

## VALUEDYNAMICS

# THE VALUE 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 second article, we consider in depth the first of four sections of our study: the Value Challenge. The Value Challenge underpins the other three: the Structural, Performance and Talent challenges. This is because it addresses the fundamental first steps that GCs believe they should take when bringing change and improvements to their role within organisations.

In our discussions with GCs participating in our study, we identified a particular need to move to becoming more of a business partner. A starting point for this shift in thinking is that everyone in an organisation needs to prove value in order to secure budgets in a difficult economic environment. In-house legal teams need to show that they can support business objectives as well as provide expert legal advice.

### What is value?

The definition of value according to the Oxford English Dictionary is: 'the regard that something is held to deserve; the importance, worth, or usefulness of something'.

Within the commercial environment, value can be applied physically or emotionally to an organisation. Physical value includes demonstrable economics, such as revenues, market share or tangible assets and is expressed through a share price or trade value. Emotional value is measured qualitatively by elements such as brand reputation and service quality.

Value drivers at an individual level are measured by the emotions of key stakeholders including the CEO, CFO or other leaders – as well as being backed up by hard measurable performance numbers or key performance indicators.

One of the most surprising findings from our study was how undervalued some GCs feel within their organisations. However, another key insight was that GCs do not always report the full picture about the value that they add to the business. Very often, they report a basic list of legal matters / work in progress rather than keeping stakeholders fully updated on the impact of their actions.

The first stage of the Value Challenge is therefore to build an understanding of the value drivers of an organisation. Where is the business heading? What are its strategic goals? What does success look like?

From there, it's vital to think differently about legal outcomes: which day to day activities carried out by the legal function have a direct and positive impact on those business goals? Which have little or no impact? What could be done to provide a greater focus?

By making this shift in thinking, GCs can demonstrate that they are acting in concert with the senior team towards shared business goals. GCs participating in our study found that an important element of this process is to adopt the language of the business, rather than communicate in 'legalese'.

## Using the toolkit

Based on our discussions about value and reporting value with GCs, we developed a set of models and tools to support this change in thinking. Each of these tools can be adapted to best support a particular organisation. We were acutely conscious that “one size fits none”.

The first of these is a stakeholder map, which illustrates different value drivers across the business. The model puts the GC at the centre, with links out to the CEO, CFO, head of sales and marketing and suggested other functional areas including procurement and contracting. The map helps the GC to outline the individual motivations of stakeholders, and to understand that each has differing priorities.

Balancing these different priorities is not an easy task, particularly when you consider that exceptional delivery of outputs is not enough, and neither is a reliance on strong relationships. The successful GC will maintain both exceptional delivery and strong relationships to add true value to the business.

Our suggestion is to divide value drivers into categories and by way of example we have need for : risk-based, economic, client and corporate/cultural. These four groups are then sub-divided into 10 potential key value drivers spanning strategic and commercial development and execution through client relationships to regulatory relationships.

Many of our contributing GCs talked about the value that they add in defensive and preventative terms, displaying a keen understanding of the risks facing their organisation and an ability to protect the business through application of the law.

However, in order to demonstrate value across the whole stakeholder group, successful GCs need to address the individual needs of all of their stakeholders – and not focus solely on risk prevention at the expense of the other potential drivers of value.

They are able to balance all value drivers (in our example, 10) within the context of a full appreciation of the Board’s appetite for risk. Then, they are able to describe to any of their stakeholders how their own activities and those of their function are aligned in supporting them.

The GCs in our study that had completed this initial phase of thinking had already found their voices as senior executives: their level of ‘engagement’ with stakeholders had increased as the emotional sense of value they bring had become better understood.

Some GCs had gone even further by assessing the activities reported to stakeholders as either value efficient or value inefficient.

For example some had examined the impact on customer satisfaction of legal documentation. There is a threshold where the level of contractual protection isn’t worth the negative customer impact it creates. The GC is able to build a model that demonstrates the level of complexity at which a customer would walk away.

Value in this context is driven by balancing the appropriate level of mitigation of contractual risk with an awareness of its impact on the product delivery and customer relationship value drivers. The GC therefore demonstrates an understanding of multiple stakeholders: not just sales and not just the contracts team, but both.

