

# Applying Ricardo's Theory Of Comparative Advantage: A Roundtable Discussion On Business Professionals In The Law Department

*Introduction: The focus of this roundtable discussion, the second in a series sponsored by Duff & Phelps, is on the value and benefits a seasoned business professional can bring to the CLO and law department. A few CLOs are following David Ricardo's theory of comparative advantage by hiring an experienced business professional as a direct report to focus on the business aspects of the department, allowing attorneys to focus on its clients and risk mitigation.*

*Analysis of operational data in the 1990s proved that consolidating and centralizing regional or local business functions as well as hiring CFOs and CIOs to ensure a consistent execution of firm strategy and compliance increased margins. Today, CLOs are following a similar path to drive efficiencies, minimize costs and improve client service by hiring or elevating an existing person to be a direct report to function as the department's de facto CFO, CIO and COO. Although this requires an investment, it can be justified by the increased credibility the department receives. As in Ricardo's example, the outcome can be a win-win, where both the department runs more efficiently and the attorneys have more time to serve clients.*

*Moderating this discussion are Jim Ewing and Jerry Kral, Directors at Duff & Phelps, who focus their practice on improving the efficiency of law department operations. Questions related to this article should be forwarded to Mr. Ewing at james.ewing@duffandphelps.com or Mr. Kral at gerald.kral@duffandphelps.com.*

*Participating in this roundtable discussion are Heidi Rudolph, Vice President Legal Operations & Administration, Sara Lee Corporation; and Tricia Harrison, Director of Operations, Legal and External Affairs, VerizonBusiness.*

**Moderator: Please provide our readers with your professional background so they can understand the experiences, skills and competencies that you bring to your current position.**

**Rudolph:** As of May 2006, my position is Vice President, Legal Operations and Administration for the Sara Lee Corporation legal department. Prior to this role, I was the Vice President, Legal Finance and Operations for Sears Holdings Corporation, beginning in 2002. I am not a lawyer, however, and I have worked in legal business management since 1987. I am more of a business person with deep understanding of legal processes. Also, I am a "process geek" – I love to find better means of doing things. Prior to my in-house positions, I was a legal management consultant.

**Harrison:** I am currently Director of Operations at Verizon Business (formerly MCI). In 2004, I completed 17 years with Wilmer, Cutler & Pickering as Director of Client Administration. At Wilmer, I was responsible for partner and associate compensation analysis; fee income forecasting and management; profitability and financial performance studies based on key levers (realization, leverage, rate structures, etc.); and I worked with executive management and the practice groups to use financial analysis as a tool to better understand and manage the business. My strength is in manipulating various types of data into reporting tools and providing analysis to enhance decision-making for executives.



**Heidi Rudolph**



**Tricia Harrison**

**Moderator: What are the primary responsibilities of your department and how is it organized?**

**Rudolph:** My Sara Lee position is a new position within the global legal function, so my answer is somewhat a combination of my past responsibilities at Sears and my anticipated responsibilities. My department (me) is responsible for financial management including budgeting, outside counsel expense management, and acting as a liaison to the corporate finance function. All legal department systems including matter/case management, billing, document management, and file management are part of my responsibility. Finally, any non "technical legal" work processes can fall within my responsibilities. My job is to let the lawyers be lawyers. It is also to always challenge the status quo (my mantra). In addition to the legal department responsibilities, I have management responsibility for other functions that report into our General Counsel, including Global Business Practices, Environment & Safety, Internal Audit, and Risk Management.

**Harrison:** The Director of Operations position is responsible for all business-oriented, process focused, non-legal activities. As such, I respond to regular and ad hoc requests for business related research and provide recommendations to better facilitate the decision making process. Areas of responsibilities include development and monthly monitoring of legal budgets and ensuring accountability by individuals and groups; promoting cost management throughout the department; performing financial analysis and reporting within legal and to corporate finance; managing outside service providers including terms of engagement with our firms and other vendors; processing invoices and resolving invoice disputes; and I am the designated point of contact for training, facilities, HR and IT within legal and intra-company. We are able to support our legal team with two highly skilled staff positions, an Office Manager and a Billing Professional. We also utilize outside consultants for strategic initiatives – having dependable resources to tap into provides immediate access to project specific expertise, plus it allows the staff to stay focused on their primary duties.

**Moderator: Are you a direct report to the Chief Legal Officer, and how much authority do you have to change and enforce policies and procedures?**

**Rudolph:** Yes, I am a direct report to our General Counsel. I have authority to change and enforce procedures, but of course collaborate with the General Counsel to ensure he is informed and also buys in to proposed ideas, especially those requiring significant process changes by members of the department or that affect other areas of the company.

