



REUTERS/Bobby Yip

# 2018 State of Corporate Law Departments in Hong Kong

A COLLABORATIVE REPORT PRODUCED BY THOMSON REUTERS AND ACRITAS

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# EXECUTIVE SUMMARY

Legal departments in Hong Kong are dealing with an ever-increasing work-flow, helping their organisation deal with the strong growth in many of the Asian markets, whilst at the same time facilitating more international activity. Further, the complexity of complying with dynamic international alongside domestic regulations is one of the greatest pressures.

Consistent with the rest of the world, those legal departments in Hong Kong that want to be seen as “modern” are taking a far more proactive stance than traditional departments. The modern legal department strives to add value to its organisation rather than being seen as a cost-centre or one that only acts reactively to the organisation’s legal needs.

Throughout our surveys, three key themes emerged as central to this modern legal department ethos. Modern legal departments in Hong Kong want to *i)* foster a culture of ongoing improvement and innovation; *ii)* embed data-driven review and decision-making while embracing metrics as “the way we do business here”; and *iii)* invest the time and energy in developing business partner relationships with external suppliers to best work as one collaborative team to deliver better outcomes.

**Around these themes, the modern legal department has aligned itself to three key goals:**

- 1** To ensure the long-term sustainability of the organisation by identifying, monitoring and mitigating risk
- 2** To maximise shareholder value by driving up the effectiveness and efficiency of legal input to maximum return
- 3** To be socially responsible in considering ethical behaviours surrounding ethical sourcing, the diversity agenda and pro bono efforts.

Modern departments are leveraging efficiency gains and better information management through innovative use of new systems and technology, which enable departments to gain control of legal activity and understand both demand and legal spend in much more detail. Metrics and measurement techniques that allow for more effective workflow management and decision-making are a critical resource for the modern legal department as they, like other departments, become more data-driven. The last section of this report defines a toolkit of 21 metrics that corporate legal departments should consider tracking in order to develop a leaner, more effective legal function.

Indeed, the key to staying modern will be constant innovation. Whilst few departments will be early adopters by definition, modern legal departments can learn from their more adventurous peers and emulate their successes. They can also look to alternative legal services providers — the disrupters on the supply side — as to how innovative approaches and technologies are creating new and different legal solutions.

Modern legal departments need external advisors who understand their organisation’s business and its industry. Those departments that select a smaller number of legal advisors, invest time in helping them learn about the organisation’s business, encourage feedback and reward proactive service are likely to reap the benefits of more business savvy advice and gain a more optimal result.

This report, the first annual report for legal departments produced by Thomson Reuters and Acritas in Hong Kong, concludes that those modern departments that embrace innovation, data-driven decision-making and work collaboratively with other parties will see improvement over the next five years.

## DATA CREDENTIALS

### SURVEY 1 – Acritas Sharplegal

Acritas conducts an ongoing global research study of senior in-house counsel, called Sharplegal, which started in 2007. More than 2,000 interviews are conducted by telephone each year exploring approaches to buying legal services, experiences with law firms, spend levels and team sizes. This report draws on 54 interviews conducted with respondents representing organisations with annual revenues exceeding US\$1bn that are based in Hong Kong. These interviews were carried out between January 2016 and July 2018.

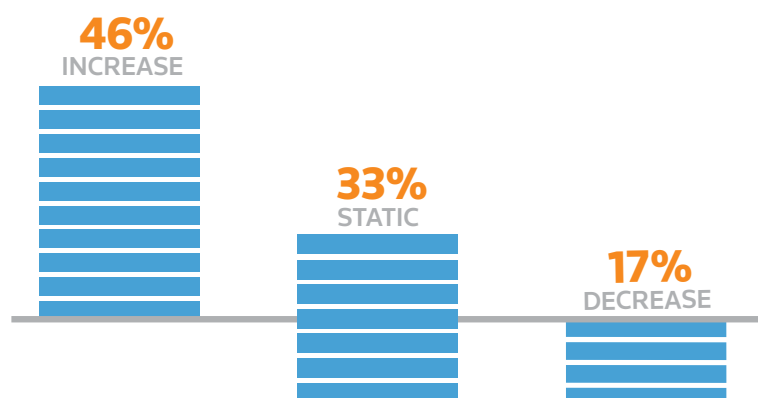
### SURVEY 2 – Acritas Stars Appraising Clients

In August 2017, Acritas surveyed 165 client-nominated Star external counsel for feedback on how well they are managed by in-house legal departments. Relevant learnings from this global survey are included.

