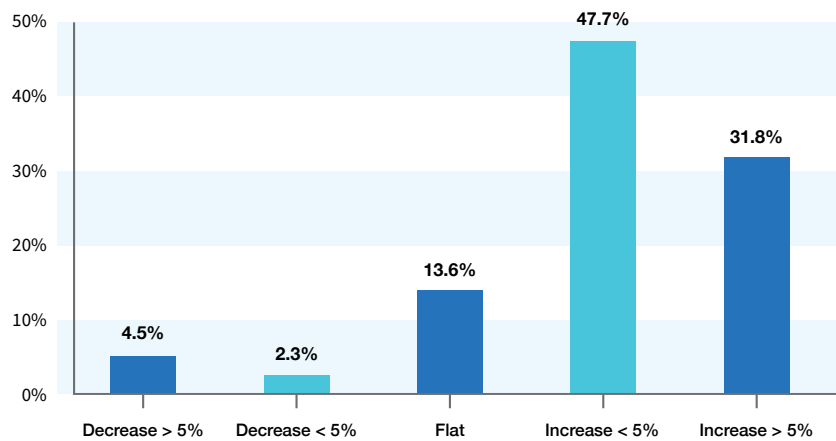
Amid economic uncertainty, deploying advanced technology solutions simplifies workflows, enhances productivity, and improves efficiency in the legal department. Today's legal operations professionals, facing heightened pressure to deliver efficiencies, prioritize this task due to an unstable economic forecast. By embracing innovative technology, they can alleviate the burden and achieve strategic, operational, and financial objectives aligned with corporate goals.

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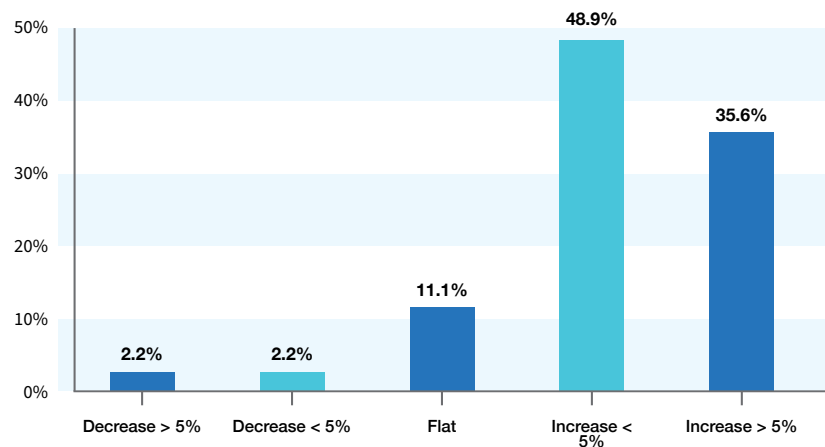


Unfortunately, that leaves legal operations teams focused on something that's largely out of their control: law firm rates. Rates have already gone up, according to a substantial majority of LDO professionals (79.5%), and most (84.5%) expect them to go higher still over the next 12 months.

How have your overall law firm rates changed over the past year?

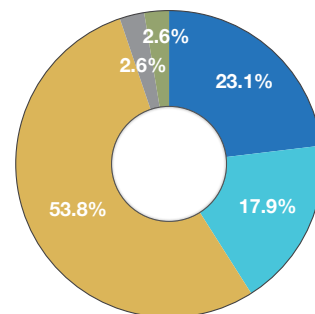


How do you expect your overall law firm rates to change over the next 12 months?



Increased law firm rates may be driving the expectation, held by the majority of law departments (59%), that their spend will go up in 2024.

What percentage change do you anticipate for the next year?



WITH GENERATIVE AI, WE'VE GOT OUR WORK CUT OUT FOR US

Bernadette Bulacan
Chief Evangelist
Icertis



In case you needed any more evidence that generative AI is going to change how the legal professional works in the year to come, here it is: In this year's survey, nearly 87% of respondents said generative AI is either already having an impact on their operations or will in the next 12 months.

Considering that this technology was hardly discussed before 2023, the speed at which it is making an impact on business is nothing short of breathtaking.

Contracts, in particular, are proving to be a popular use case for generative AI. In its most recent Magic Quadrant for CLM, Gartner reports a spike in inquiries about applying AI to business agreements.

This year's LDO survey adds depth to this insight, uncovering where legal ops sees the most opportunity—with drafting assistance, contract review, clause suggestion and summarization emerging as the most common contract applications for generative AI.

This can all make generative AI in legal a fait accompli—the new table stakes for technology needed to do legal work.

Yet I would remind legal operation leaders of another Gartner insight—this one coming from the 2023 hype cycle report: Generative AI is at peak hype right now. If it follows the normal emerging tech cycle, a “trough of disillusionment” should be expected as teams implement generative AI and meet face-to-face with its limitations.

Approached the wrong way, generative AI's trough of disillusionment for legal teams could be especially

deep. Trepidation is growing; stories are already legion of lawyers relying on ChatGPT and suffering the consequences for the technology's hallucinations.

