

LJNLAW JOURNAL
NEWSLETTERS

Accounting and Financial Planning

FOR LAW FIRMS®

An **ALM** Publication

Volume 30, Number 3 • March 2017

What Law Firms Can Learn from The Ninth Annual Law Department Operations Survey

By Robin Snasdell

Over the last few years, the legal operation managers' role has flourished, growing from a profession in its infancy into an unruly teenager, far more mature but with substantial areas poised for development. The Ninth Annual Law Department Operations Survey from the Blickstein Group, sponsored in part by Consilio, recently explored this trend in corporate law departments. The Survey collected information about law department operations (LDO) from a record 133 in-house professionals, delivering actionable benchmark data that

Robin Snasdell is a Managing Director at Consilio, a global leader in eDiscovery, document review and legal consulting services. He focuses on assisting global companies improve their business performance by providing strategic consulting, process improvement, change management and technology-related solutions to the General Counsel and Chief Compliance Officer.

in-house law departments can use to create effective management strategies. The results showed that more than ever, law departments are focused on implementing programs and structures to improve their financial management and deliver value.

LDO MANAGERS ARE ON THE RISE

The Survey reveals substantial growth in the range and significance of LDO managers. Ten years ago, the LDO manager was a fledgling concept: only the largest organizations hired a full-time employee to fill this role. Today, the majority of organizations that earn at least \$2 billion in revenue have a dedicated LDO manager; almost all organizations with at least \$10 billion do. Today, LDO professionals hold a growing range of responsibilities, doing practically everything short of practicing law. They juggle multiple tasks, including law department administration, e-discovery,

outside counsel management, vendor selection and management, law department strategy, financial reporting and forecasting and records management, among others.

Given the breadth and importance of their work, LDO professionals are no longer relegated to the back office or considered administrative. According to the Survey, currently more than half report directly to the general counsel, and most are members of the law department's executive team. More than 60% state that they are involved in corporate strategic initiatives; more than 72% work with their organization's executives weekly, if not more often. This heightened role in organizational strategy necessitates that LDO professionals take a more strategic approach to outside counsel relationships.

Law firms should take note of the significant growth in the scope and depth of LDO

professionals' work, particularly when it comes to managing outside counsel — a task that, according to Survey respondents, occupies 13% of LDO professionals' time. The days of organizations engaging outside counsel based solely on sheer trust or long-standing relationships are on the wane as value creation is receiving more focus. Today, LDO professionals are doing more than ever before, including viewing the overall legal service delivery model as an opportunity to create value and create efficiencies that truly drive value. These professionals, many of whom have backgrounds in business as well as law, are looking for opportunities to segment specific work and source that work more effectively. Developing a close-knit relationship with organizations' LDO managers and understanding their concerns can enhance the likelihood that a law firm will be selected for engagement or will at least be speaking the right language. Therefore, law firms should focus not only on delivering exceptional client service but also on structuring their work so that it yields a notable return on their clients' investment. Demonstrated value creation will put the icing on the cake.

ADDRESSING OUTSIDE COUNSEL COSTS

The growth in the popularity of LDO managers reflects corporate law departments' need to improve the delivery of legal services, specifically through managing legal spend. Indeed, the Survey results showed that two of the biggest challenges facing law departments are identifying opportunities for business improvements and containing costs. To meet these challenges, LDO professionals are closely scrutinizing which law firms they use and how they use them, making sure that they are deploying the right outside counsel with the right skill sets and resources on the right projects. The most enlightened organizations are also finding opportunities to enhance efficiency and lower costs, either by bringing a project in house or by allocating it to service providers that specialize in certain legal processes or functions.

The bottom line is that firms want to make sure their clients use their attorneys and paralegals heavily, while their clients want to stretch their dollars more effectively, reduce surprises and eliminate bad billing. Therefore, law firms need to devise innovative, win-win billing solutions that allow them to deliver

high-quality work while satisfying the needs of LDO professionals. According to the Survey, 87% of law departments are using some form of alternative fee arrangements for at least some of the work they send to outside counsel, demonstrating a clear preference for this method of predicting and controlling costs. Furthermore, 25% of respondents used alternative legal fees for between 31% and 50% of their legal spend, compared with just 8% last year. To this end, law firms that want to be more competitive may want to offer novel billing arrangements that deliver predictability and value, rather than simply discount their rates, as a majority of law firms tend to do.

