



Thomson Reuters Institute

2023 Canadian Legal Market Update

Long a model of stability, the Canadian legal market is now embracing change

Executive summary

The Canadian legal market typically has been a model of stability over the years, in which Canadian-based clients' levels of legal spend and the types of legal services sought, as well as where those clients are located have remained reliably solid year over year.

That said, Canada has not been immune to the pandemic-induced turmoil of the last three years. As new and more complex regulations flood the market and issues that had largely been obscured beforehand — such as environmental, social & governance (ESG) issues or cybersecurity concerns — emerge as major challenges, the corporate law departments of many Canadian companies have had to shift their mindset and their approach to managing how their needed legal work gets done and what they're willing to pay for it.

To shed more light on this, the Thomson Reuters Institute has published the *2023 Canadian Legal Market Update*, which presents the results of a survey of corporate law department leaders in order to gain their perspective on key issues such as growth strategies, client relationship development, strategic investments, and performance management.

This year's survey identified certain key developments that are now reshaping the Canadian legal market, including:

- **Being aggressively proactive** — Since 2020, the percentage of Canadian corporate law departments talking about more aggressively preventing and mitigating risk for their companies has nearly doubled, raising this as a key priority for many departments and their outside law firms.
- **Having a talent-investment mindset** — Talent in the legal industry became a flash point in 2021 — not only in Canada but across the globe — and more Canadian corporate law departments have made investing in talent a top strategic priority for 2023. In fact, the percentage of corporate clients placing the need to invest in talent at the top of their lists has more than doubled since 2020.
- **Requiring business savvy from their legal providers** — While the attributes that Canadian corporate law departments look for in their external legal providers are similar to those sought by other corporate law departments around the world, business savvy — how well a law firm understands the client company's goals and can offer advice that is practical and proactive in nature — and a firm's reputation are two attributes upon which Canadian law departments place even more emphasis.

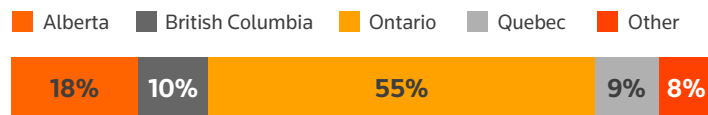
Not surprisingly, the attributes of expertise and service are still the main drivers of favorability for corporate law departments in Canada and in other parts of the world.

Methodology

This report was taken from the results of 272 interviews with Canada-based respondents within the corporate in-house legal community in various legal roles within their companies, which were conducted among multiple different industries. These interviews were conducted throughout 2022.

