

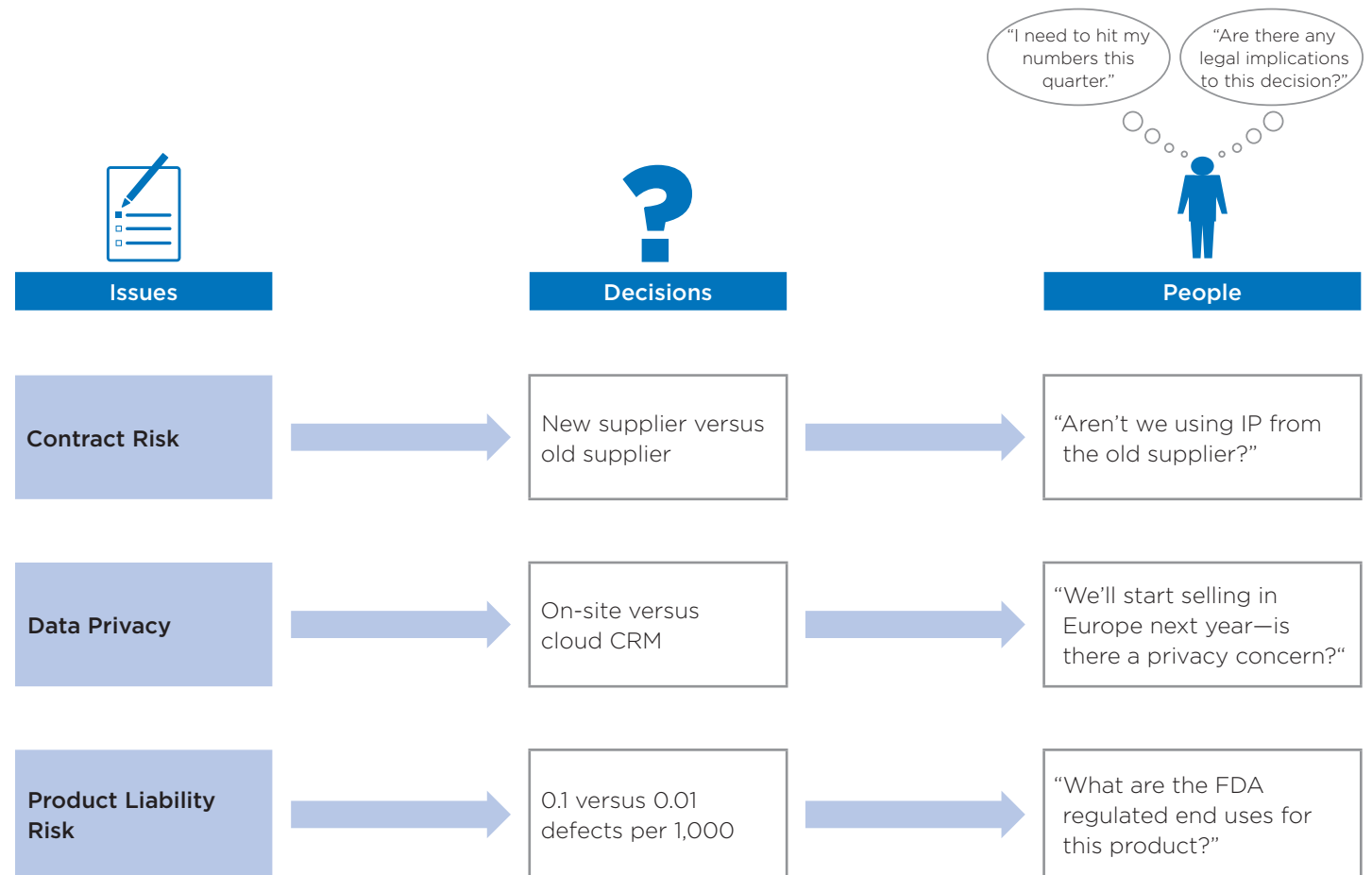
Legal Risk Management

Building Your Organization's Legal IQ

Preview Report

A singular focus on legal issues may fail to capture the personal context in which risk is created.