I was recently discussing generative AI with the GC of a major professional services firm, and she noted an important dynamic: Whereas legal professionals use language to demonstrate an understanding of the nuances of business and risk, generative AI uses language to mimic that understanding. “The challenge of generative AI being so fantastic at grasping language is that it gives the impression of having grasped expertise,” she noted. “Our role as the ultimate arbiter of the output of the system is going to be incredibly important.”

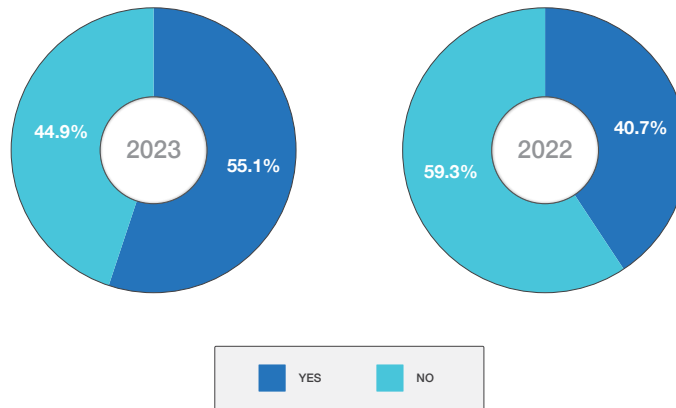
Now, just in case I'm giving the impression that I think legal teams should hit pause on generative AI until all the kinks are worked out and all the troughs crossed, let me be clear: There is NO hitting pause on generative AI.

What I am saying is legal operations teams have a massive job ahead of understanding how generative AI works so that their legal colleagues can use it safely and with confidence. Whether for generative AI applied to contracts or other business processes, ask vendors hard questions about what data is being used to generate answers and how the data fed to the model is being used. When it comes to contract data, a lot might be negotiable, but data security is not.

One upshot of my conversations with legal professionals is that we've moved past the trepidation of “AI will take our jobs.” Instead, we have our work cut out for us.

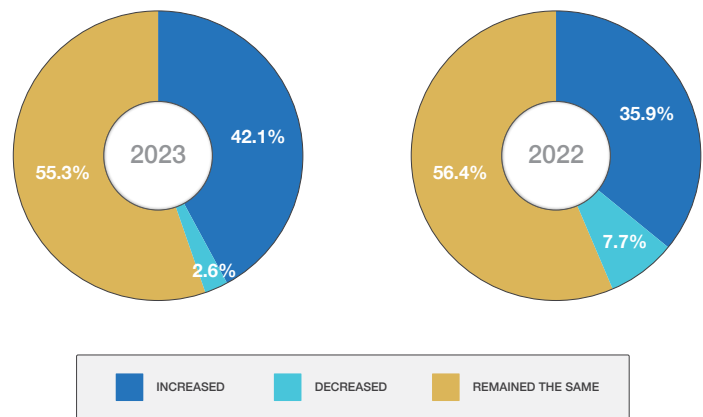
Of course, legal operations professionals aren't completely powerless in the face of rising law firm rates. They're increasingly turning to alternative legal service providers, including Big 4 firms. This year, 55.1% of survey respondents said they are outsourcing work to these alternative providers, up markedly from 40.7% last year.

Do you use outsourcing providers such as the Big 4, ALSPs, etc.?

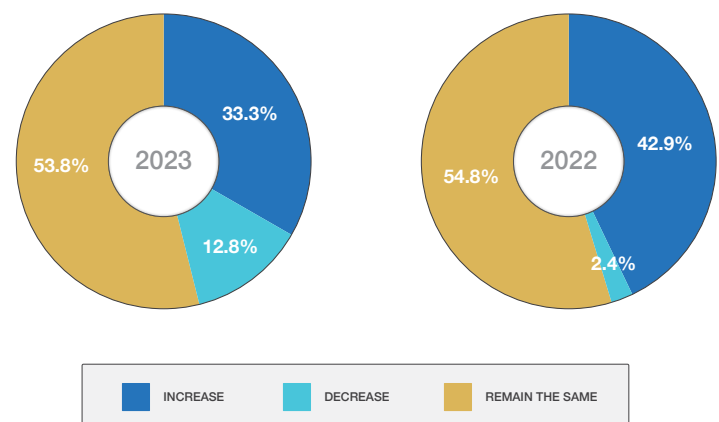


Nearly half (42.1%) of legal operations professionals said that they had increased spending on alternative legal service providers, and another 33.3% said they expect a further increase in their spending on law firm alternatives including legal process outsourcing providers and the Big 4.

Our spend on alternative legal service providers, including ALSPs and the Big 4, has _____ over the past 12 months.



We expect our spend on alternative legal service providers, including LPOs and the Big 4, to _____ over the next 12 months.





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An aerial photograph of a multi-lane bridge spanning a wide river. A single orange car is driving on the right side of the bridge. The river water is a deep blue-green, and the surrounding landscape features rocky banks with some green vegetation.

