

## VALUEDYNAMICS

# THE STRUCTURAL CHALLENGE

In the first article in this series, we introduced our ValueDynamics toolkit, a study with 25 leading in-house lawyers to identify and debate the new challenges that they face. The study seeks to share practical hints and tips from our participating clients and to suggest some models that can be used to work through day to day challenges.

In this, the third article in our series, we consider in depth the second of four sections of our study: the Structural Challenge. The Structural Challenge supports the Value and Performance challenges and enables General Counsel (GCs) to address the fundamental area of identifying and developing the right structure for their in-house legal team.

The key priority for the in-house lawyers that participated in our study is how to do more with less, or at least more with the same, or constrained resources. GCs operating in the retail and financial services sectors in particular reported that higher levels of regulation were leading to significantly greater pressure from the business.

Interestingly, structure was the area that most of the participants were already working on and from which they could see the most value being delivered. A definition of structure is: the sum total of the ways in which an organisation divides its labour into distinct tasks and then achieves co-ordination among them. So how can processes be re-programmed to be more efficient?

### Centralised versus decentralised?

One of the biggest areas of debate is whether the in-house legal team should be centralised or decentralised across the business. In the days before the financial crisis, there was a clear trend for decentralisation as organisations pushed lawyers out into different departments as part of a drive to make their in-house legal team more innovative and commercially focused.

Post-financial crisis, legal teams are much more concerned with risk, governance and regulation, which meant a retreat from that approach and a return to a centralised focus. There is a real focus now on accountability and faster throughput of work, which lends itself to a centralised resource.

Almost all of the GCs participating in the study had spent a great deal of time thinking about their structure and how to improve it. Indeed, 50% of participants reported that they had undertaken significant reviews of their operating models in the past five years.

Some GCs were further along the journey than others, and the conclusion that we reached was that successful organisations are building structures that align with the goals of this particular business and allow teams to work collaboratively.

They also recognise that structures need to be flexible enough to respond to evolving commercial needs. The drivers for change in structure are therefore a need to fit with the likely future shape of the organisation - as well as current needs and the profile of talent available.

### Working out what's working well

The Value Challenge identified how the in-house legal team could add value to the business by understanding stakeholder goals, and crucially, how to demonstrate that value to the rest of the organisation. The Structural Challenge begins with an audit of the current structure, what's working well and what needs to change.

Some of the GCs who participated in our study felt that they did not always have the time or resources to devote to a thorough examination of process effectiveness. They knew that they should be carrying out a regular audit, but “the day job” often got in the way.

Of those participating GCs who did have the opportunity to examine processes, many were able to identify faulty structures within the department, such as the duplication of processes. Another common finding was that people were often continuing to do things in a certain way just because ‘we’ve always done them that way’.

As part of this process, GCs were able to identify administrative or quasi-legal work that could be taken out of the department and handled by colleagues in HR or sales and marketing. For example, could sales and marketing handle more of the contract development work if standard templates were developed?

Other questions to ask at this initial phase included:

- ▶ Is partial outsourcing a better option than handling all legal work internally?
- ▶ Is a generalist or specialist model more effective?
- ▶ How flat should our structure be?
- ▶ How do we translate the Board’s appetite for risk into an optimum resourcing strategy?
- ▶ Can we implement change without being pulled along by the structure of other functions?

## Where are we now?

Working with our participating GCs, we developed four types of structure for a fictitious organisation with revenues of more than £1 billion, selling consumer products in highly regulated markets, with four operating units in distinct markets, present in six developed markets and two emerging markets and a strategic plan to grow at 20% CAGR over the next four to five years.

These models serve as a reference against which GCs can evaluate their own structures and assess whether they could be changed. How could each work for them and their environment? What would be the relative pros and cons of each approach?