CHANGING THE FOCUS: FROM ISSUES TO PEOPLE



Defining Legal Risk

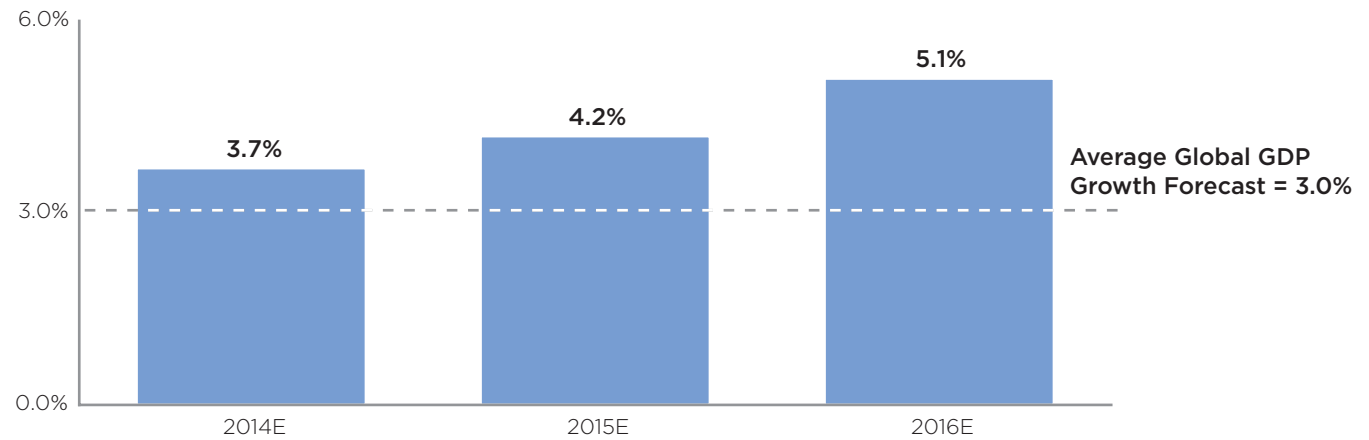
For this study, legal risk is the intersection of business processes, employee decisions and the legal, regulatory and reputational outcomes that result.

Source: CEB analysis.

Companies must move quickly to maintain their competitive advantage, creating greater legal risk exposure.

NEW GROWTH, NEW RISKS

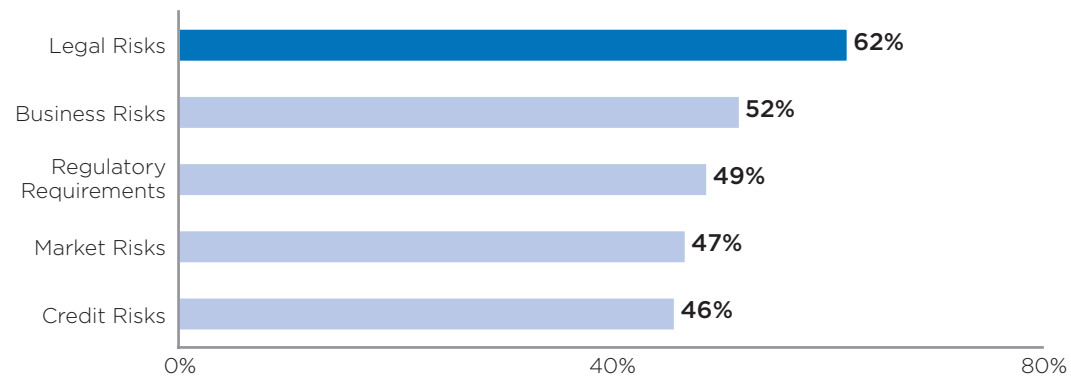
Aggregate Analyst Top Line Revenue Growth Estimates
Annualized, S&P 500, Non-Financial



Source: Bloomberg L.P.; World Bank.

Increases in Expected Risk

*How Do You Expect the Following Risks to Change Over the Next Two Years?
(Proportion Saying "Significantly Rise" or "Rise Somewhat")*



n = 446 companies.

Source: Accenture 2013 Global Risk Management Study.

WHAT DECISIONS ARE OUR CLIENTS MAKING?

CEB Research Questions Answered By Our Members

1. At what frequency and depth are critical business decisions and/or activities (“Studied Decisions”) made in organizations?
2. What influence does the legal department have over the decision-making process?

Contracting

- Negotiated or signed a sales contract
- Negotiated or signed a contract with a third party (e.g., supplier, distributor, vendor, etc.)

New Business Development

- Entered into a new market (geographic or product market)
- Created a new product for use, distribution, or sale
- Created or contributed to creation of Intellectual Property
- Initiated and/or executed a merger, acquisition, or divestiture

Corporate Compliance

- Trade Compliance (shipped goods internationally)
- Data Privacy (accessed or transferred sensitive personal information)
- Information Security (accessed or transferred sensitive corporate information)
- Corruption (interacted with government officials)
- AntiTrust or Fair Competition (attended conferences or events where competitor organizations were present)
- Interacted with a regulatory agency or official
- Purchased a gift for colleague or customer

Market-Facing Activities

- Created marketing, advertising, or scripting for external use
- Represented your company in a public forum
- Established quality thresholds (e.g., product safety standard, quality assurance standards).

