

Legal Efficiency

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Corporations are continuously looking for ways to become more efficient. Process improvement programs once only utilized in the manufacturing sector are now a dominant presence in all industries. The goal is to improve efficiency and as a result improve the bottom line. There are performance metrics for the organization, employees, suppliers and even customers. Thus, it is a natural outcome that legal management would also be scrutinized for efficiency.

During the summer of 2005, Bottomline Technologies, the provider of eXchange, conducted a survey of the Fortune 1000 companies and AM Best 200 insurers regarding legal performance. E-mail invitations were sent to approximately 1,892 individuals and more than 10 percent responded. The results were reported at the ACC 2005 Annual Meeting.

The results of the survey indicated that the respondent law departments use law-firm performance data mostly to "award new work to high performers" (59% selected this response) and to "reduce the number of outside counsel" (47%). The least important uses of the performance data were to "help firms become more efficient (26%), "internal analysis only" (22%) and to "tie firm compensation to performance." These results validate that companies are paying attention to their legal spend and allocating work to the most efficient firms.

The first step in maximizing legal efficiency is to align the organizational goals and objectives with those of legal counsel. Much of legal management is risk management. To be truly effective risk management programs must identify what is strategically important to the organization. In this way legal activities are focused on strategic objectives and higher organizational priorities. It also empowers the executive management team to confidently make business decisions because there will be a clear understanding the risk-reward propositions and operating level decisions will be evaluated within the context of the company's overall strategies for undertaking and bearing risk.

Counsel should be provided with the organization's strategic plan. Conversely the law firm should provide the organization with a written legal strategy. The legal services must satisfy the business purposes not the other way around.

Legal efficiency is also gained through specialization. More midsize firms are making the decision to specialize their practices in an effort to compete in a market filled with mega law firms. While this is a strategic decision that serves to differentiate the small firm and position them as an alternative to their behemoth competitors, it is a strategy that benefits the market place.

Specialization can improve productivity and efficiency. When a firm chooses to specialize and to limit their client base they are able to gain concentrated experience. They develop an extensive knowledge base around a specific area of law and achieve expediency in dealing with issues in this expertise. The firm that chooses to specialize is also able to achieve a competitive advantage by offering consistency of results in their chosen niche.

Specialty firms are able to achieve greater efficiencies as they do one thing and strive to do it better and faster than the general practice firm. Clients will gain specific expertise, time and cost savings.

It may be tempting to choose the low cost provider when it comes to legal spending but doing so could cost more money. While it is important to negotiate fees and fee structures, it is unwise to give too much weight to the hourly fee. The cheapest firm may not be the most efficient and as such will cost you more money. You may hire a firm that bills \$200 per hour but because of lack of expertise, operating inefficiencies or poor management that \$200 per hour can cost you more money in the long term than paying a higher hourly fee with the specific expertise and performance management that you need. In example, the \$200 per hour firm may spend 40 billable hours in managing a particular legal matter. Another firm that charges \$350 per hour may have handled the same legal matter in 10 billable hours.

There are a number of questions that can be asked to assess a firm's efficiency. Does the firm appropriately outsource? Is the time spent appropriate to the task? Are task being handled at the most efficient level, i.e. is each member of the firm operating within their area of expertise and responsibility? How does the firm select its clients? Is the firm able to readily access historical knowledge? A law firm must have the expertise you need, the ability to readily access that expertise and must be able to apply that expertise in a time and cost efficient manner.

Finally, legal efficiencies can only be gained by applying rigor to the review process. Just as workflows are evaluated to maximize efficiency and productivity, so can legal management evaluate, analyze and compare costs, process, outcomes and best practices. Identify areas where operating efficiency and quality can be maximized. In reviewing, measuring and aggressively pursuing quality, you will develop a knowledge base that can be leveraged in future legal matters as well as improve your bottom line.