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Legal



In-house Legal Service Delivery

Transform your legal operating model

Legal Management Consulting

Foreword

The world of the in-house General Counsel and the teams they oversee is changing. While the GC was traditionally seen as the enterprise's lawyer-in-chief, they are now expected to perform a much broader role as a partner to the rest of the organization and a trusted adviser to senior management. At the same time the legal function is under pressure to cope with an expanding set of regulations, heightened public scrutiny, and business models which are adapting to digital and other opportunities. These developments pose legal, reputational and commercial risks if Legal is over-stretched. At the same time a plethora of legal technology entices the GC with the prospect of efficiency, quality and insight if it can be implemented effectively with digital risk properly mitigated.

Not surprisingly, many GCs are excited about this new environment but are not sure where best to focus their efforts and investment. At Deloitte, we have drawn on the experience of our own lawyers who work alongside in-house counsel, and the expertise of our change, technology and risk teams to consider how GCs and legal teams can respond to the demands and opportunities they face and put together the business case for change. In most cases this requires them to re-evaluate how they can best go about supporting the organizations they serve. Beyond examining what specialist advice they deliver, they need to look at the way they deliver it. We call this its operating model: the operational structure that allows an organization to achieve its objectives. This document sets out Deloitte's point of view on the key components of that model and how to develop it to make the legal function fit for the future and a rewarding place for valued people to work.



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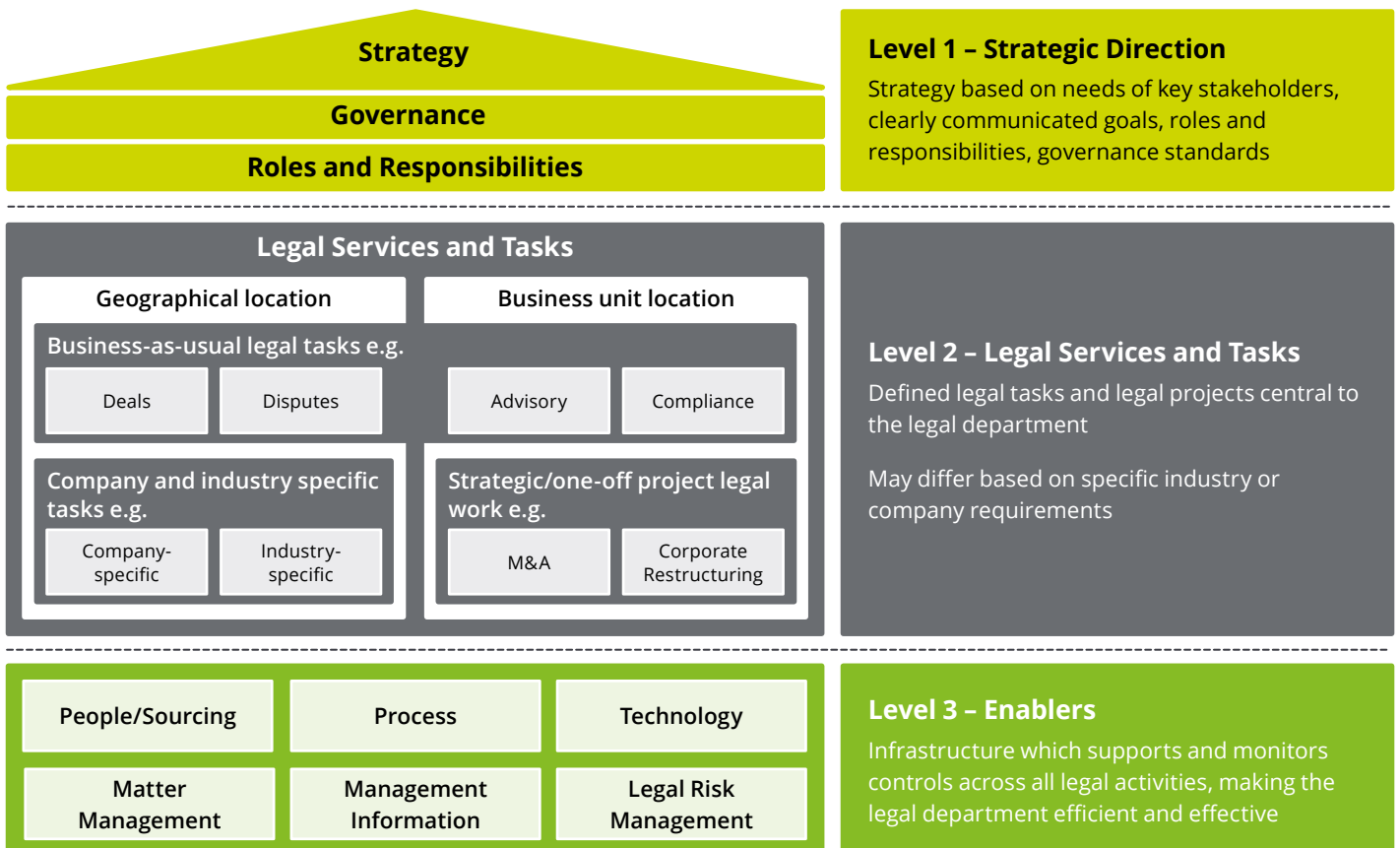
Executive summary

Starting with technology is not the answer

In the current environment and given the amount of technology focused on the legal sector, it is not surprising that many GCs and their teams default to the belief that by adopting artificial intelligence, robotic process automation or data analytics they will be able to cope with the speed of change and increased demands that are placed on the in-house Legal function by other parts of the organization, their owners and regulators, and the general public.

However, technology is only one component of the legal operating model, as illustrated here:

Technology is just one of six “enablers” that allow Legal to deliver the legal services and tasks that the organization demands, and it cannot be considered in isolation from the people who will use the technology – whether in-house or externally – the processes they perform, the matters they manage, the information that’s reported to management on Legal’s performance and the risks that are mitigated through the department’s work. A team that decides to implement new technology without considering these adjacent functions and dependencies may achieve efficiencies, but they also run the risk of taking the department in the wrong direction, albeit more quickly!



