

A New Dawn: Lessons for Law Firm Management in the Post-crisis World



A Financial Times report

In conjunction with MPF:



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Executive summary

In the post-crisis world, law firms face a challenging environment. Although the worst of the downturn may now be over, the list of obstacles to overcome remains daunting. They face downward pressure on pricing, the emergence of new business structures, a fast-changing regulatory environment and a shift of business focus to emerging markets, to name but a few. In an environment of such dramatic and far-reaching change, managing client relationships has become more important than ever.

Clients of law firms face an equally long list of challenges. They may not operate in the same regulatory or legislative environment, but they too are struggling to find their way in the post-crisis world. These are exciting times in which there are significant prospects for growth, but capturing that potential involves shedding existing business models and rethinking their geographical focus. The need for sound and commercially-minded legal advice will be crucial to secure long-term growth prospects.

The aim of this report is to examine how the relationship between law firms and their clients is changing. Based on a survey of more than 400 respondents from both sides of the relationship, and a series of in-depth interviews with partners from law firms and their clients, the report examines how the external environment is affecting the client-adviser relationship, and points to ways in which it could be optimized and improved. Key findings from the research include the following:

- **Levels of optimism are rising but the direction of future performance for law firms remains uncertain.**

After a challenging period in which clients pulled back from investment and focused on cost-cutting, there are signs of an emergence from hibernation. Both law firms and their clients are optimistic about their future growth prospects. But despite strong signs of recovery, it is unclear whether this increased investment from clients will translate into higher revenues for law firms. Among our survey respondents, almost as many respondents are decreasing their expenditure on law firms as increasing.

- **Law firms struggle more than their clients with embracing globalisation.**

As companies across a wide range of sectors look to emerging markets as a source of future growth, it is becoming essential for law firms to ensure that they can adapt their offering to meet the changing needs of clients. But the survey suggests that many law firms are struggling with the shift of economic weight eastwards. Only one-third thinks that their firm is effective at dealing with the rising importance of emerging markets, compared with 52% of their clients.

- **There is an increased focus on procurement and performance management.**

Increased levels of cost awareness among clients are encouraging a more rigorous approach to selecting law firms and managing their performance. The use of procurement functions during the tendering process is becoming more widespread. Discussions of performance between client and adviser tend to be informal, but there are signs from the survey that clients would prefer a more structured approach than they currently receive.

- **A move away from billable hours is encouraging a strong focus on project management.**

Two-thirds of respondents agree that there is pressure on law firms to move away from the billable hours model. This is encouraging a much stronger focus on project management among law firms, as it becomes more important for them to get work done quickly and efficiently.

- **Legal expertise is important, but clients are looking for a broader range of attributes from their law firms.**

Asked about the factors that are most important when instructing a law firm on complex work, clients point to a broad range of attributes, including transparency in pricing, international expertise and competitive fees. The law firms themselves, however, tend to see the key attributes in narrower terms. They are much more likely to consider legal expertise to be the most critical factor – clients also see this as important, but regard it as just one among many features that law firms should be able to bring to the table.

- **Corporates are looking to develop a broader conversation with law firms.**

Uncertain times are prompting calls for a deeper, broader conversation between law firms and their clients. While some have worked hard to build these relationships, others have struggled given fee earners' well-known dislike of non-chargeable activities. C suites can also be critical to the broader conversation. Client CEOs are not only incredibly influential in appointing law firms but also see direct links between respective C Suites as important to healthy client/adviser relationships. By contrast, firm leaders see such links as almost irrelevant. In-house counsels need to ensure that their board executives are encouraged to engage with their equivalents at law firms.

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- **Clients and law firms differ in their opinion of what makes a successful client/adviser relationship.**

For the law firms, a successful relationship depends on frequent communication, trust and consistency of delivery. Clients agree that these are important, but cite another ingredient – the ability to solve problems quickly – as being most critical. This is something that few law firms in the survey regard as a top priority.

- **Knowledge provision is vital to an effective relationship, but law firms may be neglecting this.**

Both clients and law firms consider an in-depth understanding of the client's business to be most important aspect of knowledge to ensure a smooth relationship. But only a minority of law firms is ramping up investment in most aspects of knowledge. They may do well to reconsider this, however. Clients say that they are generally dissatisfied with the effectiveness of law firms at catering to their knowledge requirements. The frequency of knowledge provision, and the means of distribution come in for most criticism.

About this research

A New Dawn: Lessons for Law Firm Management in the Post-crisis World is a Financial Times report, produced in conjunction with the Managing Partners' Forum.

The report's quantitative findings come from a survey of 433 respondents, of whom around 25% are partners or employees of law firms, and 75% are corporate clients of law firms. The survey was conducted in April 2011. The survey was global, with 60% of respondents from Europe, 30% from North America and the remainder from the rest of the world. The majority of the respondents were C-level, or board-level, executives. 54% of organisations had annual revenues of less than \$10million, while 12% brought in over \$10bn.

To supplement the quantitative survey results, the Financial Times conducted a series of in-depth interviews with both senior representatives from law firms, and in-house legal professionals from corporates. We would like to extend our thanks to all the many people who contributed to this research. The author of the report was Robert Mitchell, co-founder of Longitude Research.

Impact of the economy

The relationship between law firms and their clients is undergoing significant change. As corporates struggle with the aftermath of the worst financial crisis in more than a generation, there is a renewed – and seemingly permanent – emphasis on cost discipline and rigour in investment decisions. Engagement with law firms is no exception. Cosy relationships with preferred providers are becoming a thing of the past. In their place comes a more structured approach based on securing services that add value with an increased expectation of quality and relevance.

