

Managing Law Firms for Maximum Value

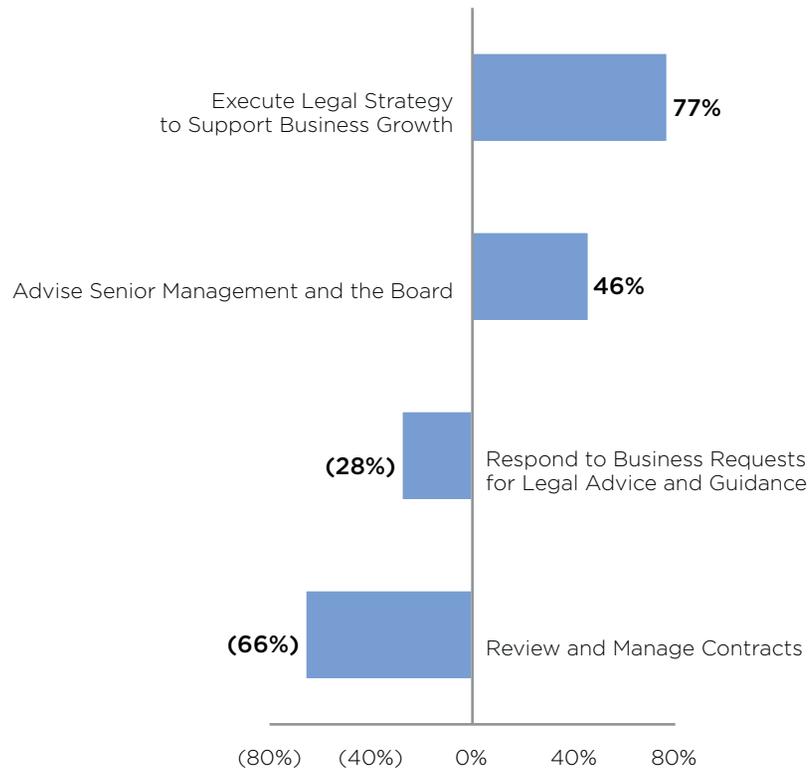


Preview Report

IN 2015, GENERAL COUNSEL HAVE BEEN ASKING US:

Q: Where should I focus my team to deliver the highest performance returns?

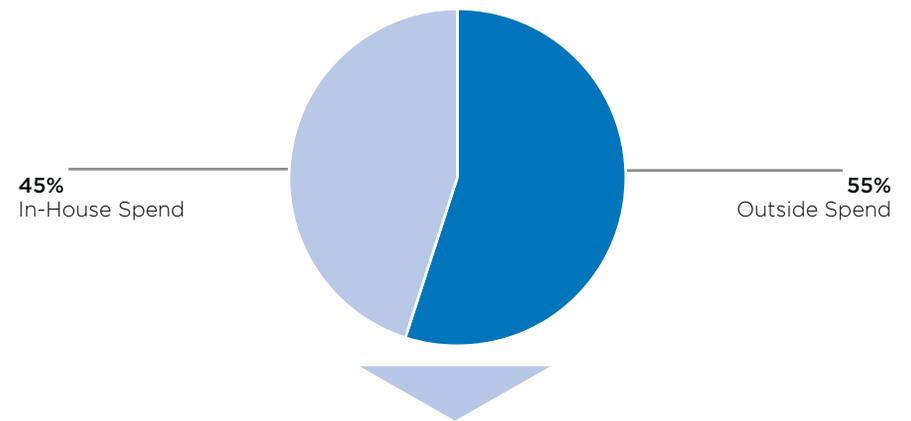
General Counsel Preferred Time Allocation
Select Responses



n = 114.
Source: CEB 2014 Legal Budget Diagnostic Survey.

Q: How can I close gaps in outside legal services?