**Model 1: centralised hub and adviser spokes.** This is a heavily centralised model with deep expertise across the whole organisation. Business unit advisors are in place and wear dual hats for their location. The team reports to the global GC, not to business unit heads. Non legal services, such as finance support, are provided centrally and a range of external panel law firms provide secondeed resources when needed.

**Model 2: decentralised business unit model.** This is a decentralised model where each of the four operating units has a senior legal team embedded in the unit. They are supported by a pool of flexible juniors. The global GC provides control and oversight. A small number of external partners provide additional resources. The inverted pyramid focuses on commercial lawyers with generalist expertise.

**Model 3: organic model.** This takes the concept of model 2 even further. A single inverted pyramid of qualified staff supports all business units, working directly for the GC. A partnership exists with a global panel law firm. Very light central specialist skills are retained as these are sourced as needed externally.

**Model 4: location led model.** This is where the geographic entities take the commercial lead. Multiple business unit resource pyramids support each of the eight locations and all business units in that location. Co-ordination is undertaken by the central specialist team under the GC. Similar support underpins those in model 1.

## Determining the optimal structure

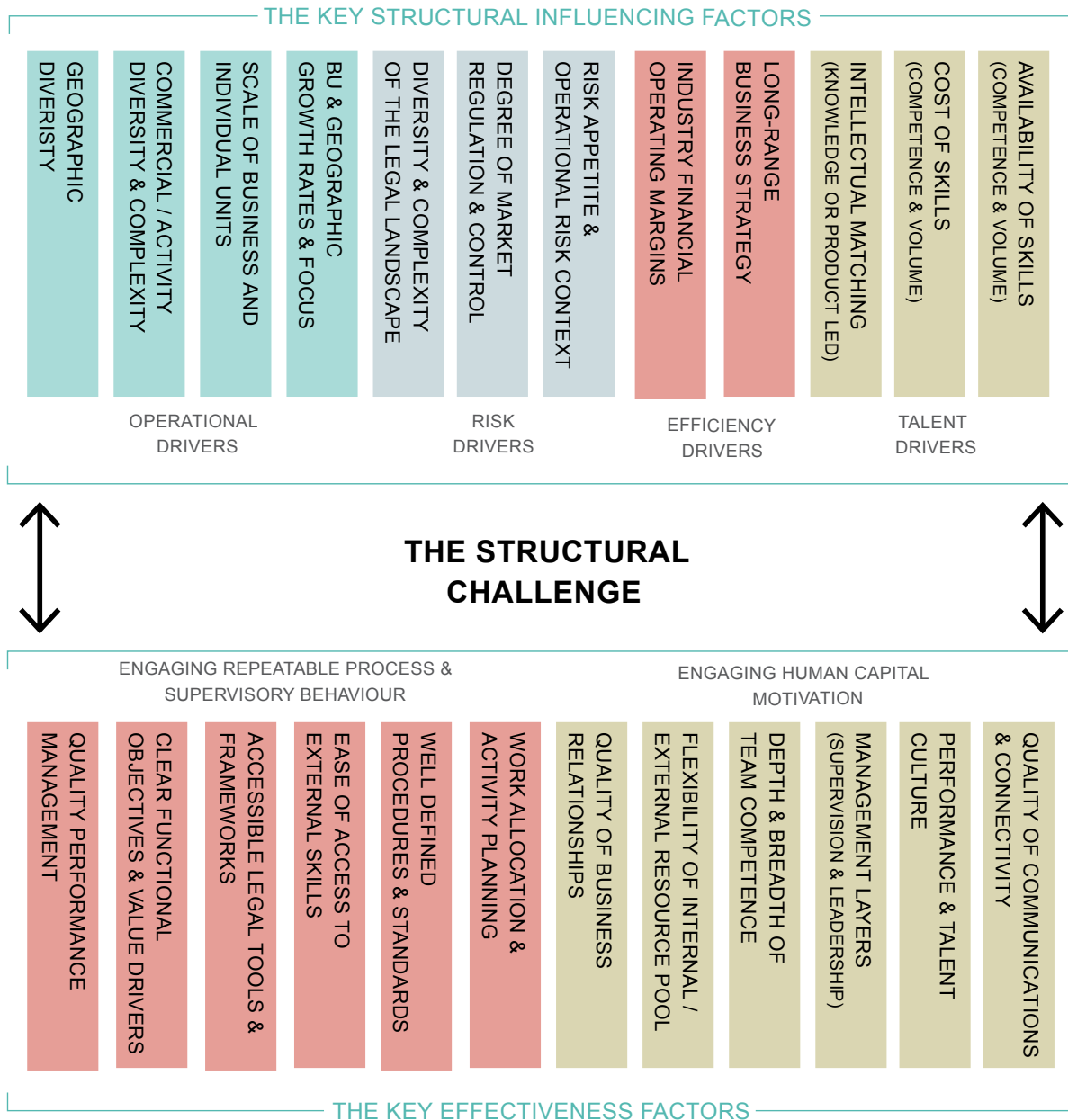
Finding the right shape and size for the in-house legal team depends on a number of structural factors, which we grouped into the four sub-groups below:

