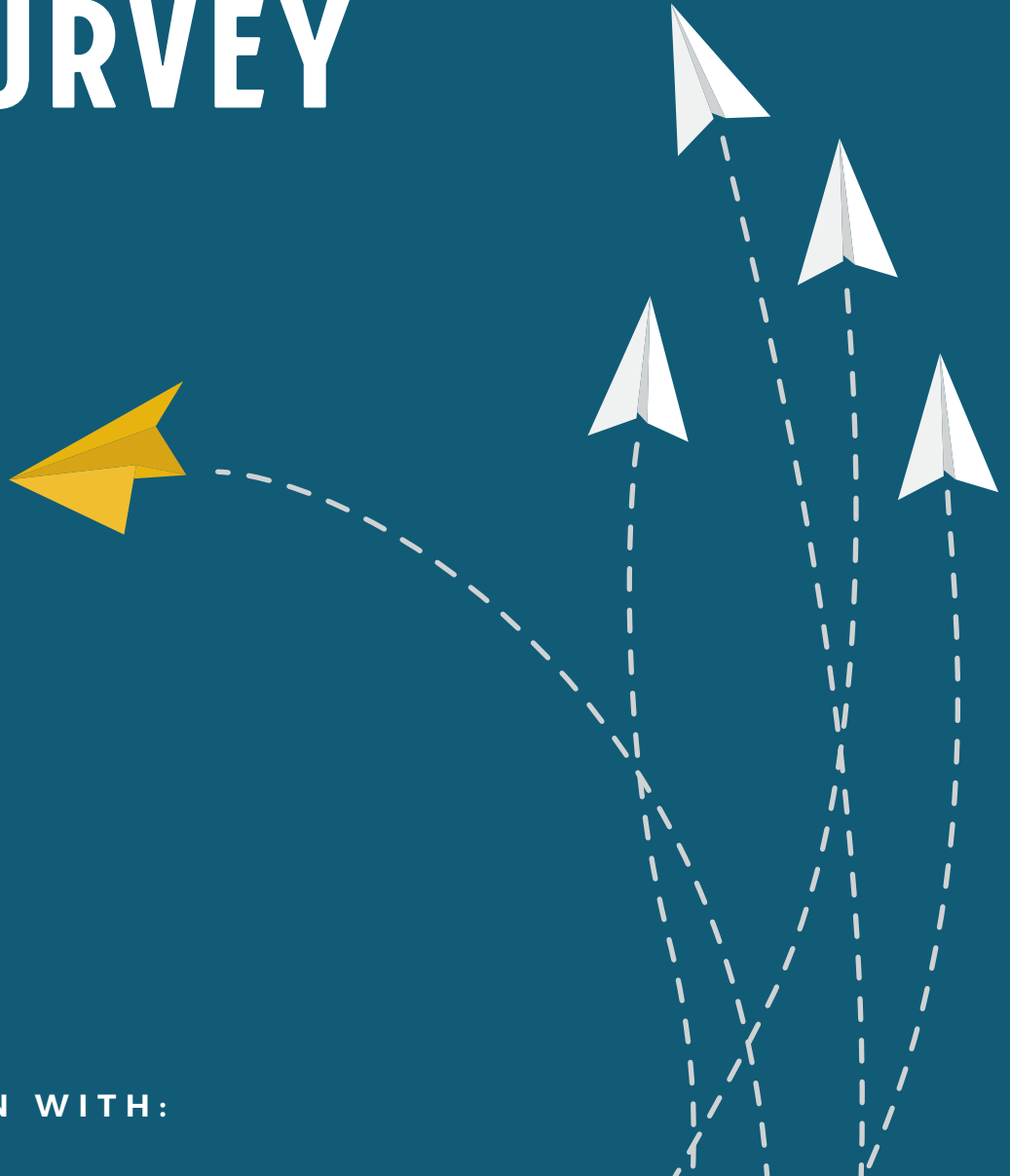




CANADIAN
LEGAL INNOVATION FORUM

2021

LEGAL DEPARTMENT SURVEY



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EXECUTIVE SUMMARY

Findings from the first Canadian Legal Innovation Forum: 2021 Legal Department Survey reveal that in-house counsel are a resilient group of people whose legal and business leadership skills have guided their organizations through the global pandemic.

However, the survey also shows that many are finding it a challenge to manage their current demands. The biggest threats facing in-house leaders are burnout, increased workloads and a requirement to deliver more within the same budget. Several cited “budget impacts due to reduced revenue/pandemic implications on operations and staffing” and “inefficiencies and lack of innovation” as their primary concerns.

Over the first half of 2021, the Canadian Legal Innovation Forum surveyed 85 decision makers from different corporate legal departments at organizations across the country. Respondents include general counsel, assistant general counsel, legal counsel, and legal operations professionals from a variety of industries, including financial services, information technology, real estate, manufacturing, education, government and transportation.

On the whole, in-house lawyers recognize that legal technology has a significant role to play in helping their organizations become more streamlined and responsive, particularly in the areas of contract management, contract drafting and review as well as knowledge and content management.

While cost remains an important factor in technology investment decisions, what’s paramount for legal leaders is that new systems integrate seamlessly with the existing infrastructure and are successfully adopted within the organization.

After taking the pulse of legal leaders across Canada, here are some additional highlights:



- **The use of Alternative Legal Service Providers (ALSPs) by Canadian legal departments remains comparatively low versus other jurisdictions**
- **A majority of legal departments still do not have a legal operations function**
- **In-house lawyers prioritize expertise, responsiveness and value from their external service providers**
- **Collaborative projects between legal departments and service providers are primarily focused in the areas of contract management, knowledge management and matter management**

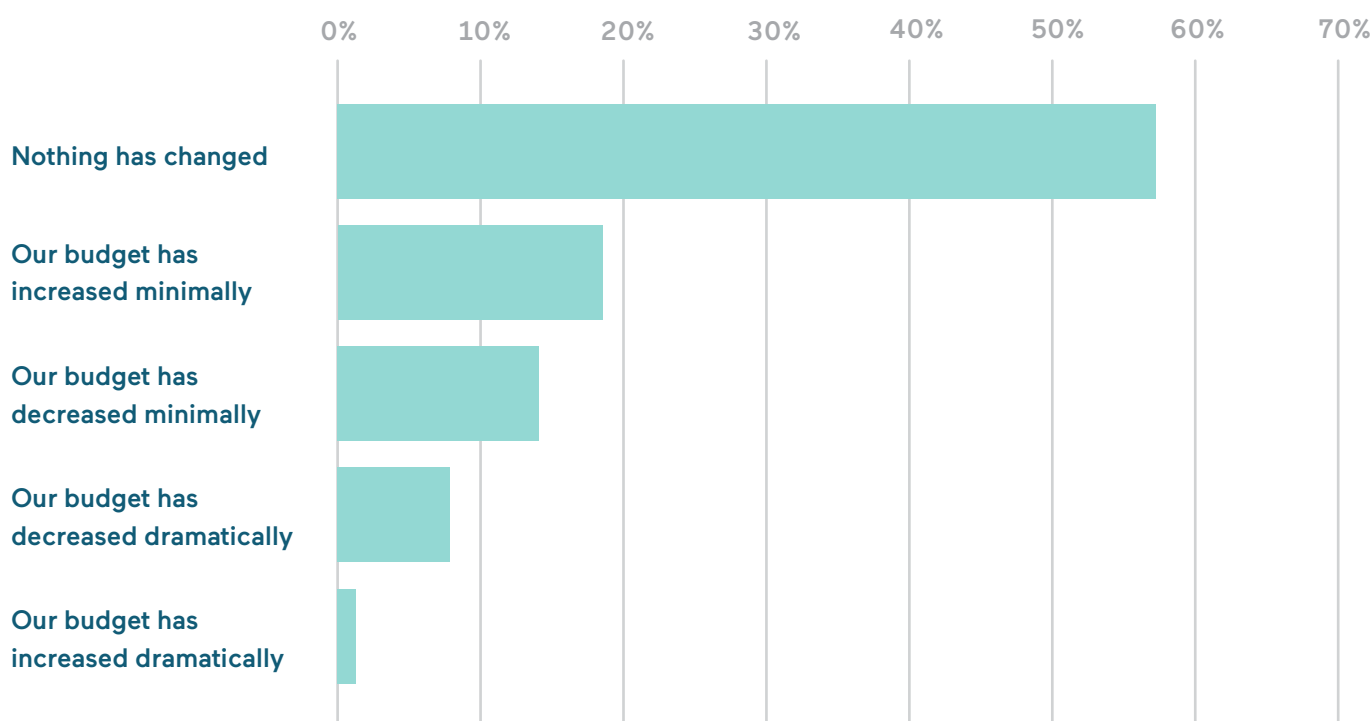
SECTION ONE

LEGAL DEPARTMENT PRIORITIES

BUDGETS REMAIN FLAT

When it comes to the pandemic's impact on legal department budgets, the majority of respondents (57%) said that their budgets have remained the same. Just one-fifth of those surveyed reported increases while almost one-quarter (22%) said budgets have decreased.

HOW HAS THE COVID-19 PANDEMIC IMPACTED YOUR EXTERNAL LEGAL BUDGETS?



Based on this intelligence, many legal leaders say they're looking to their external partners for help controlling their external legal spend, including shared risk billing models, alternative fee arrangements and better invoicing processes.

"Firms need to recognize the cost pressures, and [...] should only be undertaking work that adds value (i.e. we should be paying for expertise, and not administration)."