### SURVEY 3 – Asian Legal Business survey of in-house counsel

Earlier in 2018, more than 250 senior in-house counsel across Asia responded to the Asian Legal Business survey capturing perspectives on the biggest trends in procuring legal services.

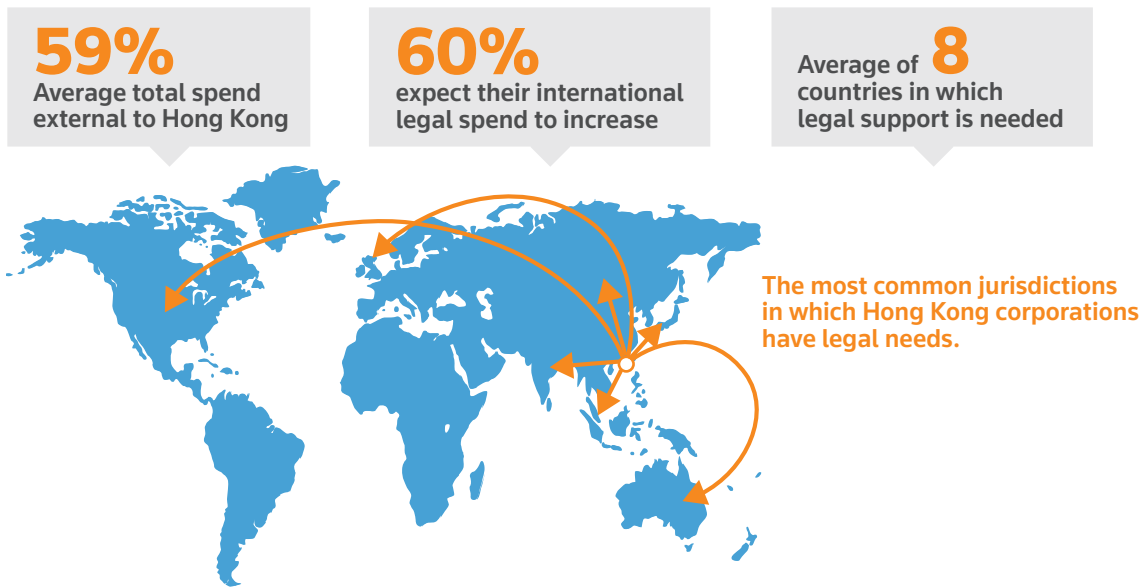
## Legal spend in Hong Kong is increasing, driven by increasing international needs



Source: Acritas Sharplegal Hong Kong

The data from our surveys showed that legal department clients – the organisations – are 2.7 times more likely to be increasing than decreasing their legal spend in Hong Kong. This is being driven specifically by higher levels of M&A activity and increasing workloads more generally. Also, this expectation is consistent with evidence that the Hong Kong economy is enjoying its strongest growth period of the decade to date, with 3.8% year-on-year GDP growth recorded for 2017, following 1.9% growth in 2016. In markets such as the UK and US, legal departments are not expecting to increase their legal spend at this level.

All organisations interviewed have legal needs outside of Hong Kong that account for an average of 59% of total legal spend. Further, almost 60% of organisations said they expect their international legal spend to increase. The most common jurisdictions in which Hong Kong corporations have legal needs include the United Kingdom, the United States and mainland China, followed by the geographically closest markets of Singapore and Japan, and then India and Australia. Typically, companies based in Hong Kong are dealing with legal needs that cover an average of eight countries.