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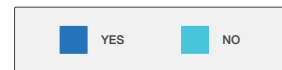
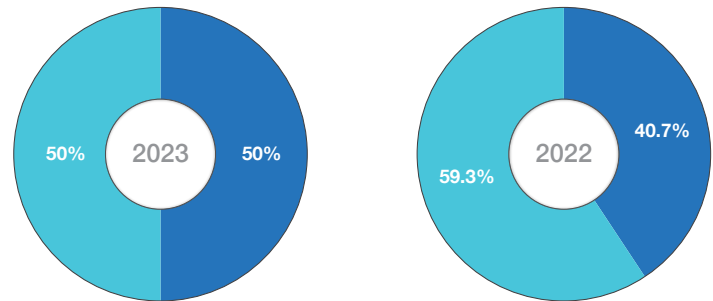
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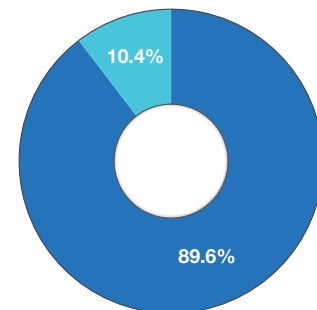
Law departments are also trying to work with law firms to control costs. Half of our survey respondents (50%) said that they are now actively encouraging their outside counsel to partner with alternative providers, up from 40.7% last year.

We actively encourage our outside counsel to partner with ALSPs.



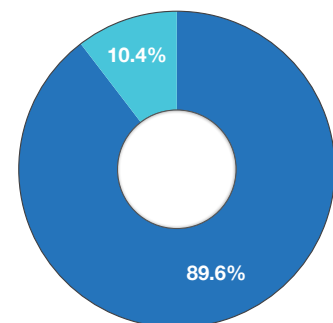
Law departments would also prefer for their law firms to proactively suggest new service delivery models, according to 89.6% of this year's respondents.

I would appreciate law firms approaching us more frequently with new legal service delivery models.



We prefer to do more work in-house but don't always have the bandwidth or headcount.

Law departments looking for ways to save money can always try the DIY approach, bringing more work in-house. This is popular in theory but challenging in execution. Nearly all legal operations professionals (89.6%) said they would prefer to do more legal work in-house, but they don't always have the bandwidth or headcount necessary to accommodate that work.



Conveniently, those are the very problems that technology is purported to solve.

"While market forces have created a pivot in favor of legal service providers, it's not all doom and gloom for corporate law departments. There are many mitigation strategies that they can deploy to help them cushion the impact of rate volatility on their legal spend and even potentially create opportunities for cost savings."

RICHARD BRZAKALA | Senior Director, Global External Legal Services, CIBC

THE CRUCIAL ROLE OF LEGAL OPERATIONS PROFESSIONALS FOR CORPORATE SUCCESS

Simon Weierman
Senior Director, Segment Management
LexisNexis®



Defining results-driven success in the corporate legal department requires teamwork across the business, with the legal operations professional playing a critical and essential role in delivering value to the fluid functionality of department operations.

From their leadership position, legal operations professionals act as liaisons between internal business units, senior leaders, outside counsel, vendors and their in-house legal team. Beyond their knowledge of department operations and function, legal operations must align with the C-suite's objectives, counsel's programs and process, technology initiatives, overall corporate strategy and keeping pace with their respective industry.

Unexpected and difficult to control factors like global economic conditions can test the success of corporations, leaving legal department operators challenged to overcome the obstacles that hinder performance. To achieve and exceed corporate growth goals and cut through the chaos, one of the best opportunities is procurement of the right technology solutions to deliver return on investment and create sustainable efficiencies, productivity and improved workflow across the business. With the right technology, legal departments can contribute a balanced budget and explore ways to deliver cost savings and support business growth.

This accountability to budget management requires dedicated commitment. Legal operations professionals must have a data-driven approach with adherence to key performance metrics to identify and implement successful strategic plans and measure business outcomes. Evaluating objective performance, however, comes with challenges driven by the ever-shifting dynamics between a corporation, its legal department, outside counsel and technology partners.

The underpinning of this dynamic requires a solution provider that brings more to a partnership than just sheer technology. To realize growth goals, legal operations must align with product and technology partners they trust. Behind every good solution are human teams who build and advance that trust with actions, words, attention, service and care for the customer. While it may be difficult to quantify the value of trust, this philosophy should be reinforced whenever commencing a relationship . . . and it should endure throughout the engagement. Working with people who respect the arduous journey that legal operations professionals experience can help law departments confront and successfully manage business and economic challenges that affect the legal department and organization.

Finding a trusted advisor that puts its customers' success initiatives at the center of product innovation is the best way to influence organizational expansion in all areas, including collective growth, ROI and functional efficiencies. Such a partner will listen to and implement your suggestions and also monitor progress to confirm the acceleration of results with impact on the legal operations discipline within your company.

