

# 105:Corporate Legal ROI: A Strategic Tool that Corporate Management Understands

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## **Faculty Biographies**

#### Kevin J. Harrang

Kevin J. Harrang is deputy general counsel, LCA operations within the law & corporate affairs (LCA) department of Microsoft Corporation. The operations group is responsible for business management, information systems and resources, as well as finance and accounting. The corporate records function also resides in the operations group. The LCA group consists of about 700 personnel located in dozens of locations worldwide, over 200 of whom are lawyers. Mr. Harrang's responsibilities include legal practice systems, business process reengineering, and outside counsel management, among others.

Prior to leading the operations group, Mr. Harrang was the associate general counsel for the consumer products group, where his practice focused on intellectual property transactions. Mr. Harrang joined Microsoft from the Seattle law firm of Preston Gates & Ellis, where he was a member of the business practice group specializing in computer law and commercial transactions.

Mr. Harrang is a graduate of Pomona College and the University of Chicago Law School.

#### Suzanne E. Hawkins

Suzanne E. Hawkins is senior counsel, legal operations at General Electric Company, and reports directly to Benjamin W. Heineman, Jr., GE's senior vice president and general counsel. Ms. Hawkins has overall management responsibility for GE legal, with emphasis on deploying and increasing the quality and productivity of GE's internal and external legal resources. Main areas of focus include designing and driving technology initiatives to digitize the legal function and related business processes, resource allocation and integration of GE's global legal operation through substantive practice groups and global councils, outside counsel selection and management through preferred provider programs, tracking and analysis of inside and outside spending, and negotiating agreements with preferred vendors.

Ms. Hawkins joined GE as an in-house attorney with the GE Plastics division in Germany, handling commercial, litigation, and employment issues under EU and German law. Prior to joining GE, Ms. Hawkins was of counsel to Curtis, Mallet-Prevost, Colte & Mosle in Frankfurt, Germany, where she represented GE and other international corporations in international arbitration and acquisitions under EU and local law. Early in her career Ms. Hawkins was a litigator at Weil, Gotshal & Manges in New York City, where she represented Fortune 500 clients in intellectual property, contract, employment, and other types of commercial litigation.

Ms. Hawkins is a member of the board of directors of ACCA and the WESFACCA Chapter covering Westchester, New York and Fairfield, Connecticut counties, the executive committee of the large law department council, and the ABA. Ms. Hawkins is a 2002 recipient of Ben Heineman's GE Legal Merit Award for outstanding contribution to GE Legal and GE.

Ms. Hawkins received her BA from Georgetown University and is a *cum laude* graduate of the Georgetown University Law Center in Washington, DC.

#### Jeffery Hodge

Jeffrey Hodge is vice president of product marketing for DataCert, Inc., a leading provider of legal ebilling and cost management services. He is responsible for overseeing the company's strategic decisions involving new products, product enhancement, product management, and penetration into new vertical markets.

For the past 15 years, he has worked with clients in various capacities to implement and utilize advanced technologies to improve processes, decrease costs, and create compliance. Previously, Mr. Hodge was manager/principal consultant with PricewaterhouseCoopers LLP, focusing on assisting Fortune 500 companies in selecting, implementing, and managing information technology. Mr. Hodge created the Legal Electronic Data Exchange Standard (LEDES) and was the founder of the LEDES oversight committee (LOC). He also served as a participant on the initial executive oversight committee. Additionally, Mr. Hodge has served as an expert witness on issues of data security in e-business, including testimony before Congress.

He serves as a board member for the Forum on Privacy and Security in Healthcare, and for other organizations for profit and not-for-profit. He has been published in numerous publications, legal and non-legal, and has secured speaking engagements at various tradeshows, user conferences, and legal associations.

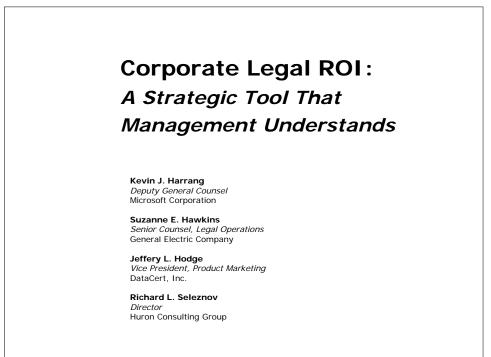
Mr. Hodge served on active duty with the U.S. Navy, and as a reservist with the U.S. Air Force. He received a BA from the University of Tennessee.

