

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

Greater Cleveland
General Counsel Association
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Gwinn Estate
Bratenahl, Ohio

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Agenda



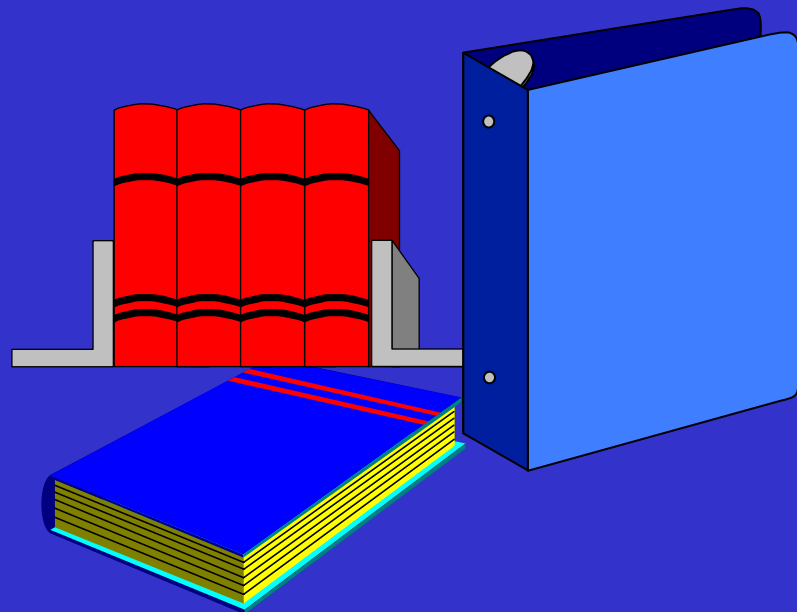
- Introduction
- Current State of Law Firms & Law Departments
- Benchmarking
- Best Practices
- Conclusion

