

## Legal Week

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### **Value for money**

*With those in charge of the company purse strings always under pressure to cut costs and reduce the headcount, many are prone to labelling 'service departments', such as in-house legal, as expendable. Julia Chain argues this is merely a problem of perception*

The heat, as they say is well and truly on. In an environment in which businesses are under daily pressure to cut costs and reduce headcount, the cost of so-called 'service departments', such as in-house legal, are the first to be put under the financial microscope by finance departments that are quick to make unfair and often inaccurate comparisons with other, more obvious value creators such as marketing or sales departments. The truth is, however, simply a problem of perception.

In a recent survey (Legal Week, 14 October) the average cost of an in-house legal team was found to be about 1% of a company's total budget. If properly managed, this team can be a powerful and cost effective tool for creating and maintaining value. In-house lawyers know this — the trick is convincing the business. The five-point plan below may offer some help.

#### **What the client really wants**

One of the main advantages of an in-house legal team is that it has an extensive knowledge of its client's business. Obvious? Well not always. Every business constantly needs to re-evaluate its strategy and focus and the in-house legal team needs to keep pace. It is easy, when caught up in the daily battle to meet the often unrealistic expectations of the client, to forget that priorities can change suddenly. A value-added legal team will have its finger on the pulse of change, recognising it and adapting to it.

Getting out and about is essential for any in-house team at every level. Walk the floors, pop in to see people, meet your opposite number in the business for a coffee, listen to the gossip. So easy to do and so often neglected. The business needs to feel you are part of its world — being seen and knowing what is going on puts you in a far better position to influence a decision than a raft of e-mails, however learned.

#### **Understand your headcount**

Headcount is always under threat and is often the least easy area to defend. In-house teams are often cheaper than out-sourcing, but justifying a large department with a higher ratio of secretarial staff to managers than anywhere else in the business can be difficult. When I joined T-Mobile, it had an annual legal spend on property work alone of more than a million pounds. We insourced all the work, eventually hiring a team of seven and still reduced costs by more than 30%. In more specialised areas, however, it was much more cost effective to retain outside counsel. The important element is to know what you need now and to try to judge how those immediate needs might change over a three-year period.

Headcount is never static and should be reviewed at least twice a year. What makes sense in one year may not be so prudent the next and a good general counsel will constantly be looking to the future, reassessing and realigning the headcount demands of the in-house team with the immediate and projected needs of the business.

### **Manage the expectations of the client**

An effective in-house department will have excellent relations with the business and will prove its value on a daily basis. This, however, can be a double-edged sword when dealing with the client who regards the legal team as crucial to its operations, expecting an instant response to every matter, urgent or not. This leads to problems when an immediate response is not available as the in-house team may not have educated the business to understand the process of prioritisation.

It is important that key contacts are made in each area and instructions are filtered through those contacts, realistic time-lines are put in place, and 'visiting hours' mean that casual calling to the legal department is only encouraged at specific times. Most significantly, the in-house team must constantly remind the business to call it at the start of every project and not when a deadline is only a few hours away.

### **Structure and succession planning**

In the survey referred to earlier, it was shown that about two-thirds of any budget for in-house legal is spent on salaries. Proportionately therefore, the investment in people and the intellectual capital they bring to a business is considerable. Retaining these people and offering them a structured means of progression and promotion is a major challenge for every general counsel.

Unlike private practice with its primarily flat structure, most well-run in-house legal departments operate a pyramid whereby there are relatively few senior positions available and little movement at a senior level. How to retain people and give them long-term career in the business is the subject of another whole article, but suffice to say that the value of any in-house legal team diminishes every time specialised business knowledge acquired by an in-house lawyer walks out the door without being handed back.

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### **Outsourcing/insourcing**

The cost of outsourcing is significantly higher than insourcing when measured on a per capita basis (see Legal Week survey), but the benchmark I would suggest is value in overall terms and not simply cost per chargeable hour. It makes perfect sense for a technology or retail company to insource IP/IT expertise, which is business specific and generally needed on a daily basis. That same team working in the financial services industry is likely to be expensive and under-utilised.

Industries that operate significant property portfolios including telecoms operators can insource expertise at a fraction of the cost of outsourcing, but planning and development issues may require highly specialised knowledge that, if needed on an occasional basis, is best provided by an expert partner in a good law firm. Knowing when to outsource, ensuring that fees charged by external law firms are constantly under review and taking advantage of all the extras that an external law firm can offer such as secondments, training and helplines is the way an in-house legal team can justify its insource/outsource balance safe in the knowledge that the value is there.

With every finance department trying to slash its in-house legal budget, the good news is that most in-house law departments cost a lot less than is generally thought. Consistently demonstrating the value that an in-house team can bring to a business is crucial to ensuring that the in-house legal team works in partnership with its business colleagues as a valued and trusted friend and not as a necessary evil.

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