The reasons for this shift are well understood. The financial crisis and economic downturn had a significant effect on businesses across the full range of sectors and regions. Just over half of all respondents agree that the economic downturn has had a very negative impact on their revenues over the past 18 months. This deterioration in fortunes has encouraged a focus on cost that remains firmly entrenched despite the gradual economic recovery. Seven out of ten respondents agree that cost control remains a priority for their business.

The crisis has also caused a significant proportion of firms to cut back on their workforce. Overall, four out of ten respondents say that they have been forced to reduce headcount, although this figure hides quite substantial differences between law firms and their clients. Of the former, 55% say that they have downsized over the past 18 months, while only 36% of their clients have been forced to do so (see charts 1 and 2).

Lessons for law firm management: drivers of change

Chart 1:

Please indicate whether you agree with the following statements (Partner or employee of law firm)

- Strongly agree
- Slightly agree
- Neither agree nor disagree
- Slightly disagree
- Strongly disagree

We would like to increase our investment in emerging markets, but regulatory constraints prevent us from doing so



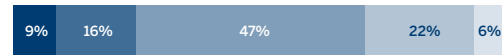
Slow growth in developed markets means that we will rely increasingly on emerging markets as a source of future growth.



We are finding it difficult to keep pace with the restructuring of the global economy, and particularly the rise of the emerging markets



We see considerable opportunities arising from lingering uncertainty in the global economy



We are optimistic about the impact of the economic recovery on our business prospects



Cost control continues to be a top priority for our business despite the gradual economic recovery



The economic downturn has caused us to reduce our headcount over the past 18 months



The economic downturn had a very negative impact on our revenues over the past 18 months



Source: Financial Times survey, April 2011

Lessons for law firm management: drivers of change



Chart 2:
Please indicate
whether you agree
with the following
statements
(Client of law firm)

- Strongly agree**
- Slightly agree**
- Neither agree nor disagree**
- Slightly disagree**
- Strongly disagree**

We would like to increase our investment in emerging markets, but regulatory constraints prevent us from doing so



Slow growth in developed markets means that we will rely increasingly on emerging markets as a source of future growth.



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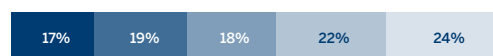
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Source: Financial Times survey, April 2011

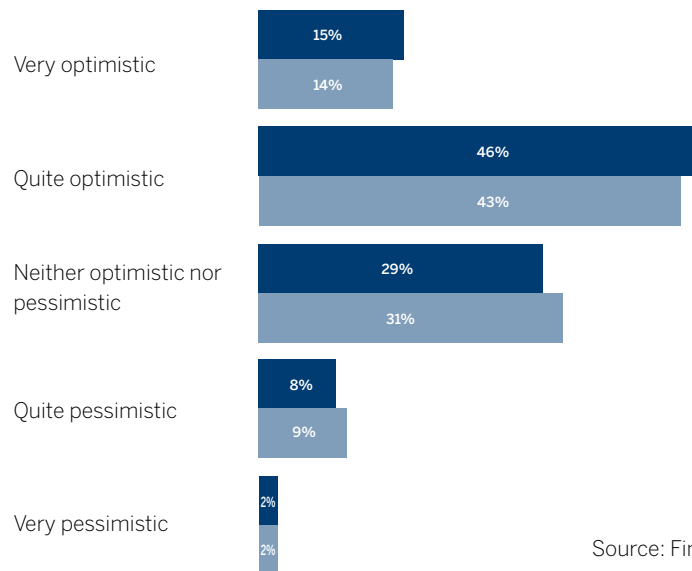
Despite this ongoing impact from the economic crisis, levels of optimism about future prospects are rising across both law firms and their clients. Among the law firms questioned for this research, 61% say that they are optimistic about the prospects for revenue growth for their organization over the coming year. A slightly smaller proportion of 57% among their clients express a similar sentiment (see chart 3). Respondents from Asia-Pacific are more optimistic than those from either North America or Western Europe.

Lessons for law firm management: drivers of change

Chart 3:

In general, how optimistic are you about the prospects for revenue growth for your organisation in the coming year?

■ Partner/employee of law firm
■ Client of law firm



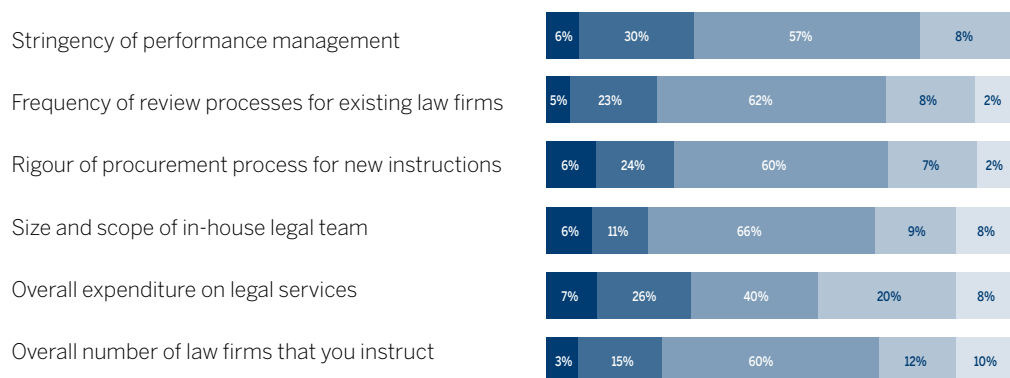
Source: Financial Times survey, April 2011

But this more buoyant mood does not automatically translate into increased spending among corporates on legal services. While 33% of respondents from companies say that they are increasing what they spend on legal services, almost as many say that they are decreasing their levels of expenditure (see chart 4). This suggests that levels of optimism among law firms could be racing ahead of current expectations.

