

# CORPORATE LEGAL TIMES

## The Art And Science Of Slicing Legal Department Costs

### General Counsel Learn To Do More With Less

BY ROBERT VOSPER

SOME ECONOMISTS BELIEVED that once the war in Iraq ended, the economy would roar back to life. So far, that hasn't been the case. In fact, as American troops mop-up in Iraq, the U.S. economy continues to sputter and misfire, prompting some skeptics to warn of the possibility of a double-dip recession. If that happens, department heads should be prepared to further cut their 2004 budgets. That leaves just two options for general counsel: reduce outside counsel spending or identify inefficiencies within the department. The caveat, however, is they must do so without reducing the quality of legal services.

At a recent Martindale-Hubbell Counsel To Counsel forum in Chicago, a group of general counsel and law firm lawyers discussed techniques for containing costs. Most participants at the forum, titled "Working Smarter, Not Harder: Cutting Costs Without Compromising Quality," agreed there is no simple solution to this age-old problem. The majority found that a successful cost-cutting plan requires a hefty dose of creativity and a willingness to implement multiple strategies. And the first strategy, participants said, was getting outside counsel to listen.

#### Measuring Up

Without a doubt, the biggest drain on a legal department's budget is outside counsel fees. According to the recent "Top of Mind Survey of Senior In-House Counsel" by Kirkpatrick & Lockhart, about half the companies surveyed spend at least 50 percent of their legal budget on outside counsel. In addition, nearly 50 percent of respondents said controlling

### COUNSEL SESSIONS

outside counsel costs is the most difficult challenge they face. [See chart at end of article.]

Although legal departments fork over millions of dollars each year to law firms, many GCs said they were receiving little in return on their investment. The chief complaint was that law firms are doing a pitiful job of understanding companies' needs and fail to offer value-added services. As a result, some legal departments have created evaluation procedures that allow them to measure and compare the performance of legal vendors.

For instance, both The Boeing Co. and BP America Inc. assess the performance of outside counsel on certain tasks throughout the year. These tasks include the amount of hours individual attorneys spend on a matter, how frequently associates work on a case throughout the life of a matter and timeliness with billing. Boeing's legal department even shares information about its budget constraints with outside counsel and lets them know how they stack up against their competitors in terms of service and rates.

"We try to be very transparent with them," said Paul Ehlenbach, assistant general counsel of Chicago-based Boeing. "We tell them about their competition and where our legal budget is going. We also share the comments we receive from our lawyers—the good, bad and ugly."

The purpose of this, he says, is to turn the firms into true partners, obtain better quality service and reduce costs.

"It really helps law firms realize there is competition out there, and we are serious

about planning and budgeting," Ehlenbach said. "They begin to realize we aren't doing this for fun."

Ehlenbach believes the key to building strong relationships with firms is to ensure both parties are communicating on a regular basis. However, most participants said outside counsel seldom check to see whether they are happy with the service they are receiving and rarely take proactive steps to identify inefficiencies. Perhaps the most disturbing revelation made by participants is that outside counsel often take little interest in learning about their businesses and the industries in which they compete.

"Very few firms request feedback," said Deidra Gold, senior vice president, general counsel and secretary at United Stationers Inc., a Des Plaines, Ill.-based distributor of business products. "I expect our outside counsel to read our public filings, accept invitations to walk through our distribution centers and actively seek out other information about our business and industry—all on a nonbillable basis.

#### C2C Forum At a Glance:

"Working Smarter, Not Harder: Cutting Costs Without Compromising Quality"

##### Chair:

> Paul Ehlenbach,  
Assistant General Counsel, The Boeing Co.

##### Law Firm Co-Hosts:

> Dykema Gossett  
> McMillan Binch  
> Sonnenschein Nath & Rosenthal

##### Facilitator:

> Ann Lee Gibson,  
Ann Lee Gibson Consulting

Unfortunately, most don't do that."

And firms that don't express an interest should expect to pay the ultimate price.