**Harrison:** I am responsible to the General Counsel and am responsible for recommending non-legal policies and procedures for internal lawyers and staff, and outside counsel and vendors, and ensuring compliance.

**Moderator: What successful initiatives have been driven by your team?**

**Rudolph:** None so far! But I hope to centralize certain administrative and financial management procedures and in doing so, free the lawyers' time. I am specifically looking to simplify the annual and ongoing budgeting processes as well as the status reporting processes. I am also looking to establish more efficient procedures in terms of legal expense chargebacks and reserve processes. Each lawyer spends time on procedures that will be more efficient if managed centrally (by "Operations").

At Sears, in conjunction with our Procurement function, we had developed an effective temporary help model for project-based legal work. This model enabled us to evaluate the need for internal time/headcount, outside counsel use, and temporary assistance, adding a third leg to the legal support stool. The result was cost savings and the ability to work within headcount constraints.

**Harrison:** In 2005 our primary goal was to institute an analysis and reporting discipline that would provide comprehensive, timely and objective data to the primary decision makers. We began by determining what data was important, how it should be gathered, and how it should be distributed for maximum gain. Once these decisions were made, we began performing regular analysis and data distribution that provided us with the means to more effectively assess, evaluate and manage our business. An added benefit to this initiative was that during the procedural review, we streamlined some of the processes to reduce costs and improve efficiency. Some results included consistent financial review and reporting at all levels; monthly budget owner meetings to manage and project expenditures; standardized employee policies; improved invoice processing and the implementation of e-billing; and establishing a preferred provider program with standardized engagement letters. In prior years, we focused our efforts on creating a stable infrastructure to enable the 2005 initiatives.

**Moderator: What is your Department's value proposition to the Chief Legal Officer?**

**Rudolph:** I am confident I can save hard dollars in terms of our overall spending. Also, as noted in prior answers, there are many hours spent by legal team members in our department and in any legal department that can either be minimized or eliminated by process changes. It is all about people focusing on what they do best. The lawyers can focus on legal issues and an Operations person or team can focus on business issues. In the end, my function will save time and money for the company.

**Harrison:** A clearly visible single point of contact for the non-legal work, both internally and externally. I act as the department's de facto CFO, CIO and COO. Our

GC does not like month-end surprises and prefers to be proactive in communicating variances to plan, so a lot of my time is focused on managing department expenses and researching potential issues. Our goal is to maintain strong relationships with finance, facilities and other groups within the company to encourage the free flow of information and respond in a timely fashion to corporate sponsored initiatives. By having a central point of contact for the operational functions, we are able to consistently and effectively manage our financial data/analysis, resources, communications and policies.

**Moderator: What is your advice for a Chief Legal Officer who is interested in creating a Centralized Business Management Department?**

**Rudolph:** My first advice is simply to centralize the business management. I have seen many companies place operational responsibilities with a lawyer, or with several lawyers as a part-time job. In most instances, this becomes a "back burner" responsibility and things do not get done. In some cases, those who truly enjoy the areas do become dedicated management lawyers, and this drives centralization in a good way. My second piece of advice is related to the first: dedicate a person to lead the function so they may focus attention and effort. Finally, the Operations lead should have sufficient authority and credibility. Within a legal department, credibility comes with knowledge of legal processes. A lawyer interested in operational issues could be a good candidate or a business person with legal knowledge could be a good candidate. That candidate could come from within a Finance organization if the candidate has worked with and understands legal. Other sources include law firm administrative management and legal consultants or vendors.

**Harrison:** Two main elements: support from the senior level and an experienced director to execute the initiatives.

The CLO must adopt and incorporate the premise into the overall management of the department. They need to clearly communicate that this initiative is a key departmental goal and that all lawyers and staff are to actively participate in making it a success. And, the CLO must provide the director with the proper authority to study and institute new processes, procedures, responsibilities and accountability as necessary.

Hire an experienced director with an expertise in business, finance and operations that can see both the trees and the forest. They need to be able to act independently and make practical recommendations on policy and procedures. This is no longer about finding someone to simply enforce the rules but someone who can provide strategic input in support of the department and the company. They need to be the "go-to" person for everything non-legal and be a proactive resource for finding appropriate solutions and not just the "policy police." It is someone who will provide a full range of support for the GC and the attorneys. Taking the non-legal work off the attorneys' desks allows them to use their expertise to more productively support the business units and puts the operational responsibilities in the hands of a qualified business manager.