Figure 1: **Research demographics**

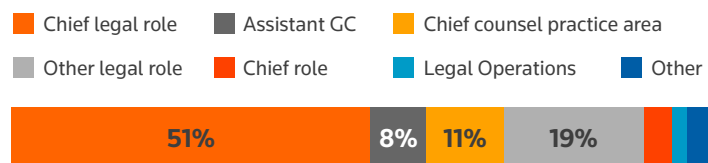
Location



Revenue



Role

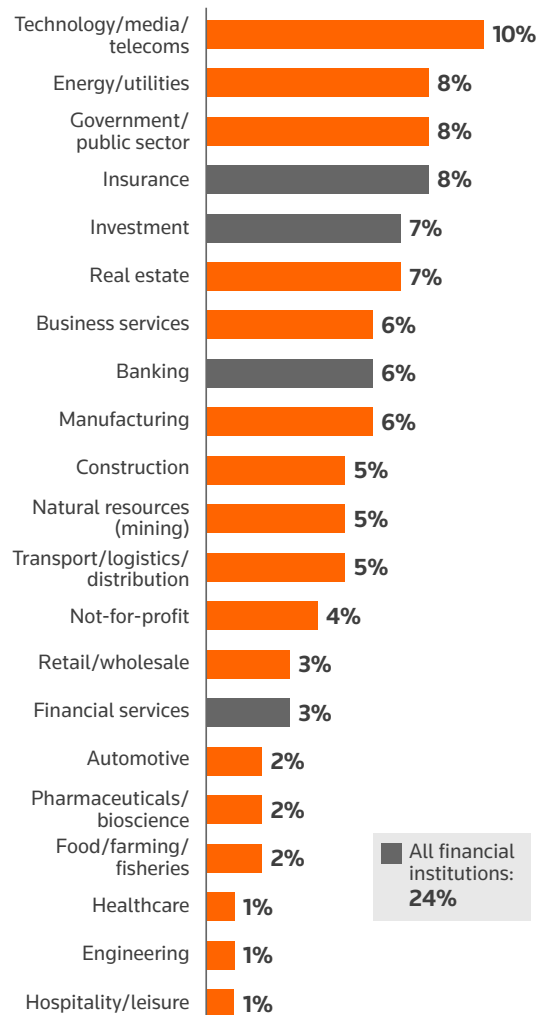


Market



Number of responses: 272

Industry



Source: Thomson Reuters 2023

Our survey sample of Canadian corporate law departments can be divided by company size — those with annual revenue of between \$50 million and \$1 billion (155 respondents) and those with annual revenue of \$1 billion or more (117 respondents).

Unsurprisingly, there were significant differences between those two segments. Larger companies had an average USD \$17.3 million annual legal budget and a median team size of 64 professionals, while the smaller ones had an average USD \$2.9 million budget, with a median team size of eight professionals. Larger legal departments also spent a slightly higher percentage of their overall budget on external legal providers (69%), compared to smaller companies (65%). And a much bigger portion of larger companies (85%) had legal matters that were international in scope, compared to the portion of smaller companies (63%) that had legal international matters.

Addressing international legal needs

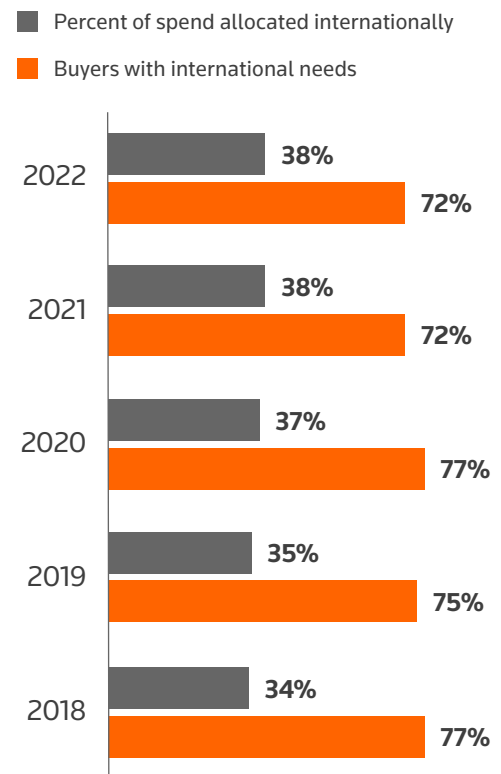
Over the last five years, the percentage of Canadian companies with international legal needs had dipped, but those corporate law departments with needs outside of Canada are dedicating a higher proportion of their budget to this international work.

Overall, 72% of respondents said they had international legal needs, just under the global average of 78% of companies. Among those that said they have international legal needs, they indicated that those needs extend to an average of 20 countries. They also spend more than one-third (38%) of their overall legal budget on international legal matters.

Interestingly, 42% of these law departments said they expect their level of legal spending that goes to international matters to increase, while another 34% said they expect their international legal spend to stay the same. Just 10% said they expect their international legal spend to decrease.

Indeed, a look at the five-year trends comparing the percentage of companies with international legal needs to the percentage of their overall legal budget that is dedicated to international legal matters shows how relatively stable these levels have been.

Figure 2:
**International needs vs.
international legal spend**



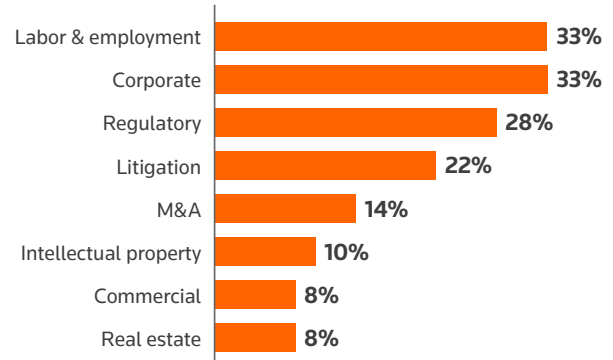
Source: Thomson Reuters

Where the work is coming from

On the flip side, the amount of working coming *into* Canada from outside the country — presumably to the benefit of Canadian-based law firms — has continued to grow slowly over the past few years. In 2022, the percentage of legal buyers outside of Canada with legal needs inside the country reached 59%, after creeping up from 55% in 2018.