- Senior In-House Lawyer,
Transportation Sector

"Our next goal is to establish pricing agreements to better control our external legal spend so we want cooperation with that goal and good responsiveness."

- Senior In-House Lawyer,
Education Sector

CORE COMPETENCIES

Over the past year, legal departments have focused their attention on strengthening core competencies in five main areas:

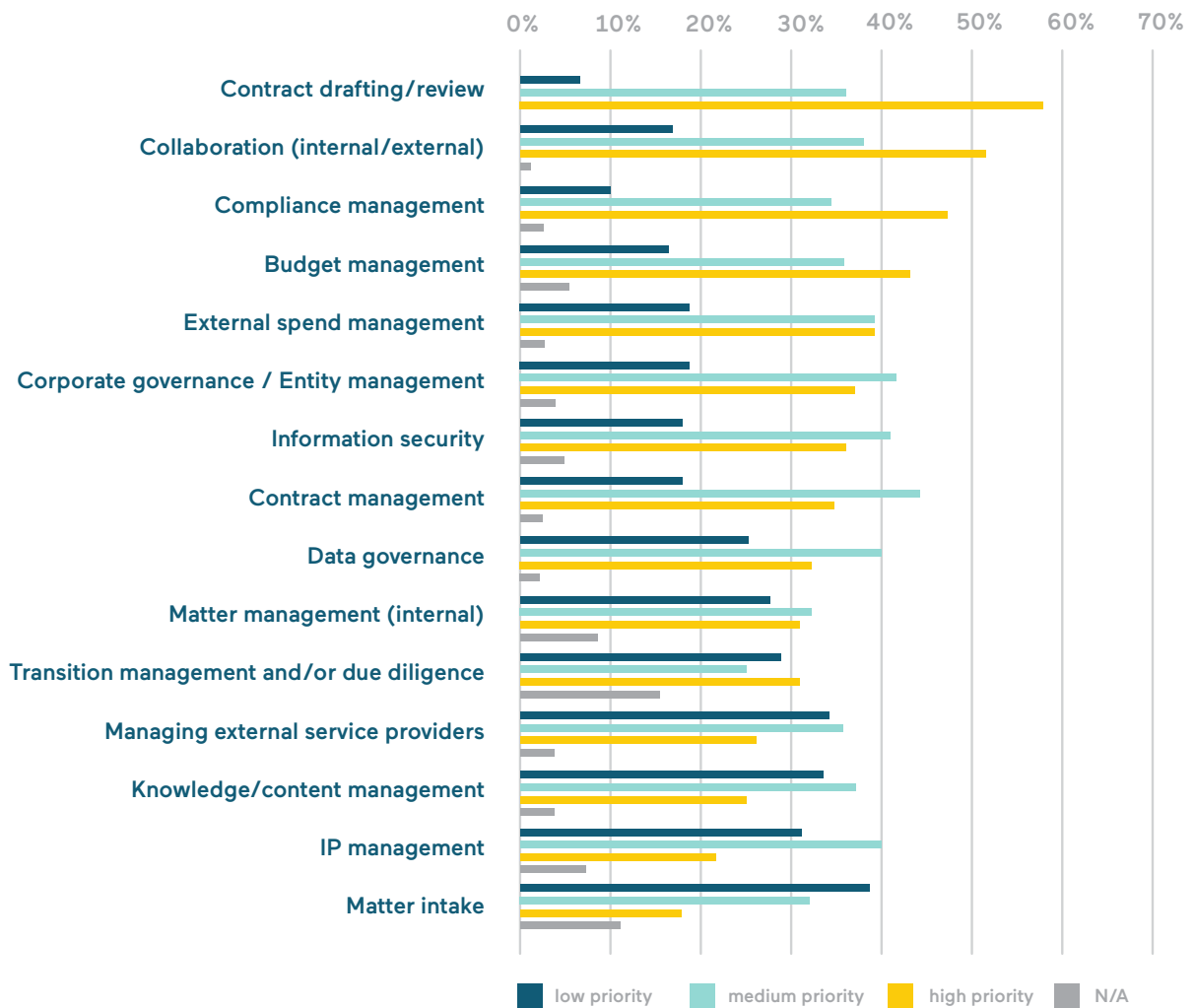
- Contract drafting/review - 58%
- Collaboration (internal/external) - 51%
- Compliance management - 47%
- Budget management - 43%
- External spend management - 39%

Medium-level priorities also provide interesting insights, including:

- Contract management - 44%
- Corporate governance / Entity management - 41%
- Information security - 40%
- Data governance - 39%
- IP management - 39%

WHICH CORE COMPETENCIES DID YOUR LEGAL DEPARTMENT PRIORITIZE OVER THE PAST YEAR?

(Please rank the following as low, medium, high priority or not applicable)



REMOTE WORK CHALLENGES

Many in-house lawyers cited concerns related to working in virtual environments over the prolonged period of the pandemic, indicating issues around:

- **Data management; staying on top of everything**
- **Data privacy compliance/work from home compliance**
- **Managing growth with limited resources**

While workloads and budget restrictions were consistently pointed to as major risk factors in 2021, cybersecurity threats and safeguarding data are also top of mind. Questions remain around the impact the pandemic will have on various sectors as businesses resume more normal operations.

Meanwhile, the perennial issues that haunt in-house lawyers continue, including:

- **Compliance management**
- **Contract management**
- **Data governance**
- **External spend management**
- **Knowledge/content management**
- **Matter management**
- **Contract drafting/review**



NEED FOR BETTER CONTROLS

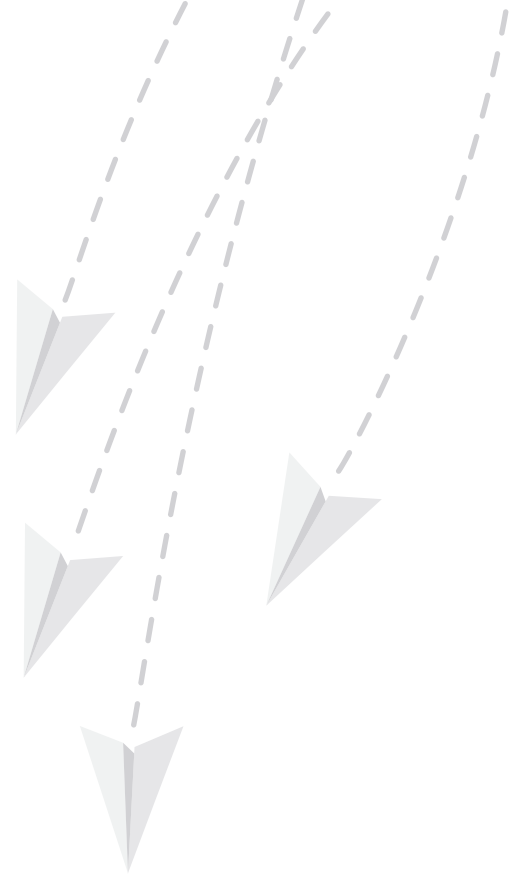
Also indicative of the distributed work environment, some in-house lawyers expressed frustration around risks related to document control — specifically with how they are not always included in the process when documents are being completed by business partners:

“Tracking contracts given huge volume and now non-law teamwork on standard form matters and we do not even get a copy – we need better ‘controls’ over what non-lawyers are doing and templates [need] to be better ‘protected.’ Do you want a non-lawyer finalizing indemnification language?”

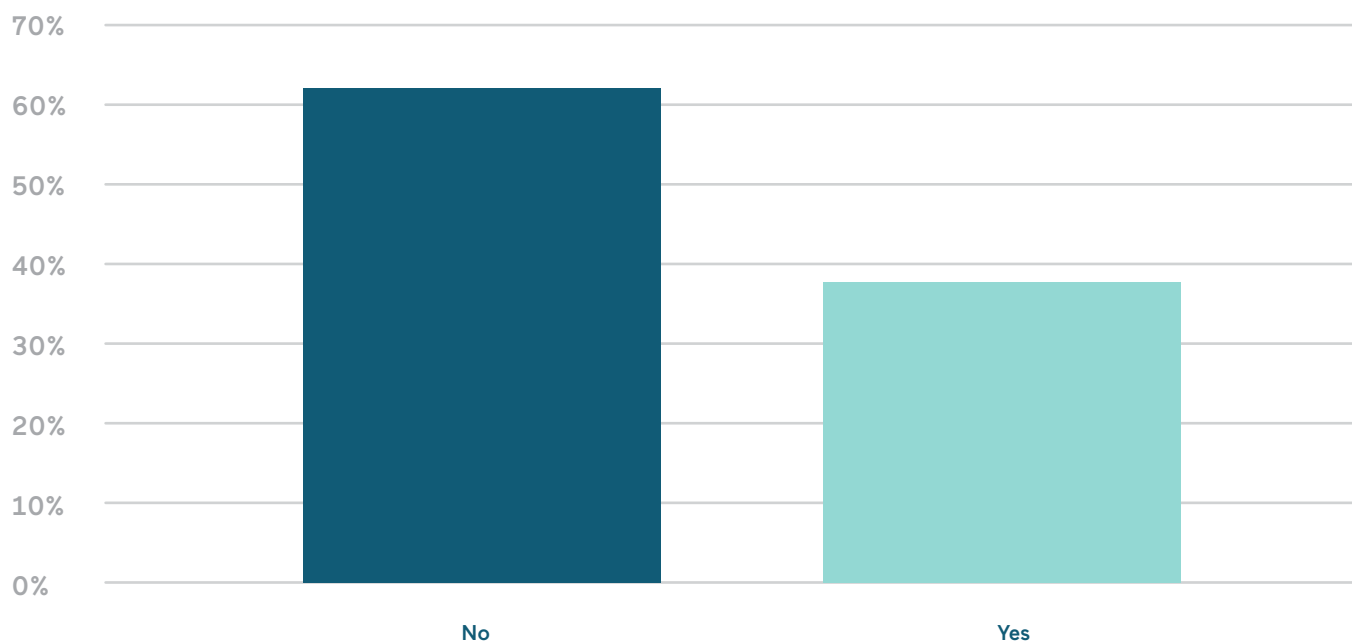
-Senior In-House Lawyer, Healthcare Sector

LEGAL OPERATIONS ARE STILL UNDERVALUED

Asked whether they had a legal operations function in their department, only 38% of legal departments answered yes. However, the percentage of legal departments with legal operations professionals is significantly higher in companies with more than \$100m CAD of revenue. In line with general trend lines across the sector in other jurisdictions such as the US and the UK, we expect roles specifically focused on legal operations to rise in the medium term.