Strategy trumps all

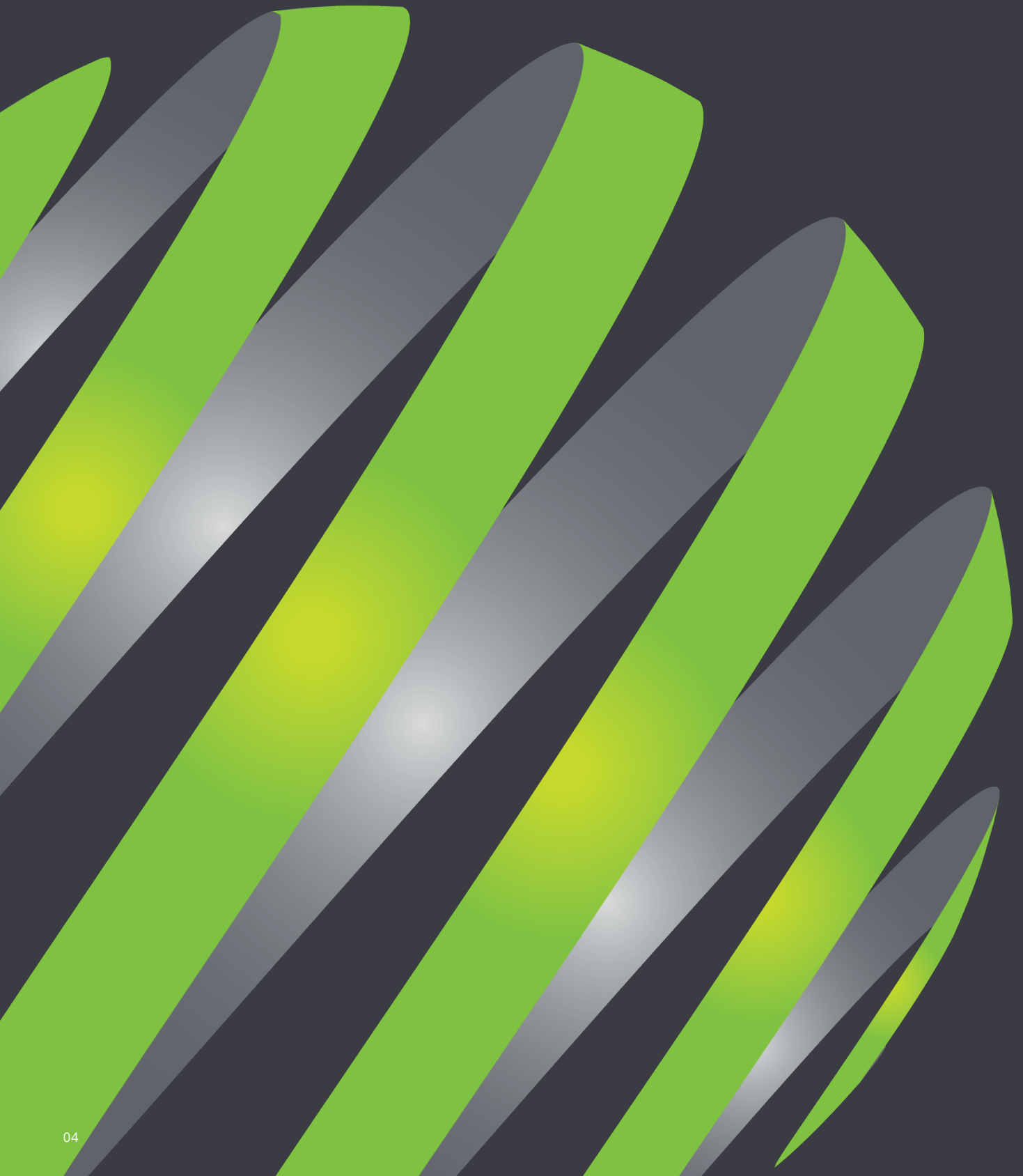
Although it is tempting – and more straightforward – to focus on one or more of the enablers, it is putting the cart before the horse. In order to evaluate where resources should be targeted, the GC first needs to conclude on an operating strategy for the department which is aligned with the strategy of the organization as a whole. This allows the GC to put in place a governance framework to support the strategic objectives and determine roles and responsibilities. This encompasses the role of the Legal function in relation to the rest of the organization, and the responsibilities of the individuals within the department. Trying to make these changes without a strategy is like cooking without a recipe.

In our experience, few organizations have a properly articulated legal operating strategy which is communicated both within Legal and to the rest of the organization. To the extent a strategy exists, it has typically arisen by default in response to the demands of the organisation rather than being specifically thought out, and it often resides in the heads of the legal function leadership rather than on paper. Without clarity on strategy, unsurprisingly the other components of Level 1 on our illustration are hazy.

This is often because the department hasn't needed to articulate its strategy and even where having an operating strategy is recognized as important, it is rarely urgent in the absence of a triggering event such as a merger (potentially turning two legal teams into one), a significant issue, a requirement to cut cost, or the arrival of a new GC. Other barriers to action include limited understanding of the possibilities that a new operating model presents, budgetary constraints, or a belief that what we have now works well enough – don't try to fix what isn't broken.

Those legal functions rising to the challenge of transformation, whether by way of evolution or revolution need to start by developing their strategy. All else flows from this.

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Developing a legal operating strategy

The process of creating an operating strategy for the legal department is not something to rush; stepping back requires both time and head space from those involved. Legal transformation is a natural evolution to ensure that Legal's strategy is fit for purpose and aligned to the organization's current strategy rather than a reflection of what is past.

What does it look like?

