You Just Don't Understand

Law firms turning a deaf ear to their clients' fiscal realities will not keep the clients for long.

By Pamela H. Woldow

If you ask law firms about their clients' budgeting pressures and processes, they'll tell you that they *get it*, that they are on the same parsimonious page as their clients.

Only they really aren't. If you talk to general counsel, particularly those who transitioned from law firm practice to in-house roles in the last five years, they report that few law firms grasp - *really grasp* - the mechanics of law department budgeting or how those budgets are impacted by the 60% that typically goes to OLS - outside legal spend.

Oh, sure, they've read that times are tight for everyone, but if you ask relationship partners how much their most important clients' budgets will decline in 2011, almost none can tell you. They don't appreciate that corporations work through forecasting and budgeting processes that take months to complete - and generally are completed in August for the following calendar year. They don't know that law departments once given a budgetary *carte blanche ("Just give us what you gave us last year, plus 15%."),* have been put on the same tight leash as the corporate business units: they have to integrate past experience and expected future activity into a hard-and-fast budget that is not an estimate, but a firm spending ceiling.

They often don't know that law departments' budgets are reforecast quarterly (and sometimes monthly), meticulously charting outside legal spend and legal engagement run rates against their inflexible internal budget barriers. They don't know that the legal department's budget performance is reported internally to all other departments (and, in public companies, often externally as well). They don't understand the intense personal stakes involved, that the GC's compensation, bonus and even employment now are tied as tightly to cost control as to departmental performance or regulatory compliance. They don't know that GC's average compensation was down nearly 20% last year, and their bonuses down over 40%.

They don't accept that there is no wiggle room to accommodate budget overruns, particularly at the end of a quarter or calendar year. They don't appreciate that a "minor" overrun in a single matter may demolish the budget for an entire transactional, litigation or regulatory category, so that the GC has to borrow and poach from other budget categories to make ends meet. Or worse still, has to order "pens down" on outside legal outside work in progress until the company refills the law department's budget tank.

GC's constantly battle what in Economics 101 is called the "Guns vs. Butter" conundrum: how shall we allocate scarce resources? When firms exceed matter budgets, they hijack law departments' choices about preferred resource allocations.

Here's what our GC clients tell us: firms that turn a deaf ear to our fiscal realities or force our hands in how we manage our budgets are not our friends, and likely will not long be our vendors, either.