“Benchmarking and Best Practices in Managing In-House Law Departments”

Greater Cleveland General Counsel Association
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Gwinn Estate
Bratenahl, Ohio

Daniel J. DiLucchio
Principal
Altman Weil, Inc.
Agenda

• Introduction
• Current State of Law Firms & Law Departments
• Benchmarking
• Best Practices
• Conclusion
Introduction
About Altman Weil, Inc. (cont.)

Products

Services
Law Firms and the Legal Industry
Market Summary

• U.S. legal services industry has grown to an estimated $150B annually

• Doubling every twenty years over the last century.

• Still key constraints and market practices limiting revenues and profits.
Market Summary (cont.)

- Lack of Innovation
- Labor costs
- Employee Satisfaction – (24% annual turnover rate among associates)
- Fixed Overhead
- Pricing
Market Summary (cont.)

- **Fragmentation** – (1M Lawyers with approximately 100,000 lawyers working at the 250 largest firms)
- **Growth** – slowing
- **Employee Dissatisfaction**
- **Lack of Capital**
Increasing competition

• Financial institutions
• Brokerage houses / investment bankers
• Collection agencies
• Architect and engineering firms
• Real estate management companies
• Variety of consultants and specialists
• Multidisciplinary Partnerships
Corporate Law Departments
The Pressure is on

- Departments are no longer growing at previous rates
- Initiatives have led to major changes in how in-house lawyers view their futures:
  - corporate downsizing,
  - cost control programs,
  - mergers,
  - organizational flattening,
  - outsourcing,
  - dot.com implosion
  - recession,
  - military activity and terrorism
New Realities

• Corporate counsel face new realities:
  – Fewer advancement opportunities in flattened departments
  – Less loyalty from the corporation (to all its employees)
  – Fewer junior lawyers to whom to delegate work
  – Limited number of management vacancies (peers of comparable age fill the positions)
  – Low turnover among in-house counsel
  – For many, less discernable career path
Law Departments: Competitive Advantages

1. Traditionally, Less Expensive
2. Better Knowledge of the Business / People / Issues
3. Availability
4. Legal Cost Management
The Value Pyramid

- Data
- Information
- Knowledge
- Wisdom
Benchmarking

• Total Legal Expenditures Relative to Annual Revenues
• General Counsel Reporting Relationship
• Jurisdiction of General Counsel over Legal Functions
• Organization of the Law Department
• Inside/outside mix
Benchmarking (cont.)

- Lawyers per $B of Revenues
- Paralegal Ratios
- Support Staff Ratios
- Internal Costs per Lawyer
- External Costs per Lawyer
- Number of Law Firms Used
Benchmarking (cont.)

- Average Internal Hourly Cost
- Average External Hourly Cost
- Others…….
Benchmark: Total Spending to Revenues

*Source: Altman Weil Publications, Inc. 2001 Law Department Performance Metrics Survey (law departments of 26 or more lawyers).
Chart 1 Total Expenses For Legal Department as a Percent of Sales Revenue (Co. XYZ) ¹

Calculations: $1.8 M Inside Expenses, $8.74 M Outside Expenses, $10.54 Total
$1.7 B Annual Revenues

Chart 2 Total Inside Expenses\(^2\) For Legal Department Per Lawyer\(^1\)

2 Defined as the fully loaded cost of operating an in-house law department, excluding outside counsel expenditures.
Lex Mundi Survey*

*221 Corporate Respondents
## Intangibles

<table>
<thead>
<tr>
<th>Benefit of In-house</th>
<th>Value</th>
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<tbody>
<tr>
<td>Knowledge of the business</td>
<td>20 to 25% added value</td>
</tr>
<tr>
<td>Lower Cost</td>
<td>Most often 25 to 35% lower</td>
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<tr>
<td>Early Intervention / Preventive Law</td>
<td>Significant value - Conservative estimate</td>
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<tr>
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<td>- 10-15%</td>
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Internal Cost Benchmarks

- “Cost Creep” of In-house Legal Functions

1991 $176,512
1993 $225,000
1996 $268,280
1999 $294,131
2002 $319,676

Staffing Benchmarks

Median Lawyers per $1B 2.8
Ratio of Paralegals to Lawyers .30
Ratio of Admin. Employees to Lawyers .64
Six Sigma

• A statistically driven approach to measuring performance
• Achieving 3.4 “defects” (results in customer dissatisfaction) per million products
• Applied to processes:
  – M&A
  – Early Case Assessment
  – Transactions
  – Convergence Programs
  – eBilling and Invoicing
Best Practices
Law Department Alignment

- Strategy
- Organizational Structure
- Client Service
- Culture
- Leadership and Management
- Outside Counsel and Other Service Providers
Law Department Alignment (cont.)