Figure 3: **Work inbound to Canada****Percent of buyers outside of Canada with Canadian legal needs**

Number of responses: 1237

Most needed work types coming into Canada
(Global buyers based outside of Canada)

Source: Thomson Reuters 2023

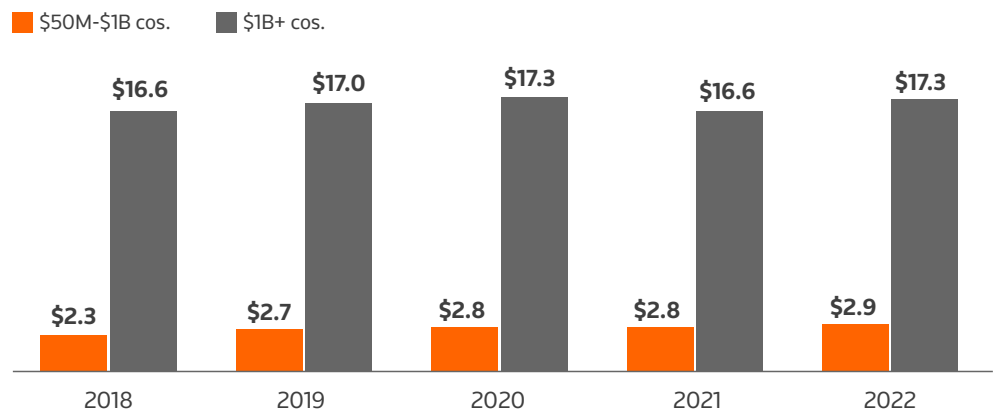
The types of legal work being sought by those legal buyers outside of Canada are tilted toward labor & employment and corporate matters — with regulatory, litigation, and mergers & acquisitions (M&A) matters trailing slightly.

Legal spend

Over the last five years, Canadian companies of all sizes have seen steady, albeit slow growth in their levels of total legal spend.

Figure 4: **Legal spend within the Canadian market**

Annual overall legal budget by company size (in millions USD)



Number of responses: \$50M-\$1B (115); \$1B+ (73)

Source: Thomson Reuters 2023

As we begin 2023, we see that almost 40% of Canada-based corporate clients plan to increase their legal spend further, while 21% said they are planning to decrease their total legal spend. Another 35% said their legal spend would remain the same.

Figure 5: **Expected change in overall legal spend over the next 12 months**

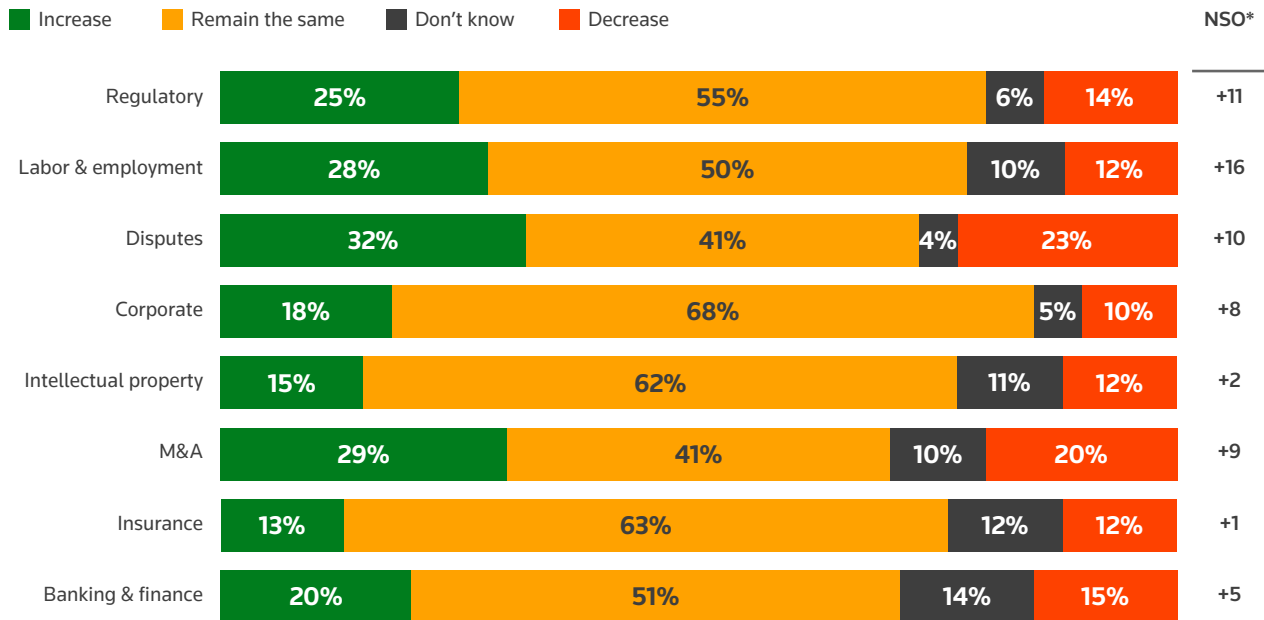
■ Increase ■ Remain the same ■ Don't know ■ Decrease