Chart 4:

Over the past year, what changes have you made to the relationships that you have with law firms?

■ Significant increase
■ Slight increase
■ No change
■ Slight decrease
■ Significant decrease



Source: Financial Times survey, April 2011

The impact of globalisation

Other mega-trends besides the economic picture are also having an impact on the relationship between law firms and their clients. Globalisation and the rise of emerging markets mean that many law firms – just like their clients – are looking to unfamiliar markets as a source of future growth. “We have a tremendous export product in English common law,” explains Howard Morris, former managing partner at SNR Denton. “So there’s a demand for it overseas and when you contrast that with a shrunken universe of legal work in the UK, then the pull is to go to those markets where there’s unsatisfied demand and work is easier to come by.”

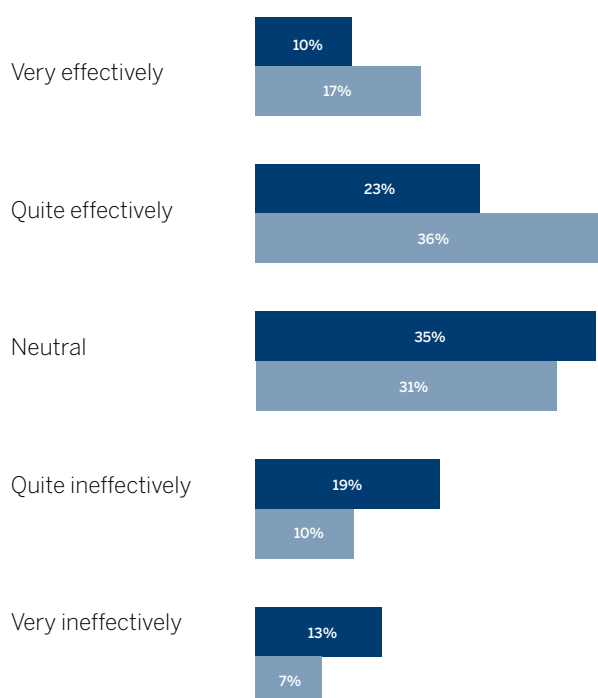
But despite the opportunities, many law firms struggle to respond effectively to globalisation. Only one-third thinks that their firm is effective at dealing with the rising importance of emerging markets, compared with 52% of their clients (see chart 5). Regulatory barriers can be a key constraint that prevents them from expanding into these markets. To get around these constraints, most law firms form partnership arrangements with local providers.

There are significant regional differences, however. Companies based in Asia-Pacific say that they are much better placed to deal with the rise of emerging markets than respondents from other regions. Respondents from North America find this transition most difficult to make.

Chart 5:

How effectively do you think your organisation is dealing with the rising importance of emerging markets in the global economy?

■ Partner/employee of law firm
■ Client of law firm



Source: Financial Times survey, April 2011

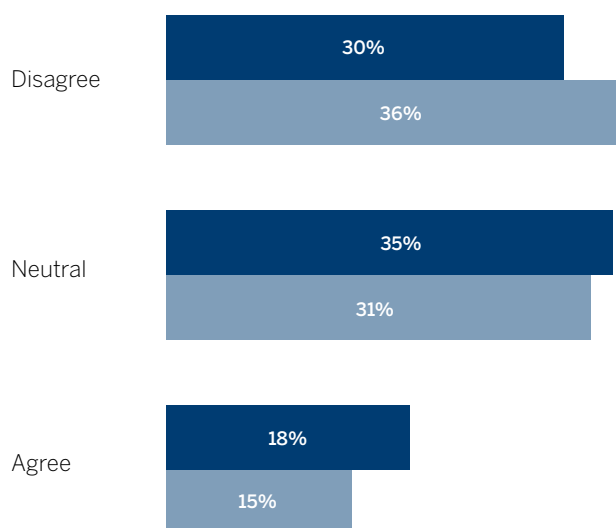
Lessons for law firm management: drivers of change

Clients of law firms interviewed for this report vary in the ways in which they deal with this aspect of the legal services sector. Ricoh, for example, engages a central partner in the UK who has the responsibility to brief local law firms in the many markets in which the country operates. "Having some centralised control is more effective than having one of my team going off and instructing locally," says Nicola Downing, vice-president for legal at Ricoh Europe. "It gives us greater control over who we instruct and also cuts down on the need for us to go through the whole learning curve of explaining who we are and what we do every time we instruct a new firm."

Some in-house lawyers, however, question the benefit of relying on partnership agreements between law firms in different jurisdictions. "If I'm doing a deal in Angola, I either want a local law firm that knows what's going on with Angolan law and I'll deal with it and manage the risk and then negotiate a deal in light of their advice, or I'll get an expert in telecoms or technology that can do the deal in conjunction with them," says Richard Given, director of legal for emerging markets at Cisco. "I'm sophisticated enough to talk to people and find out who are the good law firms in Angola and I'll go to them directly and engage them directly. I don't need an external law firm to do that."

Chart 6:
Please indicate whether you agree with the following statement. The increased use of outsourcing by law firms is a net benefit for the client/adviser relationship because it frees up more time

■ Partner/employee of law firm
■ Client of law firm



Source: Financial Times survey, April 2011

Technology and outsourcing

A potent combination of technology and globalisation continues to serve as a disruptive force in the relationship between law firms and their clients. Although hardly a new trend, legal process outsourcing (LPO), whereby routine legal work is offshored to low-cost jurisdictions, continues to have a significant impact on the nature of legal relationships. In the past, clients would either have had to use their in-house team to execute routine, commoditised legal work, or send it out to law firms, often at high cost. Now, they have a third option of using LPO providers. "The ability of corporations to have a tripartite arrangement between themselves, a panel of law firms and an LPO firm is one of the most far-reaching changes to have taken place in the industry over recent years," says Nick Jarrett-Kerr, a consultant and adviser to law firms.