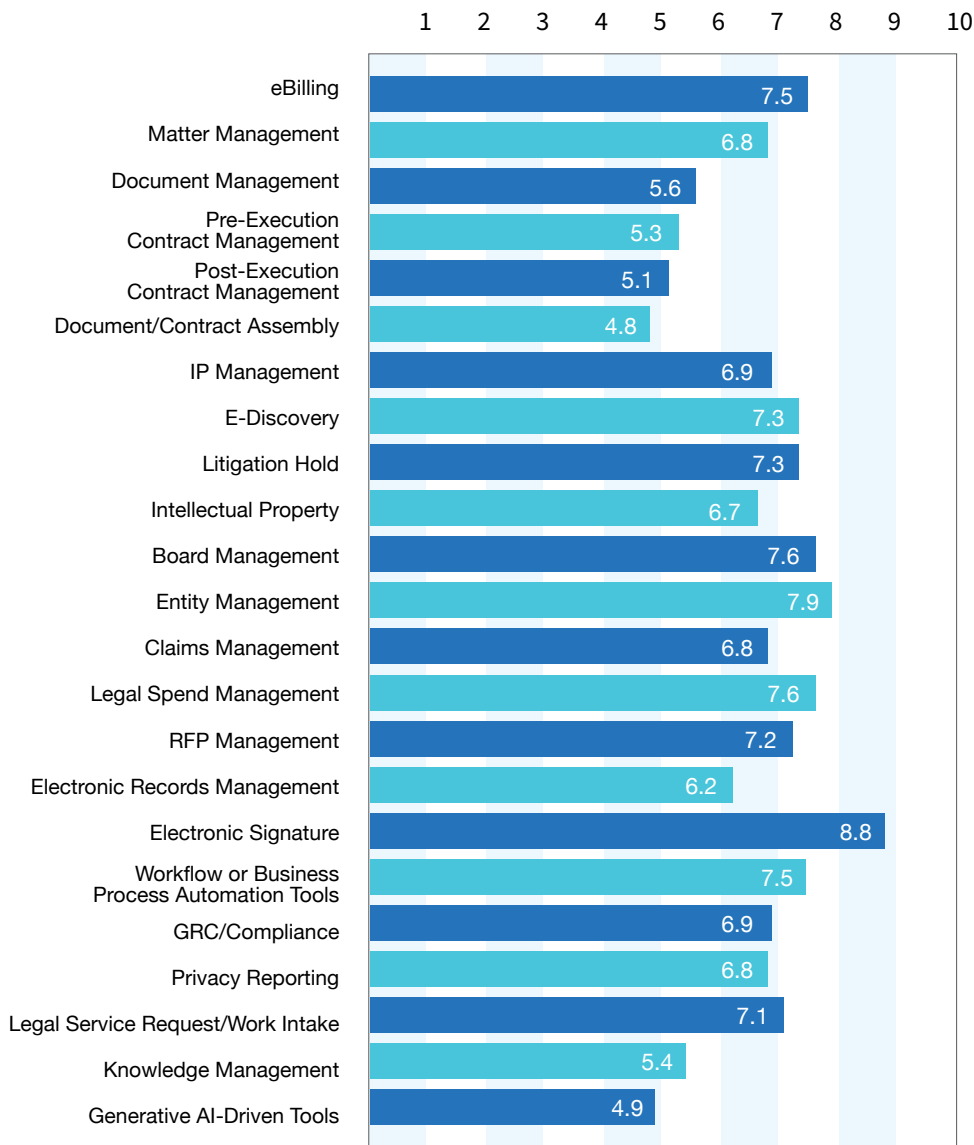
At the core of innovation is a need to deliver real-world impact, prevent unfair bias, explain how it works, maintain human oversight and protect privacy. The best partners take pride in lasting relationships and look forward to elevating alliances with legal departments for years to come.

Technology Promises Greater Efficiency—But Does It Deliver?

Over the years, legal operations professionals have had a major impact on their departments by implementing technology to request legal services, streamline workflows and track and manage their budgets, and many of the tools legal operations professionals use received high scores for their effectiveness. For example, on 10-point scale where 10 represents an extremely effective technology, solutions for entity management, board management and legal spend management all ranked well, receiving 7.9, 7.6 and 7.6, respectively. The satisfaction with legal spend management technology was particularly remarkable given its near-complete penetration; 88% of respondents reported that they have implemented these tools.

Electronic billing software performed similarly, with a 7.5 ranking and excellent adoption, as did workflow and business process automation tools, which also received a 7.5 ranking, though they are less commonly used. Most

How effective is the following technology? (1=Not Effective, 10=Extremely Effective)



of these effectiveness scores represent small gains from last year's rankings, though RFP management tools took a big jump from 5.9 last year to 7.2 this year. Legal service request technology also improved considerably, moving up from 6.6 last year to 7.1 this year.

What's notably missing from this list of high performers are many of the legal technologies needed for substantive rather than solely operational work. The best-ranked technology was that used for electronic signatures, with an excellent score of 8.8 out of 10, but other tools lagged far behind. Document management solutions ranked at only 5.6, which was still better than technologies for knowledge management (5.4), pre-execution contract management (5.3), post-execution contract management (5.1) or document/contract assembly (4.8). One other low performer stood out: generative AI-driven tools, which earned just a 4.9 out of 10 for their effectiveness.

GENERATIVE AI WILL BE DONE BY YOU OR IT WILL BE DONE TO YOU

D. Casey Flaherty
Co-Founder and Chief
Strategy Officer
LexFusion



Joe Borstein
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LexFusion



Hans Landa famously quipped, “I love rumors! Facts can be so misleading, but rumors, true or false, are often revealing.”

We feel the same way about survey results. They can often be more revealing about perceptions of what is true than evidence of what is actually true. In this light, we can only read the survey results regarding what has been labeled generative AI/GPT as offering accurate insight into current perceptions rather than current reality. Understanding perceptions, however, is vital. Perceptions inform decisions that shape the reality to come.

GenAI was, indisputably, the hot topic of 2023—but it generated far more heat than light.

