Structure: Re-engineering the Law Department

George W. Madison, TIAA-CREF
John M. Liftin, Bank of New York
Rees W. Morrison, Hildebrandt

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Challenges of Globalization

• Reconciling differences in;
  – Cultural and business protocols.
  – Language.
  – Laws, regulations and regulators.
  – Company and local interests.

• Assuring consistency in;
  – Approach to key issues.
  – Hiring standards for employees.
  – Technology standards.
Challenges of Globalization

• Promoting a sense of team unity.
• Communicating clearly with constituents.
• Location
  – Regional v. local
  – Follow business structure
Potential Solutions

• Establish inclusive mission and objectives.
• Hire experienced attorneys with knowledge of U.S. business/legal approach.
• Require centralized reporting to General Counsel.
  – Regional hubs.
  – Global v. international structure.
Potential Solutions

• Periodically visit lawyers and law firms.
• Hold global attorney/management meetings.
• Enforce Legal approval and contact with local law firms.
• Use technology (e.g., intranet) to promote consistency.
Among a group of 23 law departments in companies with more than $20 billion in revenue, the average percentage of lawyers in the largest site was 63%.

Source: Hildebrandt research
Law Department Structure

Key elements of structure

A. Alignment
B. Location
C. Reporting to GC
D. Specialist/Generalist
E. Levels
F. Support
G. Administration
## Specialty and Ops Lawyers

### Specialists:

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Encourages lawyers to keep current</td>
<td>Less familiar with or sensitive to operational realities</td>
</tr>
<tr>
<td>Lawyers recognized by other lawyers outside company</td>
<td>Imbalances of workloads</td>
</tr>
<tr>
<td>Makes hiring from law firms more easy</td>
<td>Tend to view business problems through a law school lens</td>
</tr>
<tr>
<td>May be less use and better management of outside counsel</td>
<td>Requires coordination if a matter involves several legal areas</td>
</tr>
</tbody>
</table>

### Ops lawyers (business generalists):

| Aligns with business desires and approach       | Often needs senior, experienced lawyers             |
| Wide-ranging practice may appeal to lawyers (reduces turnover) | May generate more need for outside counsel specialists |
| Fits conglomerate or geographically dispersed lawyers | Might miss sophisticated legal issue               |
| Might aid knowledge management and sharing      | Could cause more use of outside counsel             |
Centralizing Forces

- Evolution of global business units & product strategies
- Need for cohesive and efficient legal function with strong professional identity
- Increasing specialization requirements
- Sabarnes-Oxley and corp. governance
- Need for checks and balances

Decentralizing Forces

- Continuing need to conform to national laws and regulations
- Need for specific local expertise and know-how to operate commercially
- Need for alignment with clients at all levels and locations in the company
- Desire of managers to control all costs

Note: A law department may have more than one type of reporting relationship.

Source: Hildebrandt 2005 U.S. Law Department Survey
Matrix Reporting

• Challenges
  ➢ Conflicting business and legal priorities.
  ➢ Risks of attorneys being co-opted.
    ➢ Client asks attorneys to do non-legal work.
    ➢ If client pays compensation, more difficult to manage.
  ➢ Undue business pressure to reduce expenses.
  ➢ Attorneys compare their compensation to others.

• Benefits
  ➢ Greater familiarity with products and services.
  ➢ Earlier involvement in business strategies and decisions.
  ➢ Improved credibility with business leaders.
Managing Outsourcing through the RFP Process

• Request of Outside Law Firms
  - Description of your Company
  - Legal Services to be Provided

• RFP Questionnaire
  - General Firm Information
  - Partnering and Staffing Solutions
  - Fee Arrangements
  - Conflicts of Interest
  - Performance Evaluation Methodology
Facilitating Diversity through Outsourcing

- RFP Questions
- Preferred Vendor Status
- Ongoing Reporting of Preferred Vendors
- Internal Review Committee
Metrics and Benchmarking

• Reasons to measure
  – Cost management tool.
  – Design optimal outside/inside mix.
  – Staffing (i.e., attorney/paralegal/secretary mix).
  – Set compensation.