The rise of LPO could have a dramatic impact on the business model of law firms. "The problem for the big law firm is that they have tended to make a lot of money out of using three-year qualified assistants to do really rather menial tasks and charging them out at £300 an hour," explains Mr Jarrett-Kerr. "If that work is now being done by a low-cost outsourcing firm instead, the client gains but the law firm finds that the way it's made profit in the past will no longer work in future because they can no longer hire out associates for that kind of work."

Some interviewees questioned for this report worry that the rise of LPO will reduce the number of opportunities for freshly qualified law graduates to learn the ropes. With more commoditised activities migrating to low-cost providers, there is less work for lower-level associates in large law firms to do, which means fewer opportunities for those just starting their careers to take on junior roles and learn the basics.

But outsourcing does not have to involve low-cost countries. The disparity in costs between Central London and other regions in the UK means that significant savings and efficiencies can be made through partnerships between City law firms and law firms in other parts of the country. Hogan Lovells, for example, has formed an outsourcing model with Kent-based firm Cripps Harries Hall, known as a Mexican – Wave. This approach promises access to the lower fee rates of experienced law firms based in provincial parts of the UK for routine work, while still giving access to Hogan Lovells' expertise in more complex transactions.

"Large law firms have to look all the time at how they can deliver services more cost-effectively to the benefit of the client, and one way in which they can do that is by outsourcing," says Michael Stevens, senior partner at Cripps Harries Hall. "There is a big opportunity in the UK market for major law firms to disaggregate all the processes that go into providing advice to a client and see whether any of them could be carried out differently or more cost-effectively by law firms, such as Cripps Harries Hall, in different parts of the country."

Lessons for law firm management: a relationship under scrutiny

Procurement and project management

Three years of cost-cutting and an intense focus on cash flow has created a new dynamic in the relationship between law firms and their clients. Rather than maintain a cosy relationship with law firms on an ongoing basis, more and more companies are taking a rigorous approach to selecting firms and ensuring that the relationship continues to deliver expected outcomes.

This shift is particularly visible at the initial instruction phase, when a growing number of companies are bringing in the procurement function to help evaluate providers and negotiate a good deal. Around one-third of companies in the survey say that they are increasing the rigour of the procurement process for new instructions (see chart 4). "More and more legal services are being purchased not by the legal department but via some sort of procurement function," explains Mr Jarrett-Kerr. "The process is therefore much more focused on cost, deliverables and metrics rather than a nice warm relationship between the general counsel and the partner of the law firm."

But while procurement can play a role in helping to ensure that a client gets a service at an attractive price, some in-house lawyers are sceptical about the benefits of allowing the procurement function to take on a leading role in negotiations. "Procurement has a role to play but it's important that they don't take over the process," says Gary Partington, legal counsel at Ventura, an outsourcing firm. "If procurement tries to dominate a tendering exercise, there's a danger that not enough attention is paid to what the service will deliver other than a cheap price. It's important that procurement acts in tandem with business owners."

A more intense focus on value for money is placing considerable pressure on the old billable hours model. Two-thirds of respondents agree that law firms are under pressure to move away from billable hours towards more fixed fees. "I think that law firms are going to struggle with this on a long-term basis until they give up measuring an individual lawyer's performance by how many hours they report," says Mr Given. "You risk not making many friends in a law firm by being an incredibly efficient, insightful and clever associate who can knock something out in ten minutes. It's as simple as that."

There is frustration, too, among some clients interviewed for this report about the potential for unanticipated cost overruns. "It's difficult to understand how it's possible to get cost estimates wrong – sometimes by as much as 100%," says Ms Downing. "After all, they've done these projects before. From our business perspective, we're constantly striving to add value to our customers and there's just no way we would ever get away with that."

Pressure on the billable hours model and a transition towards fixed fees is encouraging a much stronger focus on project management among law firms. "We have to run our matters efficiently," says Mr Morris. "We can't regard each instruction from a client as a piece of creative art work where we start with a completely blank canvas. We've got to treat it like a project and organise ourselves accordingly so that we're efficient, we've got consistent staffing, we've got the right people and the right resources available at the right time, that work is not duplicated and there's no waste of effort."

A more selective approach

In-house lawyers themselves are under growing pressure from chief financial officers and other executives to demonstrate that they are getting value from their law firms, and that they have made the right instruction for the right work. "In-house lawyers are increasingly required to justify their decision," says James Huckle, commercial director at Holman Fenwick Willan. "Even if, at the end of that process, they end up with the same people advising them, at least they know why."

The old approach of selecting a single Magic Circle law firm for everything is becoming a thing of the past. Today, clients are conducting more thorough research than ever to ensure that the right work is matched with the right firm. Cost is one driver for this more subtle approach, but there is also a recognition that paying more attention to selection could yield better results. "This places much more of an onus on the in-house counsel to be closer to their law firms and to really understand their capabilities," says Mr Huckle. "It requires them to be much more intelligent about what is out there, which legal services providers they use and why they use them."