For the general legal population, recent advances in AI were mostly a matter of speculation and novelty after ChatGPT went viral on November 30, 2022. Seriousness settled in when GPT-4 was released in March 2023. Only then was the broader legal market made aware that a select group of law departments/firms had been working on legal-specific use cases for applying this breakthrough—Ford, Microsoft, Kirkland, Skadden, Orrick and DLA were all named in a May 2023 Wall Street Journal article.

Fortunately for LexFusion, our member Casetext was in the privileged position to be driving many of the early use cases because of its early access to GPT-4. We have therefore had a front-row seat to the pioneering efforts of leveraging large language models in legal and have been working with law departments/firms on legal-specific use cases since before the ChatGPT bombshell. We went so far as to write a 50-page primer on potential impact of LLMs before GPT-4 was released, entitled “PSA—ChatGPT is the trailer, not the movie.”

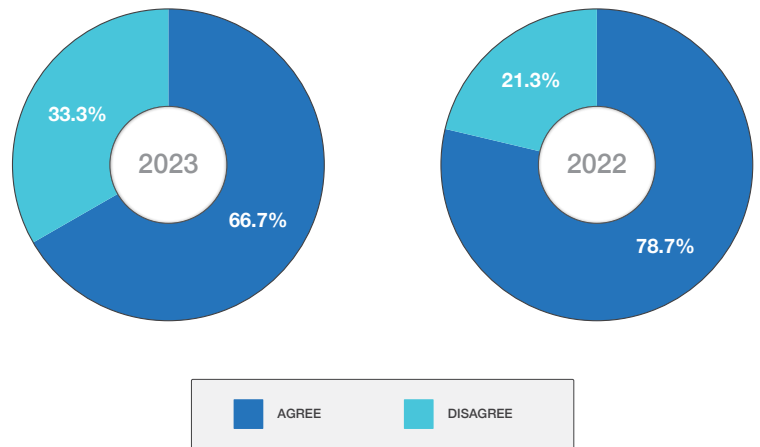
Trading on insider information, much of what we predicted a year ago has come to pass. The scramble to grapple with this technological inflection point has been chaotic but quite real. Yet we remain decidedly in early days—in fact, far earlier than the hype is leading casual observers to believe. Indeed, while presentations, panels and webinars have proliferated at an astounding rate, the discourse remains largely rooted in the rudimentary because most of the market is still endeavoring to attain the baseline understanding necessary to separate myth from reality.

The consistent need for 101-level explanations has become such an issue that LexFusion commenced our own series of invite-only roundtables under the Chatham House rule. So far, we’ve brought together more than 70 of the world’s most consequential law departments and 70 of the world’s most consequential law firms. The criteria for speaking at our gathering are (i) your organization must be far enough along in the implementation of applying GenAI to legal service delivery to produce real lessons learned and (ii) you must be willing to share this real-world experience to a degree of specificity useful for the audience. We can tell you, quite confidently, the number of organizations that meet the speaking criteria is quite low.

Since before ChatGPT dropped in November 2022, our message to law departments has been: This is happening; it will be done by you or it will be done to you. The former is preferable. But the latter is inevitable without the proper combination of urgency and humility—neither of which are in evidence here.

Yet despite overall improvement in the effectiveness of individual legal operations tools, fewer survey respondents agreed that they have access to the right technology to do their job, down from 78.7% last year to 66.7% this year.

I have access to the right technology to do my job.

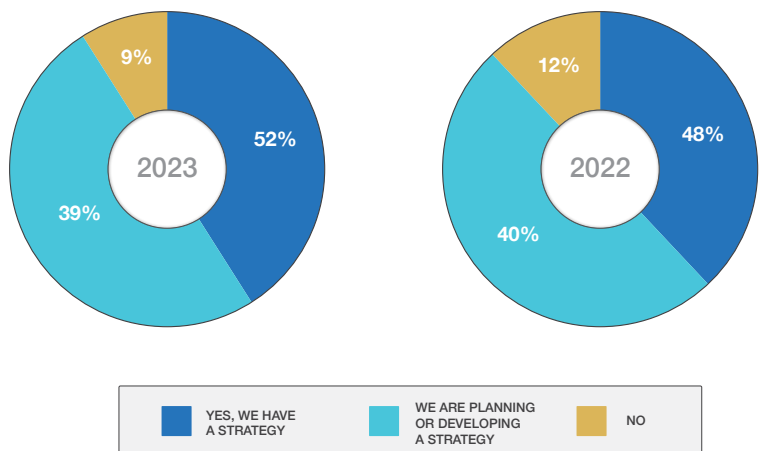


This may indicate that LDO professionals are raising their standards, expecting more from their technology even as it's proving more effective. Or it may be that law departments are due for a refresh of their tech stack, particularly around their legacy tools.

In fact, despite the unrelenting pressure to reduce costs, many legal operations professionals are planning to either update their department's existing tools or add new tools within the next year. For example, 31.3% plan to update their tools for legal service requests, and another 20.8% plan to add those tools. We saw similar responses concerning tools for legal spend management (26% planning to update and 16% planning to add), e-billing (23.5% planning to update and 11.8% planning to add) and matter management (22.4% planning to update and 8.2% planning to add).

