



Legal Project Management Best Practices Series

The Importance of Implementing Legal Project Management in Law Firms

After a long run of spectacular industry-wide growth, a 2010 study reported that the total amount spent on legal services globally had shrunk for the first time in recent memory.¹

It is now clear that the downturn that started with the financial crisis of 2008 was fundamentally different from recessions of recent decades. We experienced not merely another turn of the business cycle, but a restructuring of the economic order. These structural changes affected many areas, not least the market for legal services.

Although the global economy is now recovering, it is widely accepted that the legal sector will never return to the type of market that characterized the years leading up to the collapse of the financial markets:

- The financial crisis of 2008/9 and subsequent recession have led to a major change in the way banks and corporates buy legal services and a shift in the nature of the legal product set required.
- Trade flows have made a general move toward the east, with China and India growing rapidly. New trade flows between China and Africa and between Asia and Brazil have challenged law firms to shift focus to serve these areas.
- Structural changes in the legal market have led to more competition and an increasingly complex market for legal services.
- Technology has continued to impact the delivery of services – for example, 40 percent of general counsel state that Legal Process Outsourcing (LPO) will impact their delivery of legal services and over 50 percent would like their law firms to use LPO to help manage legal costs and increase flexibility and scalability.

Alongside this, purchasers of legal services have experienced pressures of their own:

- Legal departments are under significant budget pressure, with 40 percent of general counsel expecting their external budget to fall and 30 percent expecting budgets to remain static.
- They are operating in an increasingly risk aware and regulated environment causing companies' expenditure to grow regardless of cost-cutting pressure. For example, 46 percent of companies face rising costs (salaries, benefits and share of overhead) and 40 percent are spending more for legal services.
- While legal budgets are under scrutiny, the requirement for legal support has grown considerably. To justify their budgets, in-house teams must not only manage costs effectively but also continually demonstrate efficiency, transparency and value to their business. The cost-efficient delivery of legal services is therefore vital in the new economic environment.

As a result of this, law firms are seeking ways to be more efficient in order to satisfy their respective clients

¹ McKinsey Legal Survey 2010.

while maintaining margins and protecting profitability. In order to retain position and become more competitive in a volatile market, they are searching for new opportunities to increase revenues by focusing on client relationships, creating efficiencies and reducing their cost base, and managing their exposure to risk.

Similarly, purchasers of legal services are becoming increasingly sophisticated and striving for ways to achieve more for less by searching for strategies to reduce costs and gain better value. They are demanding increased efficiencies, the elimination of poor practices and more transparency from their suppliers.

As one general counsel of a major corporation states, "There's an imperative for us lawyers to actually demystify the practice of law in the corporate environment, so that our colleagues — boards, chairmen, finance departments — can understand its operations, support it, measure its effectiveness. We operate within a business environment and should be held to the same standards as other functions."

So while the market is recovering, with 60 percent of law firms expecting to increase fee levels and 50 percent predicting an increase in their chargeable hours,² historic levels of profitability are still a long way off and will not return without firms making significant changes to the way they service clients.

These conditions are creating the commercial drivers for an increasing number of firms to look outside of their own sector for best practices and lessons learned. As such, there are genuine signs that the industry is moving toward greater innovation. The adoption of project management techniques, already successfully employed in other professions, under the guise of legal project management (LPM), is one such example. As one commentator explained, "Legal project management adapts proven management techniques to the legal profession to help lawyers achieve their business goals, including increasing client value and protecting profitability."³

Applying the fundamental principles of project management to the execution of legal work means that lawyers will be following guidelines to ensure that client intentions are mutually understood and that their expectations are managed. As such, lawyers will be applying explicit and formal techniques to:

- Understand and document client requirements and manage the scope of work.
- Define client objectives, deliverables and expected outcomes.
- Define, plan and communicate a schedule and associated activities.
- Manage and report costs.
- Manage and report risks.
- Manage resources.
- Provide quality assurance and quality control processes.
- Consistently report and communicate.

The effective application of these LPM principles will deliver significant benefits for both law firms and their clients. First, LPM offers more certainty and transparency on cost, something especially important in those transactions where alternative fee arrangements such as fixed or flat fees, cost limits and success bonuses are used. Second, a more formally planned piece of work offers an improved service to the client, while quality is better managed and more certainty gained over risk exposure. Third, LPM disciplines offer the opportunity to take a more strategic approach to the sourcing of legal work. A better understanding of the elements of a transaction allows for disaggregation which, in turn, presents options to source them optimally. Firms can then respond more flexibly to changes in demand for legal advice and introduce improved procurement disciplines.

Finally, LPM is critical to adhering to changing regulations as evidenced in the requirements of the Jackson reforms.⁴ The effect of this can be highlighted in the experience of three global organizations that have used LPM tools to disaggregate their legal workload and better manage their panel firms. Rio Tinto reduced its legal bill with external counsel by 20 percent through disaggregation of transactions and the application of sourcing strategies; Deutsche Bank established legal centers in Mumbai, Jacksonville and Birmingham to handle transactions with 3,000 counterparties per year; and Barclays has been able to reduce its panel, insist on alternative fee arrangements and demand that law firms work with specified LSO partners.

² RBS Legal Survey 2014.

³ "Legal Project Management, Pricing and Alternative Fee Arrangements" – Jim Hassett (Feb. 2013).

⁴ <http://www.justice.gov.uk/civil-justice-reforms>.

Of course, law firms are also exploiting LPM to deliver innovative services and products to differentiate themselves from their competitors. Perhaps the most celebrated is Seyfarth Shaw LLP, which has used a “lean methodology” to identify, manage and optimize key processes between itself and its clients, employing technology and specialized project managers to deliver them.⁵ Similarly, Clifford Chance has trained 20 percent of its lawyers on “continuous improvement” techniques as part of a program to model and improve processes with clients on specific transaction types. Evaluations have suggested this has yielded a 15 percent reduction in fees and 50 percent improvement in speeds of some transaction types.⁶

In summary, project management is all about controlling the delivery of complex objectives with interrelated tasks with time and cost constraints, risk, and diverse resources. It is therefore highly relevant to the delivery of legal services and becomes more critical the more complex a matter is. It is evident, then, that there are many ways that the implementation of legal project management can deliver clear benefits to both law firms and their clients:

- It can help make the delivery of legal services more efficient by allowing improved gearing⁷ and reduced costs.

- It can help deliver better returns on investment by delivering better returns on knowledge management and training for lawyers.
- It can help manage certainty and risk by enforcing more consistent application of best practices.
- It can help a law firm become more agile by helping lawyers work more effectively both within and outside the organization.
- It can lead to the development of new products and the transformation of practices as legal transactions are more formally recorded, analyzed and understood.

The benefits from LPM can only be accrued, however, if a robust methodology is effectively implemented and followed. The guides in the legal project management best practices series will help you establish a methodology that is appropriate to you.

⁵ <http://www.seyfarth.com/SeyfarthLean>.

⁶ Clifford Chance – “Applying Continuous Improvement to High-End Legal Services” (2014).

⁷ We define Matter gearing as the ratio of partner hours recorded to total hours recorded on a matter. Improving this ratio by enabling less senior staff to contribute to elements of the work will have a direct impact on the profitability of the matter.

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For further information about this best practices guide, or if you have any questions or suggestions regarding future best practices guides, please contact Sandra Jacobson, Senior Manager, Professional Development, at sjacobson@lexmundi.com.

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