Greater rigour in the instruction process and a retreat from the cosy relationship of the past forces law firms to think more carefully about the needs of their client and explain why they are well-placed to address them. "Law firms are required to understand what the client really wants and what keeps them awake at night," says Mr Huckle. "They need to figure out what they need to provide to give the client that comfort factor that they know what they are doing and can add value. It gets you into a more mature, even-handed conversation because you know the in-house counsel is also under pressure to justify their decision to internal stakeholders."

A focus on performance

A closer assessment of the relationship does not end at the instruction stage. More than one-third of clients say that they are increasing the stringency of their performance measurement (see chart 4). As well as helping to ensure that the relationship continues to add value, this regular scrutiny also prevents a slide into "cosiness" that could lead to complacency in performance. "Law firms become very embedded in our business and while it's easier to instruct people who know what we do, you do get to the point where you need to review the relationship to prevent it from becoming too comfortable," says Ms Downing. "We need to ensure that our law firms have a continuous improvement philosophy that matches our own."

Lessons for law firm management: a relationship under scrutiny

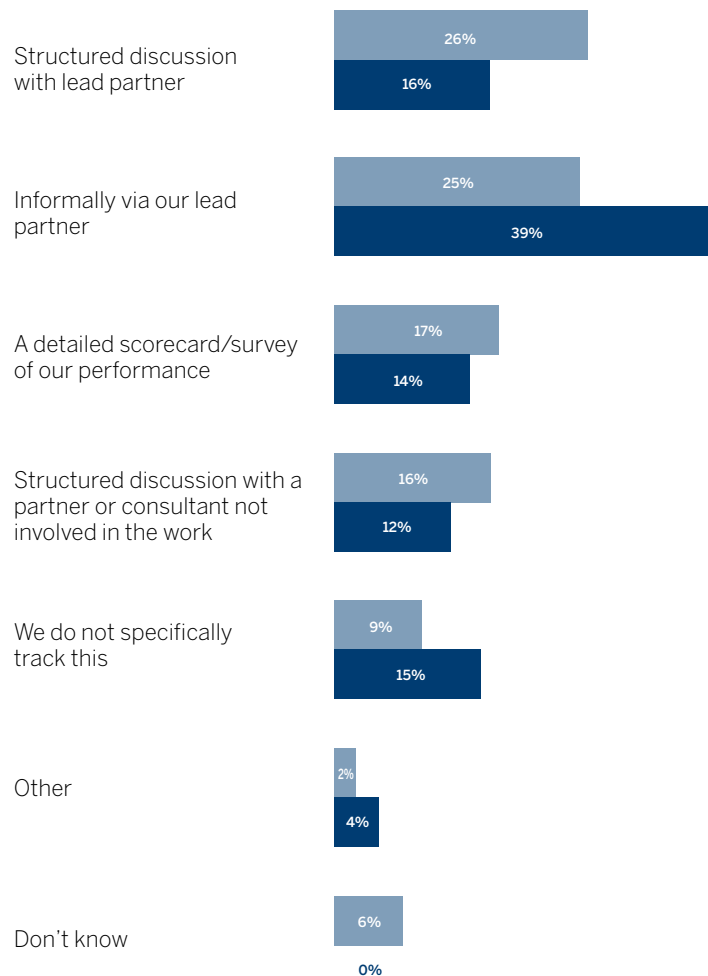
Ms Downing says that Ricoh relies on a formal set of performance metrics to evaluate key success factors in the relationship. "We have a core team review with our law firms and we have key performance indicators (KPIs) and service level agreements (SLAs) that cover various aspects of the relationship in terms of responsiveness, cost, value for money and added value," she says. "This helps us to understand what are they contributing to our business that differentiates them from the competition."

When law firms themselves carry out an assessment of the relationship, it is most likely to be conducted informally by the lead partner (see chart 7). But often, clients are looking for something more formal. Their preferred approach for their law firm to obtain feedback about its performance is in a structured discussion with the lead partner.

Chart 7:

Which one of the following best represents how your firm tracks its clients' overall satisfaction with your services?/ Which of the following would be your preferred approach for your law firm to obtain feedback about its performance?

■ Client of law firm
■ Partner/employee of law firm



Source: Financial Times survey, April 2011

Expectations from the relationship

Our survey reveals some interesting differences between law firms and their clients about what makes the relationship work. When instructing law firms on complex work, both sides agree that specialist legal expertise is the most important factor. But clients are looking for more than just expertise. They are more likely than law firms to think that competitive pricing, transparency in fee structure and cutting-edge thinking are important attributes than respondents from law firms (see chart 8). Law firms are also more likely than their clients to think that their clients are looking for a good brand and reputation whereas very few clients think this is important.

Chart 8:

Which of the following attributes are you/your clients most likely to look for when selecting a law firm for both complex work and more routine services? - Complex work