Source: CEB Analysis.

CEB 2014 Corporate Legal Decision-Making Survey

Survey Demographics

- Company with 500+ employees (non-government)
- Full-time employees (both salaried and hourly)
- Company must have a legal department
- Legal and compliance staff responses excluded

Seventy-five percent of Studied Decisions¹ were made by middle managers.

- Middle managers are involved in the largest number of all decisions (including contracts, new products, and new market entry).

Democratized Decision-Making

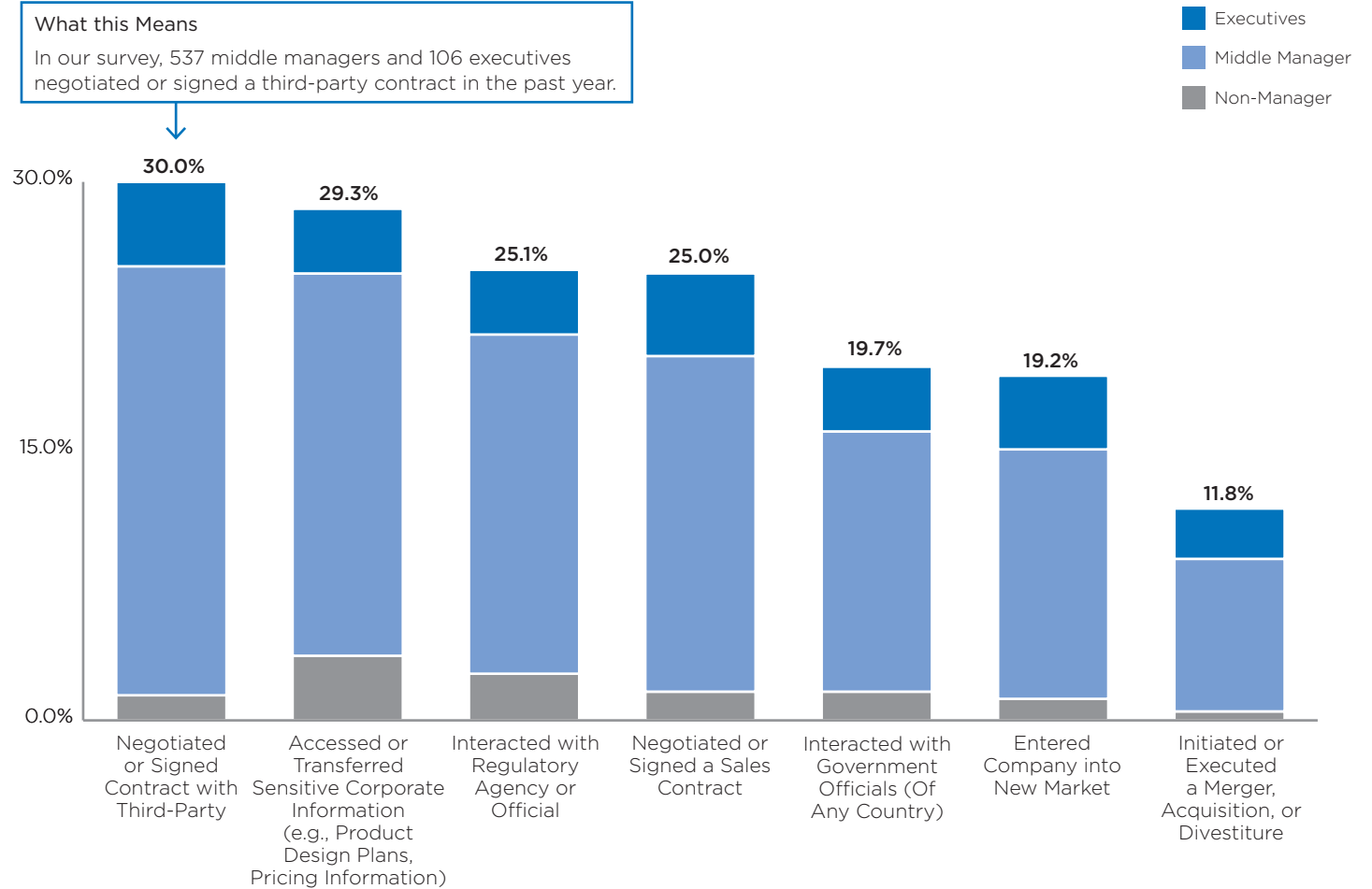
Almost 80% of corporate employees made a decision or completed an activity with a significant legal implications in the past year.

