INSIDER CORPORATE LEGAL

Insider Corporate Legal is Legal Technology Insider's regular supplement looking at the benefits of technology and business best practices within general counsel and corporate legal departments.

The future for in-house counsel

by Richard Stock

When asked about activity levels, lawyers in private practice will usually answer "I am busy, but I could be busier." There has been no such refrain from corporate lawyers working in-house with Australia's companies, government departments and agencies. The Australian Corporate Lawyers Association (ACLA) published its comprehensive *Legal Department Benchmarking Report* earlier this year in co-operation with its sister organisation in New Zealand. The research was conducted by New Zealand professional services consultancy Team Factors, supported by Catalyst Consulting in Australia and the Institute of Knowledge Development in New Zealand. The list of participating organisations is impressive, spanning most industries and government sectors. International legal departments joined in. Government took a keen interest. In fact 30% of the participating organisations were from the public sector.

In-house legal departments were the fastest-growing 'legal services sector' around the world over the last five years. In some markets, the growth reflects a compound increase of 15% per year. Small wonder that the legal recruitment industry has exploded in Australia, North America and the UK ACLA estimates that more than 1500 legal departments exist across Australia. The median size is 5.5 lawyers, but 38% of the recent survey participants have 10 or more lawyers. In addition, 43% of the Australian participants represented organisations with overseas legal departments – testimony to the globalisation of companies in every sector of the economy. ⇨

⇨ None of the survey respondents reported anticipating even a modest decrease in department size over the next two years. On the other hand 65% of Australian respondents expect a moderate or significant increase in size during this reference period. What explains this forecast? Five years ago the answers would have more often than not been cost savings compared to the use of law firms. I have had the opportunity to meet at length with more than 50 legal departments during recent weeks. They report that business growth – size, complexity, globalisation, the changing regulatory environment and for some, the rise in enforcement work and their statutory powers, have driven up their workloads. Many are backlogged. Workload/time pressure was cited twice as often as the next most pressing factor facing legal leadership and that issue is attracting, retaining, motivating good lawyers.

But to do what? Closer examination of what work is done by legal departments tells us they are not a captive, full-service law firm. The top-ranked specialisations for legal departments are contract commercial, energy /resources, public administration, banking, finance & capital markets, and property/construction. While there are important differences by industry sector and with government legal departments, litigation, M & A, tax, insolvency, intellectual property and a half dozen other specialities are generally outsourced. ***...continued on page 2*** ⇨

Also in this issue...

➯ *continued from front page...* In my view, the time of the in-house generalist is quickly passing. The ACLA/CLANZ survey reports that senior lawyers make up the majority in two-thirds of the legal departments.

That still leaves room for younger lawyers and makes some of those with four or more years of experience desirable candidates for legal departments provided they bring the right configuration of skills with them. Some will come from law firms. But many will come from legal departments in other industry sectors. A few legal recruiters are now specialised in filling the needs of legal departments, rather than of law firms. No sooner said than done. Other recruiters are now focused on recruiting exceptional candidates into the UK and the Middle East. While few of these will be sourced from legal departments, it does reduce the pool of individuals able or willing to move in-house at any one time.

Not surprising that finding and then keeping qualified legal talent is the second most pressing issue. Many are not surprised when they see that younger lawyers stay with their organisations only three to four years before moving on. The work must be interesting on a sustainable basis, the opportunities for advancement of young lawyers must be created or they will move on because they can. Since so many develop a good appreciation of the commercial side of the business after four or five years, they become good candidates to move to non-legal positions with the company and are also lost to the legal department. Proper pay and loyalty to the company hardly figure in the equation. Talent management does.

It used to be said that working in a law department represented a life-style change and an important contrast for those who had toiled in private practice. Say this to in-house counsel and the response is a short laugh. Some 35% of Australian private sector legal departments reported a work week ranging from 46-to-50 ➯ hours and another 27% reported more than 50 hours. Workload and turnaround pressures combined with chronic resource shortages help explain the upward movement in the length of the work week. Australia's public sector is not much different. Over 40% reported average work weeks in excess of 45 hours.

