

## HBR Consulting's Annual Law Department Survey and Sounding Board Series Reveal a Year of Growth in 2022 as 2023 Challenges Loom

***Previously optimistic about headcount, spending, and technology investments, law departments now anticipate economic pressures in the new year***

**December 8, 2022 (Chicago)** – While the majority of law departments anticipated increases in headcount, spending, and investments in technology throughout most of 2022, heading into the new year law department leaders anticipate economic pressures and evolving demand will impact their focus in 2023, according to the [2022 HBR Consulting \(HBR\) Law Department Survey](#) and HBR's series of law department Sounding Boards held throughout 2022.

This year, results of the annual Survey, which provides benchmarking data on legal spending, staffing and operations, are augmented with insights from general counsel and legal operations leaders who participated in HBR's 2022 Sounding Board Series. The Survey and Sounding Boards reflect data and insights from more than 200 participating corporations.

“The annual Survey provides a holistic view of law departments’ priorities and challenges that can be leveraged not only by in-house leaders, but also by their law firm counterparts who seek stronger collaboration and a differentiated, client-centric approach to service delivery with corporate partners,” said [Matt Sunderman](#), HBR’s chief executive officer. “This year’s Survey results and Sounding Board data provide interesting insights on how the macro-economic realities are impacting law departments, intensifying focus on the upcoming law firm rate review cycle. Law departments are also making positive advances in technology adoption coming out of the pandemic, which may benefit them in times of economic uncertainty.”

### **Evolving economy and job market are expected to impact law departments**

Through Q3 2022, the majority of law departments continued to maintain favorable hiring outlooks, projected spend increases, and growth in demand. 57% of Survey respondents anticipated an increase in headcount and only 5% anticipated a reduction. This favorable outlook was matched by an anticipated rise in internal legal spending, with 71% of departments anticipating an increase (up from 55% last year). Projected growth was not limited to internal investments: 46% of in-house teams (up from 36% last year) also anticipated rising outside counsel spending.

Demand also was expected to grow. Although contracts, cybersecurity, and data privacy continued to be the top anticipated areas of growing demand for law departments, shifts were observed in other key areas of law: 70% of law departments anticipate an increase in demand for regulatory services (up from 56% last year) while 37% anticipate an increase in M&A (down from 53% last year).

“As departments have emerged from the pandemic into the “new normal” over the last year, we have seen a continued uptick in activity ranging from growing demand in new areas, expansions of internal teams, new investments in technology, and initiatives to optimize service delivery as part of broader corporate transformations,” said [Lauren Chung](#), chief practice officer and survey editor at HBR. “Only in recent months, as economic uncertainty has grown, have we seen departments start to reassess their position for 2023 and proceed more cautiously.”

That caution was reflected in HBR’s most recent Sounding Board Series this fall, where 79% of participating law department leaders indicated corporate mandates for cost reduction as a top challenge faced by their departments heading into the 2023 planning process. Other top strategic planning challenges going into 2023 included changing demand/volume of work (69%) and macro-economic factors (e.g., recession planning) (64%).

While 77% of law department leaders participating in the Sounding Board Series indicated the “war for talent” has had a moderate to significant impact on their turnover/hiring to date, just over half of leaders (52%) considered this a challenge heading into 2023 strategic planning.

“Similar to many industries, in-house teams have experienced significant disruption as the “war for talent” has impacted retention and recruiting efforts, stretching many teams thin in a period of growing demand,” said Chung. “We have begun to see some tapering of this turnover heading into the latter part of the year.”

## Law firm rate review cycle is top of mind as the year closes

As the end of the fiscal year approaches with continued economic uncertainty, law departments are focusing on law firm annual rate review cycles.

New and expanded questions to this year's Survey and Sounding Board Series offered insights into how departments are approaching and thinking about the upcoming cycle. 74% of departments indicated they have implemented, are planning to implement, or have implementations in progress of structured and formalized processes to review rates on an annual basis.

Emerging from the 2021-2022 rate review cycle, law departments indicated a median approved rate increase of 5%, with 20% of departments experiencing unusually high approved rate increases of 10% or more. When asked about plans for handling the upcoming 2022-2023 rate review cycle, a more conservative stance seems to be taking hold as 44% of law department leaders in the Sounding Board Series indicated they planned to enforce limitations on the types of increases accepted (e.g., promotion only).

"During the early phases of the pandemic we saw many law departments ask firms to freeze rates amidst widespread uncertainty," said Chung. "As concerns eased during the 2021-2022 cycle, we saw many firms request high increases, citing the need to make up for prior year freezes and to cover the rising salary costs we saw in so many headlines. It will be interesting to see how law departments and outside counsel can partner in this upcoming cycle to meet the pressures faced on both sides of the equation."

## Workflow technology and analytics gain traction with in-house teams

Despite evolving economic and job market realities, law departments have remained focused on technology, with 51% anticipating an increase in their legal technology budget.

In 2022, significant traction was made in analytics related technology: 60% of departments indicated having implemented a legal data analytics tool (up from 52% last year) and 26% indicated using artificial intelligence for at least one use case (up from 15% last year).

For the first time, emerging workflow-based technologies have taken the lead as the tools most likely to be considered for implementation in the next one to two years. 30% of departments indicated consideration of legal service request tools (up from 19% last year) and 29% expressed interest in robust workflow automation tools (up from 19% last year).

"Technology has become front and center for law departments in the new hybrid work environment," said Chung. "We are seeing many departments that have already adopted core legal technology (e-billing, document management, etc.) turn their focus to emerging tools related to workflow and analytics that can help align legal with the innovation trends we are seeing take off in the corporate world more broadly. Strategic investment in these types of technology can also improve efficiency and drive data-driven decision making, which will become increasingly important as economic pressures impact law departments."

## About HBR Consulting

HBR Consulting (HBR) provides law firms and corporate law departments with strategic guidance, operational improvement, and technology solutions that drive innovation while managing cost and mitigating risk. HBR's proven combination of experience, relationships, and insights—spanning the legal ecosystem—delivers sustainable financial and competitive advantages for its clients. Visit [www.hbrconsulting.com](http://www.hbrconsulting.com) and follow HBR on [LinkedIn](#) and [Twitter](#).

## About the Survey and Sounding Board Series

The annual [HBR Law Department Survey](#) is the leading source of benchmarking data for corporate law departments, providing comprehensive data on legal spending, staffing, operations, technology, outside counsel management and compensation. The Survey, now in its eighteenth year, including data from over 160 participating companies representing over 15 industries. HBR will host a [webinar](#) for law departments on December 14<sup>th</sup> presenting relevant highlights.

The 2022 HBR Sounding Board Series brought together a range of law department and law firm leaders in meetings with their peers. The series included five law department virtual roundtables, providing general counsel and legal operations leaders from more than 78 companies the opportunity to share experiences and challenges, ask questions of one another, and offer best practices for some of the most pressing issues they faced in 2022.

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