■ Client of law firm
■ Partner/employee of law firm

Specialist legal expertise

45%

68%

Understanding of our industry

42%

48%

Competitive pricing

28%

15%

Transparency of fee structure

26%

11%

Existing relationship with individual lawyer(s) in the firm

22%

24%

Cutting-edge thinking

21%

17%

Ability to address immediate needs

13%

14%

Accessibility of senior partners

13%

14%

Potential for a long-term relationship

11%

10%

Recommendations from peers

11%

14%

A strong brand and reputation

5%

15%

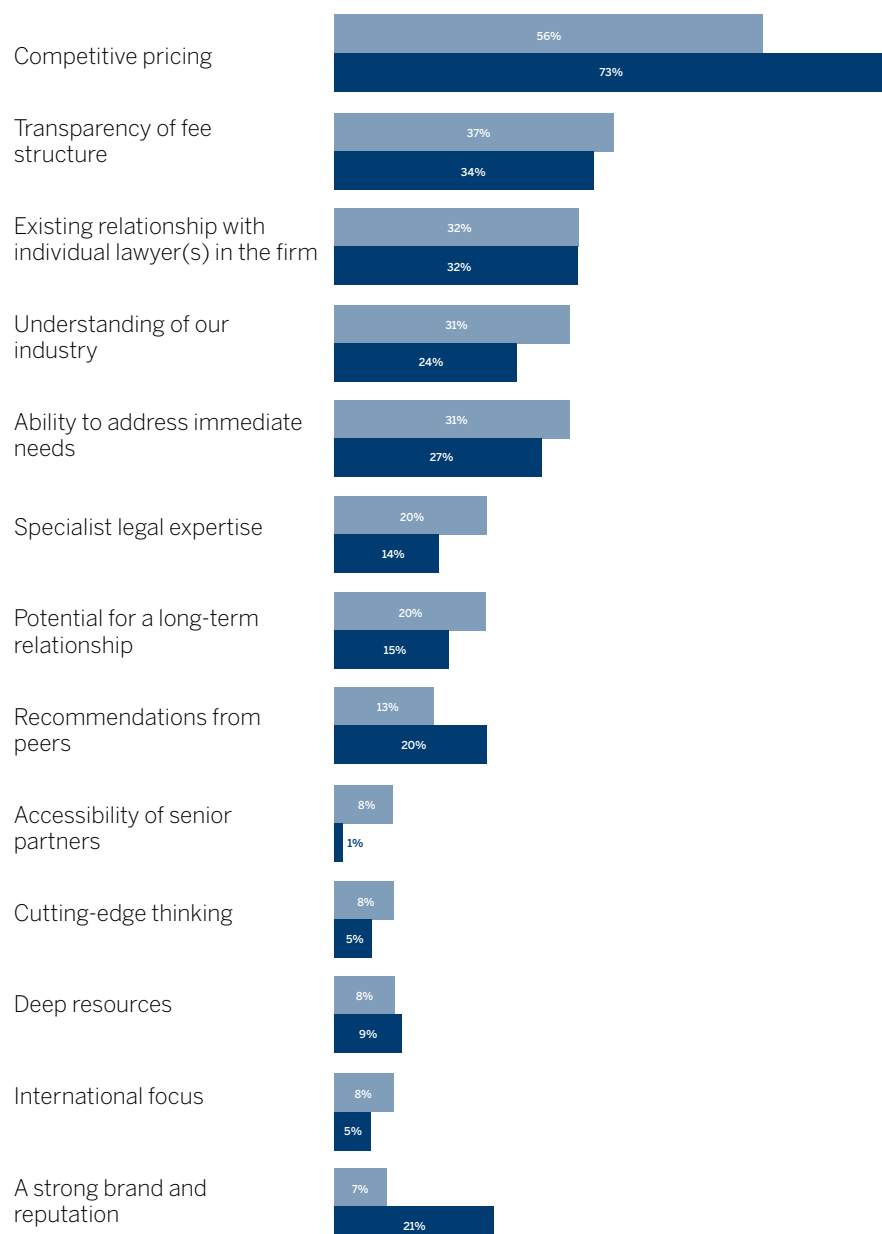
Source: Financial Times survey, April 2011

Lessons for law firm management: a relationship under scrutiny

When it comes to commoditised or routine work, law firms and their firms are in agreement that competitive pricing is the most important factor (see chart 9). But law firms tend to underestimate the importance to clients of other attributes, including a transparent fee structure, an understanding of the client's industry and the ability to address their immediate needs.

Chart 9:
Which of the following
attributes are you/your
clients most likely to look
for when selecting a law
firm for both complex
work and more routine
services? – Routine/
commoditised work

■ Client of law firm
■ Partner/employee
of law firm



Source: Financial Times survey, April 2011

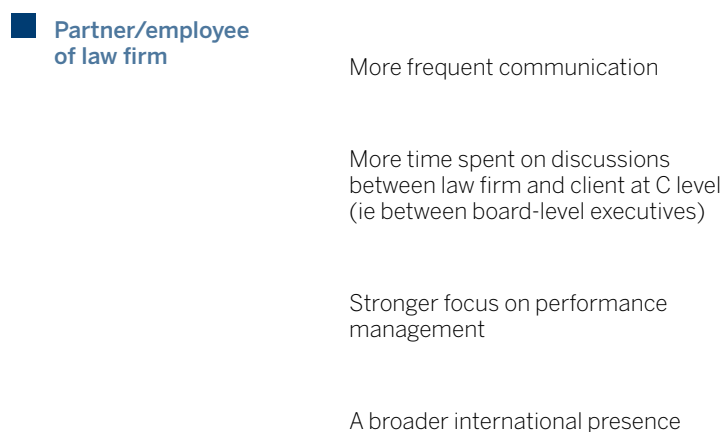
Lessons for law firm management: a relationship under scrutiny



Asked about the factors that help their firm meet the needs of clients more effectively, partners and employees of law firms point to two factors in particular: a greater focus on a long-term relationship and better communication. With some clients of law firms building up their own in-house teams, external legal work can tend to take more of an ad hoc form, with clients turning to law firms when they do not have the resources or expertise in-house to perform a particular aspect of work. This can lead to something of a fragmented relationship, which makes it difficult for law firms to build up a deep knowledge of their client's business through frequent, ongoing engagement.

Regional differences point to slightly different priorities. Respondents from law firms in North America are less likely than those from Western Europe to consider long-term relationships and engagement between respective C-levels in their organization to be important. They do, however, place greater importance on increasing the frequency of communication with their clients.