The lead time to train qualified young lawyers, usually in law firms, is at least 3 years. Taking all the factors into account and appreciating the global market for young and experienced in-house counsel with commercial and industry sector experience, then the balance will remain strongly in favour of the supply side in the legal services market for at least five years. And this does not take into account the dozens of organisations each year which decide to hire their first in-house corporate lawyer.

The ACLA/CLANZ survey reported on the top criteria used to select law firms. The top service criteria were the commercial practicality of the advice, the overall value rather than the hourly rate, and optimal outcomes. The top relationship criteria are expertise in a speciality area, understanding of the industry sector, and experience and judgement. I believe the same six criteria will come into play when making the business case to create and grow a legal department, and to promote those who are already there or to give them more diversified and strategically significant roles. Several studies have isolated the key competencies (personal attributes, leadership and development skills, and business/client competencies) required by consulting professionals after they have mastered the basics of their profession. Few of these requirements are negotiable:

1. Personal Attributes

• results-oriented:	– emphasises solutions that maximise revenue while meeting user needs – takes action to minimise unanticipated costs or eliminate possible losses
• efficient:	– finds faster, less costly ways to achieve objectives – organises work so that multiple tasks can be accomplished simultaneously
• committed:	– pursues goals for department over significant amount of time despite lack of immediate support elsewhere in the organisation
• communicator:	– keeps others informed on issues and changes that will affect them

• adaptable: – adjusts quickly to changes in thinking and working in the business
– embraces organisational changes that are needed to respond to the market

2. Leadership and Development Skills

• leadership: – gives candid advice, actively supports corporate decisions even if unpopular
– demonstrates leadership on important business and operational issues

• impact & influence – takes repeated action against resistance/obstacles in working toward results

• innovation: – anticipates and leads change to lead the business

3. Business and Client Competencies

• customer-focused: – adds value by finding ways to make things better for the internal and external customers of the organisation

• achievement-oriented – sets stretch goals to improve performance beyond stretch goals

• resourceful – systematically maintains contact/gathers information in order to drive the organisation toward positive results

• strategic business sense – understands the environment and is aware of projected directions of the industry

Functional/technical legal knowledge and skills are taken as a given, but they must then be supplemented. Senior in-house counsel are expected to excel in each of these areas and to contribute on other dimensions as well.

The future for in-house counsel is bright. But it is no place for the faint-hearted. The work is significant in quantity, specialised and increasingly has global implications for the company or in the industry. There will be an unmet demand for the next four to five years for experienced lawyers and for those with a solid grounding in commercial/contract law. Industry sector experience will remain a trump card. While chief legal officer positions will not abound except for companies creating legal departments, corporate counsel for all other levels will remain in high demand. ➪

➪ Individuals responsible to recruit, motivate and retain in-house counsel must invest enough time and resources to develop the competencies of the very mobile talent pool in their immediate universe.

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Survey results

In-house counsel turn to IT to curb costs

Many corporate law departments have higher budgets than three years ago but still feel the pressure to decrease costs, according to a recent survey conducted by InsideCounsel magazine and DataCert. The key findings include...

• Costs continue to climb
Outside counsel fee budgets have increased for 64% of the survey respondents and outside counsel fees have increased for almost half (40%). This means general counsel have the continually delicate task of ensuring that higher fees don't outpace the budget.

• More in-house hiring
In an effort to curtail spend, corporate law departments are opening their doors to more attorneys. Compensation budgets have increased for 71% of corporate counsel as compared to three years ago. This gives law departments the opportunity to distribute more work to internal resources instead of farming it out to law firms, a strategy that nearly three-quarters of the respondents are currently using.

• More technology purchases
Law departments are also turning to technology to help them understand, control and reduce spend. Almost half of the in-house attorneys polled indicated that their technology budgets have increased over the past three years.