## Becoming a trusted adviser

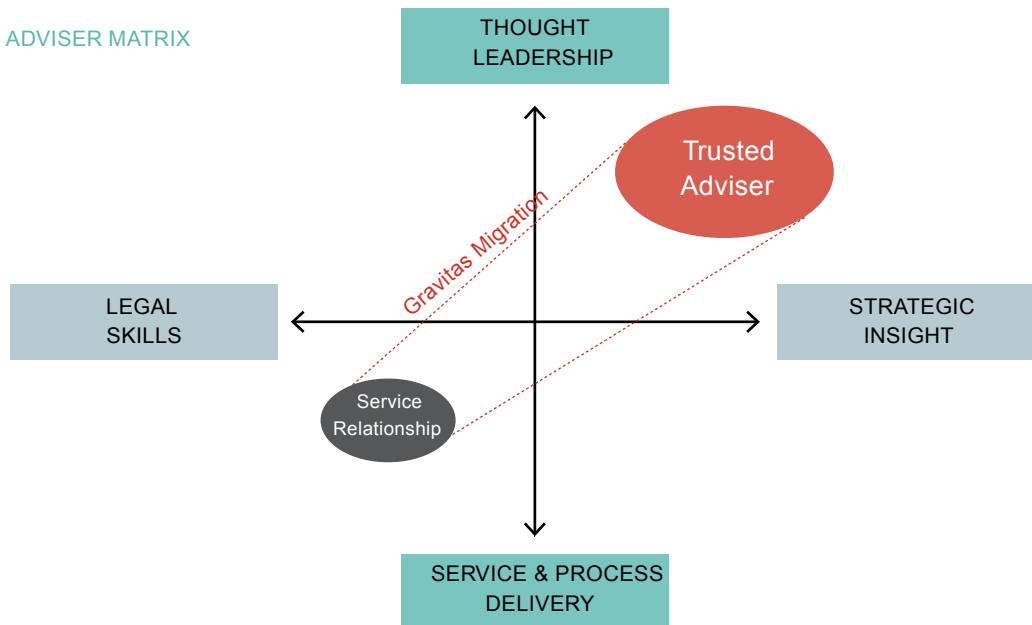
As outlined above, GCs who are able to demonstrate a balance of value across multiple stakeholders tend to move into a senior executive position. Instead of being viewed as a service provider (albeit of an essential nature) these GCs were more likely to be viewed by stakeholders as their trusted advisers.

In our Value Challenge toolkit, we share two approaches towards adopting the position of trusted adviser. From our discussions with GCs we heard that many have achieved this by moving around a ‘trusted adviser loop’. This involves delivering services with pace, quality and effectiveness, challenging, understanding and engaging – completing the loop back to delivery.

Other GCs proposed an alternative ‘trusted adviser matrix’ with four skill sets: thought leadership, strategic insight, service & process delivery and legal skills.

While the latter two are essential, on their own they are not enough to propel GCs to trusted advisor status. The successful GC will be able to demonstrate the former two qualities to stakeholders in order to generate trust and respect.

## TRUSTED ADVISER MATRIX



## Measuring current value

When thinking about existing trusted advisers within their organisations, GCs in our study recognised that transparency and openness are key qualities. As a first step towards adopting this status, a senior leader is likely to take what can be a difficult first step: to ask their team for an honest appraisal of the value delivered by the team. As well as exposing areas for improvement, this will provide a benchmark for planning and measuring progress.

An effective approach is to adopt a 360 degree appraisal process, whereby each participant plots their instinctive view of their team into distinct segments across the business, such as relationship management and commercial risk management. These positions are then compared against the views of peers within the business, so that perception gaps between the legal team and other teams can be identified and an action list prepared.

Once the results are collated and plotted, the next stage is to talk through each segment with the senior legal team. What is perceived to be going well and where does improvement need to be made? Then the action plan needs to be reported back to other stakeholders and to the legal team, perhaps even building improvements into the annual appraisal process.