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



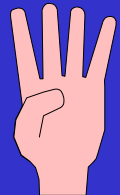
Traditionally, Less Expensive



Better Knowledge of the
Business / People / Issues



Availability

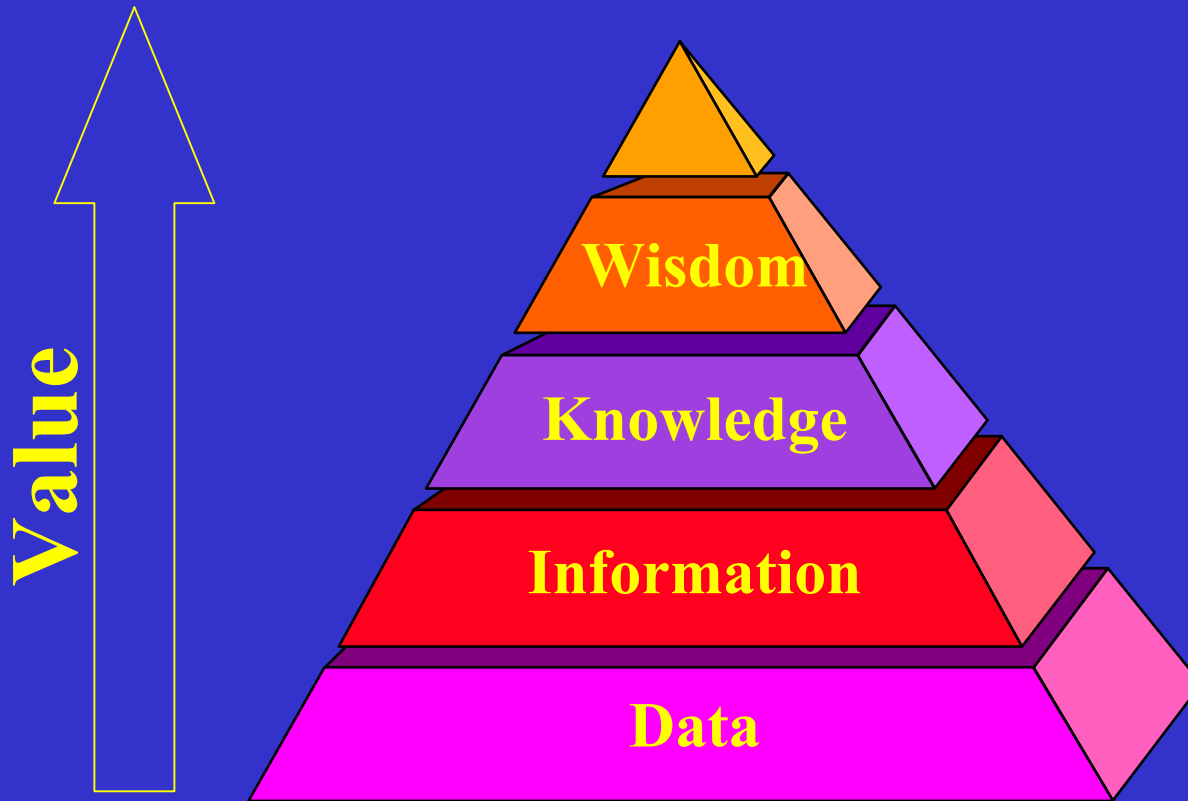


Legal Cost Management



Metrics / Performance

The Value Pyramid



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

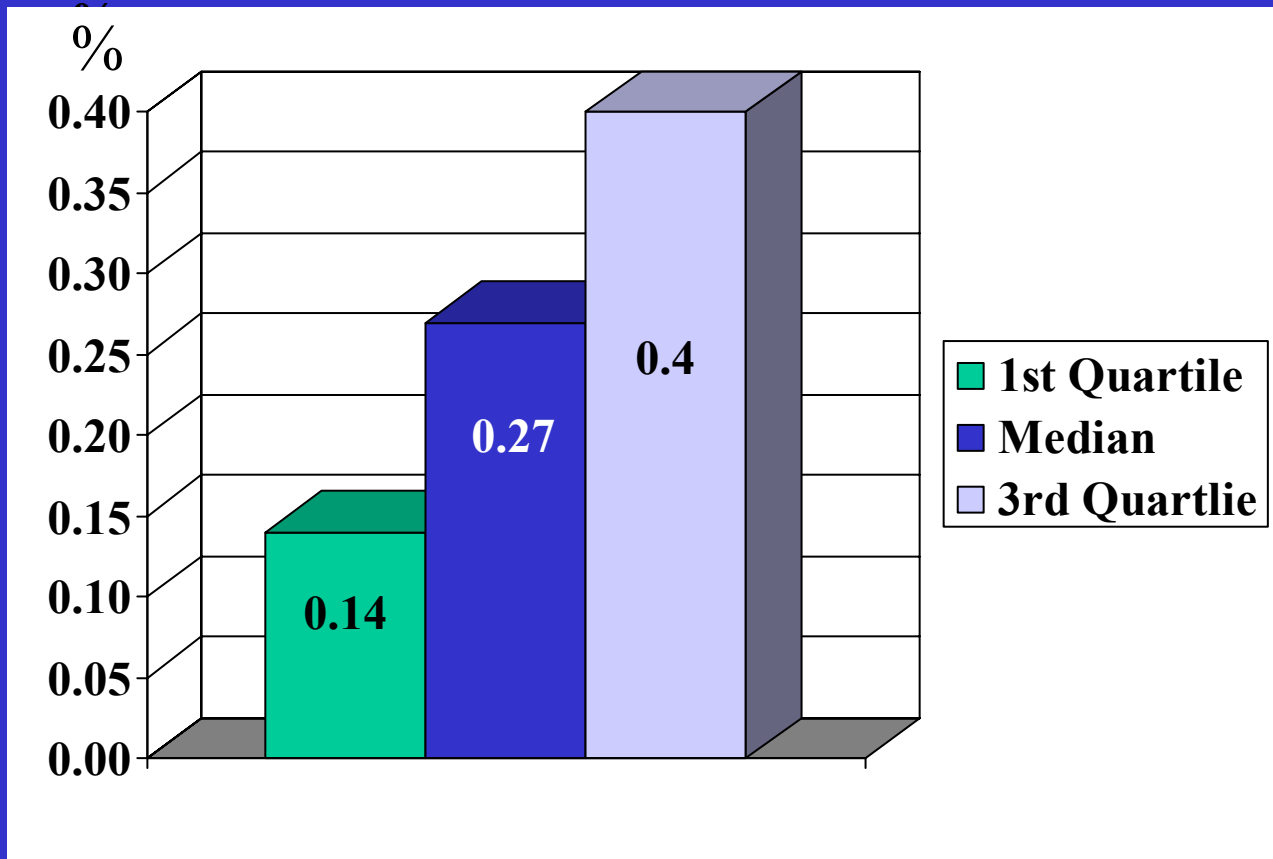
Benchmarking (cont.)