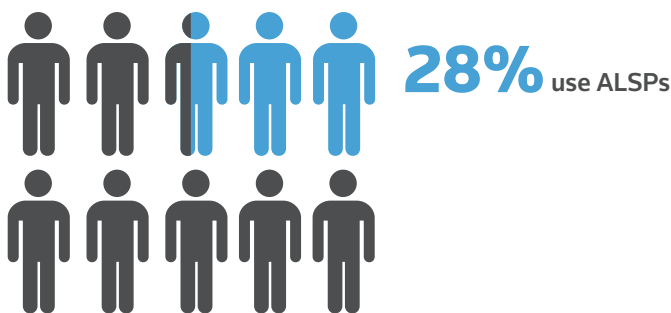


Source: Acritas Sharplegal Hong Kong

**INCREASING USE OF ALTERNATIVE LEGAL SERVICE PROVIDERS IN HONG KONG**

In line with global trends, organisations in Hong Kong are seeking out alternative legal service providers (ALSPs) to provide both cost and process efficiencies. This trend underscores the shift that is underway in how corporations utilise traditional law firms and legal service vendors. The legal industry recognises value across the full spectrum of ALSPs, including those providing legal processing outsourcing (LPO), flexible resource providers, consultancy firms (including the Big Four firms), and technology solutions providers.

28% of corporations across Asia are actively using ALSPs, and this trend can be expected to gain further momentum in the coming years. Although at this stage the use of ALSPs does not appear to be significantly reducing overall legal spend — mainly because demand currently is growing — it is likely that continued use could play a role in suppressing cost increases in the near future.



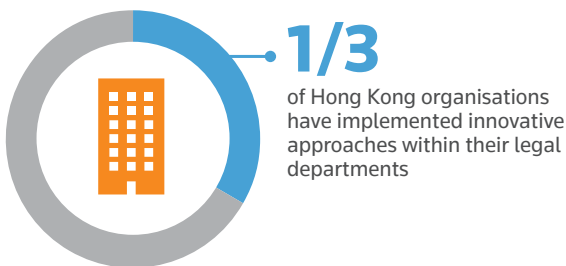
Source: Asian Legal Business

**INNOVATION IS NOT COMMONPLACE**

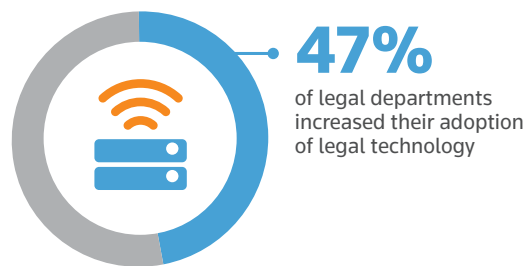
Our surveys found a less rosy picture in Hong Kong legal departments when it comes to innovation. Less than a quarter of corporate legal departments in Hong Kong reported they are working with external providers they view as “innovative”, and non-traditional pricing structures (e.g. fixed fees, flat rates or pricing packages) account for much of this.

From an internal perspective, the data shows that just over one-third of Hong Kong organisations feel that they have implemented innovative approaches within their own legal departments. Those internal innovations have often been directed at improving the legal department’s customer-focus and integration with the rest of the business, as well as achieving efficiency gains through simplification of workflows, automation, data analytics and greater use of technology. Together, these findings indicate that Hong Kong legal departments are experiencing only low levels of innovation, and thus there still exists considerable scope for improvement.

Fortunately, there is growing evidence that steps are being taken to put the foundations in place to enable innovation. 47% of legal departments had increased their adoption of legal technology in the past year.



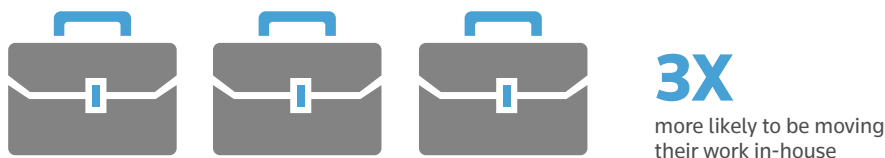
Source: Acritas Sharplegal Hong Kong



Source: Asian Legal Business

**MORE WORK BEING CONDUCTED IN-HOUSE**

Hong Kong organisations are three times more likely to be moving more of their work in-house (47%) than they are to be moving more of their work externally (15%), according to our surveys. The remainder were keeping their allocations the same. Despite this, the survey also suggested that the sizes of in-house legal teams are shrinking rather than growing.