Law firms also need to be mindful of their strengths and avoid competing head on with third-party service providers that offer specialty legal services that can bring lower cost resources to the table. Since legal service delivery is a global marketplace, in-house law departments, especially those that are multinational, are looking at price points and delivery models that take advantage of their global footprint. Why wouldn't a corporate counsel retain a lawyer in India at one third of the cost without

unintended consequences or a decline in quality? Similarly, most law firms will not be able to compete with electronic discovery providers who eat, sleep and breathe sophisticated technology and process. These days, the investment required to be world class is too high. Firms will gain clients' respect if they objectively assess their strengths and refer alternative service providers at the right price point when they can reasonably be used to deliver appropriate service levels, results and limit costs.

BECOMING TRUSTED CHANGE LEADERS

Even if law firms cannot compete with third parties based on price, they can endear themselves to LDO professionals by becoming trusted advisers that will help organizations contain costs while driving change. The common view is that traditional law firms struggle with, and even resist, innovation. Indeed, most LDO professionals expect corporate law departments to be the primary driver of change in the legal sector: only 19% believe that the transformation will result from outside law firm initiatives. This statistic points to a unique way that law firms can stand out. Those firms that are perceived as drivers of innovation are more

likely to be held in higher regard by corporate counsel when all else is equal.

How do law firms become agents of strategic change? They must study their clients' business, the macro forces in the industry and their competitors and then develop recommendations for how in-house counsel can reduce their legal spend and streamline their workflows. One way to do this is to approach clients with the goal of clearing out the noise of the low-complexity, high-volume work that ties them up all day rather than allowing them to think more strategically. As an example, law firms can encourage their clients to adopt disruptive technologies that can improve their clients' workflows and overall efficiency. For instance, certain contract management software can facilitate client self-service and contract assembly. These tools can dramatically streamline the in-house contract review and approval process while enhancing business units' engagement and satisfaction. Similarly, "expert" apps can help organizations adapt policies to changing regulations. Law firms can proactively create unique apps to create checklists or other compliance systems that clients can use to improve the consistency of their response to

risk and reduce their legal exposure.

USING METRICS TO IDENTIFY OPPORTUNITIES FOR IMPROVEMENT

Even with the growth and increasing competency of LDO professionals, there is still tremendous room for organizations to strengthen their management of outside counsel. According to the Survey, only 32% of companies felt they managed outside counsel "very effectively." As LDO managers work more closely with the C-suite, they will come under additional pressure to develop key performance indicators and other metrics, and this is one area where law firms can play a critical role.

What gets measured gets done: metrics provide critical information that law departments are using to improve their operations. But only 37% of Survey respondents reported that they have implemented a formalized program for gathering and reporting metrics. This year, for the first time, the Survey also asked respondents to rate the maturity of their metrics programs on a scale from 0 to 5. A rating of 0 meant that the organization did not have a reporting program. For those that did have systems in place, a rating of 5 meant that

the system was fully automated, while a rating of 1 indicated a primarily manual system that was based in Excel or Access, distributed through email, or ad hoc. The mean score was just 2.13, with most respondents rating the maturity of their metrics system only at a 1 or 2. Even so, more than half of the responding organizations reported that they were making effective use of the information that they were gathering.

Law firms that can demonstrate their value and cost-efficiency compared to the competition are likely to win more work from LDO managers. These professionals are using technology to evaluate billing data and assess their outside legal spend so they can manage costs. Data gathered from tools such as Sky Analytics, which analyzes anonymized billing and invoice data from outside

counsel worldwide, allows law departments to immediately, and inarguably, separate the wheat from the chaff when it comes to outside counsel. The tool gives law departments sophisticated rate benchmarking intelligence based on actual billing data that they can use to gain insight into fair market rates, reveal new savings opportunities and forecast matter costs. This information is foundational to cost control and budget predictability, which are key priorities for organizations and their law departments. Law firms that are willing to collaborate with LDO managers on pricing and staffing matters and have the data to back up their solutions are more likely to attract and retain work. Adopting data analysis tools to evaluate — and market — their efficiency should be a chief priority for outside counsel.

CONCLUSION

The Survey results offer a tactical blueprint that proactive law firms can follow, helping them match their forward-thinking, strategic-minded LDO counterparts inside organizations. By studying law departments' challenges, they can adopt means for addressing the gaps: novel billing arrangements, creative approaches that streamline internal workflows and data-driven metrics. In short, the more innovative and transparent law firms can be, the better positioned they will be to add — as well as derive — value.



Robin Snasdell, Managing Director.
 Email: rsnasdell@consilio.com.
 Phone: 713-939-4505