DOES YOUR LEGAL DEPARTMENT INCLUDE A LEGAL OPERATIONS FUNCTION?



SECTION TWO

DIGITAL TRANSFORMATION

THE PUSH FOR LEGAL TECHNOLOGY

Process automation that helps increase efficiency and impact the business – underpinned by technology – is a key area that continues to gain momentum. Our survey indicates that the areas where technology is having the greatest impact currently and where in-house counsel expect it to have a significant impact in the next 12 months are largely aligned.

Areas where technology has the greatest impact on legal department efficiency and effectiveness are:

- **Contract management – 63%**
- **Contract drafting/review – 49%**
- **Knowledge/Content management – 45%**
- **Matter management – 36%**

WHERE DOES LEGAL TECHNOLOGY HAVE THE GREATEST IMPACT ON YOUR LEGAL DEPARTMENT'S ABILITY TO WORK MORE EFFICIENTLY AND EFFECTIVELY? (Please select your top 3-5 areas).





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When it comes to the legal technology that in-house counsel expect to have the biggest impact on their ability to work more efficiently and effectively over the next year, the top areas of focus are largely the same:

- **Contract management - 65%**
- **Contract drafting/review - 49%**
- **Matter management - 43%**
- **Knowledge/content management - 34%**

WHICH TYPES OF TECHNOLOGY TOOLS DO YOU ANTICIPATE BEING MOST IN DEMAND IN YOUR LEGAL DEPARTMENT OVER THE NEXT 12 MONTHS (Please select your top 3-4 tools).



CONSIDERATIONS WHEN INVESTING IN LEGAL TECHNOLOGY

As for investing in new technologies, more than two-thirds of respondents (69%) said their top consideration is the complexity of integrating a new solution with existing systems, followed closely by adoption (67%). Initial and ongoing costs also rank high, at 57%.

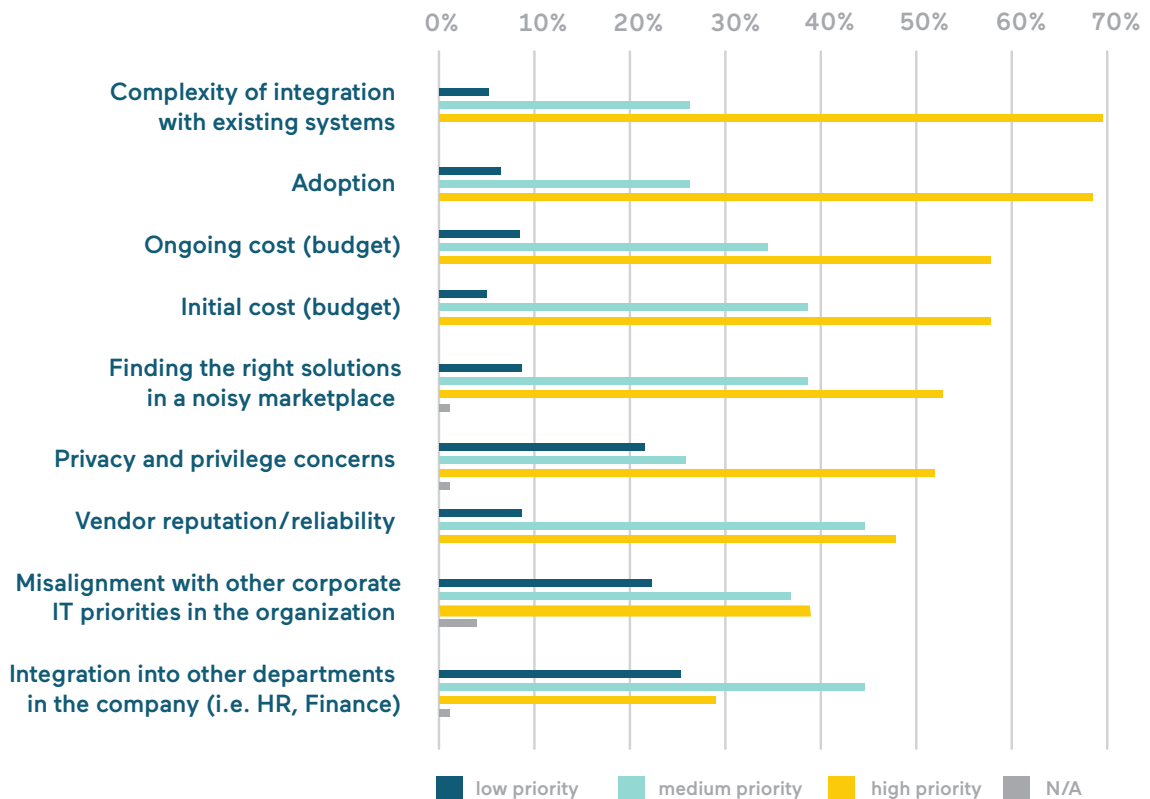
An area for vendors to pay attention to is the fact that more than half of respondents said that finding the right solution in a noisy technology marketplace is a key challenge. Vendor reputation/reliability is another key concern with more than 90% of respondents ranking it as being of medium or high importance.

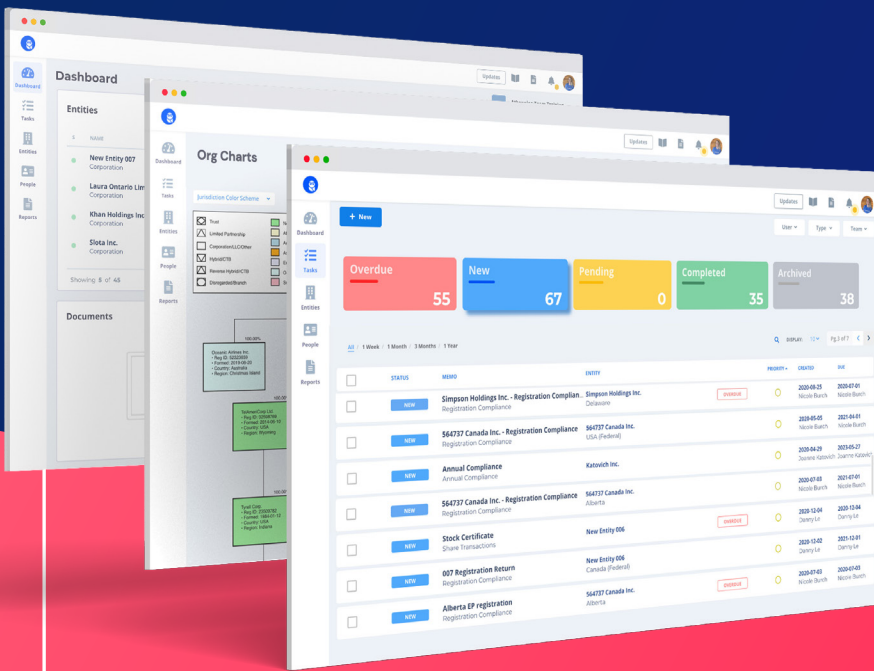
Interestingly, while only 24% of respondents ranked the ability to integrate legal technologies with other departments within their organizations as being of “high importance,” 44% ranked it as being of “medium importance.” This may be evidence of the acceleration of a much-heralded shift away from legal-focused solutions to integrated ones.

The top five considerations in order of importance include:

- Complexity of integration
- Adoption
- Ongoing cost
- Initial cost
- Finding the right solution in a noisy marketplace

PLEASE RANK THE IMPORTANCE OF THE FOLLOWING CONSIDERATIONS WHEN ASSESSING AN INVESTMENT IN LEGAL TECHNOLOGY? (Please rank low importance, medium importance, high importance, N/A).