• Things to measure
  – Inside expense v. outside expense.
  – Legal costs/revenue.
  – Hours worked.
  – Costs/unit of work.
  – Differential in costs by specialties.
Metrics and Benchmarking

• Is peer group relevant?
  – Size of business (revenues, employees).
  – Domestic v. international.
  – Degree of regulation.
  – Litigation intensive, IP intensive.
  – Compliance culture.

• Is data reliable?
  – Are legal costs regular or episodic?
  – In-house time sheets v. law firm hours.
### Metrics -- Legal Staffing

Note: All data are medians and all staffing data is for U.S. operations for the All Participant Group unless otherwise indicated.

<table>
<thead>
<tr>
<th>Metric</th>
<th>Median</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Attorneys per Billion Dollars of U.S. Revenues</td>
<td>4.8</td>
</tr>
<tr>
<td>Number of Attorneys per Billion Dollars of Worldwide Revenues</td>
<td>3.7</td>
</tr>
<tr>
<td>Number of Attorneys per 1,000 U.S. Employees</td>
<td>2.55</td>
</tr>
<tr>
<td>Number of Total Law Department Staff per Billion Dollars of U.S. Revenues</td>
<td>9.9</td>
</tr>
<tr>
<td>Number of Total Law Department Staff per Billion Dollars of Worldwide Revenues</td>
<td>7.9</td>
</tr>
<tr>
<td>Legal Assistants per Attorney</td>
<td>0.32</td>
</tr>
<tr>
<td>Secretaries per Attorney</td>
<td>0.40</td>
</tr>
<tr>
<td>Expectations for Staffing Changes in the Number of Attorneys in the Coming Year</td>
<td></td>
</tr>
<tr>
<td>Increase</td>
<td>46%</td>
</tr>
<tr>
<td>Stay the Same</td>
<td>44%</td>
</tr>
<tr>
<td>Decrease</td>
<td>10%</td>
</tr>
</tbody>
</table>

Source: *Hildebrandt 2005 U.S. Law Department Survey*
Metrics: Employees Per $1B Revenue

This covers all categories of law department employees.

Source: Alcoa Benchmark Study 2005
## Metrics -- Legal Spending

Note: All data are medians for the All Participant Group.

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<tr>
<th>Metric</th>
<th>Median</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Legal Spending as a Percent of U.S. Revenues</td>
<td>0.48%</td>
</tr>
<tr>
<td>Inside Legal Spending as a Percent of U.S. Revenues</td>
<td>0.17%</td>
</tr>
<tr>
<td>Outside Counsel Spending as a Percent of U.S. Revenues</td>
<td>0.28%</td>
</tr>
<tr>
<td>Inside Legal Spending as a Percent of Total Legal Spending</td>
<td>39%</td>
</tr>
<tr>
<td>Total Inside Legal Spending per Attorney</td>
<td>$376,753</td>
</tr>
<tr>
<td>Total Outside Counsel Spending per Attorney</td>
<td>$622,007</td>
</tr>
<tr>
<td>Fully Loaded Inside Hourly Cost per Attorney</td>
<td>$192/hour</td>
</tr>
<tr>
<td>Percent Change in Total Legal Spending (from the prior year)</td>
<td>6%</td>
</tr>
<tr>
<td>Percent Change in Outside Counsel Spending (Excluding Intellectual Property)</td>
<td>2%</td>
</tr>
<tr>
<td>Percent Change in Outside Counsel Spending on Intellectual Property (Litigation and Non-Litigation)</td>
<td>4%</td>
</tr>
</tbody>
</table>

*Source: Hildebrandt 2005 U.S. Law Department Survey*
Fully-Loaded Cost Per Lawyer Hour*

Typically, the blended cost per hour of outside counsel runs 30–40 percent higher than the counterpart inside cost.

Source: Alcoa Benchmark Study 2005 (See Appendix for details)

* The inside budget divided by the product of the number of lawyers multiplied by an assumed 1,850 chargeable hours.
Your Responsibilities as a Leader

- Set the tone of the law department
  - “Culture” and the fingerprints of the GC
  - Use development tools like “profiling,” rotations, executive education, special assignments, and “action learning”
- Communicate, and encourage communication
- Plan for succession and development
  - Explain career paths and limits (internal hire rates)
- Promote the department, visibly
- Make the strategic decisions
Your Responsibilities as a Manager