- 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.)

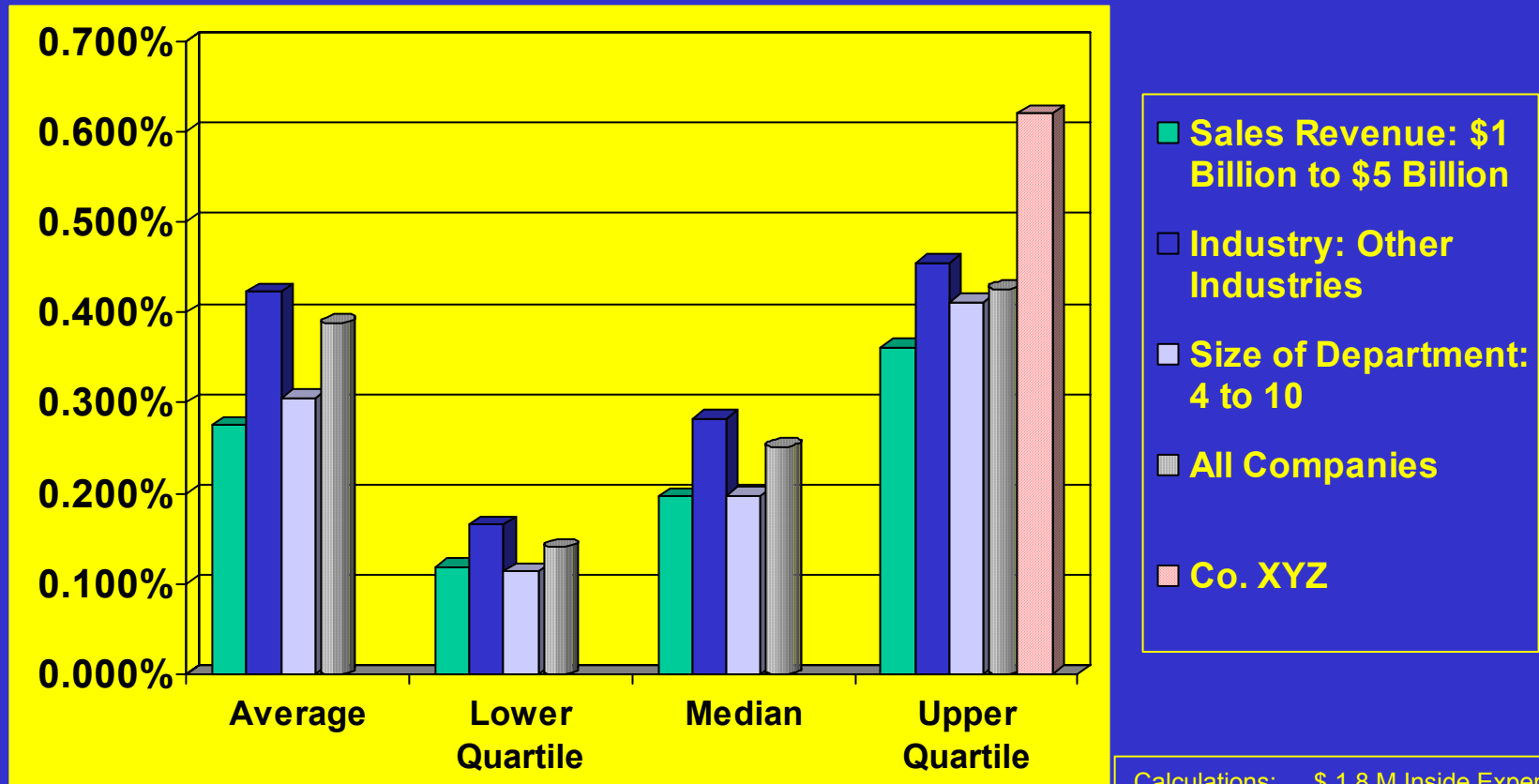
- Average Internal Hourly Cost
- Average External Hourly Cost
- Others.....