Average Allocation of Legal Department Budgets

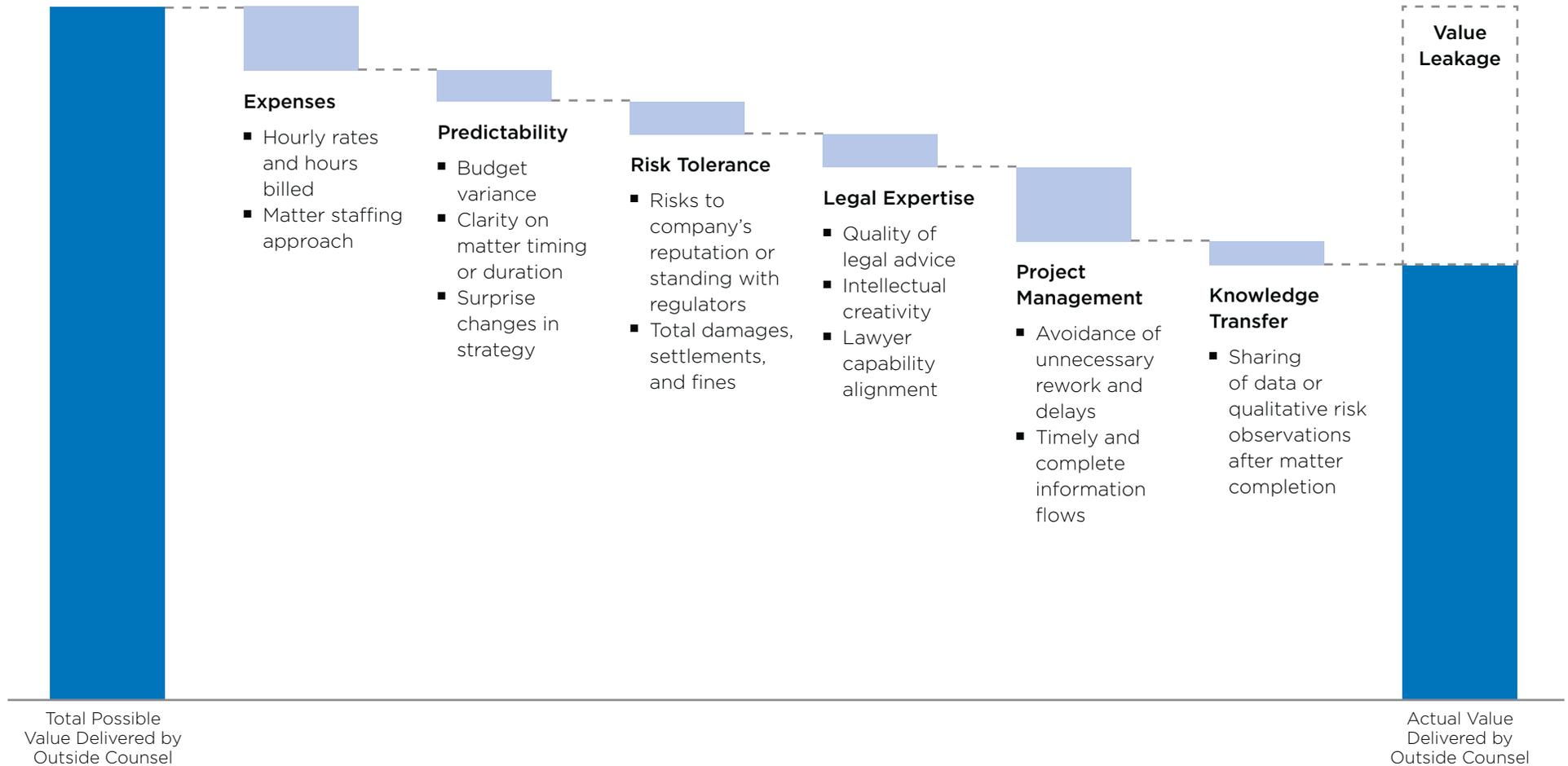


- 44%** Legal teams experiencing variance in outside counsel spend of +5% or more
- 58%** GCs looking for greater cost reductions from their outside counsel
- 66%** GCs who believe they need to implement new metrics that capture matter performance

n = 143.
Source: CEB 2014 Legal Budget Diagnostic Survey.