The right answer to what strategy to adopt is dependent on the overall strategy and risk appetite of the organisation with which the transformed legal function's strategy and risk appetite need to be aligned. It will also be a tactical response to the expectations of many stakeholders beyond those employed within the department. These include the board to which the GC reports, other functions within the organisation who rely on Legal for the fulfilment of tasks and the delivery of services, and can potentially include the organisation's own customers and strategic partners. For example, if there is an underlying imperative to achieve efficiency gains or focus on risks and controls this will have a significant impact on the direction the strategy takes as it is developed. If the role or mandate of the GC is changing this too may impact the strategy. Some organizations decide to have no legal team and outsource the fulfilment of their legal service needs entirely which is in itself one type of legal operating model, albeit entirely outsourced.

Why might it fail?

An initiative of this sort is fraught with personal risk for the person who initiates it. One of the main causes of failure of any transformation is a lack of senior level sponsorship from within the organisation. It is essential that board level champions support the GC in pushing forward the creation of the department's operating strategy and the changes to the model.

No significant efforts can be initiated until you have this backing and the budget to take action.

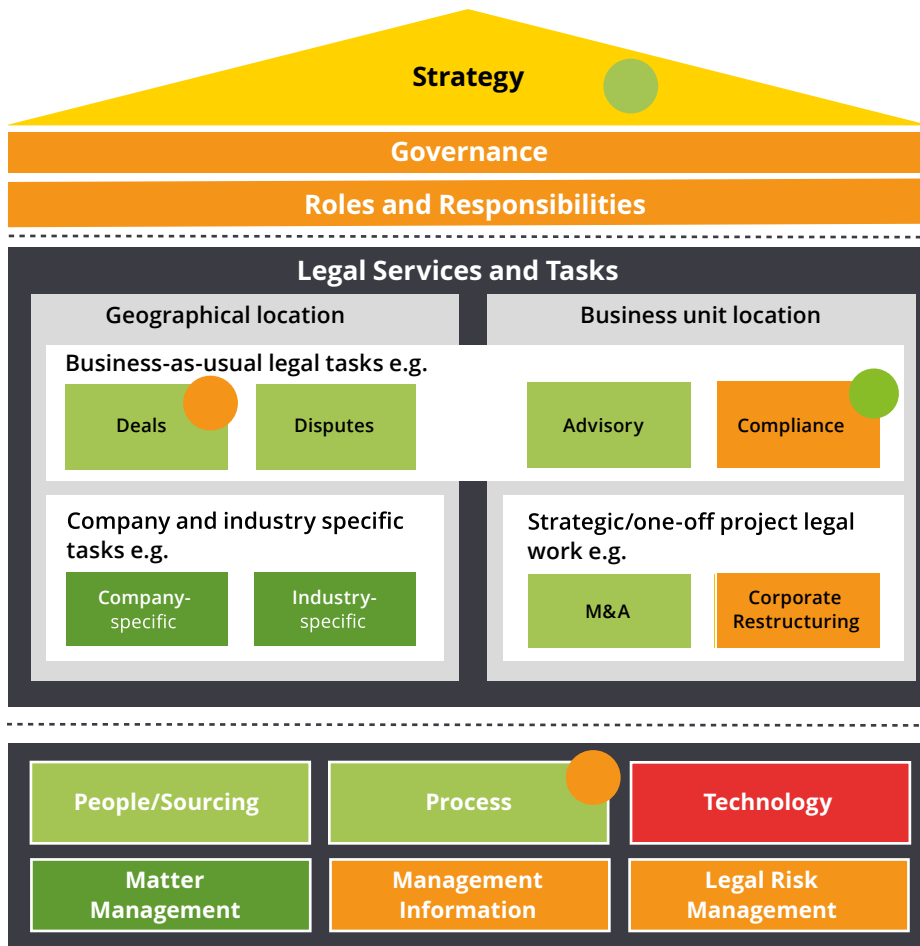
As with all transformational initiatives, senior executive buy-in is imperative to win over the hearts and minds of those affected. Most of us are resistant to change and unless developing the strategy involves everyone affected in a way that gives them a sense of ownership, they are likely to fear a hidden agenda which involves retrenchment or the replacement of jobs with technology. Given the type of work delivered by highly qualified lawyers, the likelihood of a robot stealing their job is remote; indeed Deloitte studies show that robotic process automation delivers both productivity gains and is a net contributor to jobs. In addition, being freed from mundane and repetitive tasks should contribute to employee satisfaction and engagement. Nevertheless, involving the team in the process of determining a strategy which seeks to leverage the latest technology will both reassure them and get them bought into any proposed transformation. This is as true whether the individual concerned is the owner of the process being automated or someone who has historically performed the task and is to be re-focused on higher value activities.

Getting buy-in

Stakeholder consultation can be delivered in a variety of ways including interviews, surveys and workshops at which those most closely involved can exchange views and evolve the operating strategy based on what has been learned from others in the organization. There is no universally applicable model strategy. It will depend on the particular nuances of the organization, the way it is structured, its geographical reach, size, customer-base and regulatory environment.

During this process the legal operating model illustrated on page 7 can be used to develop a heat map (possibly with the help of an independent team such as Internal Audit or an external party) of the level 1 and level 3 components which require the most urgent attention in their pre-transformation "As Is" state. These priorities may change as the strategy is developed.

High level overview - heat map



Overall segment colour shows the underlying assessment for that colour.

Individual 'spots' highlight particular significant instances that do not follow this trend and should be looked at separately.

Ratings Key



Who does what and where do they do it?

The operating strategy will also depend on the extent to which the legal tasks that the company has to deliver sit within Legal or within other departments such as Finance and HR, and whether or not these other departments report directly to, have a dotted line into, or are independent from the legal function. It is obviously possible that in evaluating the operating strategy of the department, some tasks currently delivered by legal will be reassigned to other departments (especially if they don't have a legal component) or tasks which sit elsewhere will be brought within the remit of the legal team. However, services and tasks are not core to the operating model per se, instead they are its outputs, the *raison d'être* for having an operating model.

A further consideration in determining the operating strategy is location – where should the tasks performed and services provided sit geographically? And should this be within the organization or outsourced? Some organizations will have evolved a large head office Legal team with smaller teams or individuals in key markets. Others may have established a shared service centre (SSC) to deal with tasks that are easily reduced to a set of scripts and processes. There is a tendency amongst lawyers to think that you need to be legally qualified in a particular country to provide legal advice in that market, but this assumption should be challenged to avoid unnecessary limitations on the scope of the operating model transformation.