SHIFTING THE CENTER OF DECISION-MAKING

Percentage of Employees Making Studied Decisions in the Past Year

Select Decisions

What this Means
 In our survey, 537 middle managers and 106 executives negotiated or signed a third-party contract in the past year.



n = 2,249 employees making at least one of the studied decisions.

Source: CEB 2014 Corporate Legal Decision-Making Survey.

¹ Studied decisions refers to the 16 decisions or completed activities with legal implications as referenced on page 2.

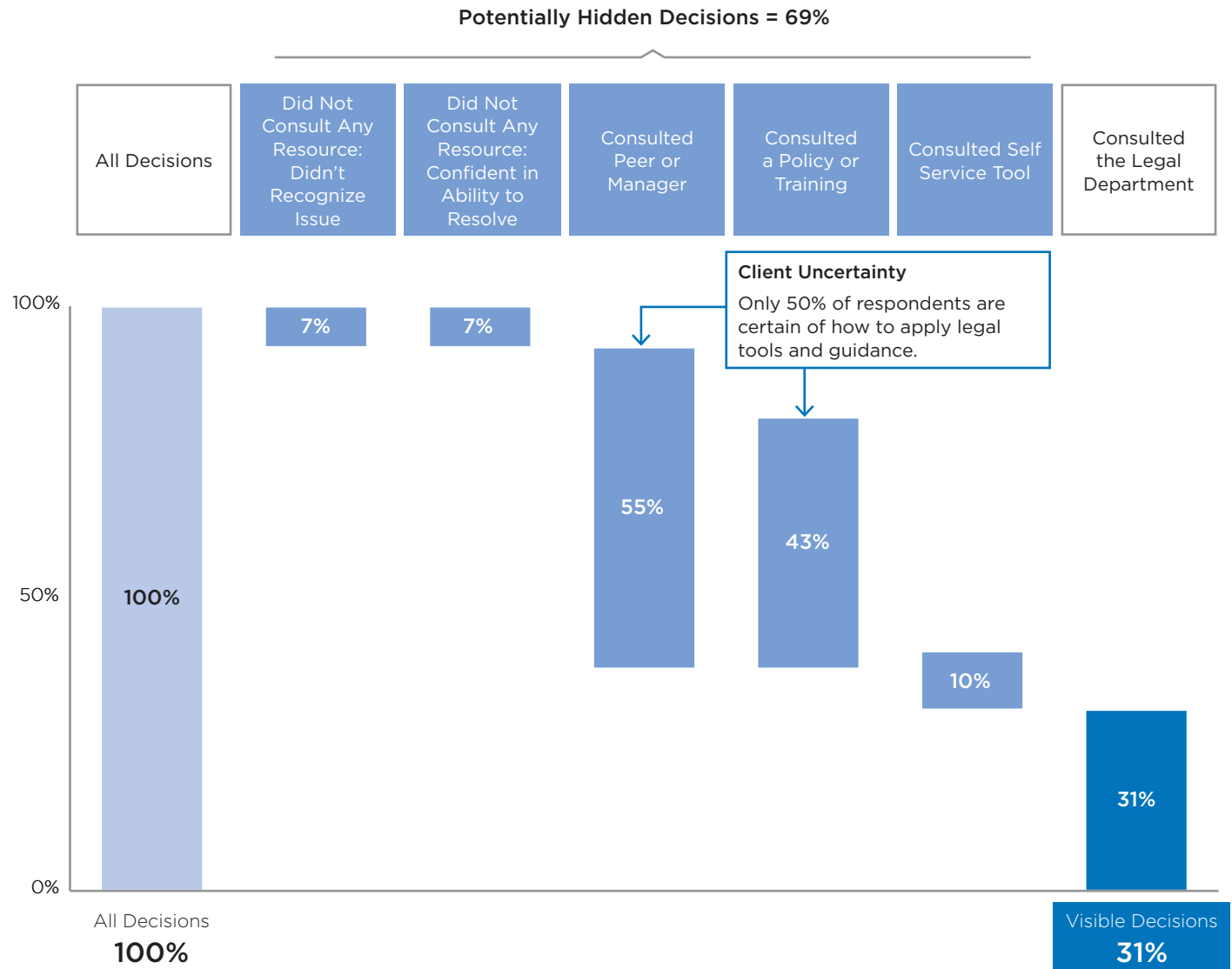
Legal departments have limited visibility into the majority of client decisions.

