

Management, math and metrics for GCs

The more they appreciate the pervasiveness of key numbers, the better they will manage their legal functions.

BY REES W. MORRISON

A general counsel's role as manager of the legal department often involves metrics. Management metrics are everywhere, and skillful use of them can contribute mightily to how well the department operates and presents itself. The more that leaders in law departments appreciate the pervasiveness of these key numbers and the more they appreciate how to glean the most from them, the better they will manage their

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legal functions. Aside from the financial figures that dominate companies, especially publicly traded companies, a range of numbers appear. Let's consider eight of them.

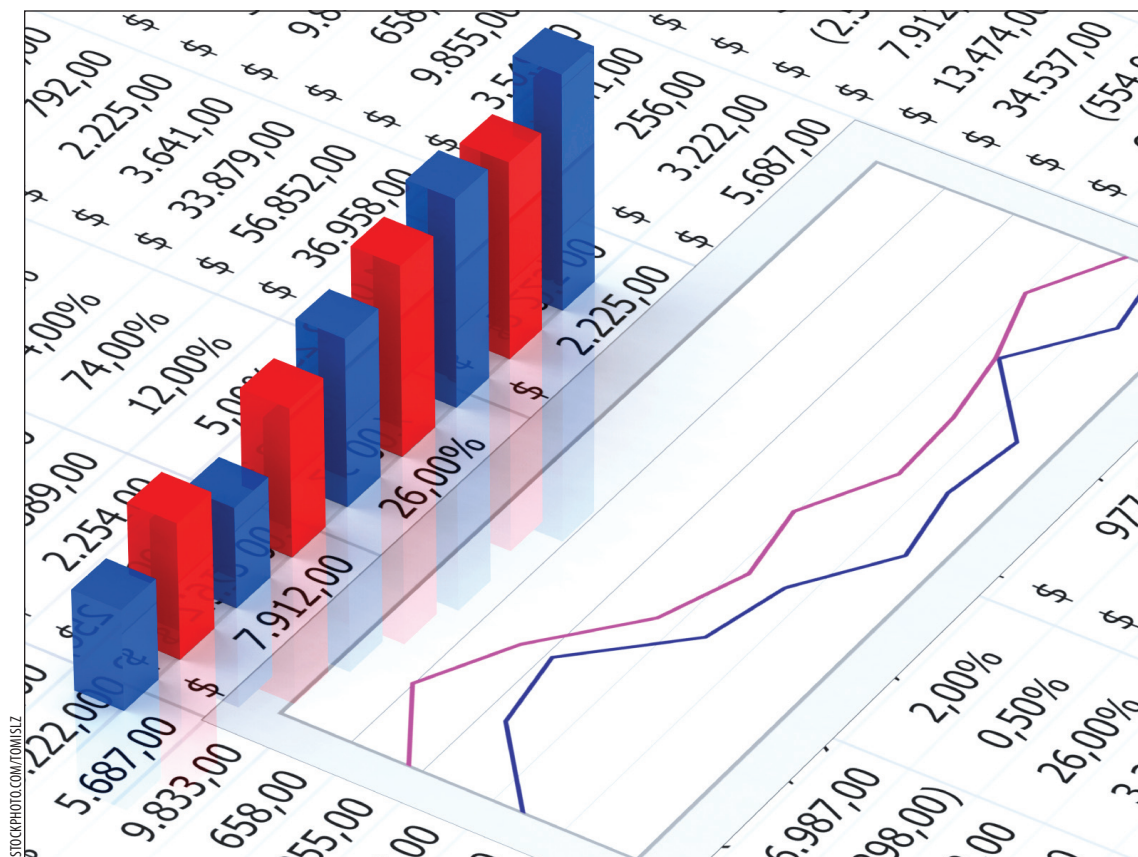
Budgets of law department are chockablock with metrics. To gather and present to the finance tribe plausible spending projections and to the human resources brethren staffing forecasts rises to an art form for many chief legal officers. Command of these resource numbers and how they fit together marks an accomplishment. A subset of corporate budgets, setting reserves, also depends on conversancy with metrics.

Most general counsel at various times also deal with benchmark metrics. Managers provide data to a survey or they buy a report that provides comparative data from similar law departments. An astute general counsel can put those metrics to many uses, such as to argue for more staff, to defend against staff cuts, to get more out of the resources available and to describe the efforts and successes of the legal team.

