



Maximizing Value in the Global Law Department...

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How to Survive with Less Resources and Increased Demand

Now more than ever, general counsel are operating in an environment in which businesses are under daily pressure to cut costs and reduce headcount, even as their global operations are expanding and the requirement for first-rate legal services in a diverse range of countries becomes a necessity.

Post-SarboX, general counsel are also, for the first time, under the spotlight and facing the possibility of personal liability, often without the resources to properly manage the risk and compliance programs under their responsibility. The costs accrued by international law departments are the first to be put under the microscope by finance departments that are quick to make unfair and often inaccurate comparisons with other, more overt, value creators, such as marketing or sales departments. The costs of maintaining a significant number of lawyers in several offices worldwide are simply considered to be too high.

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Economic pressures as they pertain to law departments are, however, a problem of perception. In a survey conducted last year in the UK (see Legal Week, Oct. 14, 2004), the average cost of an in-house legal team was found to be approximately 1 percent to 1.5 percent of a company's total revenues. If properly managed, the global law department can be a powerful and cost-effective tool for reducing expense, managing risk, and creating and maintaining value. General counsel knows this but the trick is convincing the business.

One of the main advantages of an in-house legal team is that it has extensive knowledge of its client's business. Obvious? Not necessarily. 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 often unrealistic client expectations, to forget that priorities can suddenly change.

Such change is especially importunate for global businesses trying to manage their interests in countries in which there are coups or political crises or where a currency change in a remote part of the world transforms head office strategy overnight. The astute general counsel will have his or her finger on the pulse of change, recognizing and adapting to it.

The art is in how. Even with reduced resources, or we should say, especially with reduced resources, the following half-dozen organizational goals are crucial.

Clear Reporting Lines

Traditionally, overseas law departments have existed where an overseas business office exists. For the few generalist lawyers who staff these departments, it's usually the worst of all worlds.

They have unclear reporting lines. Their identity as Jacks of all trades makes them seem irrelevant to the host office that would just as soon contact head office when a point of substance arises. At the same time, they are often ignored by the head office and are rarely even on the guest list for training and development opportunities.

It's an inordinately wasteful configuration, yet general counsel can certainly provide a solution.

First, general counsel needs to visit the principal overseas offices regularly to ensure that they're current with the business needs of that office. They need to reassure local management that local lawyers can indeed provide a quality service because they are fully backed up by the head office. They need to encourage local management to work with them in establishing real support and dotted-line reporting for local lawyers, while impressing on local management that the general counsel retains overall responsibility for all lawyers. It is crucial that this direct report to headquarters be palpable for everyone.

Along with clear reporting lines, add:

- Regular communications using video conferencing and distance learning;
- Access to a central knowledge-management database; and
- An annual or twice-yearly face-to-face opportunity to team-build and even have fun.

Enough of such team-building effort, and a geographically and culturally diverse team becomes an integrated unit.

A Hub Strategy

Specializations such as real estate may need to be wholly local practices, but a specialized IP unit, for example, can service a worldwide law department from one location. There are enough excellent new document-management systems on the market to guarantee easier access to know-how than ever before.

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Take the case of one large technology company with offices in 11 locations throughout Europe, which recently reviewed its overseas configuration. Each office was staffed with two or three local lawyers who were only able to carry out very limited assignments, spending most of their time essentially as a liaison between headquarters and the local client.

By introducing a sophisticated (although inexpensive) document-managed system, the company was able to reduce the number of offices employing lawyers to four. Each one of the four became specialist centers servicing the whole group. As a result of dramatic reductions in both real estate and administrative costs, the company was in a position to spend more on hiring real legal experts in their fields

Managing Expectations

Needless to say, an effective in-house department has excellent relations with the business and proves its value on a daily basis. Yet such relationships can backfire when the client regards the legal team as crucial to its operations and expects an instant response to every matter, urgent or otherwise. Problems arise when such responses are not immediately forthcoming because the in-house legal team simply has not taught the business to understand the process of prioritization.