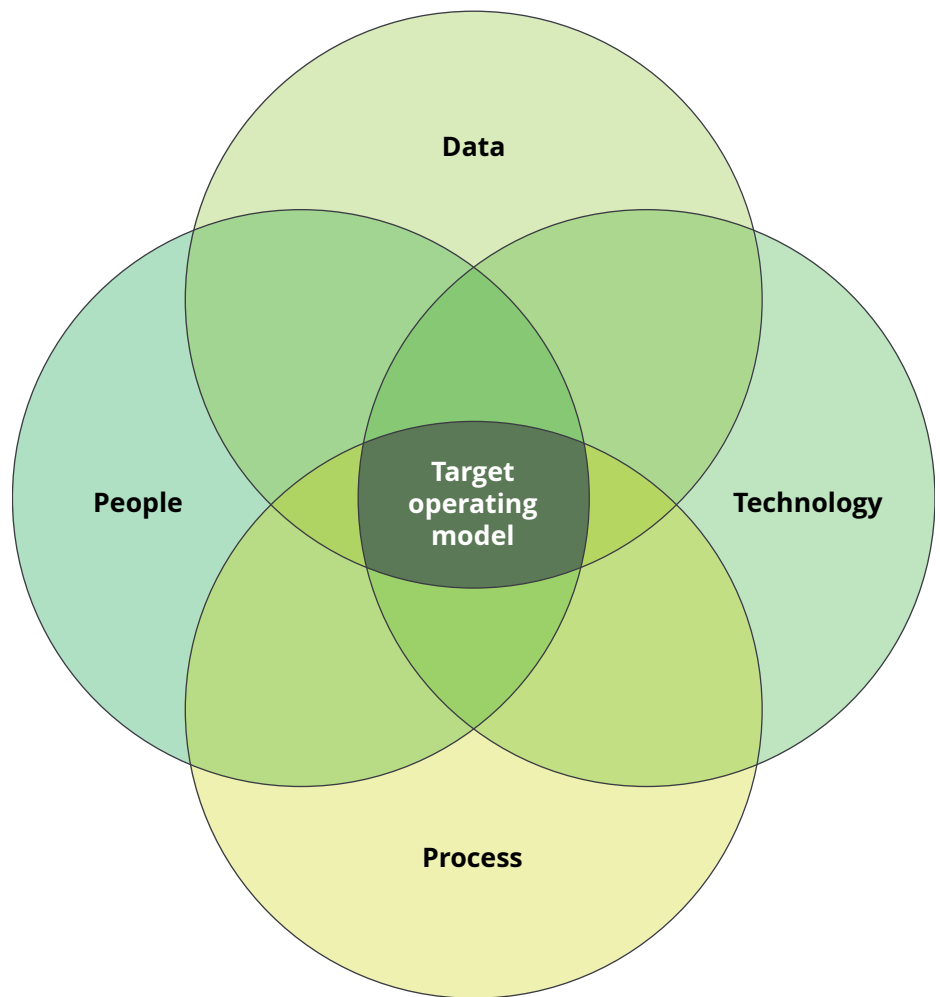
Some layers of the Operating Model



Getting started

Having defined the strategy for the legal function's operating model it is essential to assess what behaviours are needed to achieve it, what changes that requires and the key performance indicators (KPIs) that will measure whether the strategy's objectives are being met. These can be fed into the design principles to be applied as other components of the model are developed. It is important to have a strong governance structure to approve the changes that are made so that the organization knows what changes are being made and why. This governance structure is distinct from the governance component of the To Be operating model, although many of those involved could be the same people.

Once the strategy is clear, a diagnostic can help identify which other components take priority in moving to the target operating model. For example if a key element of delivering the strategy is through technology implementation (either to enhance delivery of a service or to support another enabler such as matter management) the first step may be a design workshop to identify (non-) functional requirements. During project discovery, processes are identified that the tooling will support. After analysing the market and rating the relevant solutions, both and software vendor can be selected. Whatever form the journey takes, the transformation team will need a clear realisation of benefits plan to demonstrate that the promise is being delivered.





Governance, roles and responsibilities

As mentioned under the discussion of strategy, there are two aspects of governance¹ that need to be considered when a company decides to transform their legal operating model: the governance of the transformation journey and governance in the new operating model.

On the journey

During transformation, the governance model provides a steering committee to oversee what is being done by the project organisation and make sure that the decisions made are properly aligned with the operating model strategy and the design principles derived from it. Those involved in accepting and approving the initiatives as they're undertaken will be the leaders of the legal function, together with representative stakeholders from the organization. Mirroring this will be senior team members from any external advisors assisting with the transformation. Below this oversight board should sit a program management office (PMO) responsible for managing the execution of the steps in the transformation by in-house and external specialists as appropriate.

It is important to recognise that experts within the legal function may not previously have led, managed or executed the changes dictated by the department's newly developed strategy. To minimize risk, including that of the transformation program failing, it may be necessary to bring in expertise from other parts of the organization to assist, especially for the PMO. Often Legal is one of the last functions to undergo a transformation, so the most cost-effective approach could be to borrow people from functions that have recently undergone the same process and can leverage that experience.

In setting up the steering committee and project organisation for the transformation it is essential to agree and communicate to all involved how regularly the various tiers within the program will meet and what escalation protocols are in place to deal with issues, approve change orders and overcome barriers. This keeps all stakeholders informed of progress and enables those involved in its delivery to demonstrate – using the previously agreed KPIs – that the program is achieving the goals and objectives arising from the operating strategy. The transformation team also needs to be alert to regulatory and other changes emerging during the project so that these can be taken properly into account.