• Using tech to work smarter
Planned technology purchases within the next two years include e-discovery (23% percent), matter management (21%) and e-billing (14%) solutions. The survey also reveals that corporate counsel are using technology to help understand where their money is going, with 31% respondents indicating they often use existing matter management and legal spend management solutions to review outside counsel invoices, while 28% often use the technology to monitor and manage outside counsel spending.

• Cost saving initiatives
More corporate counsel are setting up long-term cost savings by frequently using the technology for early case assessments (21%) and tracking intellectual property assets (17%). Other efforts to combat escalating legal spend include alternative fee arrangements (38%), provider consolidation (36%) and competitive bidding (21%).

A full copy of the survey results can be found at
www.insidecounsel.com/pdf/IC0508_DataCert_Link.pdf

Mind your data

Corporations concerned with the safety of their data and systems aren't afraid to pour millions of pounds into electronic precautions such as virus protection solutions and firewalls. However, a rash of data warehouse robberies reveals the latest security breach: how safe is your hardware? Armed thieves broke into one such commercial data centre in London six months ago, making off with £4 million of hardware including motherboards and processors. The data centre's clients, which include JP Morgan, suffered outages of crucial systems such as websites, data processing and back-ups. Even more importantly, the companies now face the possibility that their confidential data on that equipment is in the hands of strangers. Strangers who, police believe, could fence the materials through illegal brokers or even eBay.

Data centres have become increasingly popular within the past five years due to their ability to sustain sterile, temperature-controlled environments demanded by sensitive hardware. Corporations save a bundle by "outsourcing" this function as opposed to building and maintaining the data centre themselves. Since these commercials centres often advertise or give promotional tours to drum up business, they are now becoming viable targets for burglary. Two such burglaries have been reported in London within the past two years. And the UK isn't the only country feeling the brunt of this 'fad.' In Chicago, one such data warehouse has been broken into for the fourth time in two years.

So how can you protect your hardware? Many experts believe there is no substitute for keeping all your equipment in-house. If you do outsource, be sure to thoroughly audit the data centre's security – both technological and physical.

The intellectual property spend management value proposition

by Domenic Leo

Corporate legal departments have long been aware of the outstanding return-on-investment from electronic billing and legal spend management. The ability to review litigation and other legal invoices more efficiently, combined with the strategic benefits available from the invoice data itself, provides a positive impact on the department's bottom line. However intellectual property departments have yet to fully embrace spend management, despite evidence the value proposition can be even greater due to their scale, systemic nature and specific needs.

The Benefits of Electronic Billing

Companies that have implemented legal spend management have achieved value from a number of distinct elements such as increased productivity, more efficient invoice processing, validation of invoices as compliant with outside counsel guidelines and the availability of usable data. Intellectual property spend management provides the same benefits – and in many cases to a greater degree.

Invoice Processing

A recent analysis by industry expert Rees Morrison pegs the cost of reviewing a single paper legal invoice at \$20.83. DataCert clients report significant savings with electronic billing. Since an IP department typically uses many different firms and agents and has numerous active IP invoices, an IP department can expect an exponentially larger savings than a typical legal department. For example, a particular Fortune 500 pharmaceutical company processed approximately 700 legal invoices in 2005. In that same year, the same company processed roughly 30,000 IP invoices. At this magnitude, the savings from more efficient processing and review can be huge.

Prompt Payment Discounts

In addition to accruing the business process benefits derived by streamlining invoice approval workflow, companies can leverage the shortened cycle time into additional savings. Because processing paper bills takes so much longer than electronic bills, it is functionally impossible for corporations to take advantage of negotiated prompt payment discounts with law firms and agents. With a payment cycle down to 15 days, many law firms and agents will allow a 2 percent discount on professional fees. ⇨

⇨ *Guideline Compliance*

Both law departments and IP departments often provide guidelines for their firms and/or agents, but paper bills make these hard to enforce. Typical corporate legal departments see a decrease in outside legal spend of between 3% and 15% upon implementing spend management. Patent and trademark bills, left unchecked, can be marked up excessively. The enforcement of the guideline compliance allows IP departments to perhaps expect an even greater return.