Source: Thomson Reuters 2023

Figure 6: Expected change in overall legal spend by work type over the next 12 months

Canada legal spend optimism – H2 2022



Number of responses: (124). *Net spend optimism (NSO) is calculated as the difference between the percentage of law departments anticipating a decrease in legal spend over the next 12 months subtracted from the percentage of law departments anticipating an increase in legal spend during that time. For example, NSO for regulatory was 11 points, as 25% of respondents said they expect spending to increase while only 14% said they expect spending to decrease.

Source: Thomson Reuters 2023

As to which work types are deemed most likely to see increases in spending, Canadian corporate clients, in general, are trying to hold their legal spend steady in most work types, with the notable exceptions of disputes/arbitration and M&A/transactions.

In these two work types, there is a more bifurcated trend emerging that often presents itself during times of economic uncertainty. In these situations, corporate law departments typically take one of two approaches: *i)* seek to control or reduce their overall legal spend by targeting the work types that represent the largest proportions of their legal budget (such as disputes/arbitration and M&A); or *ii)* be more aggressive by engaging in more transactions and dispute resolutions in order to carve out a stronger competitive advantage while other peer companies may be pulling back.

As the world economy continues on a somewhat shaky path, it's unclear how this bifurcated trend may ultimately play out and impact the Canadian legal market.

Strategic priorities

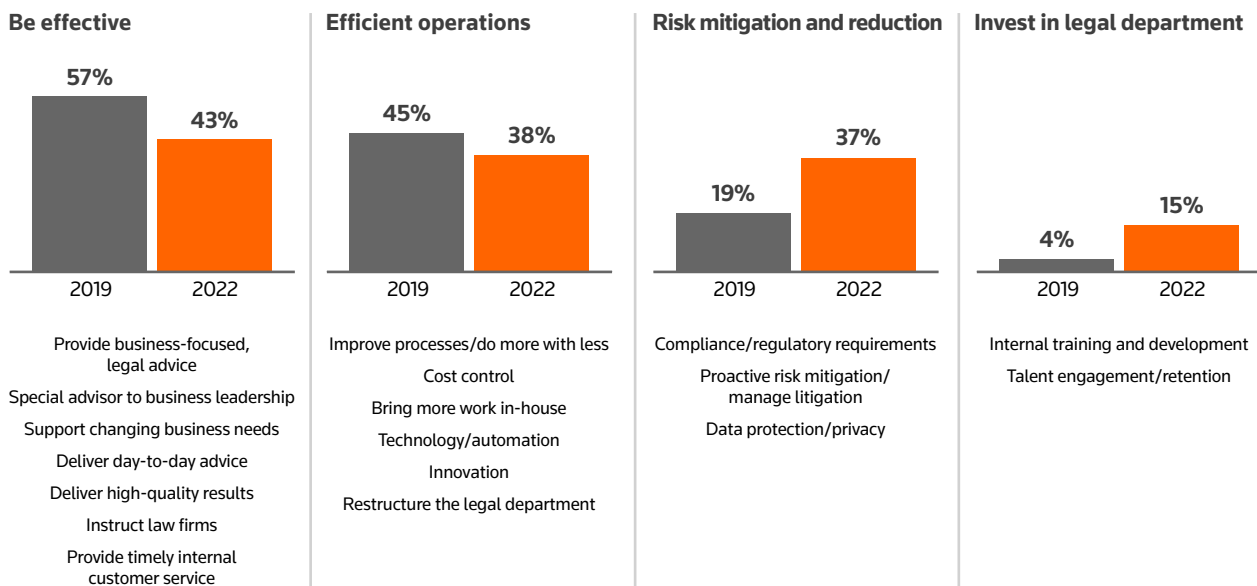
Corporate law departments are typically focused on their three primary goals: *i)* delivering high-quality legal advice; *ii)* keeping risk low for their company; and *iii)* being as efficient as possible.