1. The governance of an organization contains the entire set of policies, processes, procedures and relations that must control and ensure the consistency and transparency in the management and supervision of an organization

“To Be” governance

As the new strategy for the legal function is developed a significant area of focus will be how the department is structured and located. A highly centralised model may involve fewer spans (the number of employees a person manages) and layers (the number of reporting levels in a department or company) than a hub and spoke structure in which a smaller central function works with a wider team across the organization. Just as there is no “off the peg” legal operating strategy, so the governance model and management structure will need to be developed to best support the way that legal services and tasks are delivered and completed. This structure should also mirror that of the wider organisation so that the legal function can best serve the needs of its internal customers and stakeholders.

Making changes to the way the people within the legal function are managed and the number of reporting levels can be highly complex and may require extensive consultation both with those directly affected and in some cases the unions and workers’ councils that represent them.

Where some services with a legal component are performed in other departments (e.g. HR) or have been transferred into a shared service centre, the governance model will need to take account of the hand-offs between the parties to ensure there are no gaps in accountability and authority whilst avoiding duplication. In this way governance can be used as a risk mitigation tool.

Once the governance model has been established this should be communicated internally within legal and to the rest of the organization. Communication is one of the key pillars of any change program and in relation to governance it helps those affected to understand what changes are being made to strengthen the model and secure their buy-in. For those outside Legal, communicating the governance model makes sure that the legal function’s “customers” know the appropriate escalation route if they have a problem, especially if a fairly well-established model is being changed as a result of the new strategy.

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Roles and responsibilities

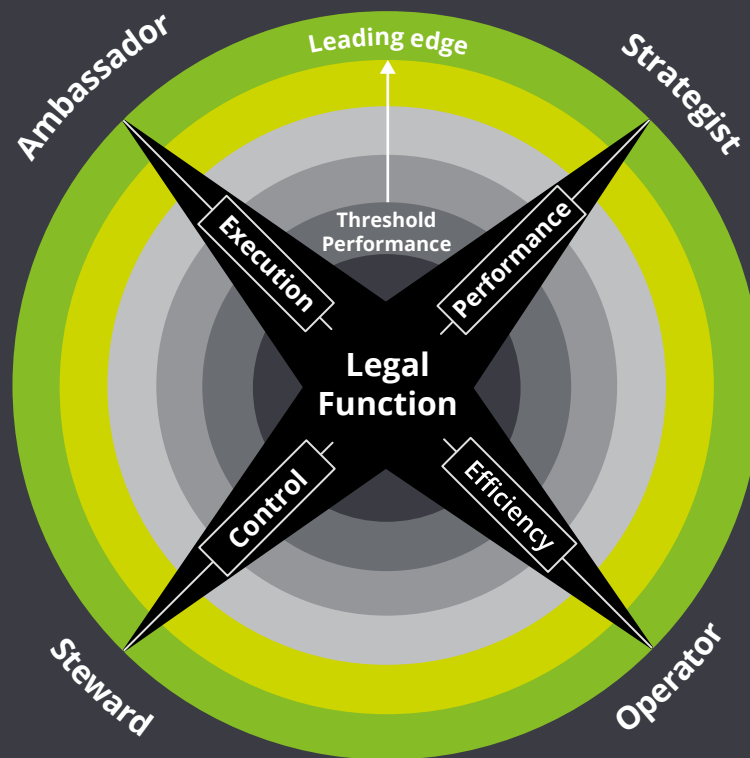
For the GC, and indeed the rest of the team it may be helpful to consider roles and responsibilities in terms of the expectations placed on the GC, the legal function and the individuals working in it by the wider organization. We call these the “four faces” of the General Counsel:

Responsible for representing the legal position internally and externally

- Create associations of trust and respect with key business stakeholders
- Communicate and negotiate with external parties (regulators, external counsel) creating relations of trust

Protect and preserve the assets of the organisation

- Effective legal defence
- Accurate and timely regulatory and legal compliance
- Negotiate, write and execute agreements and contracts
- Set internal governance policies
- Risk and crisis management
- Talent management and succession planning



Provide leadership in determining strategic direction and align with business strategies

- Legally-Effective business decision making
- Advise executives on commercial terms of deals
- Provide assistance with M&A, strategic partnerships, global joint ventures etc.
- Identify proactive solutions that will mitigate

Balance costs and service levels to fulfill responsibilities

- Meeting business KPIs
- Supervise external legal counsel
- Benchmarking
- Implement automation opportunities
- Evaluate alternate resource models (e.g. outsourcing; co-sourcing)

What is the remit of your responsibilities?

This model is a useful checklist for making sure that the strategy that is being developed for the new operating model properly fulfils the demands placed on the GC and their team in the evolving environment. Communicating the strategy to the organization is a good way of demonstrating the Ambassador aspect of the GC's role whilst positioning legal as a whole as contributors to the organization's strategy and safeguarding it from legal and other risks.

What are the roles and where are the gaps?

Clarity as to roles and responsibilities evolves from the chosen strategy and has often been lacking in more traditionally-run legal functions. This has a number of undesirable consequences. These could include a lack of clarity as to where in the organization responsibility for relationships with the relevant regulatory bodies sits – is it in the Legal, Compliance or Regulatory Affairs functions, or in all three depending on the topic? On a day-to-day basis being unclear about responsibilities within Legal causes inefficiencies because stakeholders may go to the wrong team member for assistance which wastes the time of both parties.

As the legal function transformation evolves it is possible that a need for new responsibilities within the department are identified. This could be driven by additional specialisms in response to changes in the business model such as developing new products and services using the cloud or digital currencies. Depending on which of the six enablers are areas of focus for the future, it is likely that new positions will be created such as Legal Technology Lead, Legal Operating Officer or Legal Process Engineer.

Some organizations are moving away from departmental structures based around deep legal specialisms and trying to create a more fungible resource pool which is better able to respond to the demands of the organisation regardless of the area of law involved. This offers the potential for a more varied career path and mix of work but requires adaptable and agile team members with a different mind-set when it comes to their scope of practice.

The process of defining the department's roles and responsibilities is helpful in identifying tasks and services in the As Is state which have little or no legal content and are consequently unrewarding for a qualified lawyer to perform and inefficient for the organisation. The strategy may be to hand these off to other parts of the organisation, to recruit non-legal or para-legal staff to perform them, outsource them (as discussed below), or to seek a technological solution if the task is standard or repetitive and so lends itself to automation such as land ownership filings or non-disclosure agreements.

