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Budgets: Value for money



Although virtually everything in the modern office is electronic- or IT-based, many partners still find it hard to come to terms with the money spent on such technology, but there are ways to show them the value, says Matthew Parsons

A senior technology manager at a major US law firm recently shared with me a conversation he had with the partners about the firm's IT budget. While he thought the IT group had made great strides in telling the firm what they were doing, the partners were complaining about the lack of transparency of the IT budget. In particular, the partners were venting their increasing frustration at the amount of money spent year after year and were starting to talk about dramatic cutbacks.

Exasperated, he explained that all it would take would be to get all the partners together for two full days' of briefings and they would all understand. Then they would appreciate that in fact his team were great managers — that they were actually saving the firm money by managing investment cycles and by negotiating hard with suppliers and vendors. The chances of that occurring, he was sad to say, was about the same as his helpdesk receiving no calls for a week. It was never going to happen.

Sound familiar?

So why is it that there exists this disconnect between law firm technology groups and the partners and management of those firms in relation to financial matters?

I believe four key factors drive the disconnect and it is time for IT groups to take the lead in closing the gap. It is time for the IT group to analyse and communicate strategy, expenditures and investments better, in order to enable a more constructive and strategic dialogue with management and partners.

Why does the disconnect and frustration occur?

There are four key factors responsible for the disconnect and frustration:

- Partners' frustration at not being able to understand the variables that drive the decisions and the calculations in the technology budget.

Remember your frustration when your car mechanic cheerily gave you the bill for new brake pads, calipers, numerous engine adjustments, oils, belts and tweaks and the new exhaust system he said you needed — and you only took the car in for a service?

Ignorance can only lead to anxiety and dissatisfaction, particularly where money is involved. "How could we possibly spend \$10m (£6.4m) a year on computers? We must be overstaffed in IT, that is all it can be". In the absence of understanding, conclusions are often wrong, but strongly held.

- Partners' increasing knowledge of the costs and language of technology from buying home computers and the entry into popular language of terms such as servers, back-ups, firewalls, portals, websites, databases and secure remote access.

"I know that I can get a more powerful Dell than the computers we have here for less than \$1,000 (£640) each — how can we be spending \$5m (£3.2m) on computers when we only have 200 people? We must have done an incredibly bad deal with our suppliers. And our servers are slower than Amazon.com — I get faster response buying a book than logging into our network!"

A little knowledge can be a dangerous thing.

- The manner of presentation of the technology budget to management and partners, often as a single line item, with minimal explanation.

"There it is again, technology, \$15m (£9.6m) — up from last year. It must be out of control. Even worse, when I ask for reports about what

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makes up the \$15m I get buried with three inches of paper in computer speak and I have no idea where to start.”

Technology groups sometimes forget that reports provided to management should be instantly understandable and actionable, without great effort and without a computer science degree. In every report that it provides to management and partners the IT group is selling itself, or selling itself short.

- The lack of financial and communication training and support provided to technology leaders.

“Finance have given me this budget model that makes sense to them but doesn't make sense to me. And it certainly does not answer the questions that the managing partner hammers me about. It is as if the managing partner just doesn't understand that the majority of our costs are committed lease costs which I cannot do anything about.”

An accounting background is rarely found in technology directors or their staff, and key information is often poorly understood or meaningful only to the finance department.

In most major firms today, IT is a very significant line item in the firm's annual budget and with the increasing dependence of all support functions on computerised systems it seems the IT budget is ever increasing. In order to close the communications gap between the IT group and management and partners it is time to adopt a more functional approach to financial reporting for the IT group, with several levels of drilldown which facilitate informed discussions about the key variables. This analysis must include appropriate metrics for each budget category within the budget that educate, and provide a platform for comparison and benchmarking.

To start with, the IT budget should be broken down into 10 functional categories, with a separate 11th category for expenditures on library and knowledge management activities, which are often a hidden component within the total IT budget. The 10 categories and the relevant metrics are set out in the table on page 13 in April's *Legal IT* magazine.

For each category, there is a total budget and an appropriate metric followed by an analysis of the extent to which the category expenditure is fixed. The simple reality with technology budgets is that large sums are fixed costs in the form of lease costs and depreciation and existing headcount. The final column analyses the proportion that the particular category represents of the whole technology budget.

The advantages of such an analysis of IT expenditures include:

- **Transparency of lawyer technology cost:** Partners can directly see how much it costs to provide each lawyer with their computer together with all of the software that is installed upon it. For management and the technology committee, this number also enables rough calculation of the costs that will be added with an increase in the number of fee earners at the firm. Significantly, this is the cost per year for the lawyer's computer — not the capital cost of acquiring the computer.