- ▶ Operational (geographic diversity, commercial diversity and complexity, scale of business and geographic growth rates and focus)
- ▶ Risk (diversity and complexity of the legal landscape, degree of market regulation and control, risk appetite)

- Efficiency (industry financial operating margins, long-range business strategy)
- Talent (intellectual matching, cost of skills, availability of skills).

Each of structural factors can be mapped onto an individual business and used to develop an optimal legal team structure for today and tomorrow. By understanding more about where the business is headed and what its focus will be in the future, GCs can plan a more effective organisation.

PHYSICAL FACTORS AND EFFECTIVENESS FACTORS - THE STRUCTURAL CHALLENGE



This exercise helps to address the problem of ‘we’ve always done it this way’ because it shows that the old ways of doing things are no longer suitable for the shape of the business – and not flexible enough to accommodate change.

Another advantage is that GCs can demonstrate that all important value to the Board, because their planning is completely aligned with business strategy. It also sets up the team well for the Performance and Talent challenges that come next.

Breaking down and working systematically through the structural influencing factors and applying constructive thought may also provide an opportunity to be an innovator for the wider organisational structure.

## How to make it work

Of course it is one thing to design a new, more effective structure and quite another to implement it. As one of our contributing GCs put it: “culture eats strategy for breakfast any day”. In the experience of our panel, there are a number of factors that are the most effective in driving optimal performance from their teams.

They can be summarised into two groups:

- ▶ Engaging repeatable process and supervisory behaviour
- ▶ Engaging human capital motivation

The supervisory factors for success include the documentation of methods and know-how. Without this instruction manual, people take longer to change and lack understanding and motivation. Setting targets for change are important too: remember the old adage of ‘you can’t manage what you can’t measure’.

Ease of access to key skills and tools is also vital, as are clear functional objectives and value drivers. How often does the team review its list of repeated activities and consider whether they really need to continue with them? A check can reveal monthly activities that are no longer required and can be discontinued. A good test is to consider who the ultimate user is and whether they actually value what is produced.

Turning to the human engagement success factors, quality of communications and connectivity are key: how well is the need for change explained to the team? Do they know why change is being implemented and how? Are you listening to their suggestions for how to make the process better?

Linked to this is the need for a performance and talent based culture. How are you tackling under performers, who could undermine your structural plans? How are you building the optimal team and how do you achieve maximum utilisation of your star players?

Another important success factor is the quality of business relationships. This is particularly important when considering which tasks could be better handled by other departments. The more they are engaged in your approach, the more likely they are to take back business tasks without complaint.

