

Applying Lean Six Sigma to Measure and Maximize the Value of Outside Counsel Spending

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ACC VALUE CHAMPIONS



Star Levandowski & Don Walther of Heico

When Don Walther took the helm of the Heico legal department as the company's first General Counsel in 2011, he discovered that there were literally hundreds of law firms billing the company. His mandate, handed down from the CEO, was to build a scalable, sustainable legal group – not for a \$2.5 billion company, as it was then, but for the \$10 billion company it will someday be. After what Walther describes as “100 percent turnover,” he now has an internal team of five. His first hire, legal operations manager Star Levandowski, now a Lean Six Sigma Black Belt, was tasked with development of the project that would ultimately help Walther effect that transformation. Their results include reduced legal costs, decreased variation in case duration, and improved legal outcomes.

Once an infrastructure of policies and procedures was in place, the legal team began thinking about systematic changes. Leveraging the Serengeti software platform, they began analyzing the effectiveness and efficiency of their outside counsel. They generated data on which firms were billing Heico the most and what their hourly rates were. They developed operational definitions for

FROM THE JUDGES

“This partnership applied traditional operations concepts to the legal context and thought about how the concept of waste applies to legal work.”

“value-added” and “non-value-added” work; for example:

Overproduction:

- More than a necessary number of attorneys working on a particular task
- Time spent on activities outside of the scope of the original assignment
- Time spent crafting unnecessary work product

Correction:

- Re-work

Motion:

- Effort spent to get organized
- Time spent getting up to speed on new/transferred matters
- “Review” of email communications

Over Processing

- Over-editing

Waiting:

- Passive travel time

Underutilization of people

- Assigning senior counsel to projects that junior team members can address (with the same or better efficiency) at lower billing rates

After coding each billing entry as value-added or non-, Heico was able to calculate each firm's "Legal Cycle Efficiency," ultimately measuring the value of work provided by each firm.

"Our understanding of 'value' was anecdotal until we had the data," says Walther. "It had previously been a very unfulfilling discussion. Now we could assess productivity."

Heico determined that the efficiency rate for Shook, Hardy & Bacon was 79 percent, the highest of any of its law firms, and that the value the company was receiving per hour (based on their adjusted hourly rates) was also highest from Shook.

"This was our first foray into attempting to measure efficiency," says Paul Williams, partner at Shook, Hardy & Bacon. "It was a creative and analytical measuring stick, and presented us with a fantastic opportunity to partner. We have learned much from their process improvements."

Client and firm then partnered to improve Shook's efficiency rate further. Its elements included attorney secondments to increase Shook's knowledge of Heico's business and priorities. Shook associate Brandon Gutshall worked at Heico during the summer of 2014: "It was great to see those principles in practice, and I learned a lot that I could take back to Shook."

With Shook's focused efforts to provide only value-added services, its efficiency rate improved from 79 percent to 88 percent over the second half of 2014. Practical case results have exceeded the parties' expectations. In seven months, Shook resolved six Heico cases, including four wrongful death cases, with zero dollars paid in settlement, much shorter cycle times, and lower costs. Time to resolve cases dropped from 600 days to approximately 100 days, and savings from minimizing non-value-added work are projected to be at least 10 percent.

Williams says that Shook has taken much away from the arrangement besides a strong partnership and steady work. "We've been inspired to explore



Brandon Gutshall & Paul Williams of Shook, Hardy & Bacon

implementing similar standards with other clients," he says.

Walther says he drew inspiration from the ACC Value Challenge and from past value champions (including his own prior law firm, Perkins Coie LLP), but that he was surprised by the extent to which many of the firms had difficulty grasping what Heico was trying to do. "They are still focused on realization rate," he says. "That is such a curious metric to focus on with me, the client. We were sharing what we care about; it blew my mind. "A key takeaway for me has been that the blended rate has been a focus as firms push work down," he continues. "Our analysis showed that that's not always the best approach. The real value is in leveraging expertise and experience appropriately. Sometimes the experienced partner will be the right choice, even at the higher billing rate."

