



Daniel J. DiLucchio

Law Department Outlook for 2008

By Daniel J. DiLucchio

“Considering the ten trends [of 2008] might lead you to some very interesting conclusions about your current service delivery model.”

It is 2008 and time to start anew. Ah, but if starting anew were only that easy. If you are like most law departments, your current organization and structure have evolved over time. Much of your management, organization, structure, hiring and staffing has been in reaction to business needs, client demands and industry trends. Starting anew with your law department suggests a clean slate, an ability to fabricate a new organization to deal with current realities. What Chief Legal Officer (CLO) has the luxury of starting his or her organization anew?

Instead, what if you focused your attention on some of the major trends for 2008? Would it help you set some priorities for the year? Considering the ten trends listed below might lead you to some very interesting conclusions about your current service delivery model.

These ten trends are based on decades of experience consulting to the legal profession and, specifically, to corporate legal functions. These are not the only 2008 trends, but they are important ones. They are not necessarily new, but they are accelerating. The ten 2008 trends proposed here are:

1. Continued centralization of the global legal function
2. Responsibility for compliance
3. Improved client alignment
4. Greater precision in outsourcing work to law firms
5. More sophisticated use of e-billing information
6. Continued pressure to manage costs
7. Increased pressure on compensation
8. A buyer's market for legal talent
9. Leadership development and coaching
10. More sophisticated use of metrics

Continued Global Centralization

Consistency of legal position is extremely important to most organizations. The organization and reporting relationships of the law department either can facilitate, complicate or obfuscate consistency of position. In the most recent *Law Department Metrics Benchmarking Survey, 2007 Edition*, by Altman Weil Publications, Inc. published with LexisNexis® Martindale-Hubbell®, 83% of the participating companies reported that they were centralized within the U.S., meaning that all in-house lawyers ultimately report to a CLO. This centralized reporting relationship should not be confused with in-house lawyers who may be geographically dispersed in various offices.

Outside of the U.S., CLO responsibilities look somewhat different. *Survey* participants reported that 28% of CLOs were responsible for lawyers outside of the U.S. While seemingly low, this number has grown since the 2005 edition of the *Survey*, when only 15% of the CLOs reported responsibility for lawyers outside of the U.S.

Outlook: It is expected that CLOs will continue to assume responsibilities for the legal function on a global basis.

Compliance Responsibility

Corporate compliance, which has taken on a role of significant proportion for corporate America, seems to have generally fallen in the CLO's lap. It appears that, in the short term, responsibility for that function will continue to be the responsibility of the CLO. In the 2001 *Altman Weil Survey*, 42% of the law department participants reported that the compliance function reported to the CLO. According to the 2007 edition of the *Survey*, the compliance/ethics function of the corporation reports to the CLO 70% of the time. This is not surprising — many organizations view the law department as the

conscience of the enterprise. This trend, however, may have peaked.

Outlook: With a maturing of the compliance function, in 2008 we may see more compliance functions organizationally free-standing — outside of the auspices of the General Counsel.

Client Alignment

The business organization served by the law department is constantly changing. Change in the organization is influenced by mergers, acquisitions, divestitures and organic growth, not to mention reorganizations and regular changes and turnover in management.

Ensuring that the legal function is properly aligned with clients is essential to success. This includes both organizational alignment and service alignment. Surveying, and in some cases, one-on-one interviews with key clients are ways to ensure that clients are receiving the services levels they need and expect.

Outlook: Properly designing, or redesigning, your organizational structure to facilitate client service is essential to success.

Outsourcing – Greater Precision

For the purposes of this discussion, outsourced work is the legal work that is sent to outside counsel. For larger law departments of 26 or more lawyers, *Survey* participants report that approximately 60% of the total legal budget is spent on work outsourced to outside counsel. In 2008, law departments will continue their efforts to become even more precise in getting the right work to the right law firms. In-house counsel are analyzing their legal work more carefully, breaking it into the categories of strategic, important and commodity work. Each of these categories has a direct relationship to pricing. Strategic legal work, which is critical to advancing the business, is generally price in-

sensitive while commodity work is highly sensitive to pricing.

Outlook: Even greater emphasis is being placed on selecting law firms based on their market position, capabilities, pricing structure and reputation, and matched to appropriate levels of work.

E-billing

According to the latest *Altman Weil Survey*, 22% of responding law departments use an e-billing system, allowing outside counsel to submit legal invoices electronically. Submission of outside counsel bills in an electronic format allows thorough review and analysis of outside counsel spending. The four main components of electronic billing include:

1. secure electronic transmission of invoice data
2. audit capabilities to ensure outside counsel bills adhere to law department guidelines
3. workflow module to route bill to appropriate parties for review, approval and payment
4. management reporting on all data

Law departments that have implemented e-billing systems generally do very well implementing numbers one through three above. However, item four, “management reporting on all data,” is where most fail to maximize their e-billing investment.

Electronic billing data should allow a law department to compare the cost effectiveness of outside counsel firms and individual lawyers in those firms. Metrics should be defined to analyze firms on economic issues, staffing strategies/diversity and cycle times to resolve a matter. This data should then be cross-referenced against internal evaluation of outside counsel performance.

Outlook: Maximize your investment in e-billing this year by taking it beyond a back-office bill process-

ing program. In 2008, take it to the next analytical level.

