

# **Financial management**

*Using your legal budget as a tool for effective planning,  
relationship building and evidencing value add*

# Financial management

## The challenge for in-house teams

**GCs and in-house teams often ask the question, ‘How do I evidence my legal department’s value to the business and not be seen purely as a cost centre?’ Many also tell us that they have been requested to ‘do more for less’. Unfortunately, the ‘more for less’ dilemma, shifts the focus from strategic value to one of costs, exactly the opposite of what you want!**

Whilst the commercial realities – particularly during a pandemic – cannot be ignored, strategic business partnering is more important than ever as legal teams navigate increasing levels of risk and guide their organisations through uncharted territories.

Ultimately, the challenge legal departments face is that they don’t control demand for legal services but are held accountable for the costs related to that demand. Simply cutting costs or reducing headcount without fully understanding the anticipated demand is a recipe for disaster.

This is compounded by the fact that many lawyers are not accustomed to preparing or managing budgets, often lacking visibility or control over legal spend and the data needed to measure performance accurately. It’s one thing having budget, but it’s another to have accurate budget.

Whilst most legal departments have a budget, (sometimes tucked away at the bottom of a drawer until the next budgeting cycle), data shows that these are largely inaccurate when it comes to the largest line items and many in-house counsels do not understand how they are spending their money.

By way of example, outsourcing to external firms remains one of the most significant areas of spend for most legal departments, and yet many do not have processes, people or systems in place to efficiently manage RFPs, negotiate alternative or effective fee arrangements and objectively assess performance of panel firms.

## Did you know?

**Only 33%**  
of Legal Departments  
rated their external  
budget as being  
‘moderately’ accurate

**61%**  
do not currently set  
and monitor budgets  
for individual  
matters

**Two thirds**  
of in-house legal teams lack a clear understanding  
of how their legal spend is broken down by  
internal/external, business division and work type



\*Results from the Legal Operations Health Check benchmark  
(contact us for a copy)

# Legal department budgets

## Why do you need a budget?

The budgeting process may feel like an unwelcome distraction from your legal work, and whilst time consuming, it has many benefits which can support you in your journey to becoming a strategic business partner:



### Facilitates planning

It is an opportunity to better understand your organisation's strategic plans and how Legal can support those for the year ahead. Not only does this facilitate better resource planning and work allocation for your team but gives you an opportunity to give input into decisions impacting your department.



### Industry benchmarking

Benchmarks, even though not always easy to obtain, can provide useful insights into what constitutes the norm in your industry and enables you to measure your performance against your competitors. Benchmarks may also support requests for additional budget or arm you to resist excessive reductions.



### Identifies significant areas of spend

Having visibility over each area of spend is the first step in managing those expenses. Knowing where you spend majority of your budget enables you to identify quick wins and focus on the areas where you are likely to achieve the most significant savings.



### Evidences value

The legal budget can be a useful tool to help you articulate the value which Legal is bringing to the business. Using data to compare the cost of managed spend to the cost of resourced or showing how effective matter scoping and management has led to improved outcomes, enables business to compare the value they receive with what they are paying.



### Tracks performance

Without a target or set of measurement criteria, you cannot assess your department's performance objectively, making it nearly impossible to be perceived as anything but a cost centre. Whilst this can be a double-edged sword if you are unable to meet those targets, the more involved you are during the planning and budgeting phase, the more you can influence the outcome thereof and set yourself up for success.



### Relationship building

It helps to view the budgeting process as an opportunity to build relationships with other support functions, business stakeholders and importantly, Finance. What department would turn down an opportunity to talk about what is important to them, what their plans are for the future and how Legal can partner with them to achieve their goals?

## What goes into a budget?

The following are examples of typical line items that you might find in a legal department budget:



# Building a budget

## Your 12-step checklist to help you get started

Building a legal department budget can be challenging, especially if you're new to the process so we've included a checklist to help you get started.

### 1 List your costs

- Start with documenting all historical areas of spend.
- Ask your team for their input – they are likely to be closer to the day to day activities that impact your budget most.
- Identify any one-off cost items that are unlikely to be repeated in the future.