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SECTION THREE

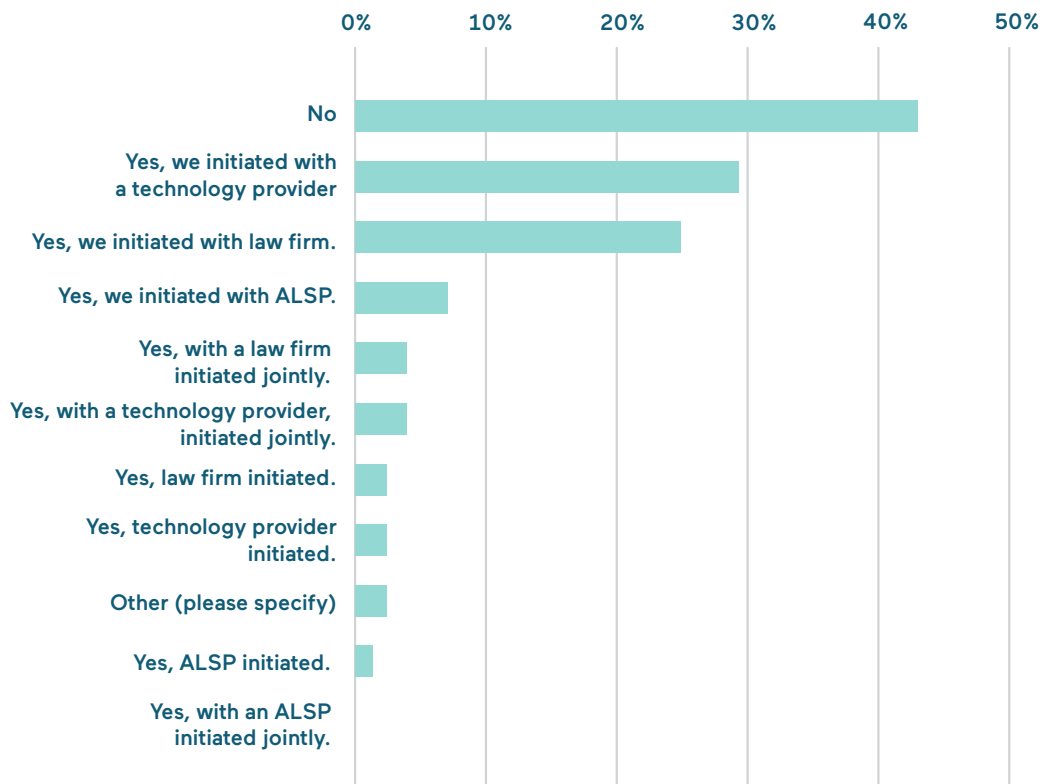
WORKING WITH PARTNERS

IN-HOUSE COLLABORATION

While many sectors have indicated that the pandemic has accelerated digital transformation and innovation initiatives across their organizations, our survey shows that legal departments may be lagging. One key thing to note is that the quest for innovation largely lies in the hands of the legal department to initiate. Respondents said that law firms, ALSPs and legal tech providers played little role in initiating these projects.

- 43% said they have **not** collaborated with an external provider for an innovation project
- 29% said they **initiated** projects with their technology providers
- 24% said they **initiated** innovation projects with their law firms
- 7% said they **initiated** innovation projects with an ALSP
- Less than 5% in each case said they initiated innovation projects jointly or were approached by a law firm, ALSP or legal tech provider to do so.

ARE YOU CURRENTLY WORKING WITH ANY EXTERNAL LEGAL PROVIDERS (LAW FIRMS, ALSPTS, LEGAL TECH PROVIDERS) ON INNOVATION INITIATIVES? IF YES, WHO PROMPTED THE INITIATIVE? (Please select all that apply if there are multiple initiatives underway).



While the pandemic has generally been a period of rapid digital transformation and accelerated technology adoption, 40% of in-house counsel think that their law firm providers are not innovative. However, 48% of respondents noted that some are innovative. This reflects the reality that while innovation programs exist within many Canadian law firms it may be the case that they are concentrated with a few firms and not broadly dispersed across the sector.

Legal departments want to partner with outside experts who can help identify opportunities for cost savings and improving efficiency.

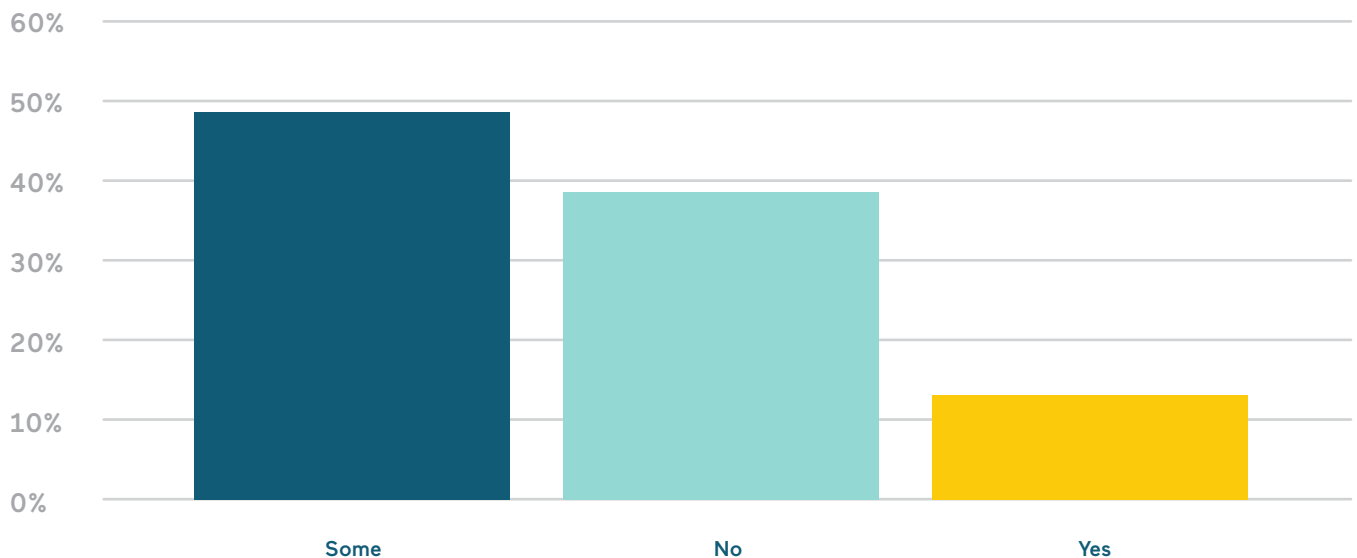
“Alternative fee arrangements never seem to materialize after requests made.”

- Senior In-House Lawyer, Financial Services Sector

“We are looking for innovative approaches to resolving legal issues that are not quoted as an hourly fee x # of hours.”

- Senior In-House Lawyer, Government Sector

DO YOU THINK YOUR EXTERNAL LAW FIRM PROVIDERS ARE INNOVATIVE?



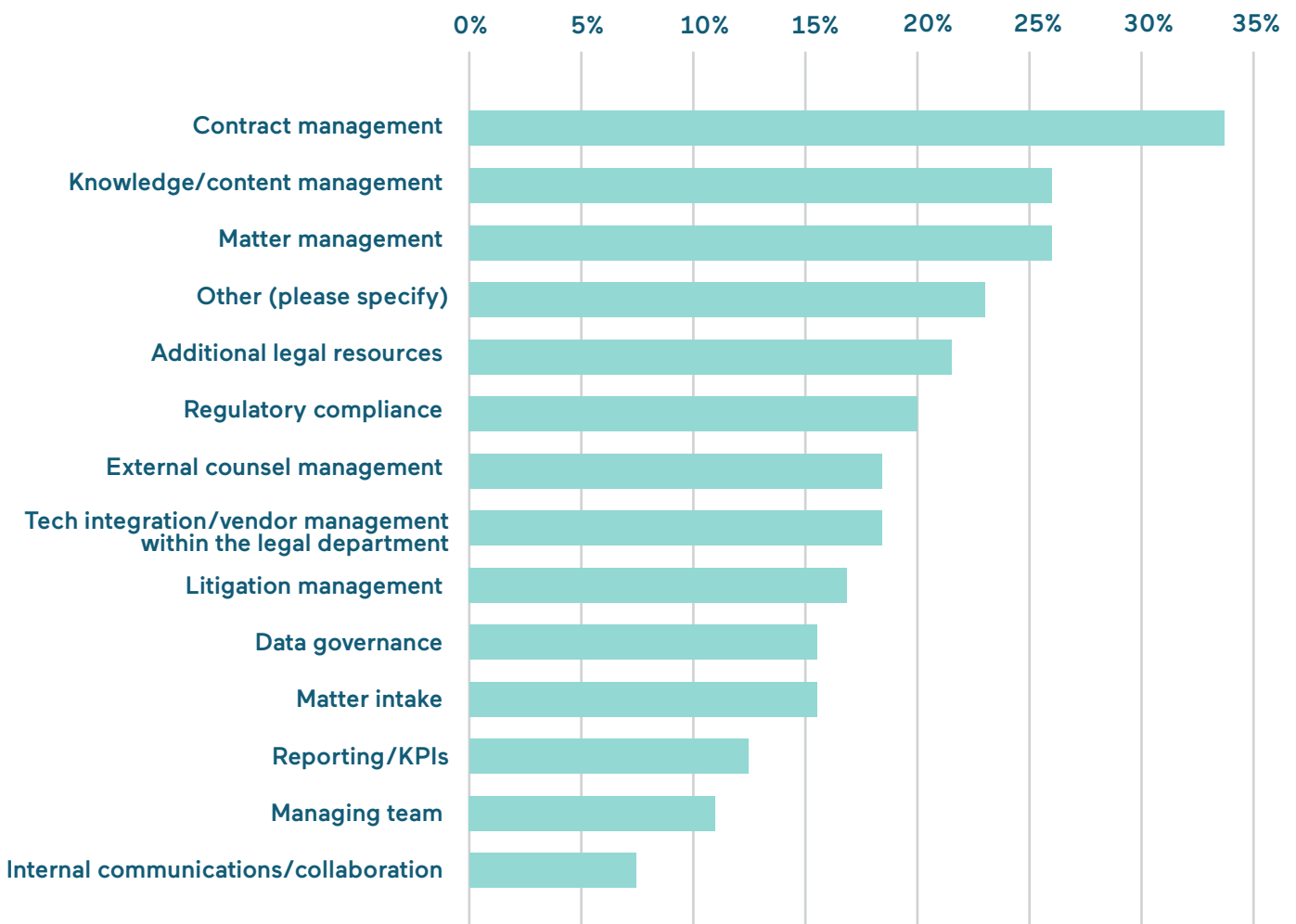
PARTNERING ON SELECT PROJECTS

In terms of the focus of innovation initiatives, legal departments are working with outside firms on projects related to contract management (33%), knowledge management (26%), matter management (26%) and supply of additional legal resources (21%).