Cost Management

The most important legal expense metric for a corporation is the total law department spending as a percentage of sales revenue. This includes all legal spending, both inside and with outside counsel. This metric allows comparison from company to company and establishes a foundation for the law department to measure its financial management effectiveness, even while a company grows or shrinks.

General Counsel will continue to be under the corporate microscope as it relates to the costs of legal services. Our experience suggests that most in-house legal operations run with a high degree of cost efficiency and effectiveness.

Outlook: The primary focus of controlling costs appears to be focused on outside counsel and early prevention. Compensation pressures will be felt on the in-house operating costs over the next year as General Counsel respond to the ripple effect of law firm starting salary increases.

Compensation Pressure

Ward Bower, my partner of many years, points out in his article, “The War for Talent and Starting Salaries” (April 2007, *Report to Legal Management*, Altman Weil Publications, Inc.) that the starting salary of \$160,000 for new associates in some cities translates into fully-loaded compensation in the range of \$200,000. Once you add to this compensation figure the overhead of a large, major city law firm of approximately \$200,000 per lawyer, you arrive at a total cost of \$400,000 for a first year associate (which does not include the possibility of signing bonuses or recruiting costs).

These compensation levels have been widely publicized in the legal press. Compensation information is

continued on page 10

Law Department... *continued from page 5*

also available to any lawyer capable of conducting a search of the Internet. In addition, many in-house counsel have recently arrived from senior associate and, in some cases, partner positions in law firms. Armed with current compensation knowledge, it is no wonder that

Today, it is a buyer's market for legal talent for law departments. This is in spite of the fact that law firm starting salaries for new graduates are growing by leaps and bounds. Pegged at \$160,000 last year — and now at \$200,000 — one wonders where the salary wars will end. Law firm starting salaries have a

with significant return on that investment. Not only does it mean a better led and managed organization, it sets the stage for succession planning and transitional efforts.

Outlook: Many law firms have embraced coaching, going well beyond the traditional remedial coaching scenario to true developmental coaching for those with the inclination, aptitude and interest.

**“Calculating the economic trade-offs
in today’s corporate environment
is a growing challenge for CLOs.”**

General Counsel are feeling the pressure for salary and bonus adjustments in their law departments.

However, getting the lawyer compensation correct in a law department is a tricky matter. Most lawyers moving in-house from a law firm knew that they were giving up a higher level of compensation for some greater level of control over their lives. What is interesting, as some in-house counsel have recently told me, is that during the work day, the corporate pace is as hectic — or even more hectic — than in their previous law firm. The big difference is that there is no evening or weekend client development activity and weekends are generally their own.

Outlook: Calculating the economic trade-offs in today's corporate environment is a growing challenge for CLOs.

A Buyer's Market for Lawyers

As important as the structure of the legal function is, the lawyers are more important. It is the quality of the people that makes the organization effective. That is why attracting and motivating top quality staff is so critically important.

multiplier effect as the firms address income compression by raising other lawyers' compensation.

Outlook: Despite high compensation levels, General Counsel are having no problem recruiting talented senior associates and partners to join their in-house teams.

Leadership Development

Having a correct organizational structure, and employing effective systems and processes, is not enough if the law department does not have a steady stream of leaders and leadership. Good lawyer skills do not automatically translate into capable leadership and management. Successful organizations have a cadre of strong leaders — not just at the top, but throughout the organization.

To ensure that a law department is paying attention to the leadership factor, progressive organizations are employing the use of developmental coaches for their staff. General Counsel are identifying high potential individuals and employing coaches who will work one-on-one with these individuals, helping them maximize their leadership and personal potential. This is an investment in the future of the organization —

Use of Metrics

The use of metrics is a diagnostic methodology to identify statistically significant variance from median measurements — both quantitative and qualitative — within your law department, as well as comparisons to comparable law departments. Within the law department, metrics are generally used to determine positive or negative change from year-to-year or month-to-month.

A few of the standard benchmarks used by law departments include the following:

- ratio of total legal spending to revenues
- size and staffing (roles) of the law department
- number of lawyers per billion dollars of revenue
- support staff ratios
- paralegal ratios
- internal operating cost per in-house lawyer
- internal hourly rate
- average external hourly rates
- ratio of dollars expended for external vs. internal work

The above are high-level metrics and essential as one begins to peel the measurement onion. However, more sophisticated law departments are going far beyond these high-level metrics. Using data available through their own internal resources and data collection tools (see e-billing above) law departments are becoming

much more precise and detailed in their analysis of case and matter costs, turnaround times, workloads, and outside counsel comparative data.

Outlook: Digging deeper and mining available data is essential when making strategic decisions about the effective management of legal services.

Conclusion

This article presents ten 2008 law department trends for your consideration. You will be facing most, if not all of these trends in one way or another this year. Each of the trends has implications for your organization's success. Designing your strategies today, to address each of these trends, will help position you, and your law department, for success in 2008. ♦

Daniel J. DiLucchio is a principal of Altman Weil, working out of the firm's offices in Newtown Square, Pennsylvania. He can be reached at (610) 886-2000 or djdilucchio@altmanweil.com.

Editor's note: This article is reproduced with permission from Corporate Counsel Weekly Newsletter, Vol. 23, No. 3, 01/18/08. Copyright © 2008 by The Bureau of National Affairs, Inc. (800-372-1033) <http://www.bna.com>.