- Above all: Help lawyers develop *competent legal skills*
- Set priorities and performance goals . . . *with* supervisee ("reflective," not "directive")
- Give immediate and specific feedback
- Help lawyers identify and leverage their strengths
- Think in terms of processes and systems
- Be a role model for effectiveness
- Run interference: provide resources, remove obstacles
- For more senior lawyers, guide them about moving up to management
Psychological Reasons Why Supervising Lawyers Is Hard

- Many lawyers skeptical about supervision
- “Herding cats”: Lawyers dislike like being told what to do (ego, background)
- Time-constraints on both ends
- Low value on relationships to begin with
- Assumption that bright people don’t need “coddling” ("Sink or swim" and other attitudes)
- Defensiveness when asked to do it
- Misunderstanding what motivates professionals
Comparison of Lawyers to People

Source: Research by Dr. Larry Richard (Hildebrandt)
Experience, Quality In-House

Within one industry, several major law departments were similar.

Law Department Demographics, 2005

<table>
<thead>
<tr>
<th>Average Age of Lawyers</th>
<th>48.5</th>
<th>49.7</th>
<th>46.0</th>
<th>53.7</th>
<th>51.8</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Years of Experience</td>
<td>21.4</td>
<td>21.6</td>
<td>17.7</td>
<td>21.3</td>
<td>25.8</td>
</tr>
</tbody>
</table>

1 Source: Martindale Hubbell Directory
2 Source: US News and World Report Annual Rankings
Key Motivators of Professionals

Security
Job security
Financial success
Equity

Belongingness
Teamwork
Family
Relationships
Mentoring
Part of profession
Community work

Self actualization
Solving complex problems
Intellectual challenge
Creative thought

Esteem
Status
Reputation
Recognition
Influence
Authority
Being my own boss
Law Department People Tools

Annual objectives
Coaching and evaluations
Competency development

Employee satisfaction
Complementary skills
Career paths
Succession planning

High potentials
Teamwork skills
Psychometric instruments
Engagement measurement
Values assessment
Think Creatively

• Challenge defensiveness and “we tried it”
• Brainstorm and use scenarios
• Encourage contrarian views
• Explore creativity enhancers, such as reversal, what-ifs, exposed assumptions, metaphors
• Appoint Devil’s Advocates
• Bring in viewpoints of outsiders
TALENTS

LINGUISTIC

MATHEMATICAL / LOGICAL

INTRA-PERSONAL

INTER-PERSONAL

SPACIAL / VISUAL

MUSICAL / RHYTHMICAL

LINGUISTIC

BODILY / PHYSICAL
Unleash Creativity

- 99% of learning is subconscious
  - Use POSTERS with key messages
  - Open learning loops - always close them !
  - It doesn’t matter how badly drawn the posters are
  - Use borders, don’t put them up straight
- Sitting or Standing
  - After 25mins sitting down we all take in 15% less, due to poor blood circulation to the brain
- Give learners time to learn
  - Create ‘desire’ to learn by getting engagement & opening learning loops, always close
  - Brief ‘tasks’ one step at a time

- 7 Talents of learning (Eric Yessen)
  - Everyone learns in different ways !
  - Appeal to everyone at sometime !
    - Intrapersonal - Time to reflect
    - Interpersonal - Work with others
    - Linguistic - Likes using words, both written & spoken
    - Mathematical - Working logically through
    - Spacial / Visual - Need to see what it looks like
    - Bodily Physical - Move to Action
- Language
  - Small language make a huge difference with engagement
    - Can we...
    - Let’s....
    - It would be great....
Law Department Management

Lawyers based in Europe – second languages (Eastman Kodak)

In November 1993, the Eastman Kodak legal department in Western Europe, having then ten lawyers in four countries, introduced a new structure. A three-page summary of the changes included such measures as creating “horizontal” teams by the six EK business units rather than continuing with national lawyers handling national legal work across business units. Additionally, the combined department agreed a single European budget, decided to charge time back to clients (once the accounting system permitted tracking time), and committed to providing additional client training and information.

What caught my eye, however, was one statement: “We now insist that all of our lawyers have or are actively learning a second language. Any new lawyers taken on will have to be truly European lawyers, either qualified in or with experience in more than one jurisdiction.” The bi-lingual goal makes complete sense, as does the desire to eschew aptavas from the US. Most legal groups in Europe could consider adopting the same requirements.

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