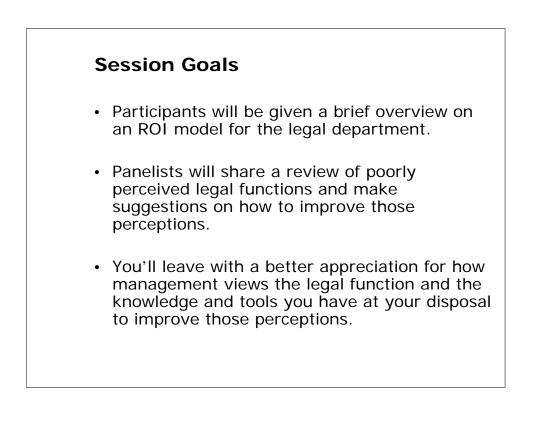
#### Richard L. Seleznov

Richard L. Seleznov is a director at Huron Consulting Group in Houston. He applies his financial and management experience to improving the business performance of law departments and law firms through process improvement and the use of technology. Focus areas include strategic and technology planning, business process reviews, technology assessments, benchmarking, project management, technology implementations, and cost reduction initiatives.

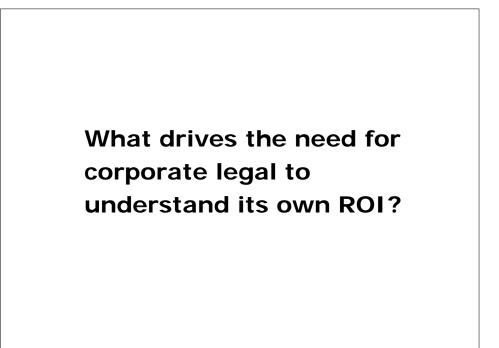
Prior to joining Huron, Mr. Seleznov was a director at PricewaterhouseCoopers. Prior to becoming a consultant, he directed the business and technology operations for Exxon's law department with responsibility for financial processes, information technology, litigation support, and the management of non-attorney personnel.

Mr. Seleznov received a BS from Penn State and is a Certified Public Accountant.





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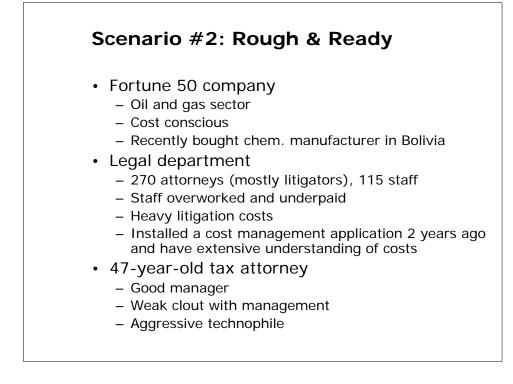


# Scenario #1: The Rock and a Hard Place

- Fortune 200 company
  - Food & beverage sector
  - Stock has been weak for last 2 years
- Legal department
  - Small litigation budget
  - \$15.8 million in outside legal expenses
  - 28 attorneys and 21 staff; highly compensated, low turnover
  - Rely on accounting to report and analyze costs
- 57-year-old GC
  - 36 years with the company, 3 years from retirement
  - Best friend of current CEO

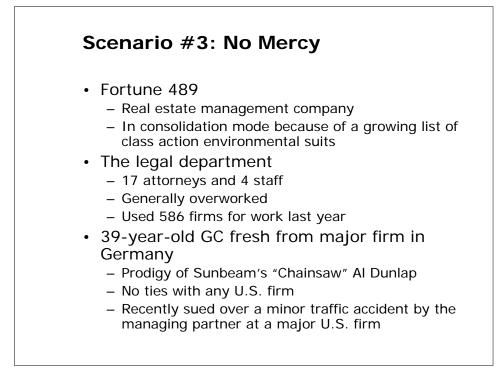
#### The Event

- CEO dies and is replaced by a 37-year-old MBA.
- The death of the long-term CEO cripples the stock.
- The new CEO mandates a 17% across the board cut.
  - His staff suggests that outsourcing all of legal will save the company \$26 million annually.
  - Litigation costs are low.
  - 24% of legal staff are < 8 years from retirement.
- The CEO's best friend is the managing partner at Arnold and Porter.
- The CEO asks, "Why shouldn't we outsource?"