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Enabling the legal function

Having defined the legal operating strategy and refined the governance model, roles and responsibilities, the team managing the function's transformation can turn their attention to the six enablers: people and sourcing, technology, process, matter management, management information and legal risk management.

A common theme running through all of these enablers is the legal function's approach to knowledge management: keeping team members up to date, learning from external providers, using technology to track and report on continuing professional development and provide regulatory databases, capturing lessons learned from completed matters and implementing processes for sharing them, all of which improve efficiency and minimize legal risk and cost.

Adopting technology

As mentioned in the Executive Summary, GCs who are under pressure to do more work with the same resources are often tempted to seek technology solutions to the issue. However, it is essential that technology is put in the context of the other enablers to ensure that it is the right answer before investing in a solution which may be sub-optimal. For example, depending on the people and sourcing component of the strategy – do we employ people in our team or outsource some tasks and services to a third party – we may find that our outsource partner has already invested in the technology. Even if we decide that we want to use the technology in-house there is still a “lease or buy” decision to be made. Do we need to invest ourselves or can we use the cloud to take advantage of someone else's investment and buy the software as a service (SaaS)?

SaaS offers Legal the opportunity to trial software solutions on a smaller scale than if they make an outright purchase and expand the use cases if they find that it is fit for purpose after the prototype. Given the strengthening of data protection regulations through the GDPR and other initiatives, the organisation will need to be confident that their data remains secure whether keeping it on premises or using a cloud solution. Any breach could have serious regulatory consequences and pose a severe reputational risk for the organisation.

In addition to the data protection, data security and commercial aspects of using SaaS, the GC's team first needs to establish which legal technologies to adopt. Legal technology is a crowded market and new products are coming on stream all the time. In addition there are technologies designed for other purposes that could be pivoted to legal applications. For a function that has traditionally used little technology and which is frequently resource constrained, having the time to evaluate vendors and solutions can be daunting. This is an area in which it may make sense to engage an expert third party to help Legal identify those products which might meet their need and then run a technology vendor selection process in collaboration with group procurement and group IT.

Selecting the right vendor maximizes value for money as well as ensuring that the technology purchased is compatible with the other systems the enterprise uses. Involving procurement and IT may also identify technology capex which can be shared with other functions, thus reducing the cost to Legal.

During the strategy development stage, it makes sense to socialise the idea of using technology if the team has little experience of it. This will overcome their resistance to adoption and enlighten them as to the possible applications of technology to Legal's work. Getting the team to build a simple robot to perform a repetitive task is a very effective way to demonstrate the benefits of change during the transformation process.

Often the first step will be to introduce e-signatures and a contract management system if the organization doesn't already have one, as this is frequently identified as a pain point for Legal. Over time these can be demonstrably self-funding, for example using templates to streamline the drafting process or saving the organisation money by identifying over-charging by counter-parties. A contract management system also minimizes the administrative burden which uses up a lot of lawyers' time but is intellectually unrewarding.

The right people in the right place: people and sourcing

Depending on the new operating strategy, the department's people may need to be re-deployed, re-tasked or re-skilled. We have already mentioned the possibility of moving away from specialisms to a more fungible legal resource pool. This could also involve adopting alternative resourcing strategies such as a group of skilled contractors to draw upon at times of increased activity such as an acquisition.

Some law firms have already adopted this approach and it suits those lawyers who prefer a degree of flexibility beyond what is possible from a traditional career path. Workforce-on-demand organizations have sprung up to meet this need for additional short term resources. There are also instances of organizations crowdsourcing legal services, with economic models adapted from elsewhere such as reward on solution.

Where the people performing the legal tasks and services sit will depend on the strategy, which is in turn determined by the needs and shape of the organization as a whole. This could be one head office team for a highly centralized group operating in one sector or a hub and spoke model if the company is dispersed and diversified. Although offshoring through SSCs is well-established in the finance domain, Legal has proved slow in adopting the model. This may be a function of concerns over control and security of data, or arise from the belief that in order to perform legal work in country A, you need to be qualified in that country's legal system. However, a combination of technology and carefully developed scripts may allow for more routine tasks to be moved to a SSC, freeing up lawyers' time to focus on the technically complex or nuanced advisory work such as litigation tactics. Over time, as the level of sophistication in the SSC increases they may become centres of excellence for particular activities.

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Sometimes the answer will lie outside the organization whether that is with a panel of law firms for specialist work or legal process outsourcing for discrete tasks. Again vendor selection is a critical component with many companies revisiting the size of their panels to get better control over costs. However, this exercise only yields the best results when combined with a robust governance model. Vendor management is essential to avoid the number of external firms being used from ballooning. At its worst, where departments allow too much discretion in the use of outside counsel it is possible that two or more opinions on the same topic are sought on behalf of various parts of the organization. Where these opinions diverge two divisions of the same company can end up adopting different positions on the same issue. This is avoided where effective governance, knowledge management and vendor management ensures that opinions are shared and the use of outside counsel is effectively policed.

Process, matter management and management information (MI)

As the To Be people and sourcing enabler evolves, technology can be leveraged to ensure that matters are properly tracked across the mix of central and local teams, SSC and third party provider. This gives the GC a welcome level of transparency into the way matters are handled and the comfort that risk is being properly managed because tasks are not being dropped at handover points as a result of assumptions as to who is doing what.

With better insight into matter life cycles it is also possible to take previously ill-defined processes, break them down and revisit how tasks are completed. It may be possible to optimize processes and achieve high quality results more efficiently by “delegating” aspects of the process to a third party or a SSC or using technology to complete them. This greater insight also allows for processes to be grouped by category. If a process component fits a particular category that tells us how it should be completed.