The focus of these initiatives is – unsurprisingly – largely in line with key challenges legal departments say they are facing vis-à-vis their core competencies.

WHAT DO THESE COLLABORATIVE INITIATIVES RELATE TO?

(Select all that apply).



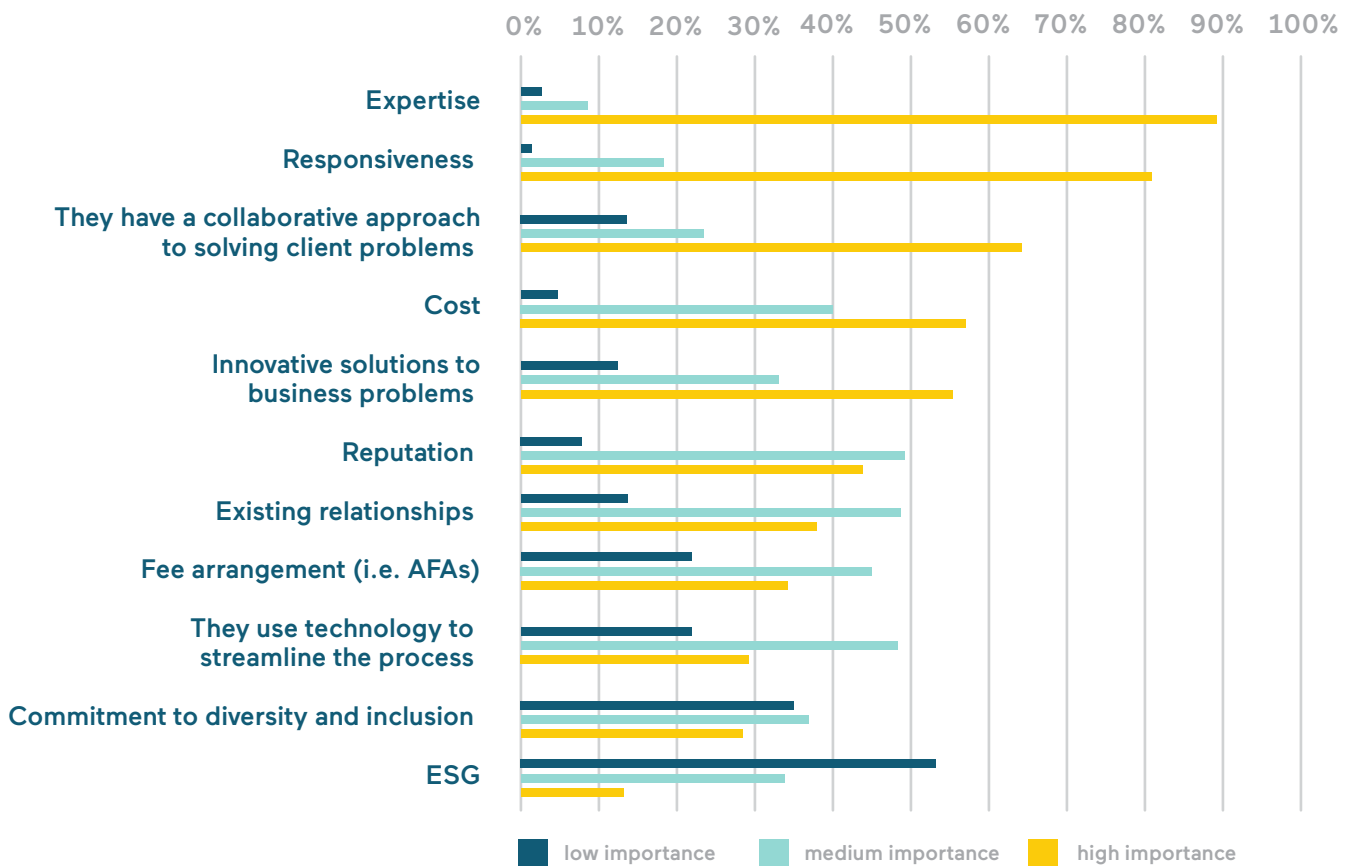
WHAT DO LEGAL DEPARTMENTS LOOK FOR WHEN CHOOSING EXTERNAL PROVIDERS?

When it comes to selecting an external legal service provider, 89% of in-house counsel said the most important consideration is legal expertise. Responsiveness came in second at 80%, and 63% said they choose partners who take a collaborative approach to solving problems. External providers who bring innovative solutions to business problems and cost both ranked fourth, with roughly 56% of respondents saying that these factors are of high importance.

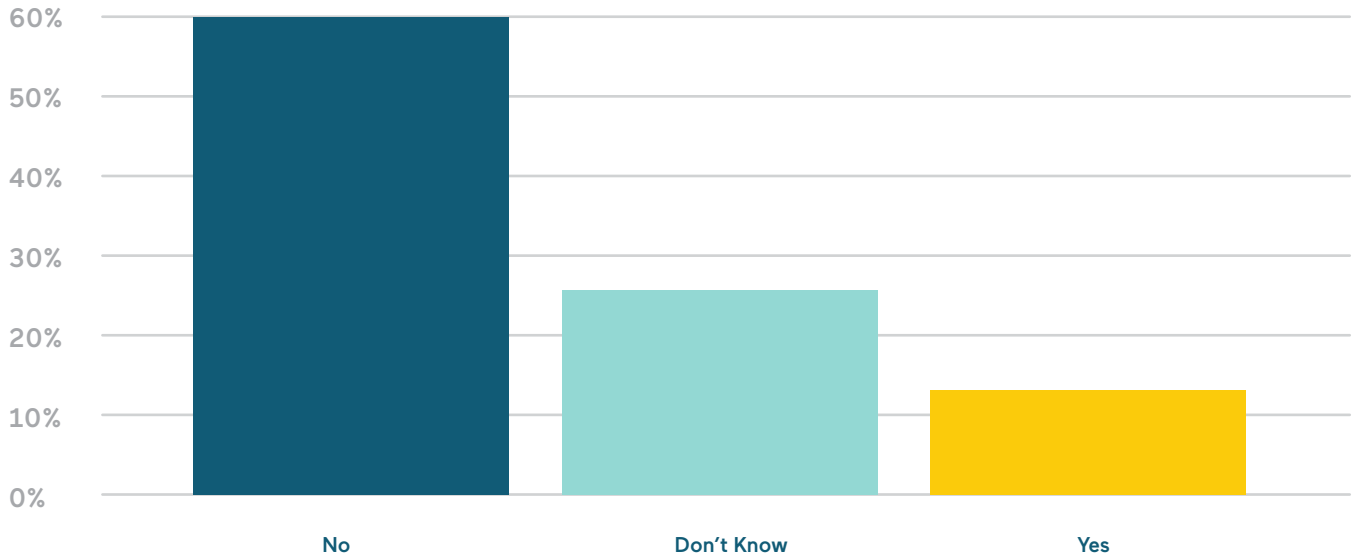
Lower on the scale of importance, according to respondents, are external partners' approach to diversity and inclusion and their philosophy around ESG.

WHEN CHOOSING AN EXTERNAL LEGAL SERVICE PROVIDER WHICH FACTORS ARE MOST IMPORTANT TO YOU?

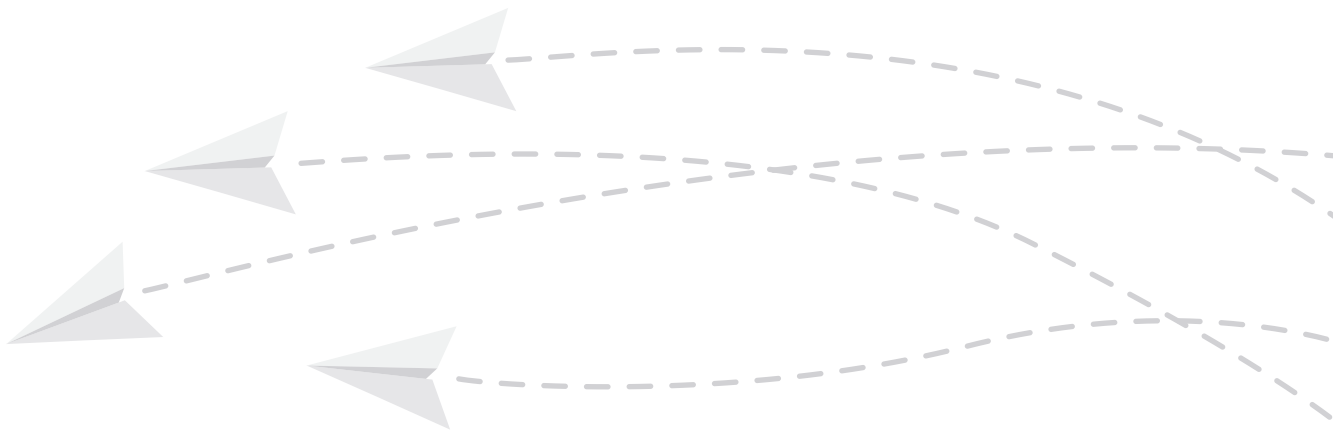
(Please select low, medium, high in order of importance)



ARE YOU USING ALSPs OR LAW FIRM CAPTIVE ALSPs TO GET LEGAL WORK DONE?