Benchmark: Total Spending to Revenues



*Source: Altman Weil Publications, Inc. 2001 Law Department Performance Metrics Survey (law departments of 26 or more lawyers).

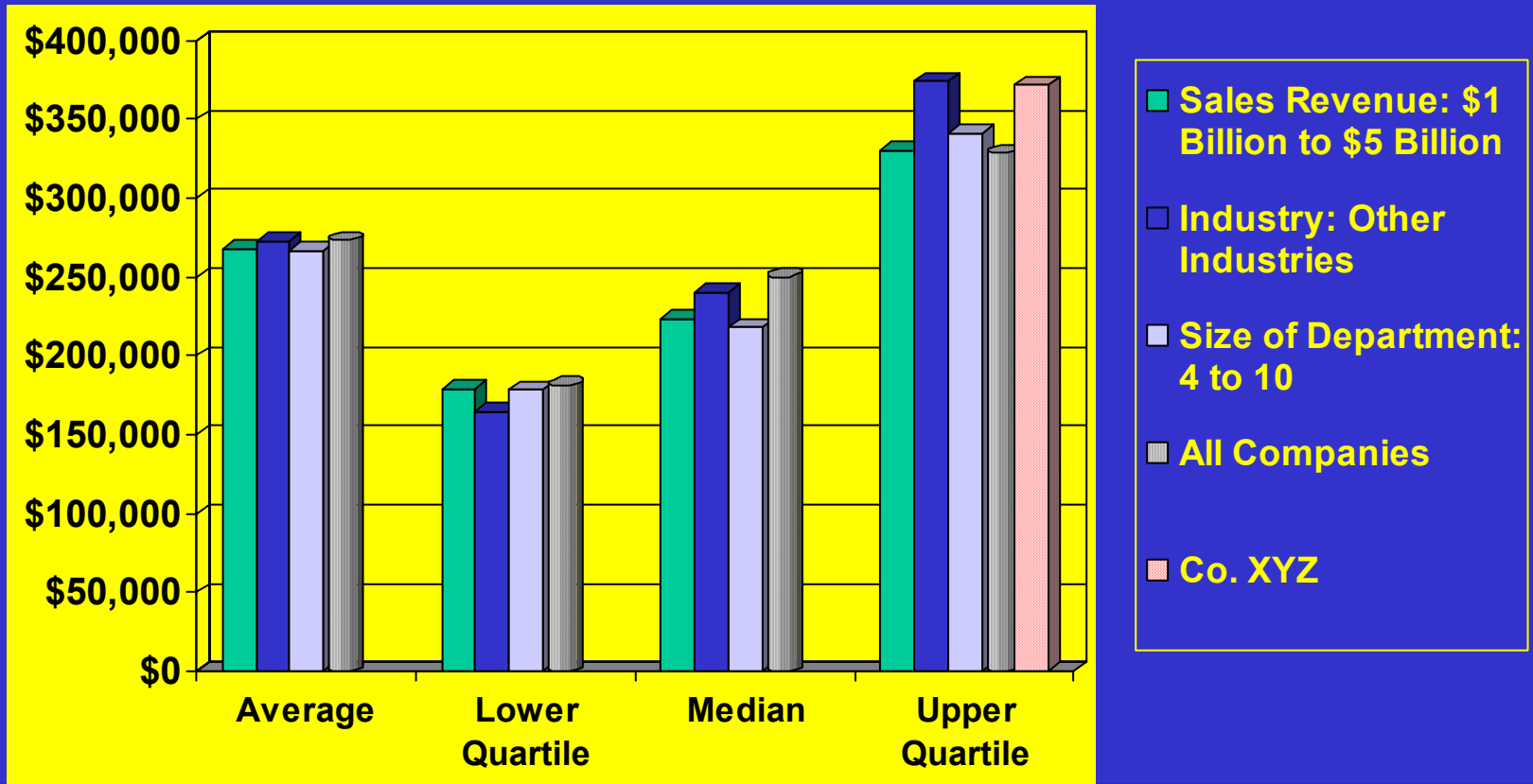
Chart 1 Total Expenses For Legal Department as a Percent of Sales Revenue (Co. XYZ) ¹



Calculations: \$ 1.8 M Inside Expenses
 \$ 8.74 M Outside Expenses
 \$10.54 Total
 Divided by \$1.7 B Annual Revenues