### 2 Meet with internal stakeholders

- Understand what your key stakeholders might have planned for the year ahead and discuss how Legal will need to support them.
- Prioritise and agree service levels to enable you to plan resourcing and work allocation.

### 3 Identify KPIs

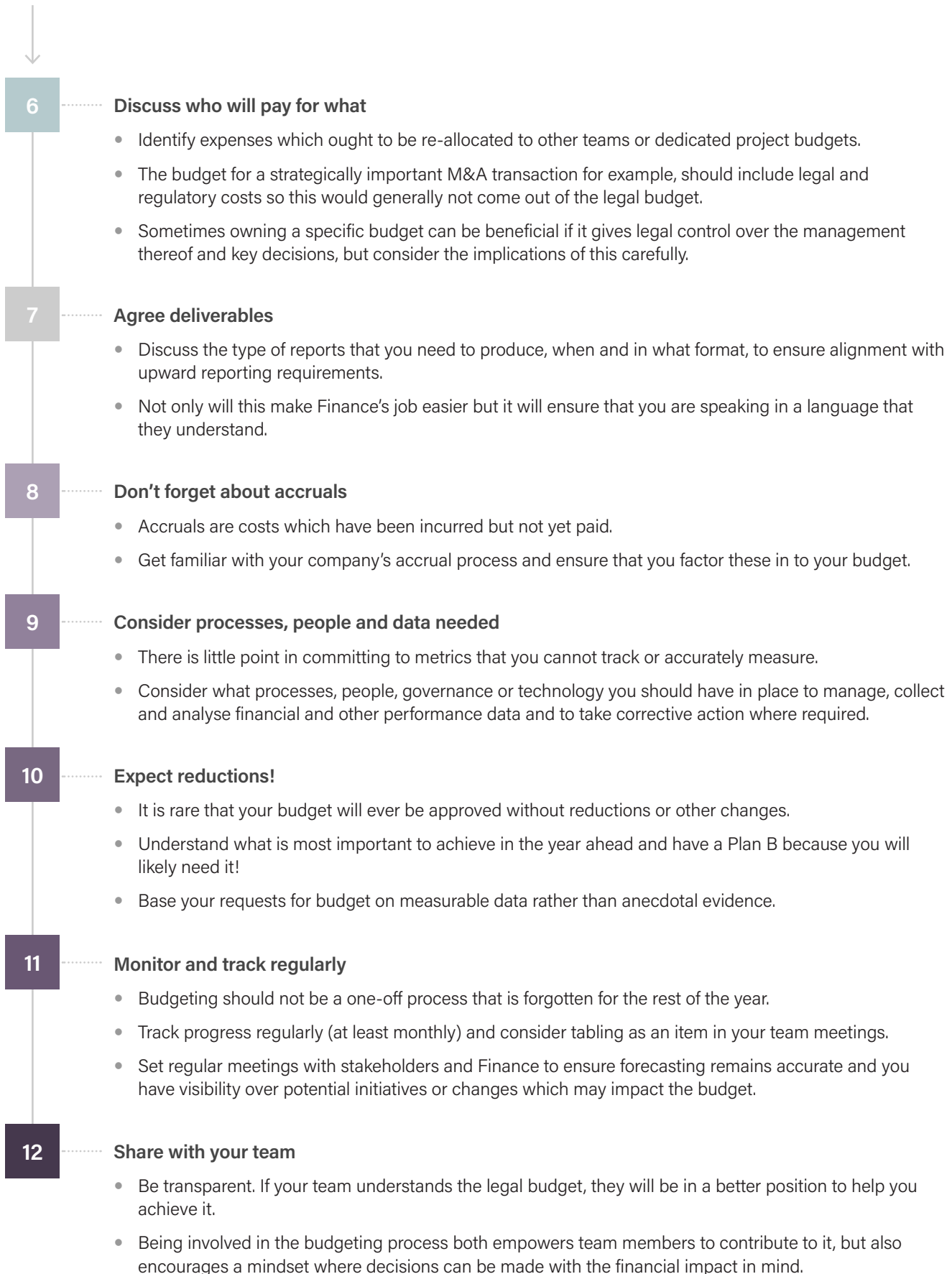
- Consider what is important to key stakeholders and agree on the metrics to measure success.
- Include value-based measurements where possible, to show how legal contributes to strategic objectives of the business.