Only 14% of in-house counsel said they enlist ALSPs or law firm captive ALSPs for some of their legal work. This ranks well below the percentage found in other jurisdictions (for example, 71% of US corporate legal departments have said they use ALSPs in a recent report from Thomson Reuters).¹



¹ <https://www.legalexecutiveinstitute.com/alsp-report-2021/>

SECTION FOUR

BARRIERS TO INNOVATION

OVERWORKED, STRETCHED RESOURCES

While the need to innovate is paramount for organizations, many are struggling to keep up with day to day challenges. Of those who answered from across the country, 38% of respondents said their most significant challenges for their legal department over the next 12 months were “unmanageable workload,” followed closely by “budget management” at 32% and “contract management” and “data governance” at 27%.

“In-house teams are under greater pressure to work constantly and in home environments that do not have the same records management options as office-based environments.”

-Senior In-House Lawyer, Financial Services Sector

At the same time, another comment reflects the concerns of many corporate counsel — how to manage amidst continued growth with stretched capacity:

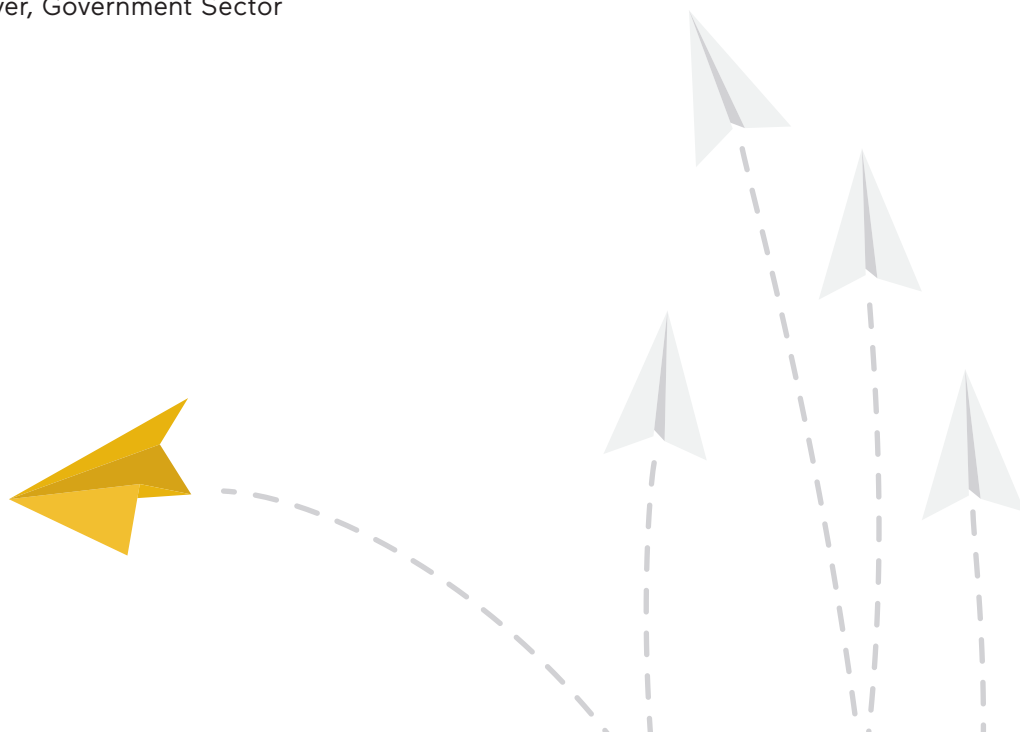
“Need to find different ways to deliver more and grow the team at the right level (junior lawyer, paralegal, other).”

-Senior In-House Lawyer, Information Technology Sector

Some respondents expressed concern over the long-term impact of the coronavirus pandemic on their organizations.

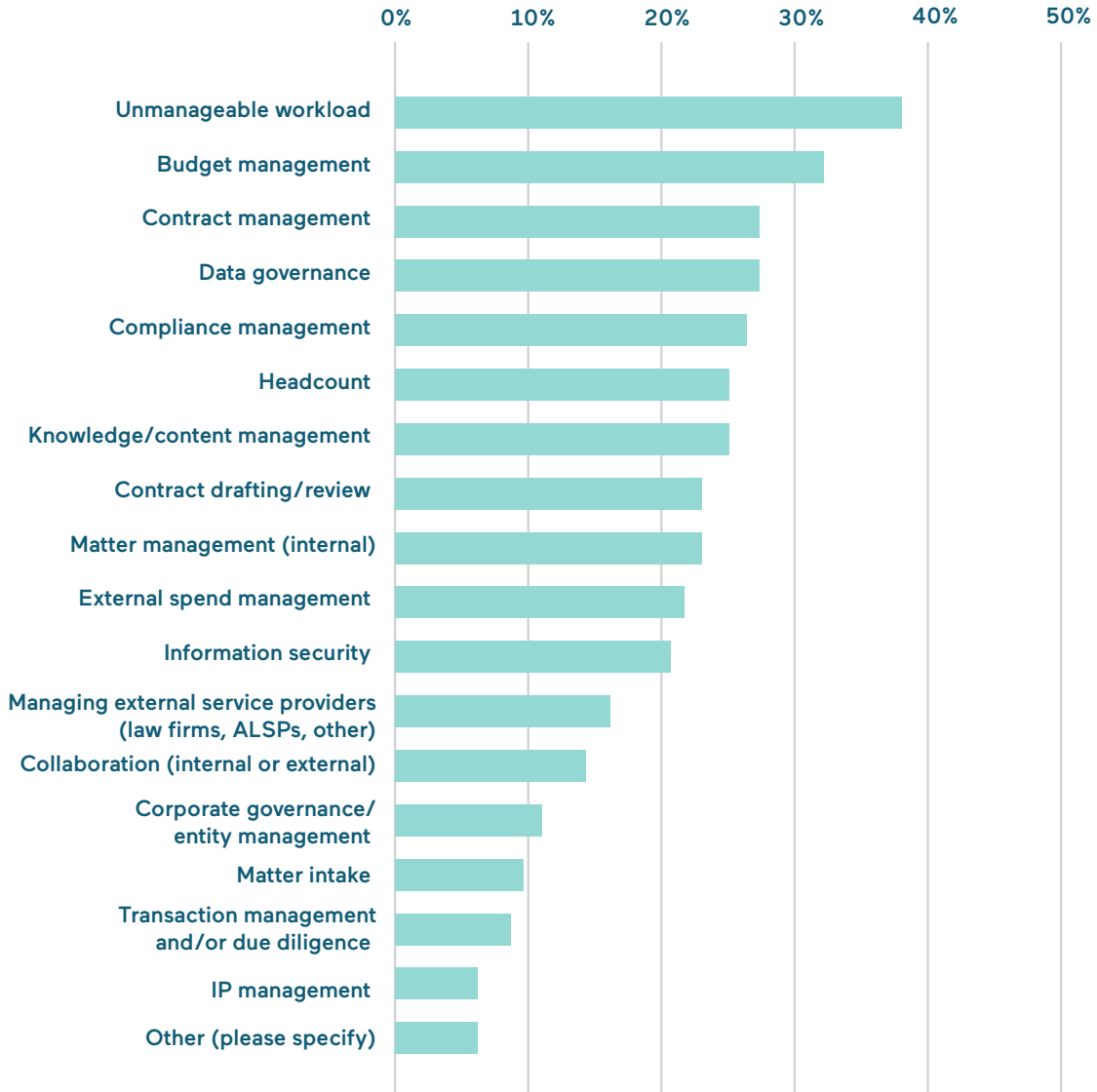
“Budget impacts due to reduced revenue; pandemic implications on operations and staffing.”

-Senior In-House Lawyer, Government Sector



WHERE DO YOU EXPECT TO SEE THE GREATEST CHALLENGES FOR YOUR LEGAL DEPARTMENT OVER THE NEXT 12 MONTHS?

(please select your top 3-5 challenges).