YOUR GOAL: REDUCE VALUE LEAKAGE

Sample Drivers of Value Leakage in Outside Counsel Support
Illustrative



Source: CEB analysis.

COMMON OUTSIDE COUNSEL CHALLENGES

Problems with Outside Counsel That Are Widely Shared Across Our Membership

Ways Outside Counsel Under-Deliver



Don't stick to an already agreed-on budget, resulting in highly unpredictable costs



"Overwork" or "over-staff" matters (e.g., bill more hours than needed, or staff the matter with more people or more expensive lawyers than necessary)



Don't understand the company's business needs or risk profile



Don't provide interim updates or let in-house counsel know when they need help



Write memos that are too detailed and "in the weeds," need to be reworked to share with internal business partners

Areas Where Legal Teams Struggle



Identifying and selecting law firms in new markets



Coordinating work with too many law firms while avoiding duplication, redundancy, and inefficiency



Measuring and comparing outside counsel performance on vastly different types of legal matters



Finding the time or developing the skills to oversee outside counsel's work



Learning from outside counsel and proactively reducing legal risk based on past experience with similar matters handled externally

Source: CEB analysis.

SHIFTING POWER IN THE CORPORATE LEGAL SERVICES MARKET

Bargaining Power of Law Firms

- Strong market power for top partner rainmakers
- Competition for top lateral talent
- Increased demand for legal services

Bargaining Power of Companies

GC Buying Power

- Increased market transparency (access to price and service quality information)
- Increased matter visibility - use of matter management (74%) and e-billing systems (67%)
- Increased in-sourcing
- Reduced switching costs

Threat of Substitutes

- Growth in alternative legal service provider market
- Surplus of lawyers
- [Slowly] Falling regulatory barriers to entry

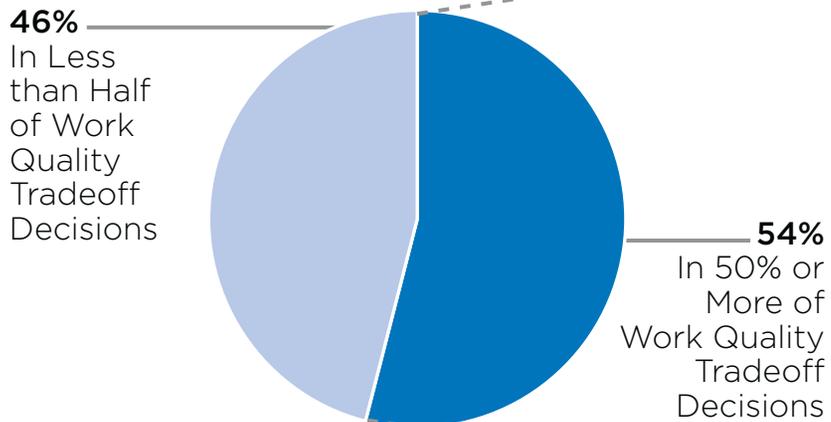
It's a Buyer's Market

General Counsel are gaining increased control over outside counsel's price and performance.

Source: CEB analysis.

KEY INSIGHT: THEY DON'T UNDERSTAND YOUR PRIORITIES

Frequency With Which Outside Counsel Incorrectly Make Work Quality Tradeoffs
Percent of General Counsel Responses



Quality Tradeoff Examples	Resultant Problem
1 Cost Versus Comprehensiveness	"Law firms deliver way too much relative to what we are asking, including huge memorandums and massive investigations. I don't want every bit of paper around them..."
2 Accuracy Versus Risk Alignment	"Outside counsel push forward based on legal merits of a case. We have to constantly remind them that we want to end the case quickly. We just have different priorities..."

n = 50.
 Source: CEB analysis.

Work Quality Tradeoffs

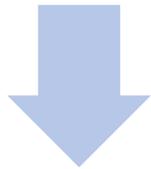
- Occur when outside counsel must prioritize among competing quality attributes
- Represent the most significant barrier to improved outside counsel performance

Source: CEB analysis.

WE STUDIED THE PROBLEM

How does the legal department reduce the volume and impact of incorrect quality tradeoffs?