When asked about their strategic priorities in an open-ended manner, more Canadian law departments said that they are focused on delivering the best legal advice to support their company's goals. Over time, however, more departments said that focus has shifted to being more proactive in their risk mitigation and making investments in their department's talent and knowledge.

Indeed, the priority of maintaining key attributes of *efficiency* and *effectiveness* fell in the eyes of survey respondents since before the pandemic, while priorities such as *risk mitigation & reduction* and *investment in the law department* rose in importance. This development may represent a shift in how corporate law departments are thinking about their role: the unprecedented risks that arose in 2020 have corporate law departments moving to an offensive, proactive playbook rather than a routine protector of their company's risk exposure.

And those respondents seeing a need to move toward a greater emphasis on investing more resources (both money and personnel) into the law department also grew over the past three years. This indicates that corporate law departments are realizing that keeping up with modern technological innovations in work process and hiring enough quality talent to operate that new technology are going to be necessary, albeit costly endeavors.

Figure 7: **Strategic priorities**



Number of responses: 60

Source: Thomson Reuters 2023

Taking new risks

While overarching priorities, such as controlling costs, tend to remain steady year-on-year, the types of risks that companies and their law departments face does evolve over time. In the last two years, for example, Canadian law departments have reported new risks in a number of key areas, including data privacy and cybersecurity, ESG and diversity, equity & inclusion (DEI), and talent management.

Now, with law departments looking to be more *preventative* in their approach to managing risk, these new issues have become top priorities in terms of understanding the scope and magnitude of the emerging risk.

Figure 8: **Tackling new risks over the last 2 years**

What new risks or legal issues have you come across in the last two years?



Number of responses: Global average (339)

Source: Thomson Reuters 2023

Among our survey respondents, one-fourth of them identified data privacy as a new risk that they've come across within the last two years; and one-fifth of them said the same about cybersecurity.

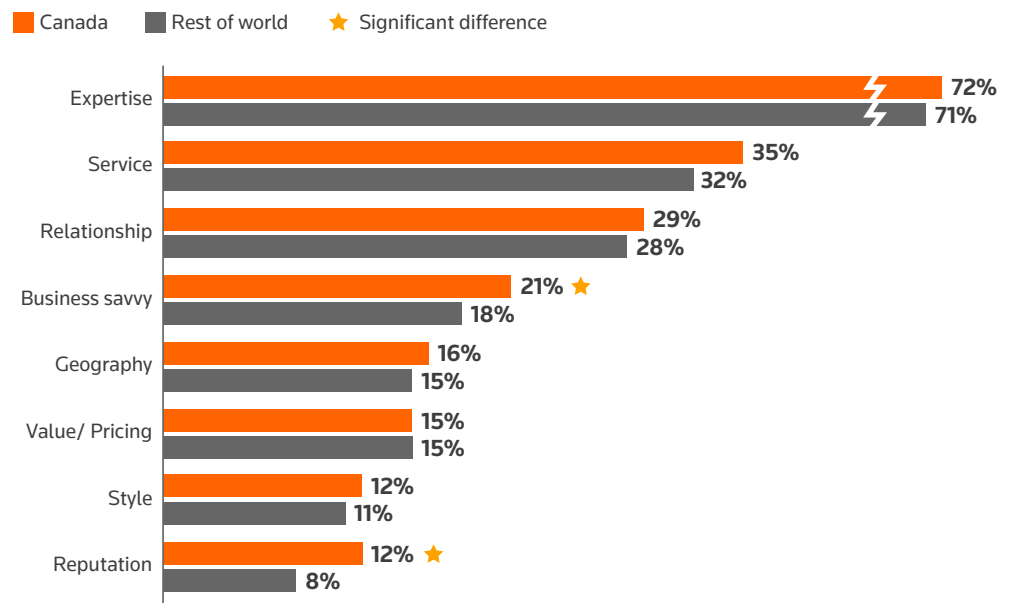
What do corporate law departments seek in a legal service provider?