Technology can also enable the central monitoring of spend to generate MI and other metrics for the GC to demonstrate the added value that the transformed legal function is delivering and to keep closer control of in-house and external spend. This may require some creative thinking as to where the data for this MI is sourced. Key Performance Indicators that have been agreed with the organisation or that are a condition of an external law firm being a panel member can be monitored in the same way, benchmarked and reported upwards. Service Level Assessments can also be performed both to measure how the enterprise rates service delivery from Legal and check that users of outside firms are satisfied with the work they are doing. In both cases the Assessment results can be used to build continuous improvement into how the organisation experiences legal services regardless of whether they are provided in-house or by third parties.

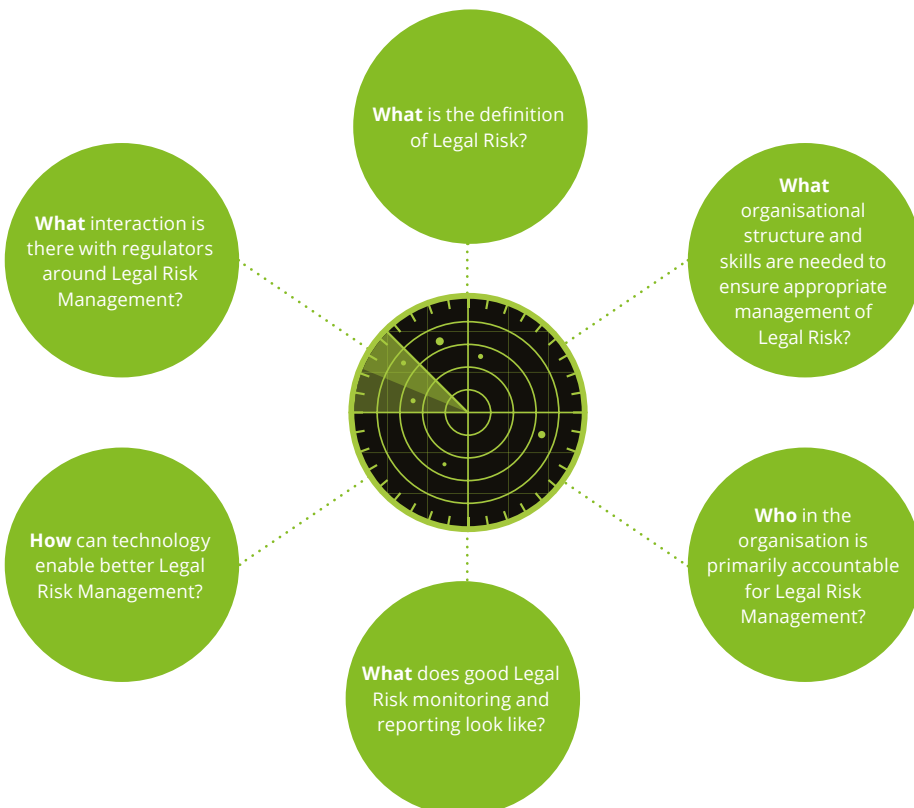
Legal Risk Management

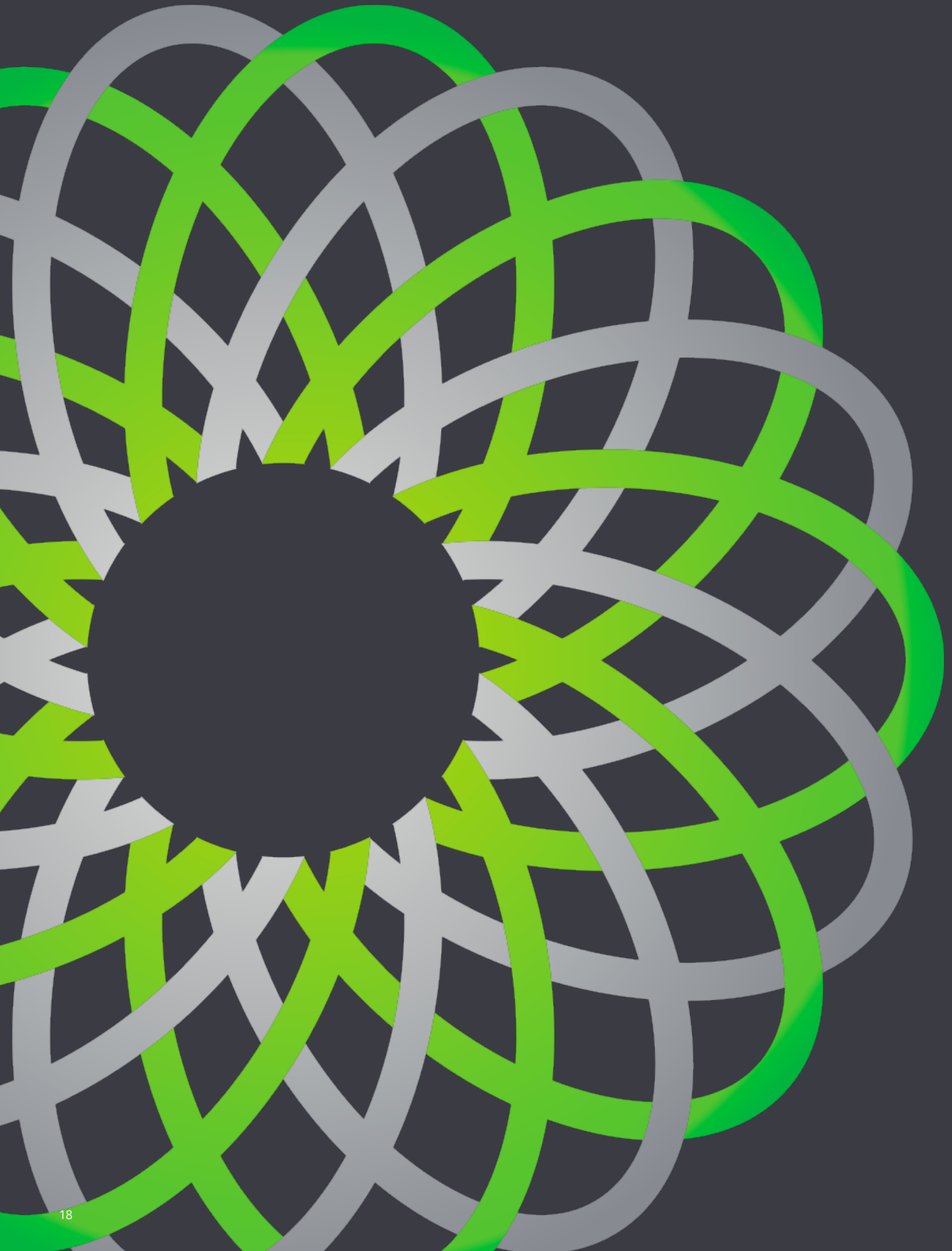
Risk management is a core responsibility of the legal function and a key deliverable of the operating model which depends on the risk appetite of the organisation as a whole. To make sure that risk is properly managed, the GC and their team need to spend time developing the strategy of their To Be model with risk in mind. As they embark on the transformation, risk mitigation through people, process, technology and matter management must be at the heart of their design principles for the new model. This will include clear separation between the first line of defense, which manages risk with controls, and the second line, which oversees risk management.