Currency Exchange Savings

As the world flattens and access to markets increases, the need for worldwide IP services and the ability to work in multiple currencies has increased dramatically. Agents frequently charge an additional 5% to 10% for billing in foreign currencies to cover the cost of exchange. Because advanced spend management tools incorporate currency conversion as a part of their overall solutions, agents can invoice in their own currency. The savings can be tremendous, especially in IP where such a high percentage of spend is overseas. For example, the previously mentioned pharmaceutical company spends approximately 60% of its annual budget on IP spend overseas.

More Value from Vendors

Spend management provides transparency into the relative costs of law firms and agents. With full understanding of how much different vendors charge for similar work, corporations can select more efficient vendors and negotiate better arrangements.

Improving Financial Controls

Much of the challenge in managing IP is scale. A major corporation with 500 active legal matters likely has thousands of active IP matters. For example, the Fortune 500 pharmaceutical company uses fewer than 100 law firms for the bulk of its legal work but more than 500 firms and agents for IP. Developing controls and viable processes for managing the sheer volume is a necessity. ***...continued on back page*** ⇨

⇨ *continued from page 5...* Moreover, the current era of financial transparency mandates that a company maintains effective financial controls. A single patent or trademark application will sometimes involve the services of more than a hundred different outside agents and firms working to optimise the protection of the invention or brand for the company. Compounding the exposure is the number of different applications required for worldwide protection and the fact that some can take years. Transparent financial management dictates that companies have good financial controls and a firm understanding of expenditures. This is not a simple requirement in the complex world of IP. Regulators and stakeholders are likely to insist management has a good grasp of all IP invoices and spend.

In addition, one of the intents of corporate compliance in general is to eliminate gaps in the recognition of liabilities incurred on behalf of the company. Understating liabilities and deferring recognition of expenses can result in the overstatement of income. It is common in IP for firms and agents to work for years on a single matter, only invoicing at its completion. Companies are racking up expenses – sometimes enough to be material – long before they hit the books. And while executives have been fired for not having strict financial controls, the overstatement of earnings can put them in prison.

Measuring IP Success

While providing appropriate controls for IP spend is a necessity, the real challenge is using that information in a meaningful way. As more and more companies treat their intellectual property as a valuable asset, it is increasingly important to understand the related costs. Overall asset value can only be established with a complete understanding of the costs required to create that asset, ideally combined with the value-based information tracked in an IP management system. For example, at the outset of the development process, many companies reach agreements with licensees, such as universities, who effectively become partners and agree to split expenses. Spend management not only facilitates the process of charging these entities back for IP-related costs but also provides a more complete analysis of the return on the company's investment in research and development.

Additionally, departmental efficiency is often measured by tracking costs. Lower costs imply more business process efficiency. Benchmarking IP costs against an outside department (or industry standards) enables the IP department to improve efficiency, develop more accurate budgets and provide better financial reporting. Some departments even allocate costs back to the internal business group receiving the benefit of IP protection.

General counsel have for many years been looking for ways to move the legal function away from a pure cost centre. Most of the success they've had has been by protecting intellectual property and using it to create new licensing opportunities. More complete financial analysis and reporting allow senior management and other stakeholders to more fully understand the value of intellectual property, and by extension, the entire legal function.

Making Better Strategic Decisions

Intellectual property prosecution progresses through a well-defined lifecycle. For patents, a research and development department develops an idea. The IP staff then reviews it, determines whether to patent it, determines where to patent it and then maintains the patents.

With good management and information, these processes can undergo a cost/benefit analysis to determine whether to incur investment for each patent or trademark or to stop. At each of these stages good historical cost data - ideally combined with information from an integrated IP management system - is necessary to make correct decisions.

Conclusion

The value of benchmarking can be enormous, but it is nearly impossible without IP spend management. Without complete and easy-to-use data, making informed decisions is a near impossibility. And since certain intellectual assets may be worth a literal fortune, IP professionals properly err on the side of caution. With better data, they can understand the exact repercussions of each decision.

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