Determining what corporate clients want or need will always be a critical issue for outside law firms and other legal services providers. An important aspect of that question is what drives favorability in the eyes of the client? Simply put, what factors will make a client choose one law firm over another?

"I like law firms that are practical, give me timely advice, and give me very commercial advice ... So, if a law firm gives me a 20-minute rendition of the law and all the risks and everything and doesn't really give me a good answer, I'm not really interested in them. If you give me really practical advice that's commercial and that's timely, that's why I like you."

Canadian corporate clients and legal buyers are significantly more likely to mention business savvy factors — such as knowledge of the client's business operations and the ability to provide commercially ready advice — as well as reputational factors as the most critical attributes they want to see in their outside counsel, at least compared to legal buyers from other parts of the world.

Figure 9: **Drivers of favorability – what clients look for in their legal providers**



Number of responses: [Jan 22-Dec 22] Rest of World (5801); Canada (770)

Source: Thomson Reuters 2023

In fact, when asked what they liked best about their current outside counsel firms, some corporate law department leaders suggested it was important to them that their outside law firms provide practical advice tailored to the company at an acceptable price:

"They're in tune to the strategic needs of our organization as well as the marketplace. Nuanced analysis based on gathering accurate data for us. They also do so at reasonable costs, so we get value for our money."

Another department leader said their best outside firms do this by acting as a true partner to the company and by understanding the depths of the company's legal needs:

"It's having a single partner who is your point of contact, whom you have the utmost faith in and somebody who takes responsibility for all the work that the firm does for your company. I think they have very reasonable rates for a firm their size and the other thing that they do very well is they understand that our needs go beyond simple legal advice."

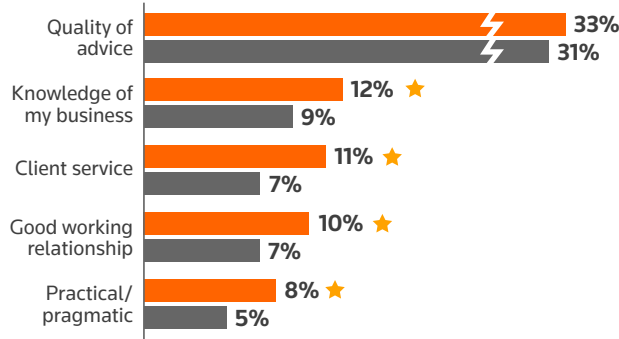
Not surprisingly, the survey backs up these insights. Corporate clients in Canada are significantly more likely to favor outside law firms that are able to demonstrate an unmatched understanding of their client's business and providing advice in a practical manner. In fact, Canadian companies were more likely to cite *knowledge of my business* and *client service* as factors that are most likely to drive their favorability toward a certain legal services provider than were legal buyers located in other regions around the world.

"Advice that's grounded in experience. It doesn't seem self-serving in terms of just trying to increase the level of engagement as much as possible. It's more than just solid advice."

