

RUSSIAN LEGAL DEPARTMENTS REDUCE SPENDING



A new survey shows most, but not all legal departments in Russia, had to reduce their budgets in 2009. This article reveals for the first time publicly the extent of pain by showing how much they had to surrender and which industries were most affected.

by JEFFREY FORBES

In 2009 LexisNexis Martindale-Hubbell commissioned the Forbes Institute to conduct their fifth major study into the European legal services market. Rather than taking a regional approach, this report focused mainly on heads of legal departments at major companies in Russia and how they were dealing with the global economic crisis.

Even before the onset of the crisis, the leaders of corporate legal departments in Russia were beginning to gain more influence in their companies (See our 2008 report: How in-house counsel in Central & Eastern Europe select and retain their external counsel). Now they have even greater challenges put upon them, to manage more risk and achieve greater results with fewer resources, in the midst of market turmoil and great uncertainty.

This situation has forced many heads of legal departments to seek greater predictability and efficiency when hiring external legal counsel. And their number one priority to achieve this

is to negotiate fixed fee billing. This comes at a time when many major and international law firms in Russia have grown accustomed to a steady flow of work which has suddenly ebbed.

Russia is different than other major markets because there are only so many blue chip companies there that maintain their legal budgets no matter what. So when the margins get tight, sometimes management will decree that no legal costs will be incurred. And even when it's absolutely necessary, it still has to be signed off by the General Director.

This report, How in-house counsel in Russia are managing their legal departments, was recently published, and gives an inside view to the challenging task of managing a corporate legal department in Russia under extra-ordinary circumstances. It also provides heads of legal departments with important management benchmarks and gives law firm leaders greater insight and understanding when dealing with clients.

A PEEK INSIDE THE REPORT

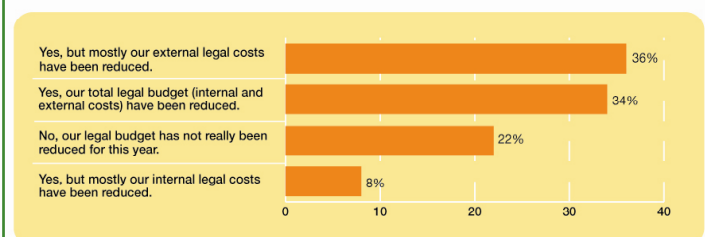
65 companies took part in this survey filling out an extensive questionnaire. Already this figure is an indication of the turmoil in the market at the time, since many heads of legal departments were interested in participating, but lacked the time to do so. More than half the participants (57%) were from global 500 companies. The rest were made up of international companies of European origin (17%) or CIS origin (17%) with only a handful (10%) being purely local Russian companies.

For the most part, these were major companies that represented a good cross-section of the market such as finance, consumer goods, technology, energy, retail, healthcare, real estate and manufacturing. About half the companies (49%) employed more than 1,000 people and more than a quarter (27%) employed between 250-1,000 people.

The survey data shows the economic crisis has clearly had an effect on most companies in Russia during 2009. Regarding how this affected companies' legal budgets, Table 5 (right) shows more than three quarters (78%) said they reduced their legal budget in 2009. Not surprisingly, external legal costs were the biggest target for this reduction.

The table shows the largest group of respondents (36%) said that they were mostly reducing their external legal costs, while more than two thirds said their budget for hiring external legal counsel would be reduced. Although internal (i.e. legal department) costs also came under the knife, this was less severe, as 8% of respondents said that mostly their internal legal costs would be reduced. Though some industries were more affected than others (see Table 8) on average legal budgets were reduced in 2009 by about 19%.

LEGAL BUDGET REDUCED FOR 2009 (TABLE 5)



Russian Legal Departments... (continued from page 6)

Table 8 shows the average budget reductions by industry. However, it should be noted that although the category for Manufacturing Household / Commercial Goods had the highest average budget reduction per industry (23%) it also had the smallest number of respondents, so this needs to be taken into account.

Table 7 shows there was quite a spread when it came to the percentage range that reduced their legal budget in 2009. The largest group (16%) reduced theirs by between 11-15%. This was closely followed by reductions between 16-20% and 30%+. On average this spread comes out at a 19% budget reduction. The 26% figure in this table does not correspond with the 22% figure in Table 5 because some chose not to quantify this or had a minimal reduction in their budget.

