



Good Legal Advice is Free

David T. Daly, Sr., MBA, JD
Executive Education, Inc.

While common wisdom tells us “lawyers are expensive” and “legal costs are unpredictable,” a smart financial manager knows that getting the right legal advice up front helps avoid surprises and improve a company’s bottom line.

Quality is Free

Recent decades have seen a change in how most companies think about quality. Years ago, few companies sought to “manage” quality; today, most companies practice quality management. Phillip Crosby, one of the leaders of this quality revolution, taught that “quality is free.”¹ He believed that companies should think of quality, not in terms of “expensive” or “luxurious,” but rather as “conformance to specifications.” Viewed this way, a Mercedes-Benz isn’t necessarily *higher quality* than a Chevy, if each performs as designed.

Crosby felt that it’s wrong to think of the “cost of quality,” as if quality were an add-on to the company’s product you could buy for a price. Instead, a company should consider the *cost of non-conformance* when a product doesn’t conform to specifications. This includes the costs of delay, scrap, rework, returns, exchanges, warranty costs, discounts, diminished reputation and lost sales. When you total these costs, it’s clear that efforts to define product specifications lowers costs and saves money.

Counting the Cost of Legal Non-Conformance

A wise financial manager thinks about legal services in the same way. It is shortsighted to consider legal expenses as an optional overhead cost that eats into operating profit. A wise financial manager focuses instead on the cost of legal non-conformance.

What is “legal non-conformance?” Any dispute or problem arising from a failure to:

- understand and comply with a law,

¹ *Quality is Free: The Art of Making Quality Certain*, Philip B. Crosby, Mentor Books, 1980.

- properly define a contract or legal relationship, or
- understand and comply with a contract term.

The goal should be to minimize any loss of value due to legal non-conformance.

What costs result from legal non-conformance? They include any:

- Legal settlement
- Judgment
- Fine
- Penalty
- Warranty cost
- Write-off of accounts receivable
- Lost business opportunity
- Employee time to support litigation
- Unhappy customer, supplier or employee
- Legal fee related to unnecessary litigation

When we set out to optimize company value by minimizing the cost of legal non-conformance, we see the cost of consulting a lawyer to prevent legal problems as part of the optimal solution.

Conclusion

A wise company integrates legal planning into its product offerings and every aspect of its business. When we consider the many costs and risks that may result from failing to understand, define or comply with a legal requirement, it becomes clear that good legal advice is free.

David T. Daly, Sr., MBA, JD, is a Plymouth, Michigan based attorney who specializes in international joint ventures and licensing agreements. His experience includes 10 years as an in-house lawyer for Chrysler & Daimler/Chrysler and 8 years as Commercial Director and General Counsel at Dürr Systems, Inc. David has drafted and negotiated major deals in Europe, Asia, and North and South America. He has authored several articles providing tips for lawyers on how to draft plain-English contracts.