Chart 10:
Which of the following
developments would
most help your firm to
meet the needs of its
clients more effectively?



Source: Financial Times survey, April 2011

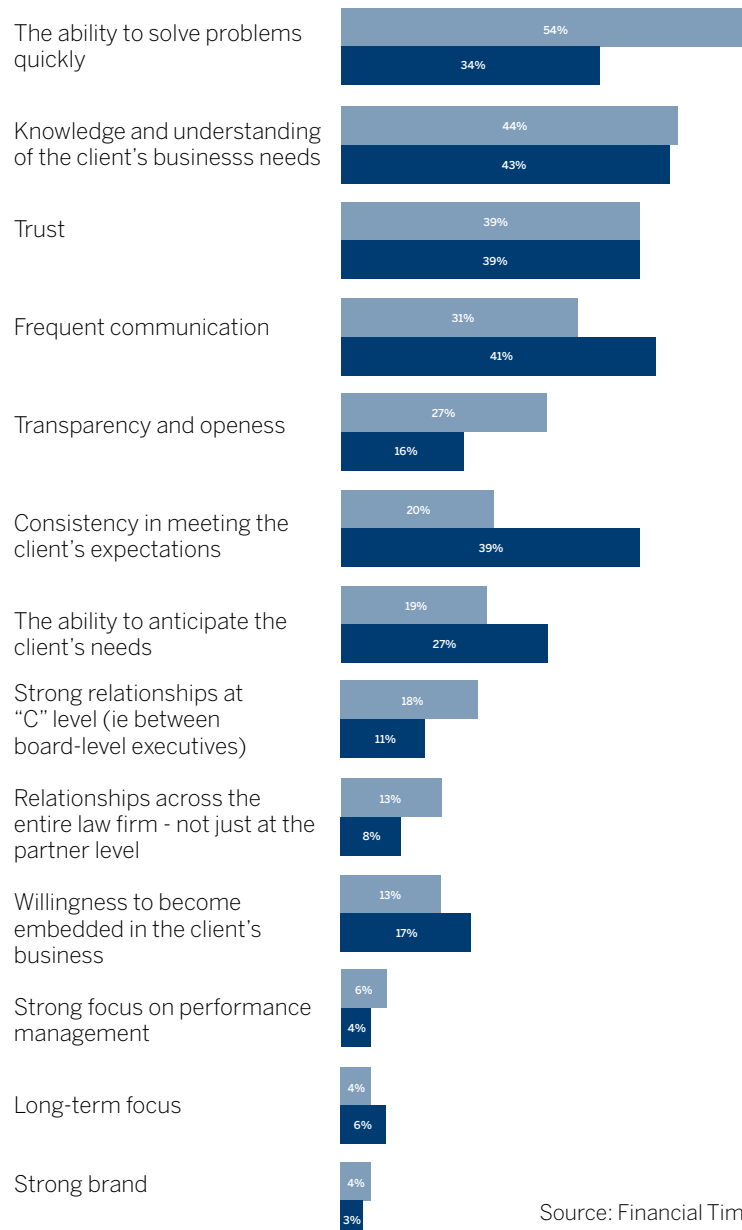
Lessons for law firm management: a relationship under scrutiny

The need for speed

The importance of a rapid response to needs emerge as a common theme among clients surveyed for this report. Asked about the attributes that they consider key to a healthy relationship between client and adviser, corporate respondents point to the ability to solve problems quickly as the most important factor. Yet law firms do not appear to recognize the value of this. They cite four other factors as being more important than the ability to solve problems quickly (see chart 11).

Chart 11:
Which of the following
attributes do you consider
to be most important for a
healthy relationship between
client and adviser?

■ Client of law firm
■ Partner/employee
of law firm



Source: Financial Times survey, April 2011

Lessons for law firm management: a relationship under scrutiny



The need for speed highlights a common way in which clients interviewed for this report say that they use external law firms. Often, it is as a release valve when they do not have the time and resources to carry out work in-house. “We don’t have a big in-house team but we have a sufficient in-house capacity that we can cover the majority of the day-to-day commercial issues ourselves,” says Rachael Davidson, General Counsel at Airwave Solutions. “But when we do instruct an external firm, we’ll need them to act very quickly and treat us as a significant client. I can appreciate that we expect law firms to turn on a dime and turn things around in a time-frame that we ourselves would not do, but then that’s what we pay them for.”

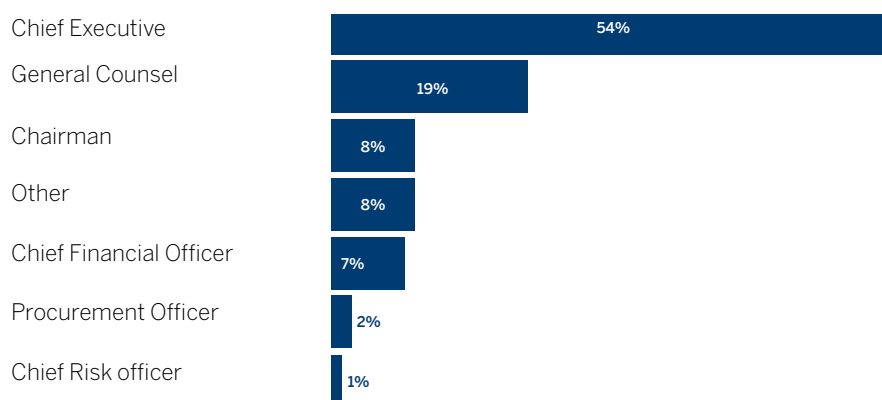
The depth of resources at international law firms means that clients rely on them for the ability to scale, as well as speed. “In addition to speed and quality, you’re paying for resources, which is something you won’t get from the in-house team because they don’t flex in the way that you would need them to,” says Mr Partington.