- On average, Legal only has direct visibility into 31% of decisions, as clients are far more likely to consult a peer, manager, or self-service tool than they are to consult the legal department directly.
- Legal departments are typically organized to meet incoming client demand and often fail to spot issues clients do not raise.

DECISION-MAKING IS LARGELY HIDDEN FROM LEGAL

How Middle Managers Make Decisions

Average Middle Manager Reaction to a Decision, Multiple Responses Allowed



n = 1,677.

Source: CEB 2014 Corporate Legal Decision-Making Survey.

The use and awareness of legal services diminishes rapidly as you move down the corporate hierarchy.

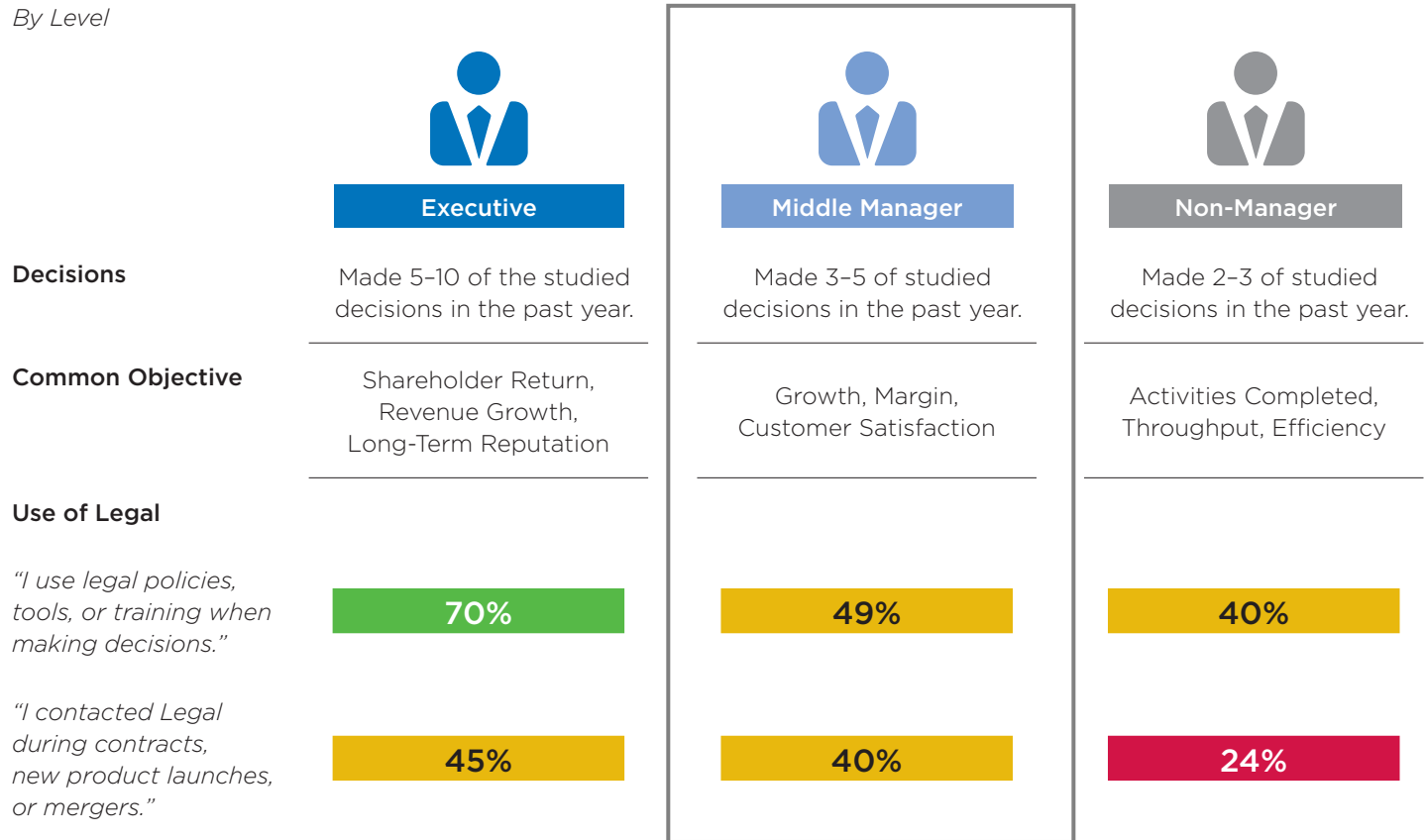
- Middle managers and non-managers are far less likely to contact Legal even when making decisions that clearly suggest the need for legal input (e.g., contracts, product launches, mergers).