¹ 2002 Law Department Performance Metrics Survey: Expenditures, Staffing Functions / Operations published by Altman Weil Publications, Inc

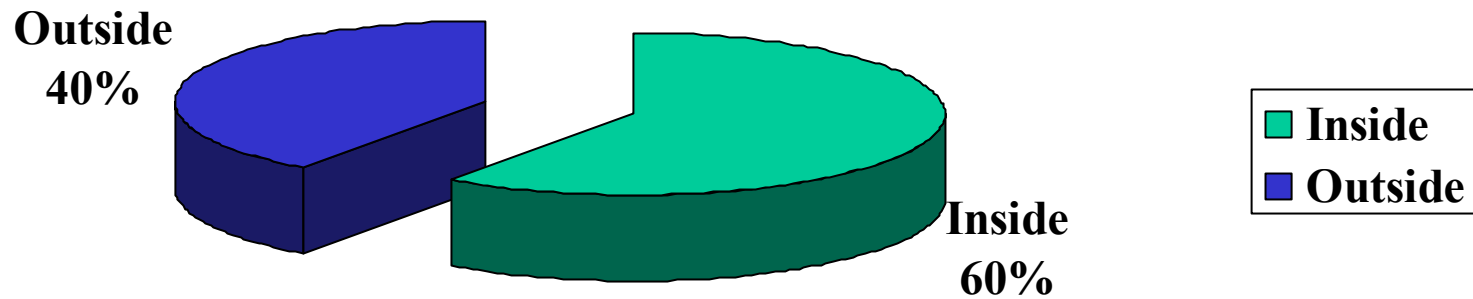
Chart 2 Total Inside Expenses² For Legal Department Per Lawyer¹



¹ 2002 Law Department Performance Metrics Survey: Expenditures, Staffing Functions / Operations published by Altman Weil Publications, Inc.

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



Benefit of In-house	Value
Knowledge of the business	20 to 25% added value
Lower Cost	Most often 25 to 35% lower
Early Intervention / Preventive Law	Significant value - Conservative estimate - 10-15%

Internal Cost Benchmarks

- “Cost Creep” of In-house Legal Functions



Source: Altman Weil Publications, Inc. *Survey of Law Department Performance Metrics*. In-House Per Lawyer Expense 26 or more lawyers.

Staffing Benchmarks

Median Lawyers per \$1B 2.8

Ratio of Paralegals to Lawyers .30

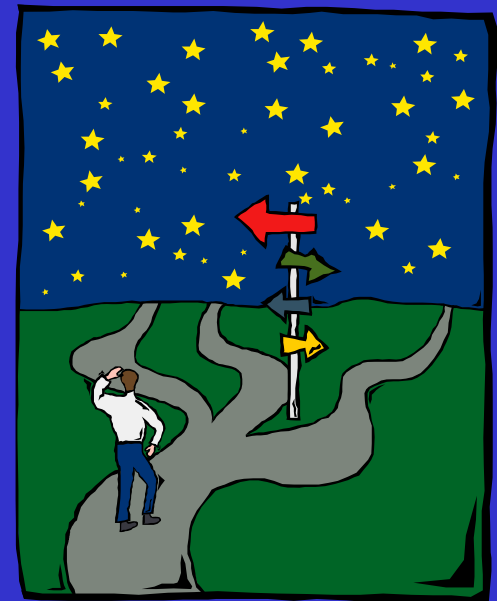
Ratio of Admin. Employees
to Lawyers .64



