

New England IN-HOUSE

May 2009

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SPECIAL FEATURE

Nowadays, GC wise to consider innovative cost-cutting



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As the economy continues to soften, businesses of all stripes are being forced to cut costs and find ways to ensure their stability and growth. No department is immune. This article focuses on the innovative ways some corporate law departments are slashing expenses, improving efficiencies and using technology to rewrite the way they do business.

Senior corporate counsel attendees at a recent Association of Corporate Counsel event ranked the increasing cost of outside counsel, the economic downturn and globalization as their most-pressing concerns. You may think you know all the tricks for cutting costs, but several in-house counsel have found new ways to reduce expenses, some of which did not even exist just a few years ago. These include developing high-tech solutions for paper-intensive and time-consuming transactions, adopting digital invoices, auditing the legal department's services and implementing alternative billing procedures for all outside counsel.

Find common ground

As more pressure is put on law firms to increase their billables and law departments

are simultaneously challenged to curb expenses, working on projects as a team can end up benefiting both. For instance, how about turning a technology problem over to your outside counsel? Law firms generally have more leeway when it comes to paying for high-tech improvements and upgrades, so why not ask them to design and/or purchase systems that will streamline some of your key procedures?

Mark Chandler, Cisco's senior vice president and general counsel, did just that when he asked Orrick to build a corporate secretarial tool. He told Orrick if they could reduce the amount he was spending on corporate secretarial fees by 20 percent, they could have all the work. The caveat: The system had to be automated and designed in such a way that it could be utilized by other companies and law firms.

Cisco provided the corporate requirements and collaborated with Orrick's information technology and business departments. "The application is used to track Cisco's corporate registrations and other governance activities related to the legal entities in Cisco's global family," explains Steve Harmon, Cisco's director of legal services. "The ability to use a single interface to monitor our obligations, produce reports and seamlessly obtain approvals from all related internal parties creates material operational efficiencies, eliminates payments for registrations that are no longer necessary and ensures the timely payment of fees."

Automation is your friend

Cisco took a proactive approach when it came to increasing the efficiency of document management, too. Under Chandler's watch, the company has automated the handling of non-disclosure agreements, contract renewals, press release approvals and patent applications. Launched in 2005, the self-service NDA tool enables Cisco clients to create NDAs with minimal involvement from legal. The company's NDA repository now



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contains more than 20,000 records, with a run-rate of more than 200 new NDAs a month. "We have saved money and processed thousands of NDAs via this tool that otherwise would have had to be done manually," notes Chandler.

The company's electronic contract renewal tool (a.k.a. Click Accept) has eliminated the need for physical signatures on all standard contracts. In fiscal year 2005, only 3 percent of the company's annual contract renewals with its 500 system integrator partners were completed electronically; today the rate is more than 81 percent. Chandler says this has helped free up the legal team's time for more important tasks.

Volvo Group North America is also taking advantage of automation. Outside law firms are encouraged to communicate with and invoice Volvo digitally. (A recent analysis by

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Microsoft found that it costs \$20 to process a paper invoice, compared to less than \$1 to process one electronically.) Digital invoices are to be received quarterly on small matters, monthly if the accumulation of fees and costs exceed \$10,000. In addition to the financial savings, says Volvo Counsel Thayer Dolan, the company has eliminated significant amounts of paper, streamlined operations, reduced handling time and made the billing process much more efficient.

It has not been an entirely smooth transition, however. For instance, some of the smaller, more local law firms Volvo works with are not very technologically savvy and/or have incompatible systems (Volvo is using an SAP-based platform), so the conversion rate has not been consistent. Most firms have been quick to rectify the problems, though, by purchasing the requisite software. They have also had difficulty transferring images into the digital invoice system. For now, Volvo's accounting department has to scan hard copies of invoices in order to apply the proper digital codes — a step it hopes to eliminate in the near future.

While the goal is to ultimately convert all billing to e-billing, Dolan reports that at this point, the company's digital emphasis is being applied to just one type of very active product liability litigation, which represents more than 80 percent of the company's litigation portfolio.

Leverage your position

Another tactic that can save you considerable money is to keep your number of outside law firms to a minimum.

"Always give your retained firms first crack at new work. The additional fees will be much lower than if you launched a contract with an entirely new firm," says Craig Berrington, former senior vice president and general counsel of American Insurance Association (now a Wiley Rein partner and co-chair of the firm's insurance legislation and regulation practice).

If you are an A-list company, this is much easier. Try convincing the firms that their association with you will benefit them so much that they can afford to have you as a loss leader.

And make sure you analyze your law firm usage from the perspective of the entire

company. If your legal department is large and/or spread out geographically, you may be using Firm A for litigation in one office, and for real estate deals in another office, and not even realize it. All this work needs to be consolidated to positively influence your outside counsel relationships.

"Then assign one person to negotiate the fees with that firm; this will allow you to maximize your leverage as well as neutralize the potential influence of personal relationships," says David Robinson, senior vice president and associate general counsel for The Hartford Financial Services Group.

Firm consolidation also enables you to take advantage of volume discounts, as evidenced by the tier system implemented at Volvo.

"We pay 100 percent of agreed-upon rates, up to \$25,000. When the outside firm's annual billables exceed that amount, our volume discounts kick in," explains Dolan. "We deduct 5 percent from invoices when the company's accumulated fees range from \$25,001 to \$50,000; 10 percent when they fall between \$50,001 and \$100,000; and apply further discounts, of up to 15 percent, as volumes increase."

Dolan says they have experienced minimal resistance. "When firms complain, we simply invite them to stop doing future work for Volvo," he notes. "That tends to end the gripes."

Get away from hourly

Another cost-saving device being explored by corporate legal departments is a shift from the billable hour.

"With every new lawsuit, we require our outside law firms to accept engagement letters that lock in their rates for the duration of the case, including trial," explains Dolan. "This ensures we are covered, no matter how challenging the exit costs or defense strategies become."

In addition, Volvo re-evaluates its outside counsel every three years, running the firms through a battery of screening benchmarks, to make sure they still meet all the company's requirements.

Maintain morale

Robinson stresses the importance of not letting one's staff become disheartened by cost-

cutting measures, especially if some of the measures involve layoffs. Part of the manager's job is knowing how to preserve morale while cuts are being made.

"Transparency and communication are key," he says. "The more you communicate the more you diffuse the fear of the other shoe dropping. If positions are being eliminated or vacancies left unfilled, management needs to agree on priorities and on what work is going to be delayed or isn't going to get done anymore. You need to get management's commitment not to overburden those left behind."

"You should also try to make the law department indispensable," adds Berrington, "from an overall standpoint, as well as from the standpoint of each individual lawyer, so that in the inevitable budgetary jostling, other parts of the organization will advocate for you."

One way of ensuring that support, according to Robinson, is to perform an audit of all the services you provide. To create such an inventory, Robinson (in a previous company) used an off-the-shelf software program to track time and activities for the legal department. This system enabled him to show how legal resources were being used, pinpointed which services could be automated and allowed others in the company to learn when they actually needed to utilize the legal team (and when they did not); that is, it graphically demonstrated the role the legal department played in the organization.

One of the results was the creation of standard templates (NDAs, vendor agreements, etc.) and some annotated documents that left room for negotiating flexibility, with little or no law department involvement.

The experts interviewed for this article agree that more transparency between the legal department and its internal clients, more frequent and exacting evaluations of outside counsel, changes in billing procedures and increased automation are the most effective ways to keep in-house costs low and quality high. If these trends have not hit you yet, it won't be long. You can get ahead of the curve by implementing some of these procedures now. **NEH**



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