Employees Don't Value Legal

- **21%** of employees don't know they have a legal department.
- **59%** of employees make decisions without being aware of the potential legal implications.
- **74%** of employees think the time and effort of Legal interactions exceeds its value.

LIMITED REACH OF LEGAL INFLUENCE

Profile of Employees
By Level



n = 2,249 employees that made at least one studied decision.
Source: CEB 2014 Corporate Legal Decision-Making Survey

While middle managers may not always set strategy, they are responsible for executing it.

- Poor managerial decisions may create regulatory fines, legal liability or opportunity cost.
- Middle manager behavior sets the tone for the broad base of employees and dictates how information flows up and down the organization.

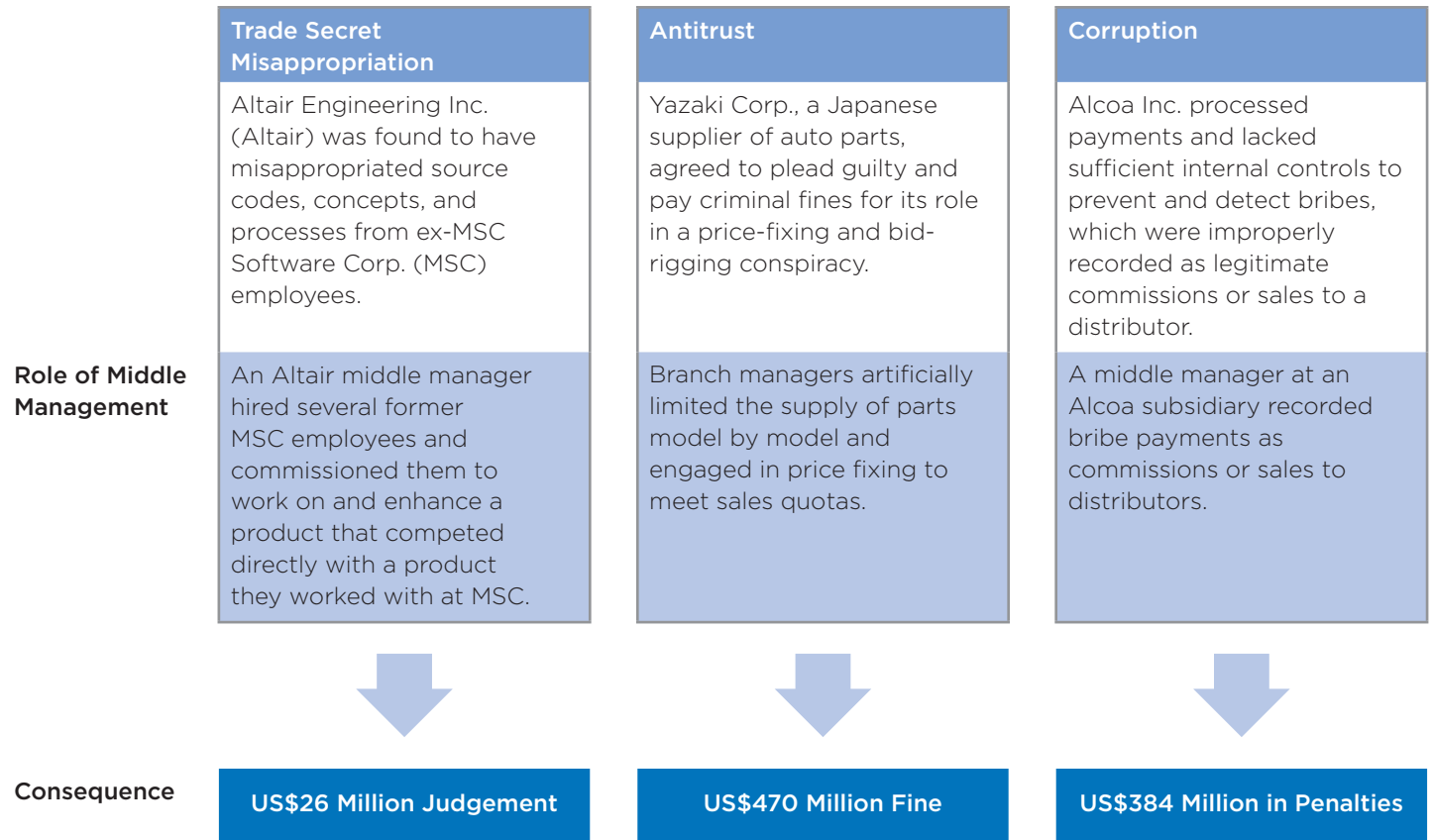
The Price of Poor Decisions¹

- **52%** of studied compliance failures did not involve executives at all.
- **\$61,907,132** average direct settlement cost when middle managers were the primary actor.