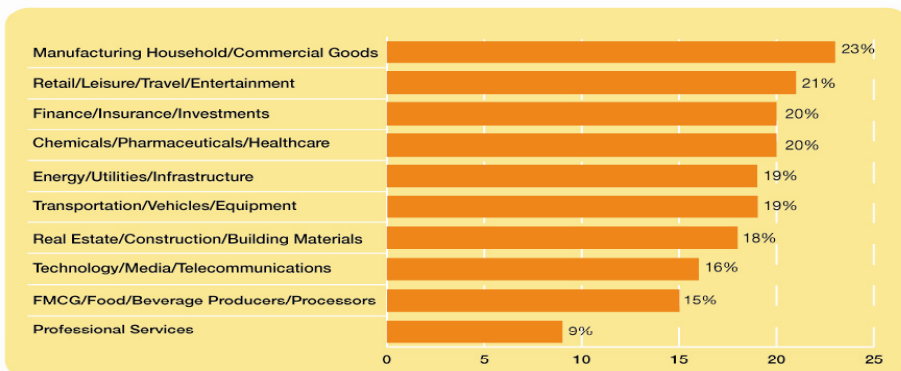
Table 6 shows how these budget reductions were implemented. Nearly a third (30%) of heads of legal departments that participated in this survey had no choice about reducing their legal budget. This implies that company management gave them a budget number and expected them to find a way to reach this. Slightly less than half (42%) did their best to negotiate reductions.

Overall this survey looked at five main areas regarding how legal departments in major companies in Russia were being managed:

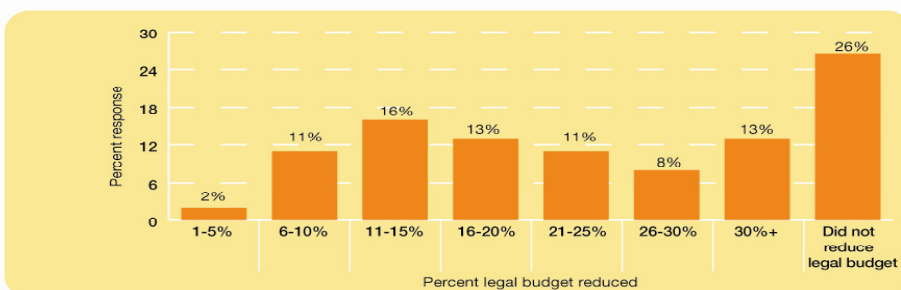
- Hiring, training, rewarding and motivating their staff;
- Increasing the legal function's productivity and saving money by implementing process improvements or using technology;
- Ensuring the legal department is aligned with the priorities of the company's business units;
- Reducing external legal costs without sacrificing quality;
- Communicating risk regarding the company's legal liabilities.

The five areas represent the management priorities that heads of legal departments in Russia said they were adopting in an uncertain business environment. The report also includes 6 key recommendations for law firms vying for business in Russia.

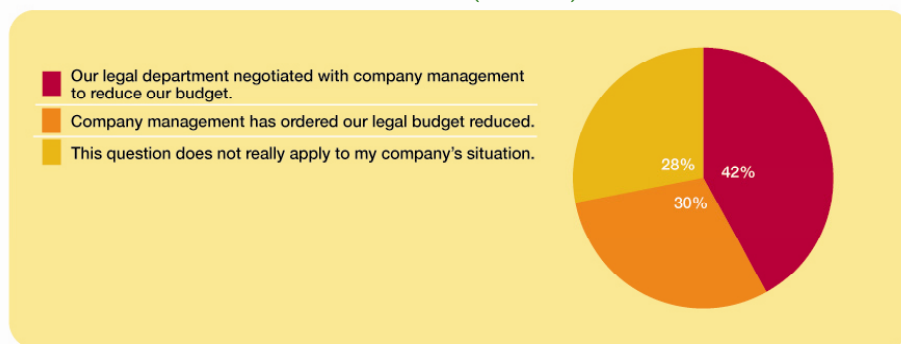
AVERAGE PERCENTAGE LEGAL BUDGET REDUCED BY INDUSTRY (TABLE 8)



PERCENT LEGAL BUDGET REDUCED (TABLE 7)



LEGAL BUDGET REDUCTIONS IMPLEMENTED (TABLE 6)



ABOUT THE SURVEY

The 2009 report: **How in-house counsel in Russia are managing their legal departments** and the 2008 report: **How in-house counsel in Central & Eastern Europe select and retain their external counsel** can be downloaded from Martindale-Hubbell Connected. Simply join by registering for free at: www.martindale.com/connected and then join the CEE Research Group (found in the 'Legal Management' category).

ABOUT THE AUTHOR



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