Source: Acritas Sharplegal Hong Kong

This means that legal departments on average are managing to handle more work with the same or less level of resources, which reflects the departments' investment in improving systems and processes.

Further, in-house departments are particularly focused on compliance and regulation, specifically data privacy and anti-bribery, according to the survey. These ever-evolving landscapes create opportunities for tools and technology to add value into bringing this work in-house.

### LEGAL DEPARTMENTS LOOKING FOR EXTERNAL LAWYERS TO BE MORE BUSINESS SAVVY

When in-house survey respondents were asked in what areas they would most like to see external lawyers improve, by far the most common answer was the need to become more commercially-savvy and be able to offer proactive advice that is business-oriented as well as legally sound. Too often, legal departments are frustrated by external legal advice that fails to demonstrate a comprehensive grasp of context and that lacks a sense of pragmatism.

*"I'd like them to know more about my business,"* said one respondent. *"They are all experts at what they do, otherwise we wouldn't pick them, but we need more commercially-savvy advice and more industry knowledge."*

Other respondents agreed with this assessment. *"Some are not good at delivering work in a way that's readily able to be distributed to management and non-legal people,"* another said. *"One still has a tendency to not put executive summaries on advice, despite being told a hundred times [to do so]."*

In fact, our research shows half of senior in-house counsel complain that their external counsel don't understand their industry.



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Source: Asian Legal Business

### THREE RECOMMENDATIONS

By analysing the key findings of our recent surveys, we can make three recommendations that legal departments in Hong Kong can undertake immediately to improve their performance, develop stronger relationships with their key external law firms and legal service providers, and deliver a better result from their legal operations for their organisations.



#### RECOMMENDATION 1 – View the legal services market holistically alongside your own internal capabilities to find the portfolio of providers that optimally meets your needs

Given the growing ALSPs market in Hong Kong that has a broad range of offerings but currently less than 30% penetration, there is now considerable opportunity for legal departments to benefit from different types of legal solutions which may bring quality, speed and cost benefits.

Search out these different types of solutions and determine which ones, working together, can provide the best package of efficiency, quality work and rapid delivery to provide a more innovative service to your organisation.

**RECOMMENDATION 2 – Work with law firms as partners to build their business understanding and industry awareness and then reap the rewards**

Many law firms have focused strongly on developing deeper industry knowledge over recent years, but in order to become closer to individual client businesses they need inside help.

Legal departments should seek to invest time in the short term in order to help their law firms become more fully immersed in their organisations' business, in order to reap the long-term benefits of receiving commercially-savvy legal advice. Often, relationships between general counsel and lead partners are very strong, but this is insufficient to foster a law firm's true understanding of the business. Multiple individuals on both sides, frequent touchpoints, and a degree of relationship longevity are necessary for the law firm to gain a good understanding of the organisation's culture, ethos and position within its industry, in addition to its operations.

When Acritas Stars (external stand-out lawyers) were asked to appraise their own clients' management of them, a key finding was that where the external lawyer was treated as a business partner rather than a supplier, every aspect and outcome of the relationship was measurably better.

The right law firms want to get close to their clients in order to deliver work that is highly valued; however, developing this partnership-style relationship takes investment from both parties.

**RECOMMENDATION 3 – Review & implement the “Legal Department Toolkit” on the next few pages**

As we mentioned, the key to staying modern will be constant innovation. Modern corporate law departments are increasingly seeking information about their own operations and the performance of their external law firms and legal service providers. Metrics and measurements allow in-house departments to more effectively manage their workflow and make data-driven decisions that can greatly enhance performance and client satisfaction.