A solution begins when key contacts are established in each business and legal area and all instructions are filtered through those contacts. Realistic timelines are then put in place. So are visiting hours, which means that casual calling to the legal department is only encouraged at specific times.

The international legal team faces additional tactical challenges because, obviously, their advice is often needed at short notice in a range of jurisdictions separated by geographical distance and unfriendly time zones. The key to excellent client service resides in seamless communication between offices, whatever the time of day. Among the mission-critical steps:

- Tell the client at the start of any transaction how the deal is to be managed and appoint a deal manager from the most appropriate hub to take control of the process.
- Communicate regularly with the hubs and ensure that someone has responsibility for being available at all times. With good communication, the deal manager can be in Barcelona or Bahrain.
- If Friday starts the weekend in Kuwait and Monday is a bank holiday in the United Kingdom, organize the team so that no one is ringing through with a major problem to an empty office.

Promotions and Succession

From the aforementioned survey, it's apparent that approximately two-thirds of any budget for in-house legal departments is spent on salaries. Retaining people and offering them a structured means of progression and promotion is, therefore, a commensurately significant challenge for every general counsel.

Unlike private practice with its primarily flat structure, most well-run in-house legal departments form a pyramid with relatively few senior positions available and little movement at the senior levels. A whole separate article is needed to discuss retaining in-house lawyers and giving them long-term stake in the client's business. Suffice to say that the value of any in-house legal team diminishes every time specialized business knowledge acquired by being an in-house lawyer walks out the door without being handed back.

Yet, the solution is inherent on the system. The global legal team offers unrivalled opportunities for secondment and overseas posting, assuming those offices are hubs and not outposts. By operating out of real hubs, it is possible to give valuable specialists rich opportunities to use their skills while enjoying the benefits of being overseas.

Outsourcing and In-Sourcing

The cost of outsourcing legal services is significantly higher than in-sourcing when measured on a per capita basis. I suggest that the benchmark is value in overall terms and not simply cost per chargeable hour. It makes perfect sense for a technology or retail company to in-source IP/IT expertise, which is business-specific and generally needed on a daily basis.

Yet that same team working in the financial services industry is likely to be expensive and under-used. Industries that operate significant property portfolios can in-source expertise at a fraction of the cost of outsourcing, but planning and development issues may require highly specialized local knowledge. That knowledge, if needed on an occasional basis, is best provided by an expert partner at a good law firm.

These issues become more acute for the international law department, where local (and often arcane) knowledge is often key.

Volume on a worldwide basis can be used to leverage law firm fees in quite creative ways. One global law department recently undertook a complex exercise to review outside counsel on a

worldwide basis. It did so by looking at all law firms instructed worldwide and by compiling from that list a panel of two heavyweight international firms that, along with diverse local and specialist firms for specific issues, could service them worldwide.

Each firm was given a specific charge under which it operated and was not allowed to undertake work outside its scope unless approved by the general counsel. E-billing was used to analyze legal spend and ensure that the right work was being done by the right firms at the right price. Fees were negotiated on a pooled basis whereby the arrangements for each firm were published to the panel, thus ensuring cost control via complete transparency.

Seconded Versus Local Lawyers

Having created specialist hubs, the last piece of the puzzle is to recognize what work needs to be done locally by locally qualified lawyers and to staff each overseas office with the right mix. There is a credible argument that all local legal matters are best done by local law firms at (preferably) a discounted rate, particularly when able seconded lawyers can oversee the work and provide specialist advice.

Often, though, local in-house lawyers who have been trained in the business have a much more acute perception of the commercial imperatives of the business. The issue from a management point of view is that local in-house lawyers need just as much nurturing and training as seconded lawyers far from home. Both are looking for a quality career development within the business.

Global businesses demand global strategies from their in-house law departments, particularly in an increasingly risk-aware environment in which the board is more than ever looking to general counsel for world-wide guidance on how to manage (and minimize) risk. When properly organized, the global in-house team is more than capable of meeting these challenges.

Our intention has been to provide a few keys to maximizing the value of overseas offices as real hubs of focused legal service.

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