#### The Event

- The Bolivian plant explodes.
  - 1,700 deaths, >18,000 sick
  - Company lost 17 related suits in the last 2-years costing \$41 million in settlements and \$16 million in fees
  - Corporate legal's budget increased 41% over the same period
- The CEO calls an emergency board meeting.
  - She asks the GC, "Why are we losing suits while our legal budget explodes?"



## The Event

- A recent management report shows that legal's cost per employee exceeds the rest of the company by 22%.
- The CEO asks the GC to cut headcount by 15%.
  - Alternatively, the GC can justify the premium, or
  - Cut overall legal expense by 14%

Understanding value and the differing perceptions of value

## What is Valuable to the Company?

- Management measures growth or decline in:
  - Assets
  - Profits
  - Shareholders return
  - Owners equity
- Management evaluates definable metrics:
  - Return on investment
  - Internal Rate of Return (IRR)
  - Net present value
  - Payback
  - Shareholder Value Added (SVA)

#### Why Does Management Measure?

- Management initiatives
- · Changes in the economy
- · Competitive pressures
- · Shift in the competitive landscape
- Mergers & acquisitions
- · Industry trends
- Industry benchmarks
- Internal benchmarks
- Investment decisions
- Cost reductions
- Individual compensation and performance

## How is Legal Viewed?

- As a cost center and not a profit center
- · Outside counsel costs too high
- Lawyer headcount too high
- Budgets out of control and judgments increasing
- · Settlement amounts too high
- Communications are poor and/or one way
- Slow transaction times are costing opportunities
- · Internal cost of service is too high
- · Total cost not consistent with results
- Poor use of technology
- · Limited reuse of information

## Corporate vs. Legal Department Thinking

- Budgets
  - Corporate set and manage
  - Legal department explain large variances
- Headcount
  - Corporate growing, stats out of industry norm
  - Legal department institutional knowledge
- Outside counsel costs
  - Corporate no metrics to measure success
  - Legal department success = company still in business

## Corporate vs. Legal Department Thinking

- Information management
  - Corporate protect company assets
  - Legal department confidentiality, every case/matter is different
- Value added measurements
  - Corporate no different from other departments
  - Legal department law is a craft . . . and, the company is still in business

## Measuring Value in Legal

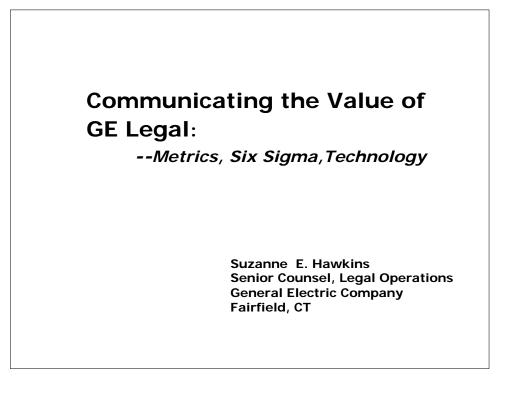
- Inputs to measurements
  - Number of lawyers and cost of service
  - Internal billings
  - Compensation
  - Outside counsel costs
- Measurements
  - Matters per lawyer
  - Results of litigation
  - Settlements and judgments
- Client satisfaction measures
  - Periodic performance surveys
  - Project service delivery reviews

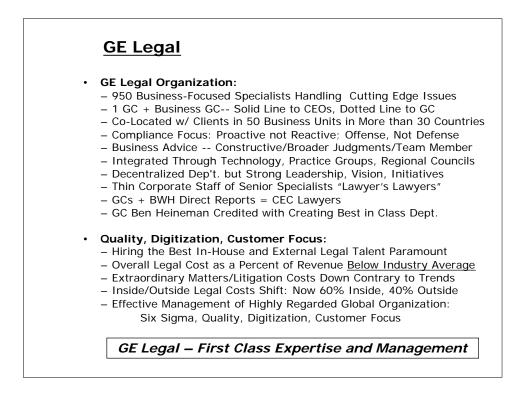
#### What Are Satisfactory Results?