To that end, we created in the last section of this report a toolkit of 21 metrics that corporate legal departments should consider embracing to track their performance and that of their external law firms and legal providers so to better develop a corporate legal function that is leaner, more efficient, and more cost-effective to the benefit of the organisation.



# SHAPING UP FOR THE NEXT FIVE YEARS – LEGAL DEPARTMENT TOOLKIT

Guide to a leaner, more effective legal function based on global survey results

## COLLATE AND REVIEW METRICS

By keeping track of key metrics, you will be able to assess whether you are improving over time and how you compare with your peer group.

To put together this recommended set of metrics, we have considered three separate pieces of research. First, we looked at the metrics that legal departments are currently using, as reported in both the Acritas and Thomson Reuters surveys. Then, we looked at the academic model developed by Acritas with its advisory board – the PEER model, which reveals metrics that help departments track performance against the three key legal function goals – to be effective and efficient and to prevent legal risk. We also reviewed the best practices developed by Thomson Reuters where they categorise departments by sophistication, from at worst “chaotic” to at best “predictive.”

The metrics most used by predictive and optimised legal departments are highlighted with an asterisk.

**Key recommended metrics are:**

AREA	METRIC	HOW TO ENHANCE METRIC
Coverage – the scale and scope of your legal responsibility	<ol style="list-style-type: none"> <li>1. Revenue</li> <li>2. Increasing/decreasing legal work – defined by the number of matters opened*</li> <li>3. Number of jurisdictions covered</li> </ol>	<ul style="list-style-type: none"> <li>• Analyse by practice group or organisational unit and benchmark against peers</li> </ul>
P = Preventative	<ol style="list-style-type: none"> <li>4. Number of regulations to comply with</li> <li>5. Number of legal risks to mitigate</li> <li>6. Level of training (new starters/existing)</li> <li>7. Percentage of key meetings with legal representation</li> </ol>	<ul style="list-style-type: none"> <li>• Horizon scanning</li> <li>• Quarterly risk mapping</li> <li>• Working with HR</li> <li>• Embedding lawyers in the business units</li> </ul>
E = Efficient	<ol style="list-style-type: none"> <li>8. Total legal spend</li> <li>9. External and internal split</li> <li>10. Spend by law firm*</li> <li>11. Spend by matter type*</li> <li>12. Spend by practice group*</li> <li>13. Spend by business unit*</li> <li>14. Number of attorneys/paralegals</li> </ol>	<ul style="list-style-type: none"> <li>• Optimal range 40%-70% allocated internally</li> <li>• Savings from invoice review*</li> <li>• Requiring matter budgets</li> <li>• Benchmarking against peers</li> </ul>
E = Effective	<ol style="list-style-type: none"> <li>15. Value of settlements</li> <li>16. Value of fines</li> <li>17. Commercial value-add</li> <li>18. Organisational effectiveness – number of matters closed*</li> </ol>	<ul style="list-style-type: none"> <li>• Use preventive measures</li> <li>• Regularly audit compliance</li> <li>• Business and financial skills</li> </ul>
R = Review	<ol style="list-style-type: none"> <li>19. Legal spend as a proportion of revenue</li> <li>20. Satisfaction of internal users</li> <li>21. Feedback from external lawyers</li> </ol>	<ul style="list-style-type: none"> <li>• Review by business unit</li> <li>• Analyse feedback</li> </ul>



## CONTINUOUS REVIEW OF TECHNOLOGY AND INNOVATION

For legal departments, putting in place systems that create better management information and controls can only help to enable a more efficient and smarter approach. The diagram below shows examples of innovation given by legal departments in Acritas' survey this year, plotted on a spectrum from incremental to transformational.



Source: Acritas Sharplegal

## DRIVE HIGH PERFORMANCE THROUGH PREFERRED SUPPLIER ARRANGEMENTS AND DEVELOPMENT OF IN-HOUSE SKILLS

A key factor relating to high performance, from the external lawyer perspective, was the "mindset" of in-house legal buyers when appointing and managing their lawyers. Those who took a collaborative, open, trusting and respectful approach were far more likely to yield better results for their organisation, because the internal and external lawyers were working together as one team.