• Rewards and Motivation
• Systems and Processes
• Technology
Law Department Alignment

- **Strategy**
- Organizational Structure
- Client Service
- Culture
- Leadership and Management
- Outside Counsel and Other Service Providers
Strategy: In-House Counsel Roles

Perform Legal Work

Practice Preventive Law

Manage Outside Counsel

Administration / Management
# Strategic Analysis of Legal Services

<table>
<thead>
<tr>
<th>Type of Work</th>
<th>Practice Areas</th>
<th>In-House</th>
<th>Firms</th>
<th>Pricing</th>
<th>Value Metrics</th>
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<tbody>
<tr>
<td>Strategic, Competitive Advantage</td>
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<tr>
<td>Important</td>
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<td></td>
<td></td>
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<tr>
<td>Repetitive</td>
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</table>
Law Department Alignment

Best Practices

- Centralized Reporting
- Geographically Dispersed
- Clear Lines of Authority and Responsibility
- Reasonable Span of Control
- Organize around strategic, important and repetitive work

- Organizational Structure
- Client Service
- Culture
- Leadership and Management
- Outside Counsel and Other Service Providers
Law Department Alignment

Best Practices

• Organizational Structure
• Client Service
• Culture
• Leadership and Management
• Outside Counsel and Other Service Providers

• Conduct Regular Client Surveys
• Ensure Clarity of Client Service Reps
• Ensure Clients know who to call
• Formally Involve Clients in Evaluations
Law Department Alignment

Best Practices

- Team Oriented
- Client Focused
- Reward Performance
- Accountability
- Leverage People and Technology

• Organizational Structure
• Client Service
• **Culture**
• Leadership and Management
• Outside Counsel and Other Service Providers
Law Department Alignment

Best Practices

- Organizational Structure
- Client Service
- Culture
- **Leadership and Management**
- Outside Counsel and Other Service Providers

- Train and Develop Managers
- Evaluate for Management Role
- Establish Management Metrics
- Ensure Managers have information they need to manage
Law Department Alignment

• Organizational Structure
• Client Service
• Culture
• Leadership and Management
• Outside Counsel and Other Service Providers

Best Practices

• Convergence Program
• e-Billing
• Matching the Law Firms to the Legal Work
• Managing Work and Costs
• Early Case Assessment
Law Department Alignment (cont.)

Best Practices

• Competitive Compensation (Salary and Bonuses)
• Properly Designed Evaluation Systems
• Effective Use of Non-monetary Reward Tools
• Clarity of Incentives and Disincentives
• Properly Aligned Work

• Rewards and Motivation
• Systems and Processes
• Technology
Law Department Alignment (cont.)

Best Practices

- Consistency Across the Enterprise
- Matter Management
- Contract Management
- Work Product Retrieval
- Discovery Processes
- Corporate Secretary Responsibilities

- Rewards and Motivation
- Systems and Processes
- Technology
Law Department Alignment (cont.)

Best Practices

- Rewards and Motivation
- Systems and Processes
- Technology
  - Law Department Intra-net
  - Extra-net
  - Security
  - Risk Management – electronic discovery
Handouts

• *Aligning Your Law Department for Peak Performance* — Dan DiLucchio

• *Law Firms on the Chopping Block?* — Dan DiLucchio

• *Online Billing: Submitting Legal Invoices Electronically* — David G. Briscoe

• *Never Reorganize Your Law Department – Again* - Dan DiLucchio

• *The Importance of Law Department Performance Benchmarking* - Debbie L. Rhodunda
Today’s Presentation Can Be Found at:

Thank You!

altmanweil.com - for materials, resources and information

djdilucchio@altmanweil.com - for questions, comments, feedback and dialogue