- · Increase in quality of service delivered
- · Decrease in cost of services delivered
  - Cost per case or per transaction
  - Positive impact on SVA
- Creativity of solutions
- Effectiveness of preventative counseling
  - Reduction in cases
  - Severity of problems lessen
- Responsiveness and cycle time
  - Fast track cases and matters (lifecycle)
  - Shorten time to resolution (get to settlement)

### Means for Demonstrating Value

- Information management Collection
  - Financial statistics
  - HR data
  - Internal and external performance data
  - Outside counsel costs
  - Asset valuation, such as IP
- Information management Analysis
  - Predictability, trends and progress mapping
  - Calculations of metrics to support success
- Information management Reporting
   Management understands numbers
  - If legal can't provide numbers, management will derive them for legal

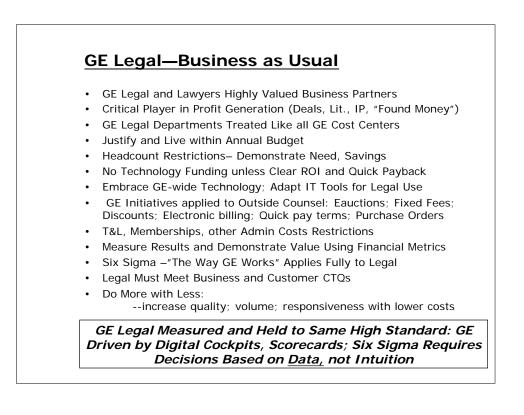




#### **Legal Operations**

- Outside Counsel Management: Quality, Cost Effective Firms
   Dreferred Dravider Dregreeme in 2 12 Substanting Areas
  - Preferred Provider Programs in >12 Substantive Areas
     E-Auctions, Fixed Fees, Discounts, CLE, Work Product
  - Law Firm Initiatives Save Millions from Outside Spend Annually
  - Systems Capture Detailed Legal Spend Data (OCMS/EInvoicing)
  - Trend Analysis: Litigation Spend Down, Global Spend Increasing
  - Digitization Focused: Cutting Edge Technology
  - GE Legal Gateway; Document Generation, Legal Elnvoicing
  - Digitizing Legal/Business Processes: Deal Room, IP, RCDB
  - Digitizing Legal/Busiliess Processes. Deal Room, TP, RCDB
     Use of Collaborative Tools Internally and with Outside Firms
  - Practice Group/Regional Integration
  - 15 Substantive Groups (Antitrust, IP, Litigation, M&A, L&E, etc.)
  - Cross-Business Membership: In-Person, Digital Meetings
  - Regional, Country Councils
  - Quality Initiatives, Digitization, Best Practices
- Preferred Vendor and Resource Management
- Metrics, Measurement Vital--Communicate Value Internally and Externally

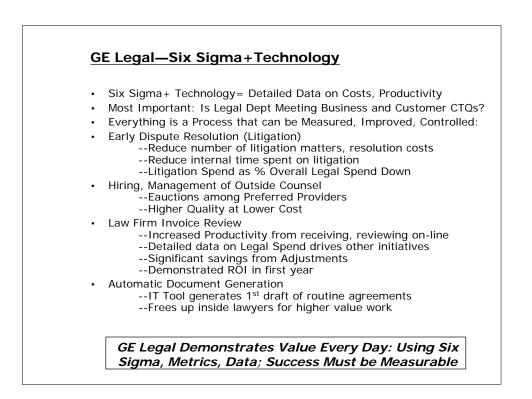
"Managing Partner" of Global Law Firm: Quality, Metrics, Productivity, Technology Focus

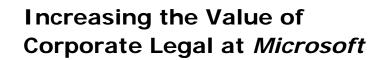


#### **GE Legal Metrics**

- GE Legal Measures Everything (GE-Wide and Business)
  - Total Inside/Outside Legal Costs
    - --By business and GE-wide
    - --Inside: fully loaded C&B, overhead
    - --Outside: expensed, capitalized, paid directly by business
    - --Budget v. Actual, rationale
    - --Year over year Costs, variance analysis
- Legal Cost Productivity vs. GE Total Cost Productivity
- Detailed Metrics on Outside Counsel Spend (OCMS+ EInvoicing)
   --By business; firm; location; practice area
  - --Litigation spend as % overall spending
  - --Spend outside US vs. inside US, by City, State, Country
  - --Top 50, 100 firms, Billing Rate analysis
  - --Number of legal matters, types, duration
  - --Overall Trends analysis
- Number of GE Lawyers: Location, Revenue, Net Income per Attorney
- · Total FTEs, paralegals, support personnel vs. attny, revenue
- Total Legal Costs as Percent of Revenue (GE-wide, by Business)
- GE vs. PWC Law Dept Spending Survey for Industry Benchmarking