DIFFUSION OF RISK CREATION

Middle Management Decisions

Select Examples



Source: Bloomberg L.P.; Securities and Exchange Commission; CEB Analysis.

¹ CEB analyzed more than 200 compliance failure settlements from 2011-2013 (corruption, fraud, antitrust, and data privacy). Based upon publicly available information, CEB classified each settlement by type, settlement cost, cause, and responsible party (Executive, Middle Manager, Non-Manager).

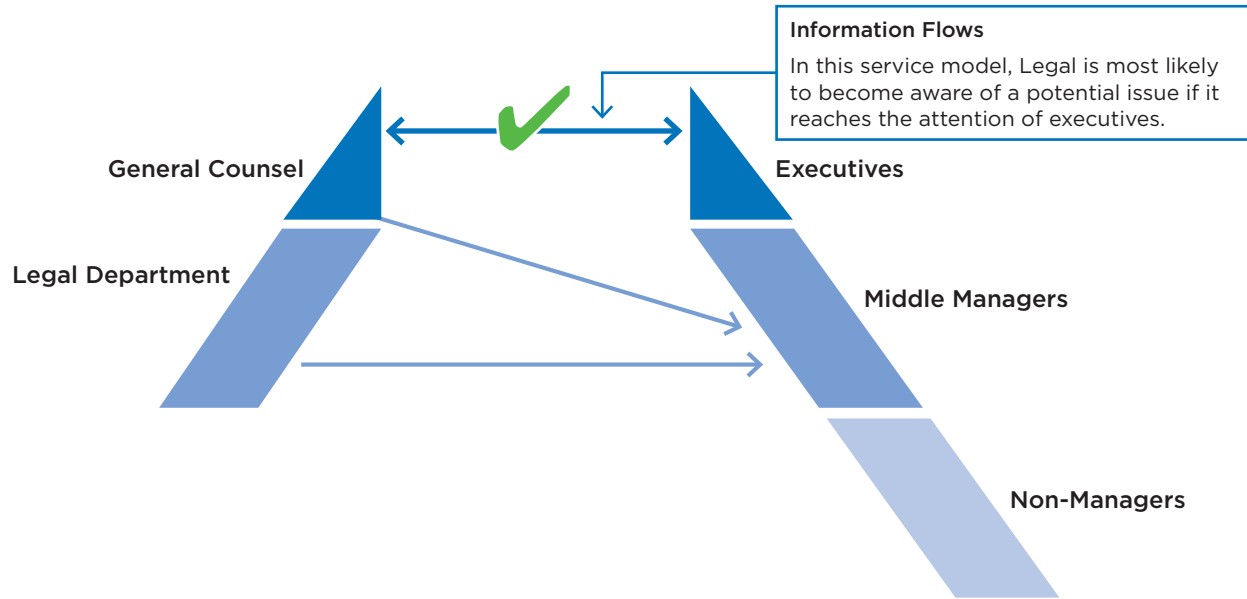
Most legal departments use a service model built around direct interactions to support corporate initiatives and provide legal guidance.

Implied Assumptions of Direct Service Model

- Executives make the most significant or material decisions.
- Executives will cascade legal and procedural guidance to staff.
- Direct interactions create durable influence with clients.
- Executives and staff have similar incentives to seek and consider legal guidance.

CURRENT STATE: THE DIRECT SERVICE MODEL

Current Orientation of Legal Department Service



Source: CEB Legal Budget Diagnostic.