- **Comparison to support technology costs:** Partners can see the difference (if any) between the equipment provided to support staff and legal staff. Often this difference will reflect the difference in equipment styles (desktops v laptops) and additional features like remote access tokens and wireless network cards.

Such a separation and understanding of the cost difference may encourage more appropriate purchasing acquisition of computers for lawyers, rather than blanket laptop purchases for all professional staff irrespective of their skills and needs for speed, power and remote access.

- **Spotlight on non-standard goodies:** The cost of non-standard hardware and software is clearly identified as a separate category, rather than buried in 'software' or 'hardware'.

Separating these expenditures as a group enables greater scrutiny in the purchasing decisions for non-standard items. Often software or hardware is purchased at the direction of partners or lawyers and the technology group manages the haphazard spend within their budget. This is not to say that specialised applications will not be needed for particular practices, but simply that those costs need to be understood so that they are factored into pricing decisions for the particular projects and practices.

- **Exposing under-nourished training budgets:** Innovation and training expenditures in law firms are often negligible in comparison with hardware and software costs, with the result that often even core functionality is under-utilised throughout the firm.

Comparing the equipment cost per person to the training and innovation expenditure per person provides a useful base from which to discuss the

appropriate level of training and innovation to derive greatest value from the firm's technology investment.

- Valuing client 'value add' costs: Client facing servers are isolated to reflect the increasing trend for firms to provide some form of extranet access, or matter-based secure document storage facility for clients.

Typically, investment in these areas in the late 1990s was not specifically identified in the technology budget, which makes accountability and strategic investment difficult. The metric of cost per client accessing these services will enable an informed discussion about the value of these services.

- Servers supporting so much: It is easy for partners to forget the number and range of specialised applications which run on the servers in the server room, specialised applications supporting legal practices and each of the support functions.

This category includes the annual budget for the servers and software for all of the institutional systems including the accounting system, back-up system, CD-rom towers for legal research, Citrix servers for remote access, contacts management system, document management and storage, e-mail servers, e-mail storage and virus scanning, firewall, HR system, intranet, KM system, library system, online training, security tokens, test network and voicemail servers.

- Pricing the pipes: Network infrastructure costs are an unavoidable part of running a law firm, much like office rent. As the firm can choose to pay a higher rent for a more comfortable building, so too can the firm choose to pay a higher price for a faster network.

Identifying the costs of the current network establishes a baseline understanding for partners about what the network costs, against which any proposal to increase speed and reliability can be assessed. It is easier to complain about the existing network when its costs, and the costs of a better alternative, are unknown.

- Valuing the traffic: Many partners would not appreciate that network traffic costs money and that these traffic costs are an unavoidable part of modern business. Much like the child not realising that a bill will have to be paid for turning on the house lights, partners have not been educated about the cost of communications traffic.

Strategically, the volume of network traffic within the firm, and traffic between the firm and the outside world via the internet, has exploded over the past 10 years and can only be expected to continue with a consequent, and unavoidable, increase in traffic cost.

Within each of the 10 categories, there should then be an additional two layers of detail, which can be easily accomplished using the outline and grouping feature of a spreadsheet like Excel. For example, the structure for 'fee earners' standard equipment' should enable drill down to hardware versus software and then drill down to each of the items that contribute to cost.

In this way, a partner can easily see the cost of the software installed on standard lawyer computers, including Microsoft Office, Windows, a document management system, e-mail, a remote access program, a virus scanning package, a file compression utility, a contacts system, a document comparison tool and the firm's accounting system. Partners can easily forget that all of these things cost money and they will be surprised at the total annual software spend for each lawyer that is simply a part of doing business.

In the internal server category, this drill down is also extremely valuable to isolate the investment the firm is making in technology to support various back-office activities. For example, there are customarily servers for each of the lawyer and support applications outlined above and annual software lease and maintenance costs. Only by separating the budget for each of these institutional systems is it possible to engage in an informed discussion about service levels and performance from those investments and whether the costs and benefits are being delivered in accordance with the original capital expenditure approval processes.

Too often firms engage in thorough, rigorous, and often protracted technology purchasing decisions, only to have the costs from the investment absorbed into other budget items, making subsequent evaluation of the investment (i.e. on time, on budget, as specified) impossible.

All of the information to undertake this analysis already exists somewhere in the working papers for your annual IT budget. It will be necessary for the IT group to actively engage with the finance group to source and validate the information, and to undertake the analysis.

The question to ask yourself is, in tough economic times, can you afford to let the disconnect continue?

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