## Keep it practical

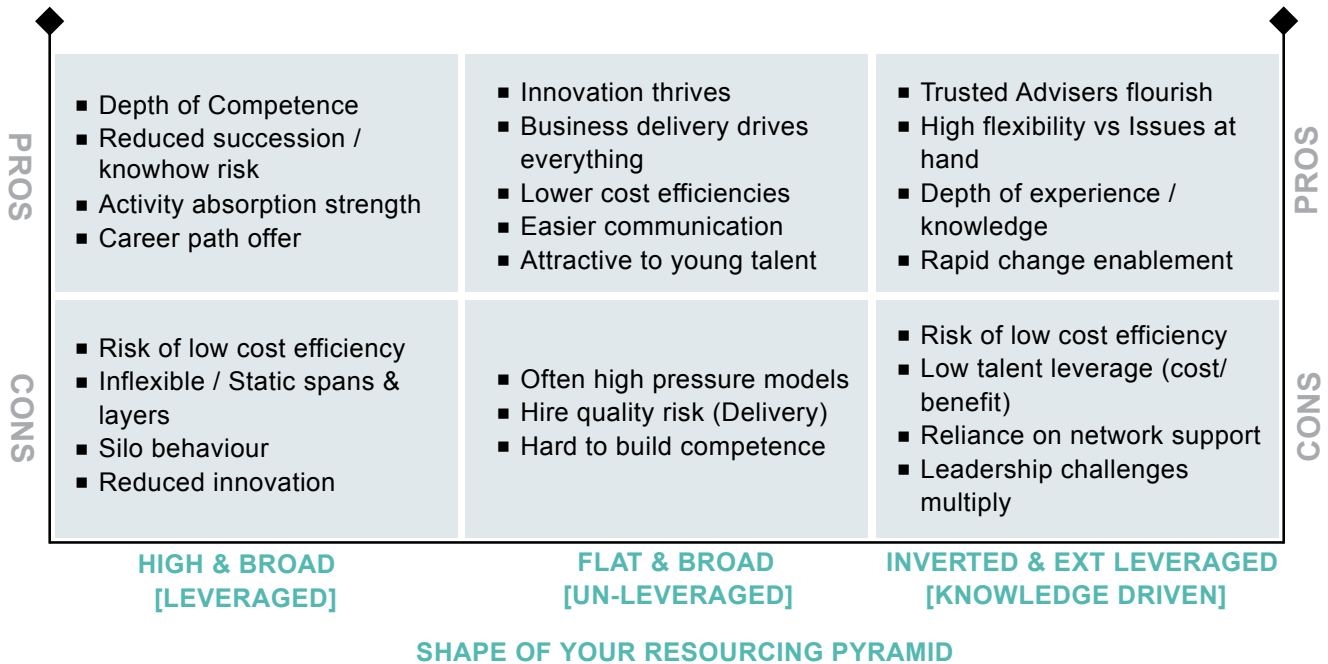
The Structural challenge provides a framework to understand the current structure of the in-house legal team, how it could change to meet current and future needs of the business, and why both supervisory and engagement factors are needed to make that change happen.

Finally, our participants provided their insights into practical steps that can help other GCs achieve success when addressing structural planning. For example, ask your main law firm panel providers to give you a heat map of their capabilities in each geographic market in which you operate, stressing the differences between their generalist capability and their real sector experience. This will help you understand what can be handled externally and where.

From here, it helps to break down the Structural challenge into four stages:

- ▶ Understand your starting point
- ▶ Be clear on your strategic direction and future priorities
- ▶ Implement change
- ▶ Consolidate and continuously improve

EVALUATING YOUR OPTIMAL PYRAMID SHAPE



Conclusion

Getting the right building blocks in place to create and sustain value from the right structure is a key challenge for the modern day GC. The most important task is making a structure work as effectively as possible, rather than search for the utopian solution.

From our perspective, structure is only optimal when it has been created to match the needs of the organisation, its people and its environment. It can only be effective when the approach to managing the people within the structure has been optimised too, and this is where GCs who are leading the charge spending most of their time.

Next articles in the series: The Performance Challenge

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