

Build or Buy? The Evolution of Law Department Sourcing



Executive Summary

For decades, law departments have strived to demonstrate that they are a part of the business, helping to set strategic direction and influencing the corporate agenda. Their success at becoming further ingrained in strategic planning and corporate governance has resulted in the law department transitioning from a cost center to a business unit, focused on efficiencies and cost savings like any other part of the organization. This shift has required new operating models that use an increasing variety of staffing options. It has also necessitated a corresponding alteration in law firm service structure.

This transition, while much discussed, is not well understood. Are law departments insourcing more than they are outsourcing? Are they open to non-law-firm service providers? Has there been a race to the bottom on legal costs? And, much more fundamentally, are law departments innovating on pace with their peers, and are law firms developing a better understanding of what the client wants?

The report, *Build or Buy? The Evolution of Law Department Sourcing*, featuring the results of ALM Intelligence's inaugural Corporate Counsel Insourcing and Outsourcing Survey, as well as supporting research and interviews, examines the current state of corporate counsel insourcing and outsourcing and highlights key trends affecting the future.

Notable findings in the report include:

- **Demand for legal services remains unchanged; it is the form and function of delivery that has shifted:** Legal services demand remains high: only 4% of respondents indicated that they are decreasing use of outside counsel because of decreased workload.
- **Law departments are re-engineering their “build-versus-buy” strategies:** In the past, law departments outsourced nearly all of their work. Now, the industry is insourcing more than outsourcing. Respondents to the survey noted that they send a majority of legal work to in-house counsel for eight out of 11 practice areas and 10 out of 12 back-end functions, including key areas such as banking and finance, government and regulatory, real estate, and tax. Yet, other indicators point to a strong likelihood that law departments will start contracting.
- **Law departments are turning to alternative providers of legal services:** A majority of law departments are exploring alternative staffing models. More than 50% of respondents use alternative service providers; the highest legal spending on alternative service providers goes to consultants and legal process outsourcers.

As a managing partner of an Am Law 200 firm noted, the legal industry is “industrializing” – clients are increasingly value-focused, not reputation-focused; lawyers are not the only key legal providers; projects can now be staffed by technology; and law firms no longer have a monopoly over the best talent. As law departments continue to innovate, it is important for both law firms and law departments to not only keep abreast of these developments, but also anticipate and implement change.

Law departments and firms that are not reinventing for the future are threatened with extinction.