In the To Be state it will be clear where responsibility for legal risk management lies from end-to-end – identify, assess, manage, report and remediate – with KPIs for key risk owners and reporting on performance.

In a highly dynamic business environment, Legal needs to work closely with other parts of the organization – including innovation hubs – to assess how changes to the business model will affect legal risk and keep the risk management framework under review. This will give confidence that it remains fit for purpose. Being close to the organization in this way allows Legal to demonstrate added value as both Strategist and Steward, as business partner and trusted advisor able to give both a legal and a commercial opinion.

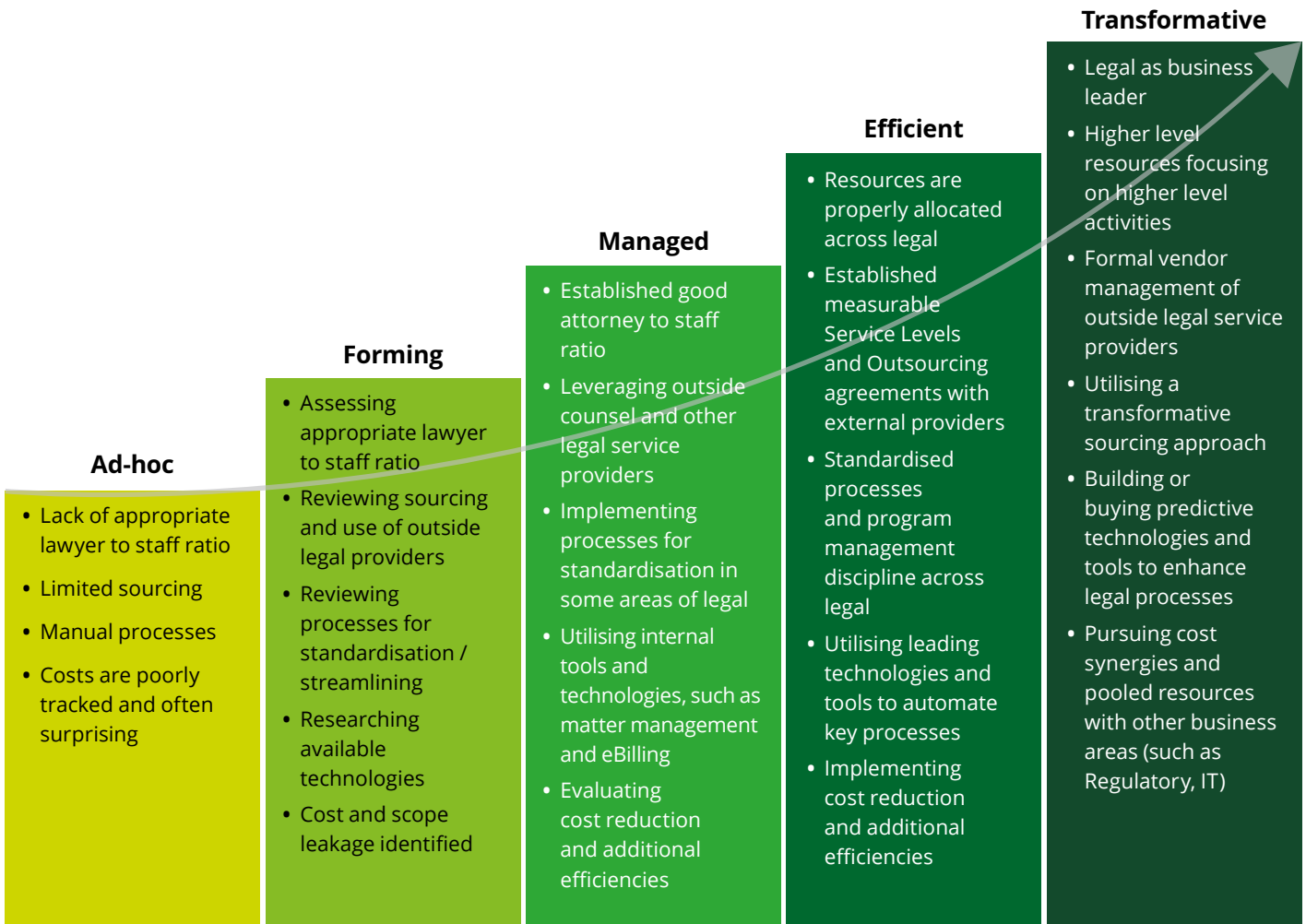
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Transform your operating model with Deloitte

Deloitte has extensive experience supporting clients in designing and implementing new operating models. Our lawyers work with specialist colleagues in risk, change management and technology to bring you a complete team with a strong understanding of all the components of effective legal operating models.



| Where are you? | Where will you be in 2023? | How will you get there? |

With Deloitte at your side together we can cover every aspect of your legal transformation journey from strategy through to delivery. Starting your journey today will push your legal department to get aligned, to get focused and to get moving.

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