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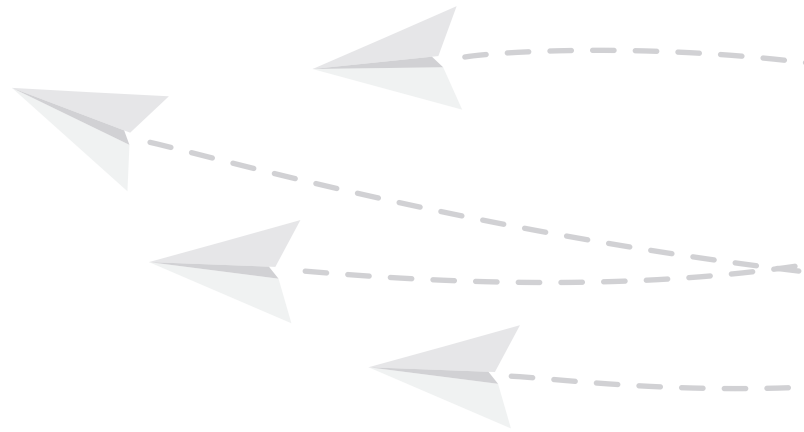
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- Estates



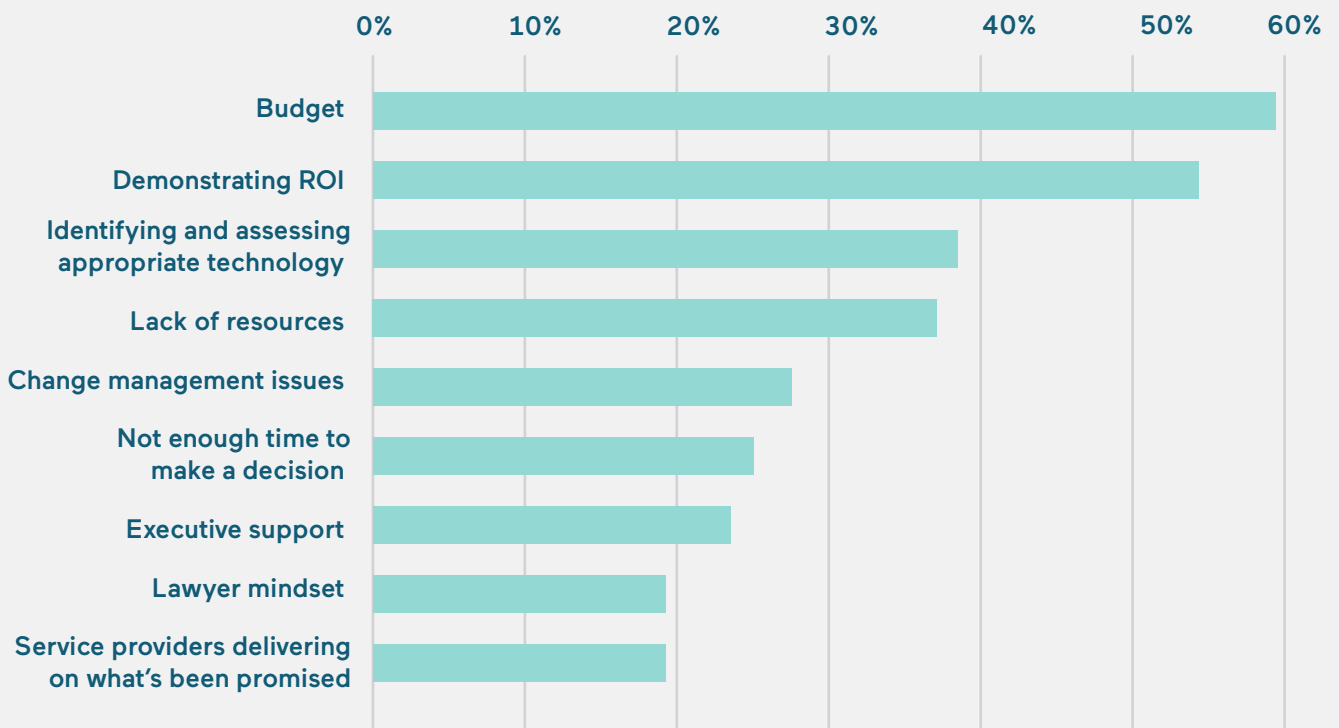
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Meanwhile, in-house departments said the two biggest challenges they face when it comes to innovation are budget (59%), followed by being able to demonstrate a return on the investment (53%) and identifying and assessing appropriate technology (38%).



WHAT ARE THE KEY CHALLENGES TO INNOVATION IN YOUR LEGAL DEPARTMENT? (Please select your top 3).



Below are a selection of responses to open-ended questions asked around what legal departments would like to see from their external providers as well as the key risks they are facing.

WHAT TYPES OF SUPPORT FOR LEGAL OPERATIONS WOULD YOU MOST LIKE TO SEE FROM YOUR EXTERNAL LEGAL SERVICE PROVIDERS?

INNOVATION

- *“Demonstrated cost savings from innovation.”*
- *“Solutions that go beyond the legal team. Useful for multiple business units but specific to an issue within the Legal team.”*
- *“Contract Management; Knowledge/document management. General consulting to help identify space for improved efficiencies and suggest solutions that fit department’s specific need.”*

ALTERNATIVES TO THE BILLABLE HOUR

- *“Our next goal is to establish pricing agreements to better control our external legal spend so we want cooperation with that goal and good responsiveness.”*
- *“Innovation in the type and style of service they provide as an alternative to the billable hour (which suits them).”*
- *“Innovative approaches to resolving legal issues that are not quoted as an hourly fee x # of hours.”*
- *“Better and efficient billing for high volume external law firms.”*
- *“Alternative fee arrangements never seem to materialize after requests made.”*
- *“Low-cost options or defined services at set prices.”*
- *“Budget management.”*
- *“Recognition that our interests are not aligned. Firms need to recognize the cost pressures, and also that firms should only be undertaking work that adds value (i.e. we should be paying for expertise, and not administration).”*
- *“Improved invoice processes.”*
- *“E-billing in LEDES format.”*
- *“Legal project management, alternative billing structures, shared risk billing models.”*
- *“Legal project management, effective budget estimates and budget management.”*

MANAGEMENT/
GENERAL

- *“Almost everything. Law firms see matters/issues daily that I see annually. They should have legal ops solutions across the board.”*
- *“Matter/transaction/Due Diligence management.”*
- *“Knowledge Management.”*
- *“None. We are doing it in house.”*
- *Contract/data/transaction management.”*
- *“More real time visibility on work in progress and tied to milestones.*
- *“Advisory.”*

INTEGRATION

- *“Greater diversity of solutions that integrate or are interoperable with in-house solutions.”*
- *“More integration with our team.”*
- *“Clear, summarized information that is easily accessible.”*

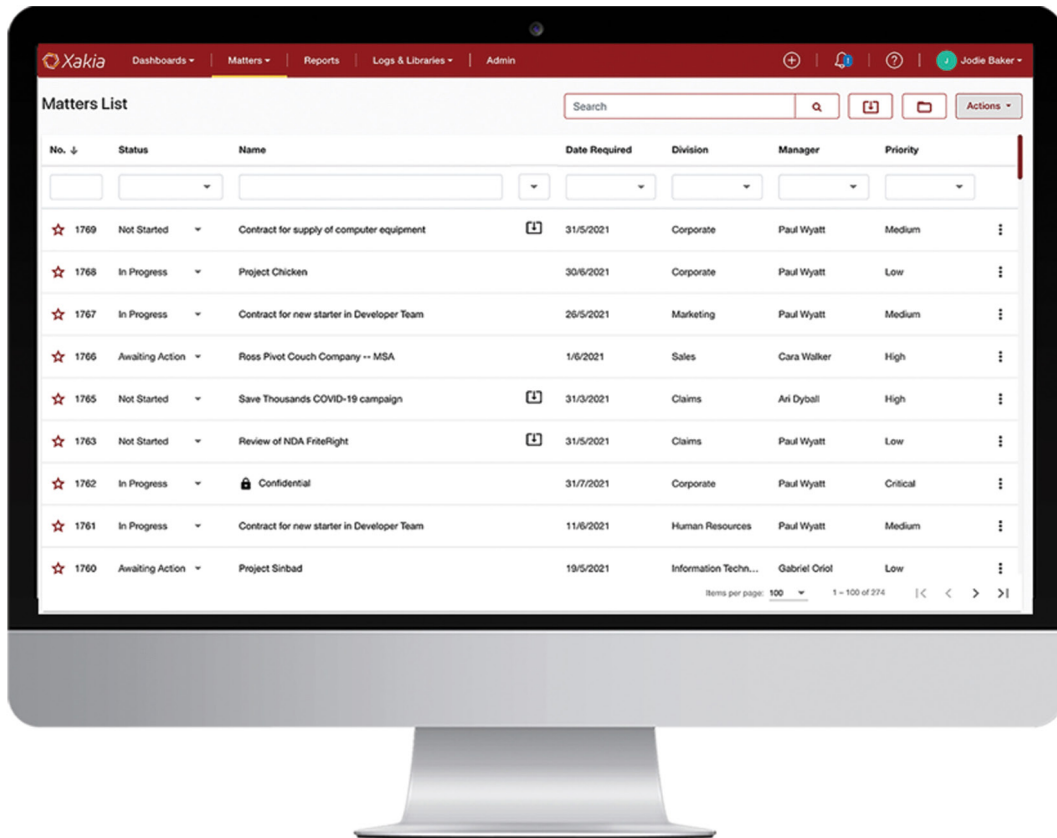
TECH

- *“Helping us choose/implement technology tools.”*
- *“Better project management or tracking systems.”*
- *“Technology assistance: tools, templates, sharing of content.”*
- *“Appropriate fee arrangements and matter budgeting. dashboard management of managed legal matters, increased use of technology to facilitate non-substantive legal review.”*
- *“Package offers for small insolvency cases.”*

SUPPORT

- *“Due diligence support at a reasonable cost.”*
- *“Support to reduce workload, therefore ways to streamline our requests for advice/contract drafting activities etc.”*

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WHAT ARE THE TOP RISKS FACING YOUR ORGANIZATION IN 2021?