Some of this planned spending may represent a greater awareness of the law department's existing processes and future needs. Nearly all legal operations professionals (91%) reported that they have or are developing a strategy or multiyear road map to integrate, evolve and replace their technology systems, up from 87% last year and a big increase from the 2000s, when that number never exceeded 67%.

Do you have or plan to develop a legal department technology strategy or multiyear road map which addresses how you integrate, evolve and replace your systems to support the legal department's processes and needs?



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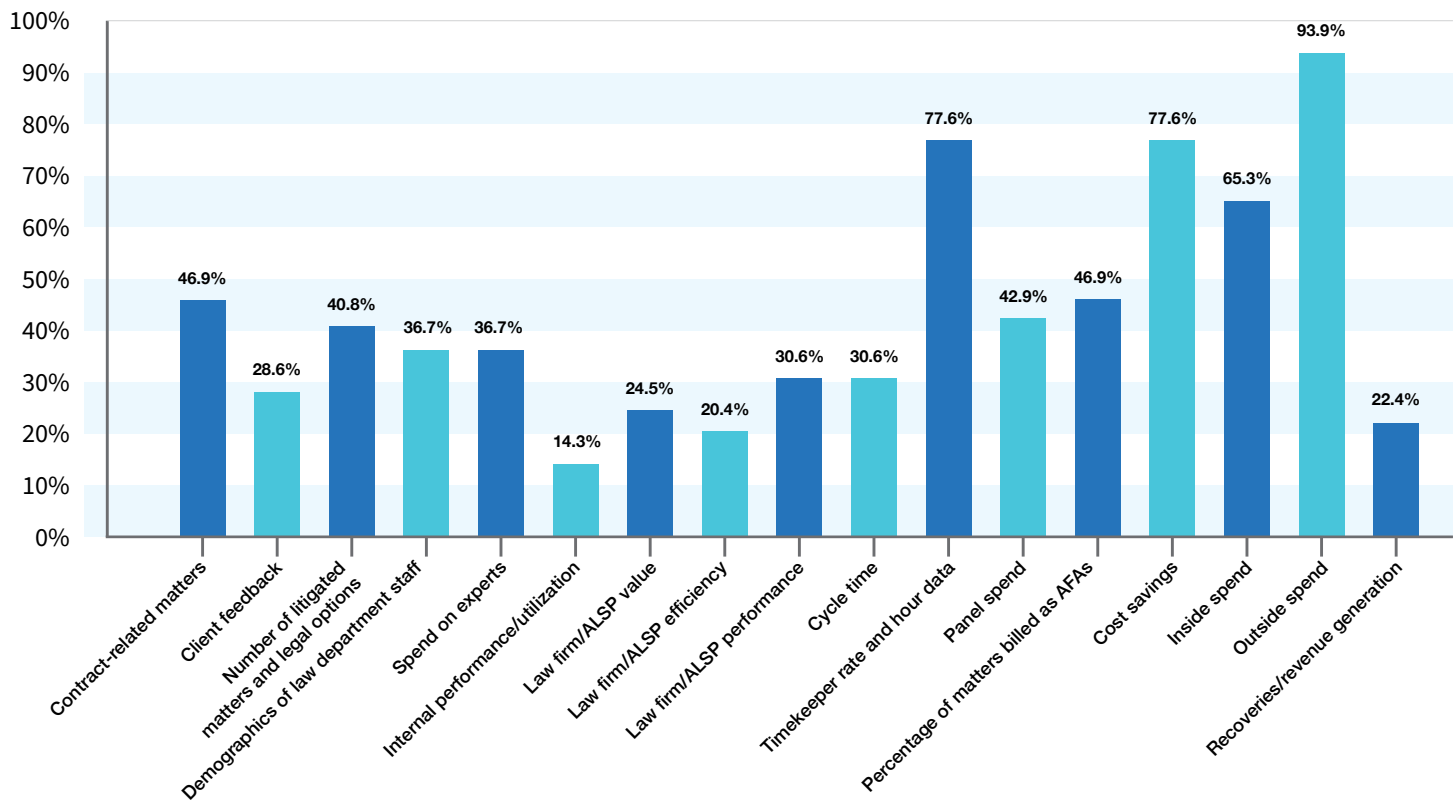
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It's Complicated: The Current Relationship Between Law Departments and Law Firms

The past decade and a half has seen legal operations professionals helping their departments make great strides around people, process and technology. Is data the next frontier? If so, we should see, at minimum, more clarity around the expectations law departments have for their firms.

We are already beginning to understand what law departments care about by considering the metrics they track. The most-tracked metric is outside spend, with 93.9%, followed by cost savings and timekeeper rate and hour data, both with 77.6%. The only other metric that a majority of law departments track is inside spend, with 65.3%. Less than a third track their legal service providers' performance (30.6%), value (24.5%) or efficiency (20.4%), and even fewer (14.3%) track internal performance/utilization.

Which metrics do you track?



“Each corporate law department is different, but all should continuously be exploring realistic solutions to manage their legal spend. It should not be a reactive and perennial activity in January, when many corporate law departments are faced with rate increase proposals. Instead, it should be a continuous and ongoing effort inviting transparency and dialogue.”