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

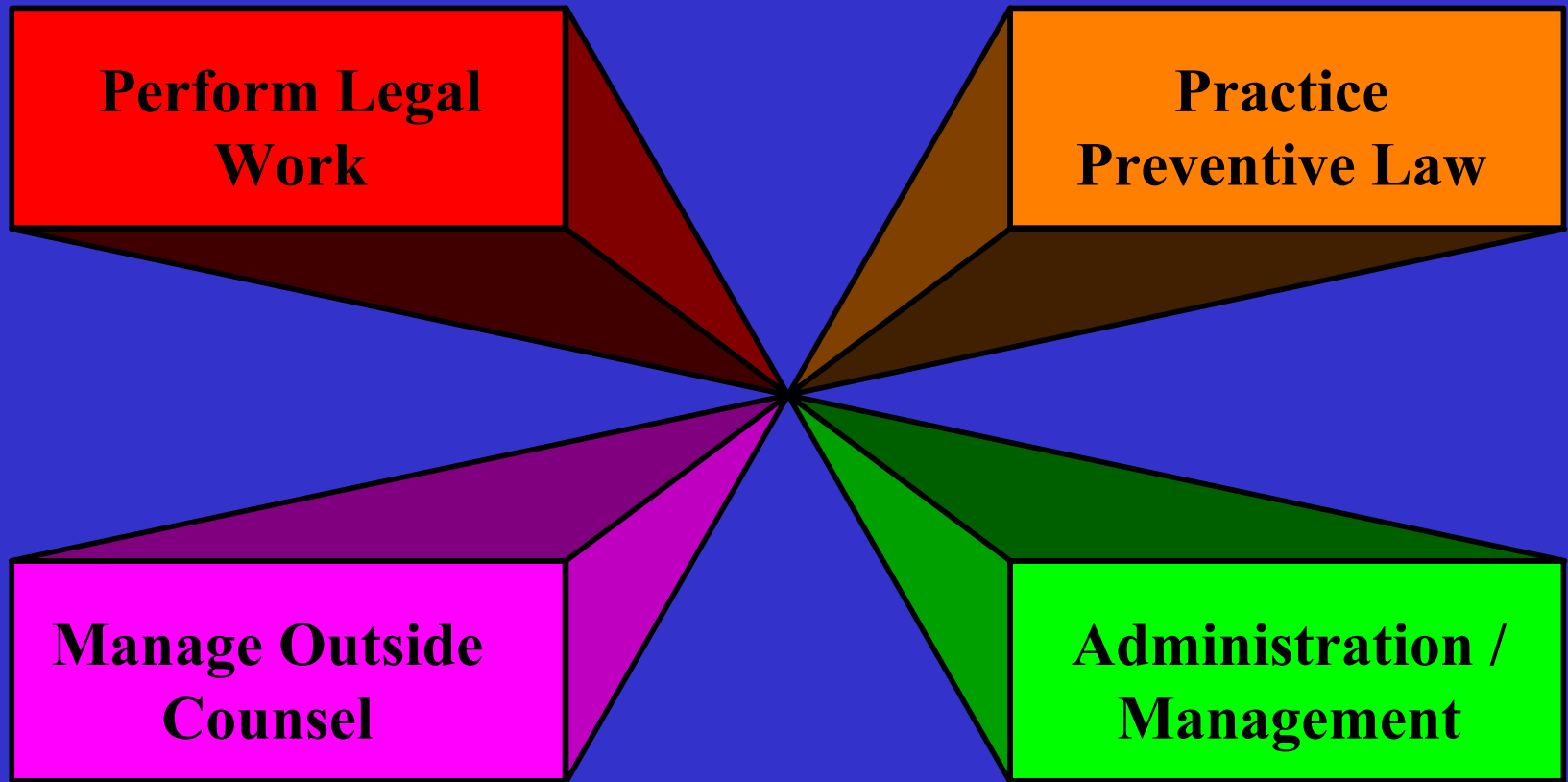
Law Department Alignment (cont.)

- 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



Strategic Analysis of Legal Services

Type of Work	Practice Areas	In-House	Firms	Pricing	Value Metrics
Strategic, Competitive Advantage					
Important					
Repetitive					

Law Department Alignment

Best Practices

- **Organizational Structure** 

- Client Service
- Culture
- Leadership and Management
- Outside Counsel and Other Service Providers

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

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


- **Organizational Structure**
 - Client Service
 - **Culture** 
 - Leadership and Management
 - Outside Counsel and Other Service Providers
- Team Oriented
 - Client Focused
 - Reward Performance
 - Accountability
 - Leverage People and Technology

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

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

Law Department Alignment (cont.)

Best Practices

- Rewards and Motivation
 - Systems and Processes 
 - Technology
- Consistency Across the Enterprise
 - Matter Management
 - Contract Management
 - Work Product Retrieval
 - Discovery Processes
 - Corporate Secretary Responsibilities

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:

[http://www.altmanweil.com/news
/consultant_presentations.cfm](http://www.altmanweil.com/news/consultant_presentations.cfm)

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for questions, comments, feedback and
dialogue