INNOVATION

- *“Inefficiencies and lack of innovation.”*
- *“Compliance with, and development of, effective internal policies which enable innovation.”*

WORKLOAD/STAFFING

- *“Work overload.”*
- *“In-house teams are under greater pressure to work constantly and in home environments that do not have the same records management options as office-based environments.”*
- *“Burnout.”*
- *Staffing issues.”*
- *“Being understaffed.”*
- *“Resources. Personnel and technology.”*
- *“Resources. Security and Privacy.”*
- *“Continued growth with stretched capacity. Need to find different ways to deliver more, and grow the team at right level (junior lawyer, paralegal, other).”*
- *“Same budget, increased workload.”*
- *“Personnel.”*
- *“Recruitment to meet demand.”*

BUDGET/COSTS

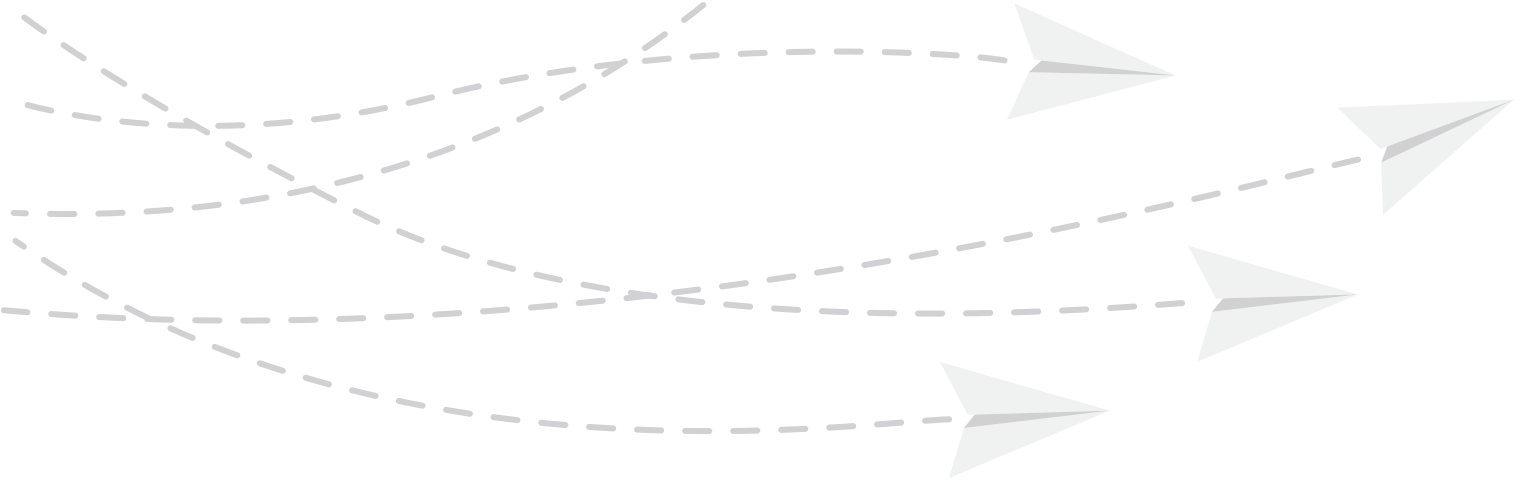
- *“Really high deductible so self-insured for most litigation costs.”*
- *“Budget.”*
- *“Financial stability.”*
- *“Workload/budget.”*
- *“Budget impacts due to reduced revenue; pandemic implications on operations and staffing.”*

RISK & COMPLIANCE/PRIVACY/SECURITY

- *“Privacy/data security.”*
- *“Privacy and data management budget. Business risk.”*
- *“Data privacy.”*
- *“Cyber security, data privacy.”*
- *“Litigation risk.”*
- *“Business risk and disruption.”*
- *“Supply chain disruption.”*
- *“Cybersecurity, compliance management and risk assessment.”*
- *“Privacy.”*
- *“Data security and privacy matters.”*
- *“Data management, staying on top of everything.”*
- *“Privacy management.”*
- *“Privacy compliance; work from home compliance.”*
- *“Market factors.”*
- *“Uncertainty in the marketplace.”*
- *“Managing growth.”*
- *“Infosecurity demands outstripping resources to address them.”*
- *“Speed, nimbleness, client demands, competitive marketplace.”*
- *“Compliance with regulatory matters, tracking contracts given huge volume and now non law team work on standard form matters and we do not even get a copy - we need better “controls” over what non lawyers are doing, templates to be better “protected” (do you want a non-lawyer finalizing indemnification language.”*
- *“Regulatory changes, COVID market impact, IT infrastructure access, competition changes, human resource changes due to changing remote work demands.”*
- *“Fewer clients.”*

PANDEMIC'S IMPACT

- *"Impact of COVID on the retail industry as a whole including the move to digital retailing; management of data including cyber security and privacy risks; impact of a possible recession on the Canadian economy."*
- *"Impact of the Covid-19 pandemic."*
- *"Managing a paraxial return to work in the context of Covid."*
- *"COVID impacts on contractual matters."*

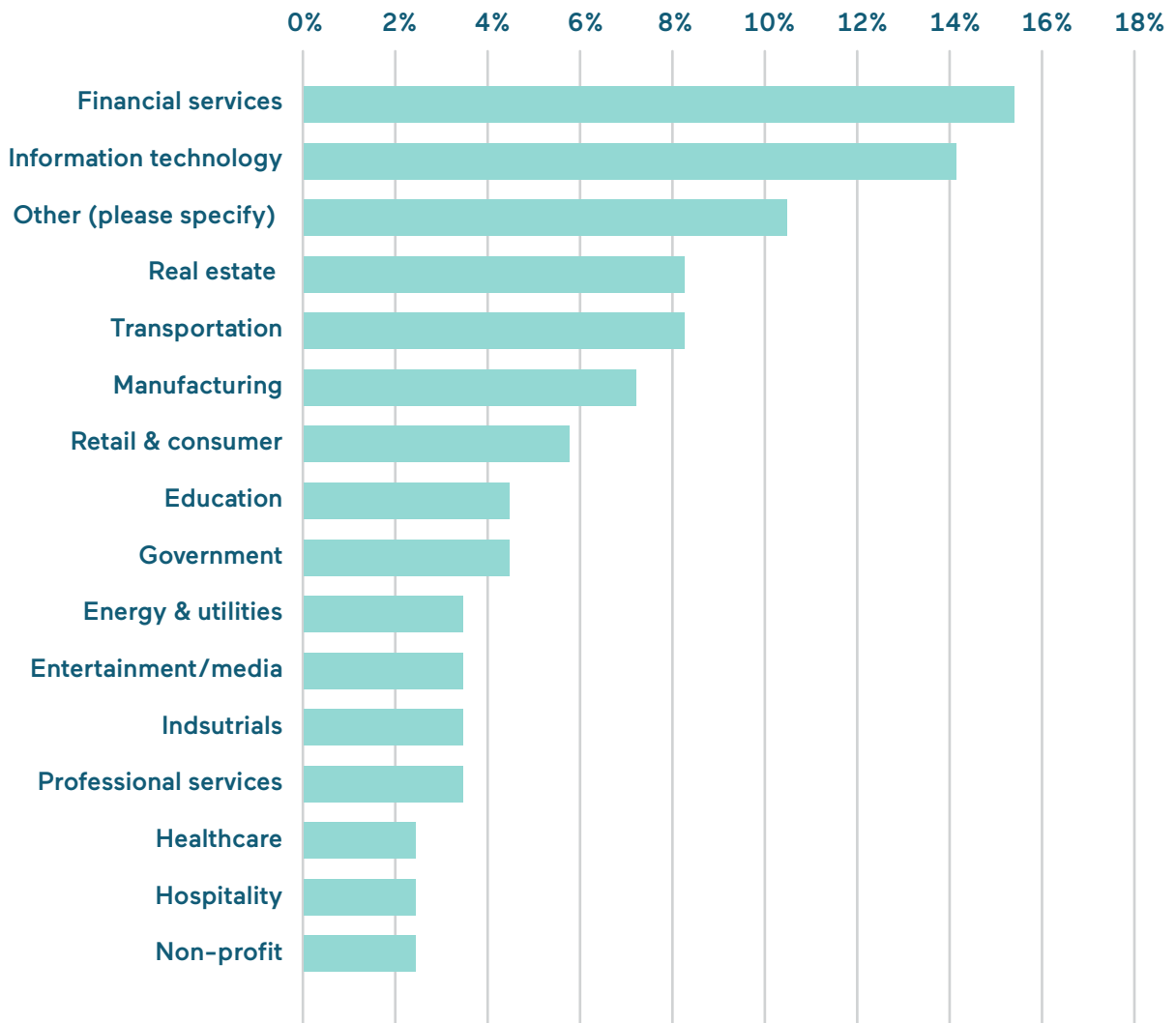


METHODOLOGY

Throughout Spring 2021, the Canadian Legal Innovation Forum surveyed 85 decision makers from different corporate legal departments at organizations across the country. Respondents include general counsel, assistant general counsel, legal counsel, and legal operations professionals in a variety of industries, including financial services, information technology, real estate, manufacturing, education, government and transportation.

Below is a breakdown of sector, size of organizations operations and size of legal departments who responded to the survey.

IN WHAT INDUSTRY DOES YOUR ORGANIZATION OPERATE?



WHAT IS THE APPROXIMATE SIZE OF YOUR ORGANIZATION'S BUSINESS OPERATIONS IN CANADA?



WHAT IS THE SIZE OF YOUR LEGAL DEPARTMENT (including lawyers and other professionals)?