GE Legal Measures Costs, Productivity, Throughput; Benchmarks Against Itself (Other GE Businesses), Industry





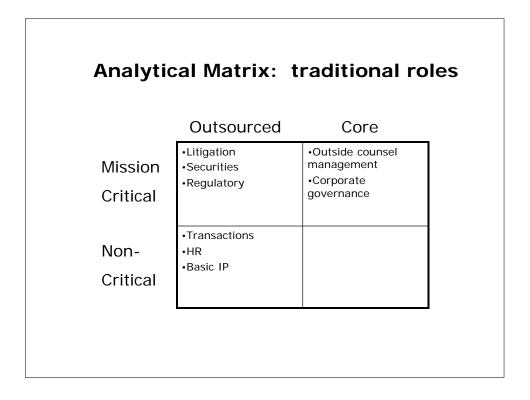
Kevin Harrang Deputy General Counsel Microsoft Law & Corporate Affairs

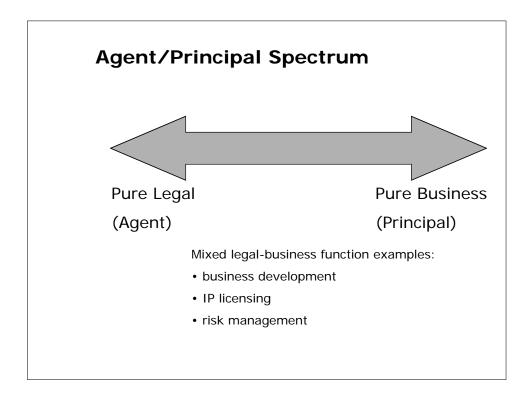
### Value of the Legal Function

- Questions:
  - Why do you need to know legal ROI?
  - How do you measure legal ROI?
  - GE: creating and communicating value
- How legal departments increase value
  - Increasing value of traditional roles
  - Expanded and new roles for legal
  - Microsoft examples and conclusions

#### **Traditional Roles**

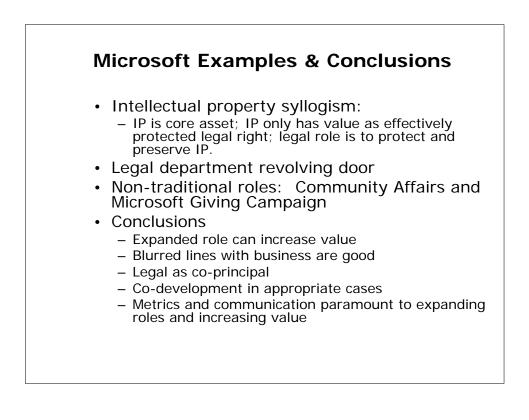
- Outside counsel management
  - Litigation
  - Securities
  - Regulatory
  - HR
  - Transactions
  - Basic intellectual property
- Corporate governance
- Value = cost savings + performance gains
- Increasing value of traditional roles:
  - Sophisticated outside counsel management
  - Automated delivery of in-house legal assistance
  - Metric driven in-house vs. outside allocation