Interestingly, panels were an area of great dissatisfaction for some external lawyers, although for others they worked extremely well. Where panels were used as a vehicle to create business partner relationships, the best outcome was achieved. Key to this was being open and honest about work availability and criteria for allocation, as well as spending time building knowledge about the clients' business and the way they like to work. When panels were used as a front to get rates down and added value up, while work continued to go to preferred providers, often off-panel, the biggest breakdowns in relationships were observed.

In an Acritas survey of external Star lawyers asking how their legal department clients could improve, project management skills came up as the top response. Effective communication was a key success factor, especially considering that scope changed on two-thirds of matters.

### Typical components of good management included:

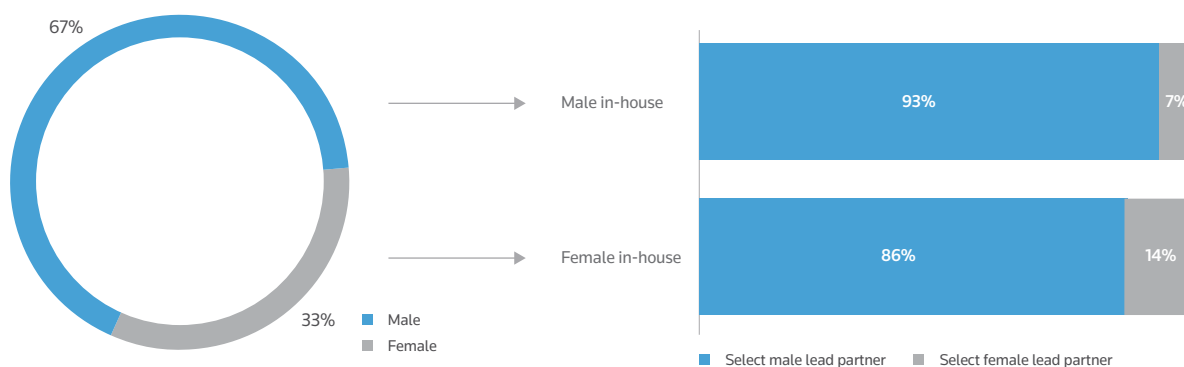
PROJECT MANAGEMENT COMPONENT	FAILURE RATE
Bring in external lawyers at the right time	26%
Provide sufficient background information — particularly around how the matter relates to company goals, the risk appetite and the parties involved	49%
Have an up-front discussion about servicing preferences, pricing and resourcing	36%
Set realistic timelines	42%
Respond quickly to inquiries	25%
Give access to internal business people where required	21%

Source: Acritas Star Lawyer Survey – Appraising Clients

### INCREASE DIVERSITY TO GET A BETTER RESULT

A study of more than 1,000 reviews of law firm performance revealed that male and female lead partners perform equally well. A mixed-gender legal team, however, performs significantly better than a single-gender legal team. Acritas and Thomson Reuters recommend that one-third of matters be allocated to a female lead to encourage law firm diversity at the senior levels and accelerate the growth of female equity partners. We need a 22nd metric to track proportion of matters awarded by gender! In addition, all matters requiring a team should have both genders represented.

Sixty-seven percent of the senior Hong Kong in-house counsel that Acritas interviewed between 2016 and 2018 were male. Male in-house counsel are less likely to select female external lawyers as leads on their matters, which means the majority of power in law firms continues to lie with men. If in-house buyers, especially men, could consciously increase the number of female lead partners they select, the change in the balance of power would accelerate.



Source: Acritas Sharplegal Hong Kong

### DEVOTE TIME TO PRO BONO WORK TO GIVE BACK AND BUILD RELATIONSHIPS

**19%** of Hong Kong legal departments have carried out pro bono in the last 12 months. Aside from being a good thing to do, collaborating with external suppliers like law firms on pro bono efforts is a fantastic way to build deeper relationships.

Source: Acritas Sharplegal Hong Kong

### CONTACT DETAILS FOR FURTHER INFORMATION ABOUT THOMSON REUTERS AND ACRITAS

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