### 4 Engage with law firms and other suppliers

- Start the discussions with your law firms and other suppliers early to understand what rates increases might be requested or how you can build in efficiencies and renegotiate commercial terms to extract more value from the relationship.

### 5 Make friends with Finance

- Finance can be a powerful ally. Get to know your financial controller or finance business partner and engage on a regular basis, not only during the annual budgeting cycle.
- Consider inviting members of Finance to team meetings so that they understand the challenges faces by legal and the value you bring.

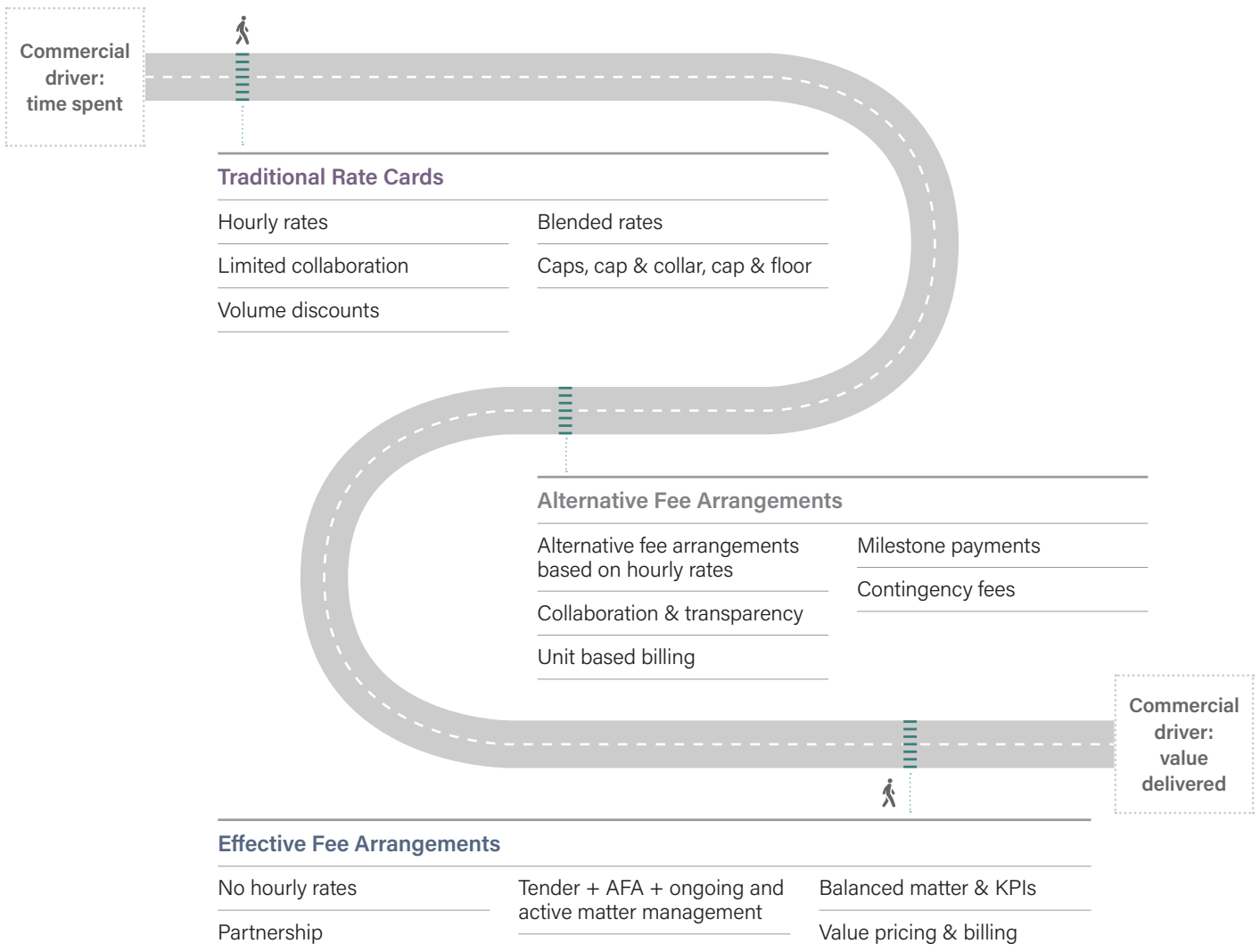


# Managing your panel spend

## Extracting value through a relationship driven model – an evolution from traditional rate cards to EFAs

The most significant area of external spend for in-house legal teams is usually on law firms and consequently, it is an area where GCs will likely have the most opportunity to find quick wins and introduce efficiencies. Whilst it may be tempting to focus on rate reductions to meet budgetary pressures, this can ultimately result in a lose-lose situation for both you and your law firms.

Consider adopting a relationship-based approach, with a move towards effective fee arrangements supported by ongoing performance management and continuous feedback, to extract more value from your panel firms in a mutually beneficial way.



# Next steps

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## How we can help you

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### Consulting services may include:

<b>Budgetary landscape review and spend analysis</b>	<p>Conducting a historical spend analysis, including assessing the number and type of service providers, identifying quick wins and other potential savings and opportunities for improvement.</p> <p>Facilitating stakeholder interviews and reviewing your departmental and wider business strategies to understand your future requirements and help you prioritise implementation thereof.</p>
<b>RFP implementation and managed Services</b>	<p>Managing the RFP process on your behalf including scoping of matters, undertaking due diligence, attending interviews and presentations and supporting the assessment of tenders and negotiation of effective fee arrangements.</p> <p>Providing Legal Project Management for matters to ensure the efficient running thereof, tracking and managing of vendor performance and conducting post-matter reviews of budget versus actual spend.</p>
<b>KPIs and analytics</b>	<p>Helping you determine what KPIs you should measure, developing a KPI prioritisation roadmap and implementing selected analytics systems and processes.</p> <p>Building automated KPI dashboards and reporting templates to enable you to track, measure and report on key metrics, evidencing your department’s value to the business.</p>
