

## Mandatory Budgets? At a Law Firm? You Have Got to Be ... Thompson Hine

An Am Law 200 firm overcame internal resistance to a new budgeting tool,  
Which it credits for a strong 2018 financial performance.

By Roy Strom  
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By 2016, Thompson Hine had poured years of time and countless resources into developing a budgeting tool to track its fees on client matters. But the firm was still working on the tricky part: convincing the firm's own lawyers to use it.

Brian Lamb, head of Thompson Hine's business litigation group, was a leader of that charge. At a 2016 partnership retreat in Cleveland, he finally laid it on the line: The firm was going to use these budgets, one way or another, and it would be more impressive to clients and the firm's associates if they did it as a unified group.

And then he asked his business litigation partners whether they agreed.

Unanimously, they raised their hands—approving the mandate that all their matters would follow a new budgeting process.

For any matter worth more than \$50,000, the partners would estimate their fees in a detailed budget. Without one, the firm's billing system wouldn't allow them to file bills. And as soon as a matter without a budget went over \$50,000, bills would not go out to clients until a budget was made.

A little more than two years later, the results are washing ashore. And the firm has not turned back.



L-R: Deborah Z. Read, managing partner with Thompson Hine, Brian J. Lamb, practice group leader and William T. Garcia, chief practice innovation officer

Two more of Thompson Hine's practice group leaders have since followed Lamb's lead in adopting mandatory budgets, and the firm is currently in the process of spreading the policy to aspects of all of its practices. Nearly \$127 million worth of the firm's work—more than half its annual revenue—is currently budgeted in a proprietary system Thompson Hine launched in 2014.

The firm's managing partner, Deborah Read, credits the firm's commitment to budgeting and legal project management for the firm's relative outperformance compared with its Am Law Second Hundred peers.

Consider that in 2018, the firm's revenue rose 6.9 percent to \$221 million, according to preliminary ALM reporting. That's markedly higher than the

2.2 percent revenue growth that Citi Private Bank's Law Firm Group reported Second Hundred firms experienced, on average, last year. Profits per equity partner rose nearly 16 percent last year at Thompson Hine to \$735,000, compared with the 3.3 percent average of Second Hundred firms reported by Citi. Thompson Hine's head count, 340 lawyers, was virtually the same as 2016.

Bill Deckelman, the general counsel of DXC Technology, selected Thompson Hine as one of the company's preferred law firms after hearing in a pitch that the firm had made its budgeting process mandatory for a large group of its lawyers. He said the firm's budgeting rigor was helpful to him, since he is judged internally on how well he sticks to his own financial markers.

"We are trying this year to really enforce with our law firms the discipline behind budgets," Deckelman said. "And you can really tell the difference when you work with a firm like Thompson Hine, where they have a budget on any matter they handle for us, versus the law firms that just don't have a clue."

James Jones, senior fellow at the Center for the Study of the Legal Profession at Georgetown University, said Thompson Hine's mandatory budgeting policy was "fairly unique" among large law firms.

"While clients have been imposing budget requirements on firms for some time, few firms have taken the initiative to impose such discipline on their own," Jones said. "I'm not surprised that their clients have taken notice."

### **A Lesson for Others?**

The story of how Thompson Hine implemented its budgeting and legal project management initiative, branded [SmartPaTH](#), bucks the industry's status quo where powerful partners have the autonomy to push back against top-down change management efforts. Thompson Hine's strategy for implementing the effort might also provide a playbook for increasingly [exasperated managing partners](#).

[A survey](#) of 801 law firm leaders released last year by Altman Weil showed a growing percentage of leaders have little confidence in their partnership's ability to keep pace with changes in the legal market. One-third of the respondents said they had "low" confidence in their partners' ability to adapt, which was up from a mere 8 percent of respondents in 2011. Meanwhile, a record low number of law firm leaders, just 5.6 percent, expressed high confidence in their firm's adaptability.

"Law firm leaders need to engage their influential partners now in the thoughtful consideration of current market change and likely future outcomes," the Altman Weil report states. "Those partners need to care about the future of the firm—or, at the very least, get out of the way."

While Lamb was the first practice group leader at Thompson Hine to implement a mandatory budgeting policy for his lawyers, he was first empowered by his managing partner.

Read became managing partner at Thompson Hine in May 2012. As she prepared for her new role, she studied up on how the legal industry was changing. If there was one theme that drove her belief that law firms could do better, it was this one: [Clients don't believe law firms](#) are serious about their efforts to provide more efficient legal services.

For an annual [Altman Weil survey](#), chief legal officers have for years ranked law firms as a "3 out of 10 when asked how serious law firms are in delivering more efficient legal services.

"Honestly, what struck me was how tone-deaf law firms seemed to be about what their clients were asking for," Read said. "That's a huge opportunity. How can your customers consistently rate you as a 3, and nobody does anything about it?"

Read developed a four-pronged strategy to respond. It would involve legal project management, proactive use of alternative fees, flexible staffing models and process improvement. To socialize the ideas internally, she put together a committee of about 10 lawyers—

including partners she viewed as most likely to push back against the concepts.

In September 2013, the firm hired Bill Garcia, an attorney who had moved into management roles at law firms and corporate legal departments, as the director of legal project management.

Garcia, now chief practice innovation officer, helped the firm build a software platform that integrates budgets with real-time billing and staffing models. That went live as the firm's SmartPaTH brand of legal services in early 2014.