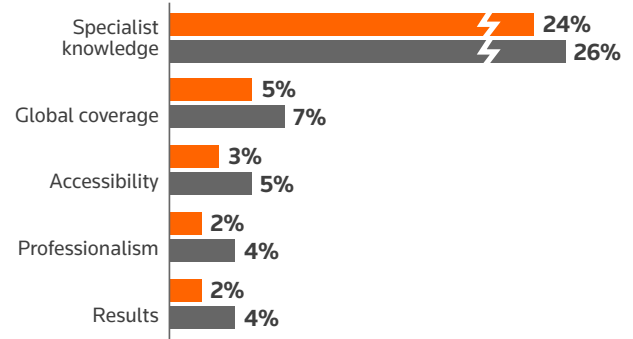
Figure 10: **Drivers of favorability – what clients look for in their legal providers**

■ Canada ■ Rest of world ★ Significant difference

What a Canadian buyer is *more likely* to say drives their favorability of a legal provider



What a Canadian buyer is *less likely* to say drives their favorability of a legal provider



Number of responses: [Jan 22-Dec 22] Rest of World (5801); Canada (770)

Source: Thomson Reuters 2023

Earning the trust of the corporate board

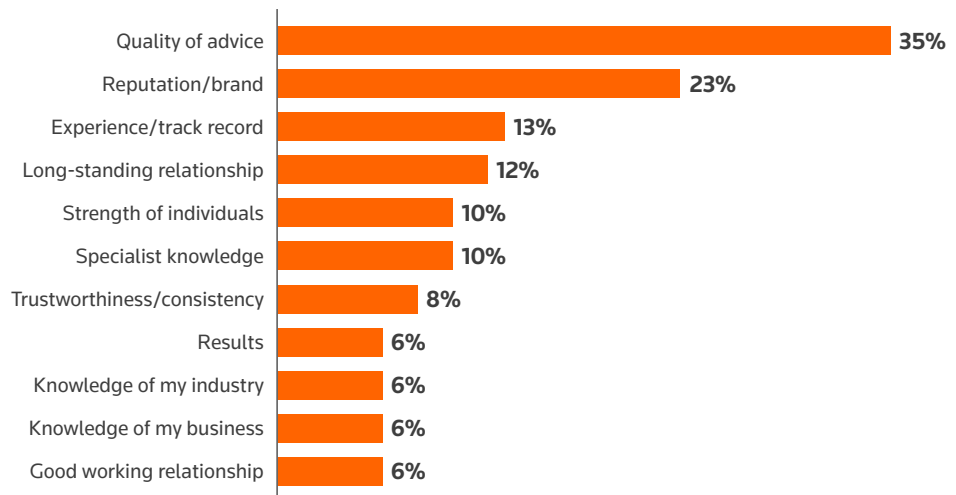
"I have seen them in the boardroom and their ability to deal with all the stakeholders and navigate those types of questions and at that level — they have always been fantastic."

The loftiest goal for law firms and other legal services providers is the ability to leverage the work they do for their corporate clients into a role in which they are seen as a true partner to the company and a trusted legal advisor to the board-level executives. Yet, what attributes in the minds of their clients are key to reaching this goal?

As one corporate law department leader said, such dedicated firms *"focus on building a strong, engaging, and realistic relationship with us that is balanced and is always open to suggestions."*

Figure 11: **Boardroom credibility drivers**

For law firms who have credibility in the boardroom, what do they do differently that makes it earn the trust of your board?



Number of responses: Canada (52)

Source: Thomson Reuters 2023

Clearly, clients still care most about the quality of legal advice they receive, and they want that advice to be commercially viable, prescient, and practical. In our survey, more than one-third of respondents (35%) said it was those firms that focused on the quality of their advice that most often earned the trust of the company's board of directors.

Similarly, about one-fourth of respondents (23%) said it was the firm's reputation or brand in the marketplace that often got their foot in the door with the board.

"They are probably seen as the number one firm on governance, and they show their leadership in a variety of ways, both by being retained in the largest and most difficult matters, but also, they are really thoughtful in what they publish and how and whom they reach with their publications."

Conclusion

Renewed focus on vital issues such as growth strategies, client relationship development, strategic investments, and performance management could be slowly transforming the Canadian legal market, even after the pandemic interrupted years of relatively calm stability.

Over the past few years, however, more Canadian corporate law departments are being aggressive in how they prevent and mitigate risk for their parent companies. And as part of that re-focus, department leaders cited investment in the law department itself, especially around areas of talent and technology, as a top priority.

Outside their walls, corporate law departments are looking for savvy business partners when they're selecting outside legal counsel or other external legal services providers. And those law firms that can demonstrate how well they understand their client companies' goals and offers them practical and proactive advice will win more business.

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