1 Where to Focus Approaches for Managing Outside Counsel



Incentive-Orientation

Improve Incentive Alignment



Relationship-Orientation

Build Long-Term Trust



Execution-Orientation

Define Matter Need

Control Variables

- Company Demographics
- Legal Demands and Spend
- Dept. Size and Structure
- Matter Type and Volume

2 What to Do Activities for Improving Outside Counsel Management



- Fee Structure
- Billing Governance
- Panel Convergence
- Relationship Tenure
- Early Case Assessment
- Law Firm Evaluations

Matter Outcomes

- Legal Cost
- Work Quality
- Business Value

IMPERATIVE 1: DEFINE AND ENABLE CORRECT TRADEOFFS

Activities That Increase OC Ability to Make the Right Tradeoffs on Our Behalf

Define Business Need at the Matter Level

- ✓ Set Clear Work Quality Expectations
- ✓ Align Legal Risk Tolerance
- ✓ Specify Matter Execution Priorities

Influence Important Trade-Offs as They Occur

- ✓ Educate outside counsel on preferences for executing issues while working on a matter
- ✓ Provide outside counsel with tools and decision rules to make correct matter tradeoffs

Source: CEB analysis.

Activities That Do Not Increase OC Ability to Make the Right Tradeoffs on Our Behalf

- ✗ Structure a higher percentage of matters on success- or outcome-based fee arrangements
- ✗ Allocate a higher percentage of our outside counsel budget to preferred panel law firms
- ✗ Allocate a higher percentage of our outside counsel budget to top Global-200 law firms
- ✗ Maximize the amount of legal work sent to our preferred law firms

IMPERATIVE 2: SUSTAIN NEW BEHAVIORS

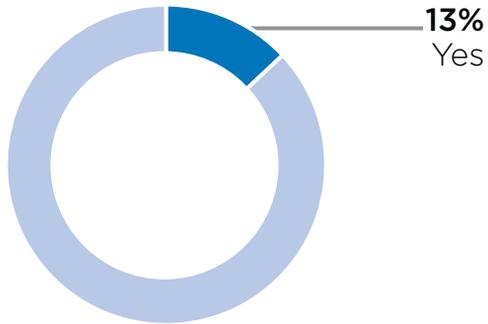
Current Performance Management Approach

Behavioral Need

“We evaluate in-house lawyers on their ability to help outside counsel make necessary tradeoffs.”

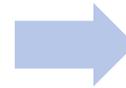


Create Accountability
Among In-House Staff

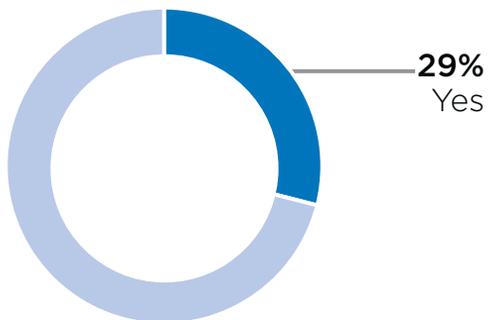


n = 50.
Source: CEB analysis.

“We evaluate outside counsel on the quality of their decision making, judgment and tradeoffs.”



Measure Outside
Counsel Work Quality



n = 50.
Source: CEB analysis.

NEW TOOLS AND SOLUTIONS FOR MANAGING LAW FIRMS

1 Define Business Need at the Matter Level	2 Influence Important Tradeoffs as They Occur	3 Create Accountability Among In-House Staff	4 Measure Outside Counsel Work Quality
<p>Business Needs Translation</p>	<p>Tradeoff Milestones and Triggers</p>	<p>Outside Counsel Competency Model and Incentives</p>	<p>Strategy and Service Quality Scorecard</p>
<p>Legal Risk Tolerance Alignment</p>	<p><i>Exercise: Assess Active Matter Management Capabilities</i></p>		<p>Business Impact Reporting</p> <p><i>Exercise: Build an Outside Counsel Performance Dashboard</i></p>

Contact us directly to learn more about findings from this research and learn how CEB helps leading legal teams improve quality and reduce waste from outside counsel services.