Belief in Value of Select Risk Management Activities

General Counsel Perceptions, CEB's 2014 Legal Budget Diagnostic



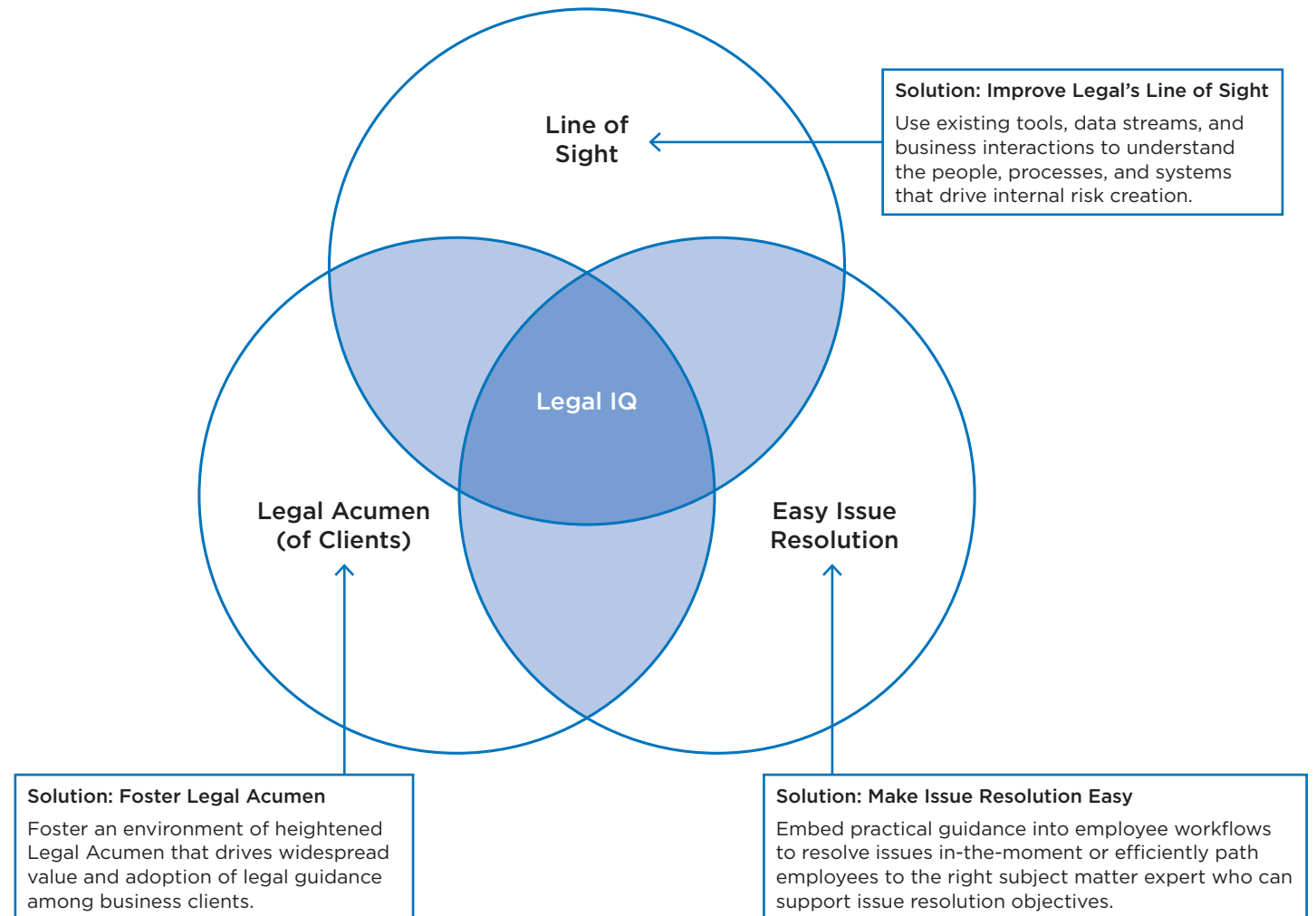
n = 94-96 general counsel.
Source: CEB Legal Budget Diagnostic.

Client decision quality is a function of legal line of sight, easy issue-resolution paths, and strong Legal Acumen in clients.

- These three factors help the legal department prioritize attorney time on high value issues while ensuring that the maximum number of clients receive legal guidance when making decisions.

THE GOAL: BUILD YOUR ORGANIZATION'S LEGAL IQ

The Three Components of High Legal IQ Organizations



Source: CEB analysis.

PROVEN MEMBER CASE STUDIES SUPPORTING KEY COMPONENTS OF HIGH LEGAL IQ

IMPROVE LEGAL'S LINE OF SIGHT



Litigation Root Cause Analysis



Activity-Based Risk Drivers



Emerging Risk Roll-Ups

CEB Support Tool Offered:
Legal Risk Checklists for Key Business Functions

MAKE ISSUE RESOLUTION EASY



Business Project Driven Toolkits



Legal Risk Nudges



"Performance Support" Legal App



Risk Assessment Pathways

CEB Support Tool Offered:
Step-by-Step Toolkit for Integrating Legal Advice into Business Decisions

FOSTER LEGAL ACUMEN



Challenge 1:
Communicate and Train on the Value of Legal

Challenge 2:
Establish Client Accountability for Risk Management

Challenge 3:
Support Local Legal Leadership

CEB Support Tool Offered:
Legal Roadshow Presentation Template

¹ Pseudonym.

Legal Risk Management

Building Your Organization's Legal IQ

Contact us at LRCProductMarketing@executiveboard.com to dive deeper into this report, gain insight to leading member case studies, and learn how we can help your organization increase its Legal IQ.