"I find outside counsel to be most helpful when they can give their advice in the context of practical business realities, not just a recitation of legal theory," said Nancy Bellis, partner and general counsel of DiamondCluster International Inc., a management-consulting firm based in Chicago. "Only outside counsel who can do this and understand our business are still working for us."

### Beyond Legal Services

Although most participants agreed the goal is to get outside counsel to work more efficiently, some believed firms also should be offering more value-added services. For example, law firms retained by Snap-On Inc., a Pleasant Prairie, Wis.-based manufacturer of hand and power tools, are required to provide a variety of nonlegal services, including seminars for CLE credit and extranets.

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—Nancy Bellis

Partner and General Counsel  
DiamondCluster International Inc.

"The services provided by law firms to our company are more important to us than client lists," said Edmund Bathelt, corporate counsel at Snap-On. "We want to know what value-added services you can bring. Most firms do an insufficient job marketing themselves with respect to these additional services."

The exception is perhaps regional firms, which one participant said do a far superior job than national firms of providing nonlegal services, as well as finding ways to reduce costs.

"Our philosophy is we want to be one of the most important clients for the firm," said Richard Lavers, executive vice president, general counsel and secretary of Coachmen Industries Inc., an Elkhart, Ind.-based man-



(Clockwise from top left): **Nancy Bellis**, partner and general counsel of DiamondCluster International Inc.; **Anthony Sadowski**, vice president and general counsel of NEC Solutions (America) Inc.; **Melinda Burrows**, associate general counsel of Progress Energy; **Paul Ehlenbach**, assistant general counsel of litigation at The Boeing Co.; **Helen Kaminski**, chief counsel of corporate and securities, and secretary of the Sara Lee Corp.; **Timothy Moore**, senior vice president of corporate affairs, general counsel and secretary of American Medical Security.

ufacturer of recreational vehicles and modular homes. "A company our size isn't that important to the mega-firms. We have found that regional firms can provide us with equal quality representation and are much more willing to become our business partners."

### Internal Measures

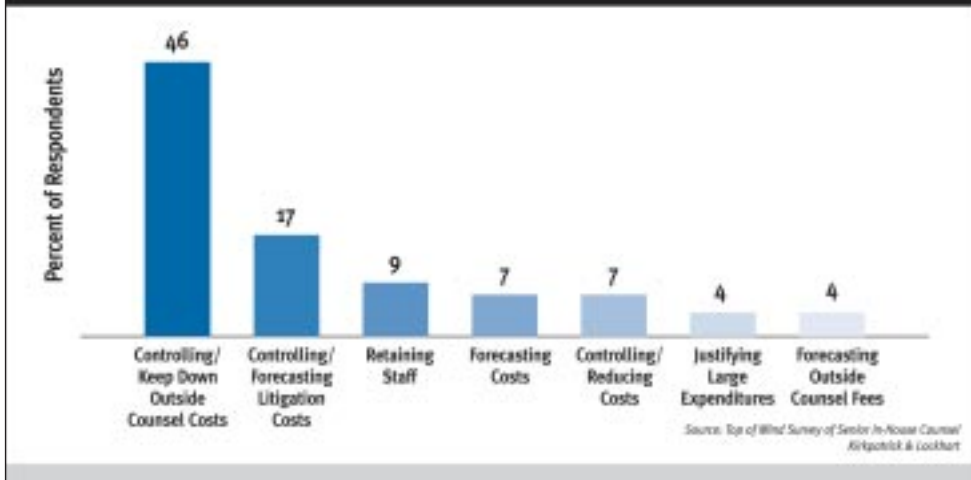
Reducing costs, however, isn't just about squeezing more out of outside counsel or whipping them into shape. In fact, most lawyers in the group said although you can measure how firms perform on certain tasks,

it's difficult to evaluate overall efficiency and value, especially when firms aren't engaged in commodity work. In addition, it's difficult to predict how much money you are going to need each year to fend off lawsuits.