### Measuring Uptake

The initial results of the transition to the budgeting system were uninspiring. The firm's lawyers were sorted into one of four categories to track their progress: core converts; the converted but not committed; the curious observers; and the rest.

By fall 2015, only 20 percent of the firm's partners were "core converts," meaning they had been actively using the tools and changing the way they delivered services.

"I was kind of disappointed," Read said. "I was really expecting people to embrace this. We'd spent a lot of time and money creating this."

Read then got inspired by reading a study that took place completely outside the field of law, in farming. A Harvard Business Review article referenced a study of how a new hybrid corn seed was adopted by farmers in the 1930s. On its own, the new corn seed produced greater yields and produced a sturdier plant that was more amenable to mechanical picking.

Despite the gains, the adoption rate was mixed. In Iowa, nearly 100 percent of the state's fields were planted with the new seeds about eight years after they were introduced in 1934, [according to a study conducted in 1957](#). In Alabama, the hybrid seeds were used in only about 65 percent of fields as long as 13 years after they were introduced.

The corn farmers study taught Read three key social aspects people relied upon when deciding to adopt

new technologies. They wanted to see support for the technology from earlier adopters. They wanted an endorsement from similarly situated users. And they wanted to see adoption from highly respected individuals.

In her law firm setting, that meant Read needed a way to tell success stories from people other than herself and Garcia. And they needed support from the firm's most respected lawyers—even if they didn't necessarily buy into the ideas themselves. So Read gave a message to the firm's practice group leaders and office partners in charge: She needed their support, even if they personally held doubts about the strategy.

That's when Lamb, one of the first core converts, helped push the firm's litigation business group to adopt the budgeting tool. In 2015, Lamb set up a test to see how well the firm's partners could actually use the firm's new budgeting tools. At the time, about 11 percent of the group's matters were being budgeted, which was disappointing to Lamb.

He split his practice group into 10 teams of eight lawyers and asked each group to propose a budget for a hypothetical lawsuit. He got the results the day before the partnership meeting where he planned to push the group to adopt the mandatory policy.

"I was shocked at what I saw," Lamb said.

Between the groups, the estimated cost of the litigation ranged from \$800,000 to \$4.5 million. It served as an opening for Lamb.

He worked with his practice group's lawyers to develop standardized times for repetitive tasks like preparing to take a fact deposition. And he repeated a mantra that Read had vocalized: The firm spent a lot of money developing this system, and it would only work if lawyers used it repeatedly. At the next year's business litigation partners meeting, he told the group he wanted to discuss the idea of making the budgets mandatory. That meeting is when he sprung the vote on them.

Despite the unanimous agreement to budget all matters, it was not without some resistance. After

announcing the policy, some partners, in jest, compared Lamb to Hernán Cortés, the Spanish general who in 1519 ordered his troops to burn their ships on the shores of Mexico as they prepared for battle.

But there was no going back, Lamb said.

“Lawyers are like cats. They don’t like to be herded,” Lamb said. “But I had learned over time that if you tell professionals what you really expect from them and hold them to it, they respond much better than if you just ask.”

Read said the firm’s strategy in spreading adoption of the tool worked. “We got more core converts and more secondary adopters,” she said.

### **Better Budgets**

More law departments are requiring that their outside counsel provide budgets for legal matters. At companies with more than 51 in-house lawyers, 64 percent of general counsel require budgets from their law firm partners, according to a 2018 Altman Weil survey. That figure is up from 57 percent the year prior.

Still, general counsel are somewhat frustrated by the results. More than 1 in 5 general counsel said requiring budgets did not result in significant cost control improvements. That was the highest rate of dissatisfaction among 15 different strategies to control costs, such as shifting work to lower cost firms or using alternative fees.

One reason for the frustration may be that having a budget doesn’t mean you will stick to it. Read and Lamb are now fighting that battle at Thompson Hine.

The firm’s budgeting system is tied in with real-time billing data, and the system sends Lamb alerts when lawyers are going over budget for particular phases of the matter. When those alerts first started rolling in, Lamb said he would call partners and ask what was sending the case over budget. That led to some “culture shock,” Lamb said, where partners would push back against having “their” matters managed by the firm.

His response: “It’s the firm’s case. It’s the firm’s resources. You’re putting the firm’s associates on the matter. And the firm has some say in how you use its resources.”

Lamb now has a paralegal who handles those conversations, which he says are becoming smoother.

He has also pushed the firm’s lawyers to better input time data, to help the firm become better at understanding its actual costs compared to its budgets. Inaccurate timecode data has plagued many law firms, and Thompson Hine was no exception.

Lamb receives reports on what time codes are most used. Six months into the mandatory budgeting policy, a report showed Lamb that roughly 40 percent of the group’s time was billed as “analysis and advice.” That was the first option for lawyers in an alphabetical drop-down list of time codes.

“We’re not perfect with this, but I think we’re ahead of where our peers are,” Lamb said. “Because we now see the importance of this right in front of us.”

At a partner retreat coinciding with the two-year anniversary of his group’s adoption of the budgeting policy, Lamb gave out awards to recognize partners with the best budgeting practices. One award went to a partner on the firm’s executive committee who had the most accurate budget compared with a matter’s actual cost. The budget was within \$25. Lamb later visited the partner’s office and saw the award hanging on his wall. He took that as evidence that the firm was succeeding in its efforts, that its lawyers did not want to return to the pre-budget days.

“The trick I was aiming for was to get budgeting to become part of the culture,” Lamb said. “If I’m not really looking over their shoulders, will they still do the budgeting?”

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