A third flow of metrics comes from matter management systems, electronic billing software and accounts payable. All of them provide reams of information about numbers of matters, billing rates, concentration of spend among firms and vendors, trends and more. Each of them captures data and invites analysis. With that plenitude of metrics come opportunities to analyze and identify. What are invoices from law firms but organized metrics? Amid the flow of figures, for those who appreciate quantitative analysis, all sorts of insights await. For example, blended billing rates and percentages of costs by area of law crop up all the time.

INTERNAL PERFORMANCE METRICS

Some law departments create a fourth set of metrics, those for their own purposes of internal performance tracking, so they can monitor and report on their performance. The number of cases resolved within three months or the promotional pieces reviewed each week are instances of such workflow figures. You



can manage better what you measure. Performance metrics such as the number of contracts reviewed form part of the marketing message of a legal team.

Surveys generate other sets of metrics. Whether an employee morale survey, client satisfaction survey, electronic voting results from a lawyers' conference or a survey on pro bono interests, the responses usually translate into numbers. Rankings, percentage changes over time, averages and medians—all these accoutrements of metrics come into play when a general counsel makes sense out of survey responses.

Evaluations also generate numbers. To varying degrees it's through a quantitative lens that you study ratings on employee evaluations, choices of software packages or methods to sort out law firms that reply to requests for proposal. A facility with weighting numbers and creating indices is vital. When staff from a procurement or sourcing function join the analyst team, they focus even more on attributes that can be placed on a spectrum or treated absolutely.

A seventh situation in which legal departments create and deal with metrics is early case assessment. For an ECA, it is crucial to attach probabilities to outcomes and incorporate potential liabilities, costs and elapsed time. Likewise, decision trees for litigation require numeric inputs and they calculate outputs. Settlement discussions always have dollars. It helps to feel comfortable with probabilities and net present value, for example.

Eighth, compensation decisions invariably rest on metrics. What is the percentage raise given your associate general counsel? How can you depict and understand the ratio between base and bonus? What in the world does the Black-Scholes model tell about the value of options granted?

The eight kinds of law department metrics described above all share certain characteristics. If general counsel and their staff understand these characteristics, they are on the way to making better use of metrics. Consider seven of these mainstays of metrics.

- *Graphs depict them.* If metrics are plentiful, the most effective way to portray them and, indeed, to understand them is to present them in graphs. Skillful use of

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the charting capabilities in spreadsheets and other packages adds great value to metrics, especially double-axis charts and trend lines. Histograms and many of the techniques of total quality management draw heavily on numbers and quantification and go far beyond stodgy tables and endless text descriptions.

- *Statistics analyze them.* Wherever there are metrics, there should be some application of simple statistics such as averages and medians, or more sophisticated analytic tools such as quartiles and standard deviations. Ultimately, with a sufficient quality of metrics, both correlations and regressions can disclose the most.

- *Economics speaks them.* The dismal science is cheerier to the extent you feel comfortable with and use numeracy skills. Net present value, Gini coefficients, beta volatility of legal spend and cumulative annual growth rates are all concepts and calculations familiar to certified public accountants and economists. They should be part of the working vocabulary of general counsel.

- *Terminology surrounds them.* Along with the visual depiction of numbers and the analytic tools that can help make sense out of the numbers comes a whole range of concepts. A general counsel who feels comfortable with numbers can speak the language of many of his or her business peers, who typically think in terms of earnings per share and return on investment

and net present value. Mathematics is the language of economics, and companies are economic creatures.

- *Manipulation plagues them.* Whenever someone gathers numbers, those who provide the numbers will adjust their behavior and perhaps game them. Numbers never live in a vacuum but are always shaped by interpretation, purpose and context. Objectivity and methodological carefulness are prerequisites for working with metrics. For example, the notion of full-time equivalent ought to be part of any numbers that pertain to staff figures.

- *Trends appear in them.* Almost always, a metric makes more sense when it is seen in a flow of similar metrics over time. Total legal spending as a percentage of revenue, for an example, should be seen over a period of years for trends to become clear. A snapshot of a number, for one year, might be misleading as compared to a series of similar numbers over time.

- *Limits bound them.* Much of what makes a legal team successful lies beyond metrics. We can't measure creativity, dedication, collegiality or chemistry. Law department management will never reduce to figures; figures, however, will enlarge law department management.

The world speaks quantification, and general counsel need fluency in that language. Once you look around for metrics in law departments, they are ubiquitous. They explain, promote and project people, workloads, spending and the interplay of all these management concerns.

Rees W. Morrison has for two decades consulted to general counsel on the management challenges of their law departments. He has also worked with law firms. He blogs at www-LawDepartmentManagementBlog.com and can be reached at rees@reesmorrison.com.