<b>Business case development</b>	<p>Supporting you in undertaking a cost versus benefit analysis in relation to legal operations initiatives, technology implementation, resourcing models or work allocations and articulating this in a compelling business case to maximise your chances of securing the required approvals and/or budget.</p>
<b>Change management</b>	<p>Facilitating or supporting required change management processes to build consensus with stakeholders and embed new processes, tools and technologies. Often overlooked, effective change management can increase the likelihood of a successful outcome. This may include designing a change management roadmap, conducting workshops with impacted employees, helping you communicate the benefits of the change to the wider business or creating feedback mechanisms.</p>
<b>Advisory retainer</b>	<p>Providing strategic advice to support you across a diverse range of matters, when you need it most. This can be delivered via a hotline or through regular calls with you and your team, offering you a high degree of flexibility along with budget certainty.</p>



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Stéphanie, Head of Legal Operations Consulting, was previously at Barclays where she headed up what would become the Legal operations team for over three years. Under her leadership the department won "Legal operations team of the year" at the 2019 UK Legal 500 Awards. When transforming your in-house legal function, Stéphanie is ideally placed to advise on improving the management of your legal department.



## Tammy Heydenrych

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Tammy, a Legal Operations Consultant, was formerly the Group Company Secretary and Senior Legal Advisor for Zurich Insurance's Southern African operations. With 17 years experience within the professional services, corporate and start up environments, Tammy has extensive expertise in corporate governance, stakeholder management, strategy formulation, operational design and delivering business transformation projects.

## NRF Transform

**NRF Transform is our global change and innovation programme. It aims to make how we deliver traditional services more effective and efficient, and to provide entirely new solutions to our client's most pressing business problems. It has over 150 staff in offices around the world, as well as 3 dedicated Hubs, and includes teams focusing on Applied Technology, Innovation, Legal Design, Legal Project Management, Legal Operations Consulting, Resource Management, and Commercial Management.**

**The Legal Operations Consulting Practice helps General Counsels and in-house legal teams optimise the delivery of legal services to their organisations, enabling them to go beyond managing legal risk and become a strategic business partner, supporting the wider objectives of the business.**

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