

BEST Metrics

Turning data into action improves in-house performance

By Rees Morrison / Altman Weil, Inc.

What four metrics categories offer the most guidance for those who manage in-house lawyers? As explained below, the **BEST** metrics are: **B**enchmarks from industry peers, **E**xpenses from law firm invoices, **S**atisfaction scores from clients and **T**ime metrics from in-house lawyers.

Benchmark Comparisons

When you can compare your department against a group of other departments in the same industry on a handful of key benchmarks, you can focus your management attention. The size of the comparison companies doesn't matter much because the metrics should be normalized for revenue. The most important metrics – total legal spending (TLS) as a percentage of revenue and lawyers per billion dollars of revenue – stand out.

TLS expressed as a percentage of the company's revenue should combine everything spent by the company on its law department – both internal costs such as compensation and facilities as well as external costs such as outside counsel and other service providers, but not settlements, judgments or fines.

To be objective and consistent, law departments that contribute to benchmark studies should include a variety of costs. For example, some law departments are not charged the equivalent of rent, but all law departments should at least add in an imputed number. The total should not include fees and costs of directors, but it should include all incentive-compensation charges as well as intellectual property fees, expenses and annuities. External expenses consist mostly of outside counsel fees and disbursements – perhaps 90 percent of that total budget – as well as expert witnesses and other vendors.

Law departments in U.S. compa-

nies of a half billion dollars or more of revenue typically invest between 0.25 percent and 0.75 percent of their revenue in legal costs.

As to lawyer metrics, some people favor counting all members of the department. One reason is that a law department that has many paralegals and other non-lawyers – in other words, less expensive personnel – looks improperly good on the purely lawyer-based metrics. You can include all employees of the law department so there is no incentive to distort the mix of personnel, or you can rely on the rule of thumb that there is one non-lawyer for every lawyer.

It is quite typical in U.S. law departments to have one lawyer for every one non-lawyer (paralegals, legal assistants, administrative assistants and others), and U.S. companies usually have about 7-13 legal staff per billion dollars of revenue. Assuming reasonably consistent methodologies for U.S. companies, a typical number is between three and five lawyers for every billion dollars of revenue.

As long as your figures stand reasonably close to the median for your industry and trend at or below revenue growth for your company, your law department can pat itself on the back. If you are out of line, you need to direct your management attention to the causes and address them.

Expenses of Law Firms

A second key metric uses spending on external counsel. Somewhere between 1,500 and 2,300 U.S. law departments have licensed a matter management system to record and report on those key metrics. Those without an MMS usually track their legal spending through their accounts payable or general ledger system, supplemented sometimes by spreadsheets.

Benefits asserted for an MMS consist primarily of the capability to know better what is happening and to project spending and work volumes – to manage budgets. In the typical U.S.

law department, about two-thirds of TLS goes outside.

How well and how easily the software can produce intelligible reports and graphics about spending by law firm, charge-backs to client groups, fees by type of matters and a range of other findings sets its value – so long as the law department analyzes and applies those insights to make better decisions.

Satisfaction Levels of Clients

Client satisfaction surveys aim to find out how well clients perceive the department to be serving them. Aspects of legal practice, such as timeliness, clarity, creativity and knowledge of the law can be collated into metrics.

Law departments often gather this data through online surveys, so that the law department can gain a better sense of how well it is perceived to be performing, beyond the informality of anecdotes, sporadic feedback and general impressions. It would not surprise me if most law departments of five or more lawyers conduct some kind of formal client temperature check at least every four to five years. They gain insights, such as “We are a 3.8 average on timeliness but a 4.2 on accessibility.”

Typically, the law department sends to a cross-section of clients a survey that asks about various attributes. Fortified with a representative set of metrics on each of these attributes – “our median score on accessibility was 4.3” – departments can direct their efforts to improving on those attributes that are weakest. Even better, astute managers ask clients to indicate how important they believe the attribute to be. After all, it isn't much value to the company to excel on some aspect that is relatively unimportant – length of legal memos, anyone? – and flop on crucial steps such as “practical solutions.”

When a law department can quantify its performance, it can more shrewdly decide how it needs to improve. The numbers provide comparative statistics even if the survey is done only once. Even more informative are numbers that a department collects over a period of years.

Tasks of Lawyers

A small proportion of law departments have their lawyers track their

time to matters. Most departments decline to do that, but general counsel can readily ask their lawyers to estimate what percentage of their working time they devoted to a drop-down list of tasks during the past year. For example, a generic version might ask them to allocate time

between document drafting and review, meetings, outside counsel management and other categories. If only 10 or so task categories are available, it is not difficult or time-consuming for lawyers to estimate

their allocations.

Other sources can complement those estimated time allocations. Matter management software tells about matters of individual lawyers, how long they are open, for which client groups and types of matters – broadly, how they spent their time. A document management system yields more clues as to how lawyers spend time if it links documents to clients and matters. Absent such software, the shared drive of a department offers partial insights into the number and kind of documents produced.

Periodically in some departments lawyers prepare reports of significant matters they have worked on. Analyzed quantitatively over time (such as counting them by matter type or linking them to other sources of data on those matters), those reports point to how blocks of time were spent.

Whatever the method, metrics about how lawyers spend their time give insights into productivity and where resources should be directed.

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Each of these four data sets provides unmistakable cues for action by management. If benchmark metrics are unfavorable, the general counsel can take corrective action; if clients say they want more training, the law department can design courses; if much work is going to outside counsel in a certain specialty, hiring someone inside might be justified; if too much time goes to meetings or contract review, you know what to study and change. Informative metrics combined with experience and a deft management touch will help law departments gain effectiveness and earn more respect.



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