

Change in the legal climate: Budgeting and project management

Why budgeting and project management are more important than ever

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The top three demands from chief legal officers, according to a 2013 survey by Altman Weil, are “more efficient project management,” “improved budget forecasting,” and “greater cost reduction” — all of which can be controlled by budgeting and project management. General counsel are under more pressure than ever from management to “sell” their budgets, and every budget is being cut in the current economic climate; thus, they have become savvy about strategy, costs, and managing their litigation and outside counsel like any business project.

Yet, if pressure from clients and costs is not enough, perhaps court intervention will motivate law firms. In the United Kingdom, through the Jackson reforms implemented in April 2013, courts intervened in the budgeting process by requiring counsel to submit budgets for approval. The Jackson reforms should encourage law firms in the U.S. to manage and budget more effectively before it becomes a government priority.

Now more than ever, clients demand transparency and increased communication from outside counsel regarding legal costs. Consider the following scenario where upfront-cost communications increase transparency and eliminate client dissatisfaction. Imagine that a homeowner hires a plumber to fix a plumbing problem. Upon inspection, the plumber finds additional problems — one of which is attributed to a city code violation. Before the plumber fixes the code violation, he communicates the cost and necessity to the homeowner, who appreciates the plumber’s transparency even though they may be disappointed about the incremental cost. By providing clear cost communications on the front end, the plumber is more likely to be paid in full and rehired for future work.

Counsel similarly should make budgeting and project management a priority. Overall, clients can and will require greater predictability, transparency and accountability from outside counsel.

Part 1: The actual budget

The first step in providing clients greater predictability is to deliver an actual, realistic budget. The client’s goals will shape the litigation steps and the related cost. For each possible activity in the case, counsel will need to determine the benefit to be gained and the likelihood of succeeding. The actual budget can provide financial hygiene and profitability to both the client and the firm.

For clients, budgeting can provide more cost certainty through accurate forecasting, which can help achieve the joint goal of law firms and clients — high-quality legal services at a lower overall cost. Counsel also should consider the client’s broader business implications that transcend the dollars at risk.

For law firms, budgets may be viewed as a marketing advantage from which they can build a benchmark database for future budgeting. Like any business, law firms must stay profitable, even when dealing with tighter constraints from clients. One way to make this happen is for law firms to produce budgets that demonstrate their high value. By breaking down the steps into their component parts, firms can increase utilization and focus on the overall profitability of matters at hand.

Much of the increase of litigation costs is due to the exponential growth of data and the corresponding costs of discovering and analyzing that data. Counsel should coordinate and integrate their budgets with vendors to understand the interconnectedness of the strategy decisions and related discovery costs. Counsel should consider whether such costs will be part of the budget that they manage, or if the client will interface directly with vendors.

NEXT: Managing the budget (<http://www.insidecounsel.com/2014/07/01/change-in-the-legal-climate-budgeting-and-project?page=2>)

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