"In terms of my budget, I'm probably down 30 percent from where I was in 1999," Ehlenbach said. "I would attribute a degree of that success to luck more than anything else because all it takes is one big unanticipated matter and the budget is creamed."

General counsel can perhaps obtain

## The Budget Crunch



According to Kirkpatrick & Lockhart's recent "Top of Mind Survey of Senior In-House Counsel," the most challenging financial issue facing legal departments today is controlling outside counsel costs. This was true for both Fortune 1000 and 500 companies.

more predictable and measurable cost savings by creatively evaluating internal processes and procedures. For instance, Lawrence Kaplan, vice president and general counsel of Chicago-based Navigation Technologies Corp., a developer of digital map information and software, said his department was spending a lot of time processing and resolving issues with licensing contracts. In addition, the company's sales activity was growing while the size of the legal department remained static. To deal with the increasing workload, Kaplan needed to find a way to streamline the process of closing contracts.

Kaplan's department re-evaluated the company's entire contract-management process. Navigation's outside counsel also agreed to send some lawyers to Kaplan's office to work with him on improving the contracts. The resulting product was short, simple, and easy to read and negotiate. His team also adapted the contracts so they could be used with overseas customers without much redrafting.

Besides rewriting the contracts, the legal department also built more time into the process to discuss pending contracts with sales staff—allowing the legal department to identify potential problems before they developed into crises. They also placed more of an onus on the sales staff to seek out formalized approvals prior to brokering any deals that deviated from the standard pricing models.

"In some cases, the sales people didn't

have the right approvals," Kaplan said. "We used to address issues like this ourselves. Now, we're pushing back."

Another participant saved her company \$200,000 a year by reducing the amount of EEOC-related cases and complaints outside counsel handled for the company. The GC and her department realized the saving by training HR staff in how to investigate and respond to employment-related complaints.

Hiring paralegals also can be a huge cost saving. For instance, Robert Walner, senior vice president, chief administrative officer, general counsel and secretary of Northbrook, Ill.-based Grubb & Ellis Co., saved his previous employer hundreds of thousands of dollars a year by hiring experienced paralegals rather than junior lawyers. He poached many of these paralegals from law firms.

"Paralegals in most firms are treated like glorified clerks and don't feel as though they have much of a future," Walner said. "These paralegals really flourished when they were given more responsibility."

### Show Your Value

Although some GCs, such as Walner, talked about the value of increasing the paralegal staff, not one of the participants spoke about laying-off staff attorneys. They did, however, believe in-house lawyers need to step up and become more

integrated into the company's business, especially during tight economic times.

Most participants believed that not only are boards and CEOs looking for legal departments to cut costs, but also to demonstrate their value to the organization as a whole. They want in-house lawyers to identify problems before they manifest into expensive court cases, use their legal skills to resolve complex business problems and identify risks early in the decision-making process.

And that requires a GC who understands the importance of developing a staff that not only has superior legal skills, but also has a strong grasp of business, and can interact and communicate with the business people. And only when a legal department reaches that point can a GC cut costs without compromising quality.

"Your lawyers need to understand what is going on and what the company's goals are," said Timothy Moore, senior vice president of corporate affairs, general counsel and secretary of American Medical Security, a healthcare provider based in Wisconsin. "If your people are educated in the business, it will help them understand how to solve problems better." ◀

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## Counsel To Counsel

### Upcoming C2C Forums to be covered in Corporate Legal Times

- > **August:** How the Legal Function Protects Corporate Image
- > **September:** Risky Business: Corporate Counsel Approaches to Managing Risk in a Tough Economy
- > **October:** Managing Cross-Border Disputes & Litigation in a Mad, Mad World
- > **November:** Efficient & Effective: Optimizing the In-House Counsel—Law Firm Relationship
- > **December:** Friends Like These: Best Practices for Establishing Your Preferred Provider
- > **January:** What Have You Done for Me Lately? Demonstrating the Value of In-House Counsel to the Corporation



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