## A pragmatic approach

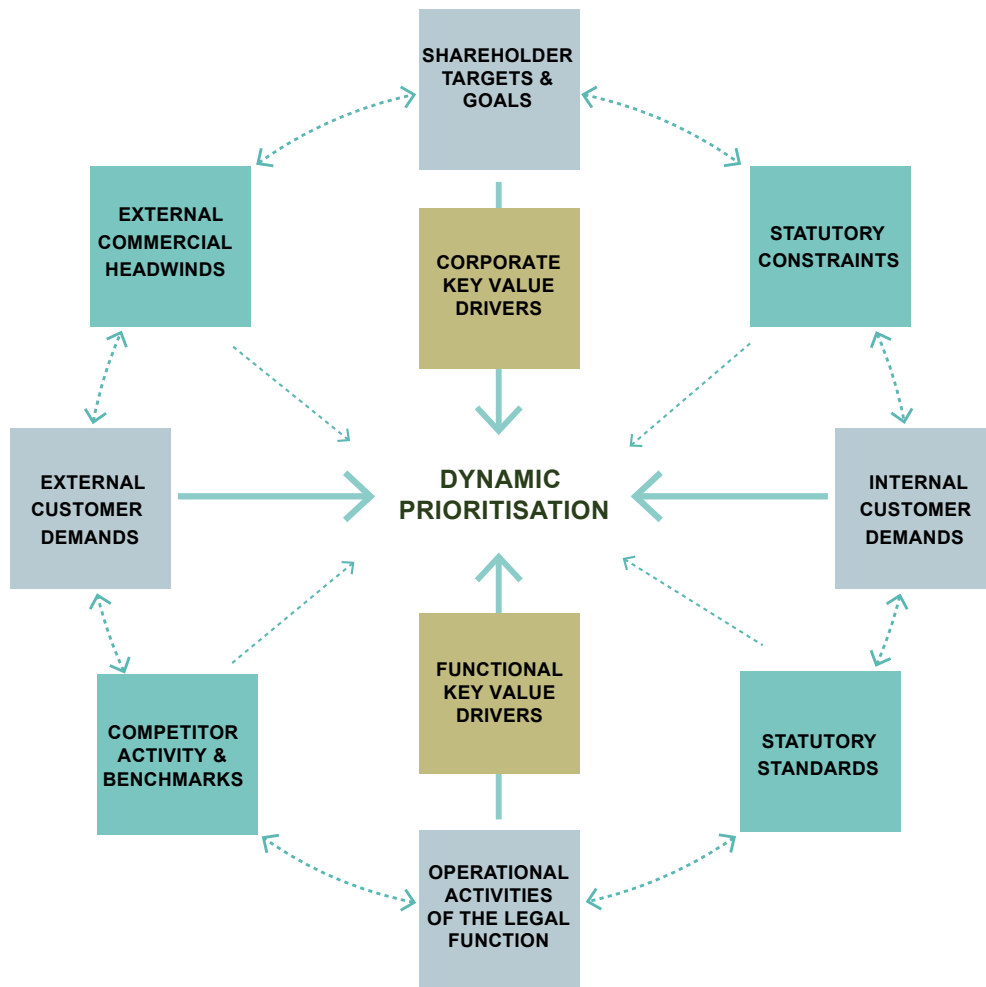
In discussion with GCs, we identified that the biggest barrier to implementing change is lack of time. GCs have an important role to play day to day, and resources are already under pressure. Added to this is the impact of unforeseen spikes of activity caused by crises, which need to be dealt with as a priority.

Successful legal teams address this by setting dynamic, value-based priorities for their teams. This involves building an efficient focus on the most material external dynamics that can influence day to day priorities, then anticipating the next set of demands.

The dynamic prioritisation of tasks at the centre means that the team only works on activities that are delivering against the key value drivers of the business. From here, GCs can develop a ValueDynamics heat map that helps to address some of the key challenges within the legal team, including:

- ▶ The structure of the team
- ▶ Areas to increase/decrease the use of external counsel
- ▶ Competencies and resourcing levels
- ▶ Key performance targets

## SETTING DYNAMIC, VALUE BASED PRIORITIES



Finally, successful GCs will build an effective plan of activities for the next 12 – 18 months. Getting all of the building blocks in place to create and sustain value is a key challenge for the modern day GC, and is one of the most complex areas we came across in our study.

## The activity plan

Our suggestion is that GCs plan across four distinct phases, working in conjunction with the relevant models in the Additional Resources section of the ValueDynamics toolkit.

### Phase one: build an honest understanding of your team

- ▶ Ask the CFO for a briefing on the business, its financials, the business plan and its value drivers
- ▶ Create a heat map of your key operational activities against the top 10 value drivers of the business
- ▶ Set an agenda for change, then prioritise and communicate what needs to be achieved and when to the team
- ▶ Put your high performers in charge of value drivers and improving the team's performance.

### Phase two: engage colleagues and stakeholders in the process

- ▶ Use the 360 degree assessment tool to gather your own and your peers' views on performance
- ▶ Build an action plan for change
- ▶ Ensure senior team members are paired with key stakeholders to ensure value is communicated
- ▶ Remember to talk like a trusted advisor and contributor, not just a service provider.



**Phase three: focus on internal activities**

- ▶ Analyse and improve internal processes
- ▶ Review team structure and the talent it includes/requires
- ▶ Look at the cost base and areas where efficiencies can be made
- ▶ Apply the trusted advisor loop.

**Phase four: demonstrate change in value contribution**

- ▶ Request time with the board to talk through planned activities and strategic goals for the legal team
- ▶ Follow up with the CEO and talk fluently about the business – have three key ideas to share
- ▶ Deliver quarterly performance reporting – written for a business audience and aligned to business value drivers
- ▶ Communicate progress to the legal team
- ▶ Re-run the 360 degree performance feedback process.

## Conclusion

This article has described how to take the first steps towards addressing the Value Challenge. In the next three articles in the series, we will show how these steps can take GCs forward by looking in detail at each of the Structural, Performance and Talent challenges.

Next articles in the series: The Structural Challenge

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