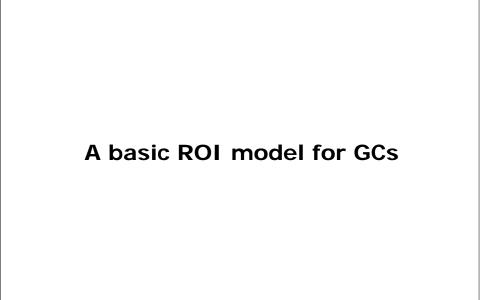


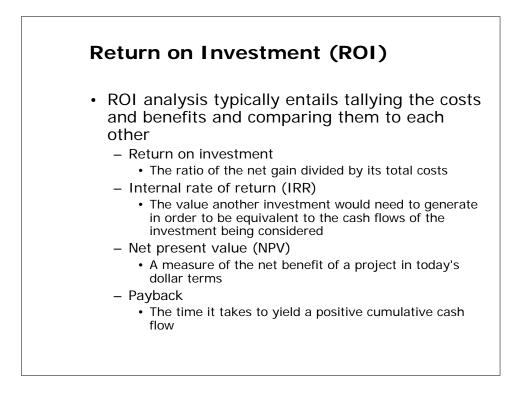


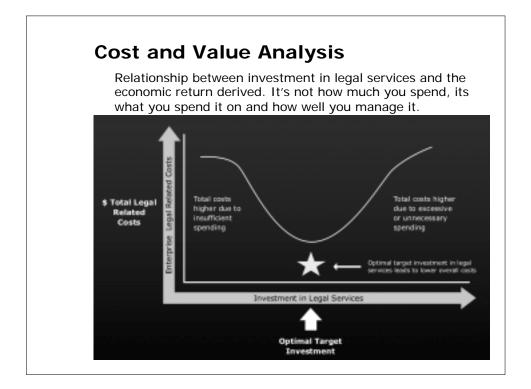
	Outsourced	Core
Mission	Litigation	•Corporate governance     •Outside counsel     management     •IP procurement
Critical		•HR •Securities •Compliance
Non-	•Transactions (overflow)     •Special expertise	Transactions     Legal training     Disk measurement
Critical		Risk management     Self help legal products     Product co-development

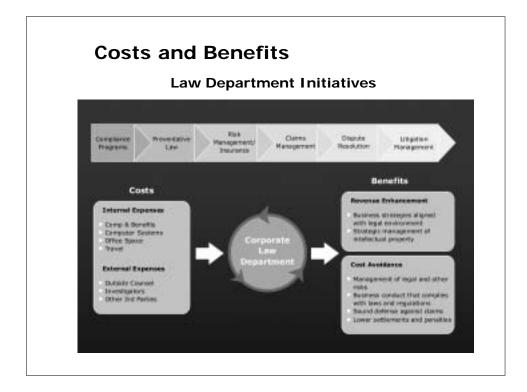


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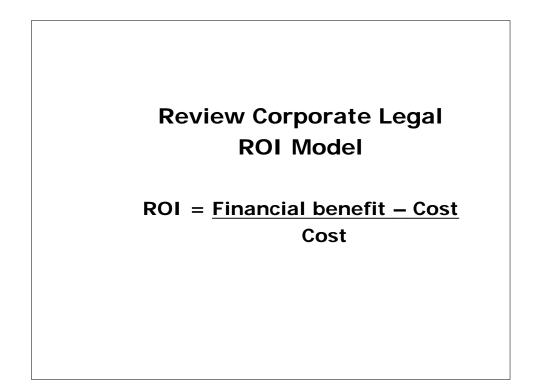






## **Intangible Benefits**

- Law department efforts often benefit the company in less tangible ways and are difficult to quantify.
- Intangible benefits are difficult to predict and measure.
- Intangible benefits include:
  - Risk the management of risk
  - Strategic working towards overall corporate objectives
  - Brand advancing a company's brand and image
  - Competitive bringing products to market faster, cheaper and better
  - Intellectual Capital increase in organizational knowledge and perceived value of that knowledge
  - Culture reinforcing a corporate culture



## Tips

- Discrete law department initiatives may be easier to analyze than the department as a whole
  - New compliance/education programs
  - Cost management systems/processes
- Understand the business metrics that can be applied to the process
  - What are the most important strategic benefits that the business likes to see for its investment dollars?
    - Improved operational efficiencies
    - Increased customer satisfaction
    - Improved market competitiveness
- Involve finance in the approach
  - Develop the methodology once
  - Many have financial managers embedded in the law department

Tips	
<ul> <li>Intangible benefits count but discount them. <ul> <li>They are hard to account for in financial terms but recognize them.</li> <li>Separate tangible and intangible benefits in the analysis.</li> </ul> </li> <li>Factor in productivity. <ul> <li>An improved contract management process may reduce the time it takes the business developers to close deals, but less structured processes are harder to quantify.</li> </ul> </li> <li>Highlight initiatives that have a good ROI from those that are the cost of doing business <ul> <li>Just because it has to be done doesn't mean there is no ROI.</li> </ul> </li> </ul>	