RICHARD BRZAKALA | Senior Director, Global External Legal Services, CIBC

THE WORRYING DECLINE IN LAW FIRM ENGAGEMENT—AND HOW IT COULD IMPACT MATTER MANAGEMENT

Vincent Venturella
Product Line Director
Wolters Kluwer ELM Solutions



Success between corporate legal departments and outside counsel is highly dependent on the strength of their relationships—and relationships aren't built overnight. Instead, they require ongoing communication, engagement and transparency.

This is particularly true during times of change. Economic uncertainty, technological innovation, law firm restructuring and ever-evolving legal and political concerns combine to make communication between CLDs and law firms more important than ever.

Unfortunately, the research compiled in this year's survey suggests engagement has been falling off instead of ramping up. Only 19% of CLDs said law firms and service providers seek feedback regarding their performance—a decline from last year, when more than 40% did. That's a sizable decrease for a single year and a worrying indicator about engagement levels.

Of course, communication is a two-way street. But while 47% of CLDs said they offered law firms proactive feedback last year, that figure fell to less than 38% this year.

Is this past year an outlier—or indicative of a troubling trend? Let's hope it's the former, as low engagement can have numerous negative ramifications.

1. Diminished matter outcomes due to lack of established strategy

Without early communication, there's no way to ensure CLDs and outside counsel are strategically aligned. This can lead to unsatisfactory outcomes that hurt a CLD's business and damage the relationship between law firms and corporate counsel.

2. Unpredictable budgets and matter life cycles

Engagement should happen early and often. Without continuous touchpoints, matters can easily run over budget, and time to resolution can be extended beyond

the expected matter life cycle.

3. Inefficient matter management distracts from strategic priorities

When matters are managed inefficiently, strategic priorities have the potential to end up on the back burner. On the flip side, ongoing communication can ensure efficiency and keep everyone aligned as strategic priorities evolve.

4. Lack of understanding of law firm diversity

Diversity is important in law firm selection because it provides valuable perspectives that can enhance matter outcomes. Without engagement, CLDs will lack a full view of law firm diversity, which can be detrimental to efforts to support diversity, equity and inclusion.

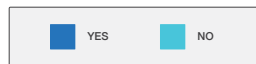
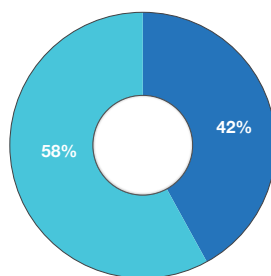
5. Limited visibility into law firm changes

The tumultuous economic environment has led to mergers and downsizing, but CLDs might not be aware of changes at law firms without ongoing engagement. A lack of communication can also prevent CLDs and law firms from working together to establish new pricing models, like alternate fee arrangements, which minimize costs.

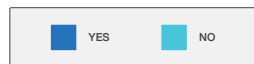
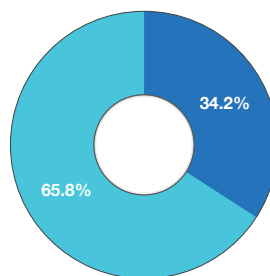
Altogether, early and ongoing engagement should serve as the bedrock of a CLD's relationship with outside counsel. It does more than simply ensure everyone is on the same page. By communicating early and often, outside counsel is better positioned to provide positive outcomes for the CLDs they work with. Technology can facilitate and manage communications and solidify the engagement process, hopefully making the results of this year's Blickstein report an outlier, not the beginning of a trend.

What are law departments looking for as they weigh the value of their legal service providers, aside from their rates? Most respondents (58%) acknowledged that they don't have a set of consistent metrics to evaluate law firms or alternative legal service providers. Two-thirds (65.8%) admitted that they don't share whatever evaluation metrics they use with their legal service providers. Nor are most law departments sharing information about the metrics on which they are evaluated by the business as a whole; only 23.4% said that they share these metrics with their legal service providers.

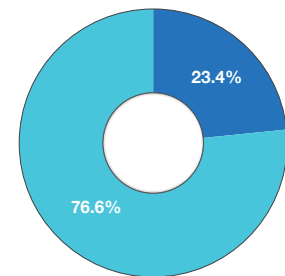
Do you have consistent metrics that you use to evaluate your outside counsel and ALSPs?



If so, do you share those metrics with your outside counsel and ALSPs?

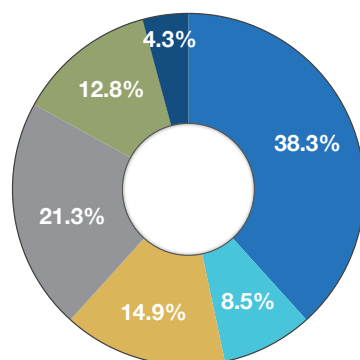


Do you share with your outside counsel and ALSPs the metrics upon which your law department is evaluated?



This lack of communication is also reflected in a lack of structured status meetings or routine feedback. About a quarter of legal operations professionals (23.4%) said that they rarely or never meet with their law firms, while 38.3% meet with counsel on an ad hoc basis. Only 17.1% regularly schedule status meetings at least quarterly. Nor are most law departments finding other avenues to regularly offer feedback to their law firms; barely more than a third (37.5%) said that they affirmatively provide their law firms with feedback about their performance.

How often do you have regularly scheduled status meetings with outside counsel and ALSPs?



None of this is to say that law firms are doing their part any better. This year, only 18.8% of LDO professionals said that their firms ask for feedback about how well they're doing, down from 40.4% last year.

In short, law departments continue to place more weight on inputs such as spend and timekeeper rates than on outputs or an objective, clearly defined measure of value, but until they make a point of communicating with their law firms whether their expectations are being met—or even what those expectations are—the promise of data and metrics will not be fulfilled.

MODERNIZE YOUR LEGAL PRACTICE



THE TRANSFORMATIVE POWER OF AI IN CONTRACT LIFECYCLE MANAGEMENT: REVOLUTIONIZING DATA INSIGHTS

Jason Smith
Senior Principal, Strategy & Transformation
Conga



One of the primary challenges in contract management has been the sheer volume of data contained within contracts. Traditional methods of manually reviewing and extracting information are not only time-consuming but prone to errors. And with 82% of this year's Annual Law Department Operations Survey respondents indicating they expect their departments to shrink or stay the same over the next 12 months, finding new and innovative ways to be more efficient without adding headcount will be key.

Enter AI—its ability to process vast amounts of unstructured data quickly and accurately revolutionizes the contracting process. Contract analysis powered by natural language processing enables organizations to extract valuable and actionable insights from contracts. However, with 54% of respondents feeling that their law department does not effectively utilize tracked metrics, there is still a lot of work to be done.

AI-driven contract management brings unprecedented levels of efficiency and scale to contract creation and management. Large language models built on machine learning can learn from historical contracts and an organization's contracting compliance and policy documents, helping organizations streamline the drafting and negotiation process by suggesting standard clauses, identifying deviations from company norms and even proposing optimized terms based on past negotiations. This not only accelerates the contract life cycle but also ensures consistency and compliance across a multitude of agreements. By analyzing patterns and historical data, AI proactively identifies potential risks within contracts, allowing organizations to address issues before they escalate and make informed decisions about their contractual engagements.

Furthermore, the integration of AI across the entire revenue cycle facilitates real-time monitoring of contract performance from both the commercial and

legal perspectives. Through continuous analysis of data points, organizations can gauge the effectiveness of contracts, track key performance indicators and identify areas for improvement. This level of visibility into contract performance enables agile decision-making, ensuring that businesses can adapt swiftly to changing circumstances and capitalize on emerging opportunities. Leveraging AI to unlock the full potential of their contractual data can provide a competitive edge.

Nevertheless, as organizations embrace AI in contract management, it is crucial to address ethical considerations and data privacy concerns. While AI pushes the boundaries of writing and problem-solving in extraordinary ways, it also hallucinates—confidently fabricating content that doesn't align with reality. Organizations want to be sure humans are involved, validating the underlying data and prompts, checking the AI's work and securely training it on business-specific contracts and corporate policies, not just publicly available data and contracts, to be sure the language suggested is appropriate for the circumstances.

With cost containment, budget management and implementing business process improvements being the top challenges survey respondents selected, leveraging the right technology across the business plays an integral part. And the integration of AI in CLM and across the entire revenue cycle—including configuring, pricing, quoting and billing—when properly and responsibly overseen, represents a transformative leap forward for businesses seeking to harness the full potential of their contractual data. As organizations continue to explore the possibilities that AI offers, the synergy between technology and contract management is poised to redefine the future of business relationships.

To learn more about the power of AI in contract management, [download our e-book](#).

With the Right Foundation, Generative AI Could Transform Legal Service Delivery

It seems like law department operations has reached a critical juncture. While we have made great strides in professionalizing the law department, many are still struggling to fully leverage the role. There's no denying the potential of generative AI. But are legal operations functions ready to take advantage?

Generative AI may give law firms the ability to complete a higher volume of work faster, but they will only benefit if they, with the help of their clients, finally get serious about alternative fee arrangements. At the same time, generative AI might enable law departments to manage more of their own work in-house without adding to their headcount or increasing their bandwidth, but they will need to get better at ensuring they have the right tech stack and adoption protocols to maximize efficiency.

And those are the potential benefits. The risks—led by hallucinations, poor quality results and security issues—are many. Generative AI is a complex technology; each model must be adequately trained on a sizable, yet appropriately selected corpus of text to ensure that it has the correct subject matter background, but privileged and confidential information must be protected in the process. All this requires better communication between law departments and their law firms than both sides have been used to.

In the meantime, law departments are collectively putting law firms in an impossible situation. Each firm must decide whether and how much to invest in a technology that only some of their clients will allow them to use. Firms that pass up on the opportunity to get in on the ground floor with generative AI could end up years behind their competitors—and unable to catch up as their clients transfer work to the more efficient and effective firms that embraced generative AI from the beginning.

Nor is it clear how firms could adopt generative AI for some clients or matters while shunning its use for others. Will firms have to build and maintain different teams based on whether they use generative AI on client work? How will they apportion subject matter experts to those teams? And how will any of that be effective or cost-efficient for firms or their clients?

Legal operations professionals would be wise to work with their firms to sort out the basics of their relationships now, before generative AI turns the complexity up to 11. Clearly spell out the parameters and expectations for the relationship in general and for the use of generative AI—and from there, it may be that even the sky is no limit.

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