Primary responsibility for appointing law firms

Client CEOs are incredibly influential in appointing law firms.

Chart 12:

Who in your organisation
is primarily responsible
for selecting a law firm?



Source: Financial Times survey, April 2011

Lessons for law firm management: a changing conversation

More than pure legal expertise

In a challenging and uncertain economic environment, some clients are asking for more from their law firms than pure legal expertise. There is a recognition that unpredictable times call for a deeper conversation where senior members of both client and law firm can engage in a dialogue about broader market and strategic issues. “Understanding the competitive environment is very important to us and we seek to be close and intimate with our clients,” says Mr Morris. “Our clients are trying to figure out a way through a difficult economic period and they will talk to us about some of their options. We like to be close to the decision-makers at the client and be in a position to offer counsel on more strategic issues because we know we have a perspective on their sector.”

This can really only be gained through broader conversations between law firms and their clients and yet Mr Jarrett-Kerr thinks that some law firms have been reluctant to engage in this kind of open dialogue. “One of the things that prevents this from taking place is that all of this is non-billable time as far as the law firm is concerned,” he explains. “So there’s been some anxiety about spending too much time on activities for which they can’t charge. Increasingly, though, I think lots of firms are seeing that it really is worthwhile to spend the time and energy on a broader discussion because clients really do appreciate it.”

Some in-house counsels interviewed for this report think that law firms could do more to understand the nature of their business and its specific challenges. “We’re interested in dealing with people who at least acknowledge what we say about our business,” says Mr Partington. “We’re looking for lawyers who are flexible in their thinking and are willing to listen to us because we’ve got our own views. When we outsource work, we don’t just do it because we think private practice lawyers are cleverer than us but because we haven’t got the time or resources to do that particular piece of work.”

The broader nature of this conversation often requires relationships at a different level, often between members of the respective C suite in both organisations (see chart 13). Some in-house counsels see it as part of their responsibility to nurture this engagement. “I’ve always been very careful to make sure that our group CFO has a strong and close relationship with our law firm and the other advisors that I manage,” says Ms Downing. “Senior people in law firms are very experienced and see a lot of ways of working and processes that other customers use. I think that there is absolutely opportunity for law firms to add value in that way.”

Anthony Indaimo, chairman and commercial practice leader at Withers, says that the nature of the conversation between law firm and client needs to be tailored to suit the phase of the economic cycle. “If I were a client, I’d want to know that you were picking up the phone or coming to see me more in a downturn than in an upturn because I don’t want you to be a fair weather law firm,” he explains. “I really want to feel and believe that you’re prepared to go the extra mile, that you understand my business and that we have a good, constructive relationship of trust.”

Lessons for law firm management: a changing conversation



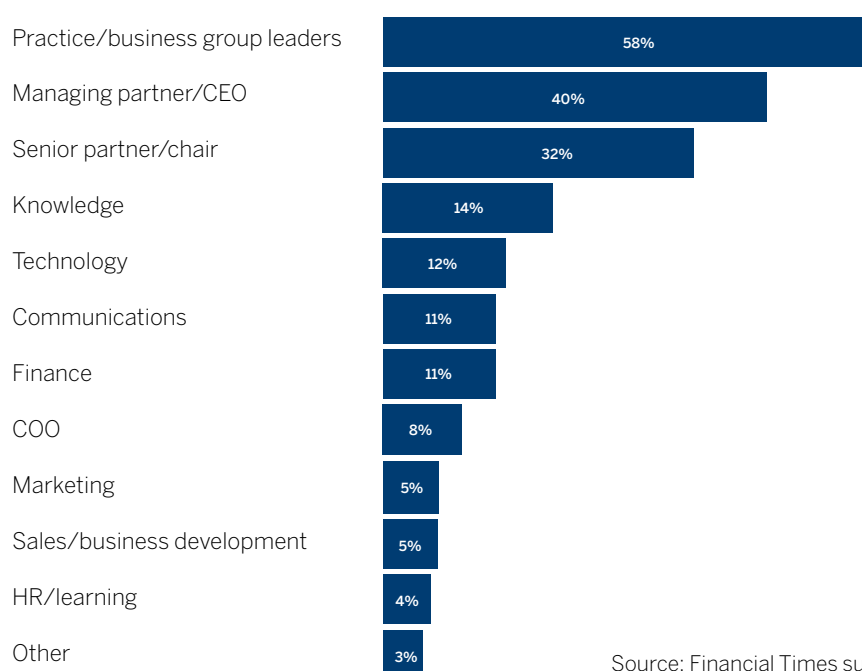
But sometimes, the conversation can be broad but the detail gets lost. “Rainmaker” partners may have exposure across a large number of companies in a given sector but the downside is that they do not have day-to-day insight into a specific business. “The danger is that their knowledge becomes superficial because unless you’re actually entrenched within the company and sitting with the business decision-makers, you really never get a full in-depth picture of where the business is going and what the requirements are,” says Carolyn Bertin, director for legal affairs EMEA at McAfee.

Visibility and consistency

Law firms questioned for this report say that clients increasingly want to understand who will be performing the work at every stage of the relationship. “Clients want to see the breadth of the firm and understand that management are holding some accountability for the service that is being delivered,” says Mr Huckle. “They want to know exactly who they will be dealing with throughout the process and be comfortable that it is an organisation with which they can comfortably work.”

These expectations mean that lower-ranking lawyers, such as associates, are getting more visibility in front of clients. This is a positive development for the associates, who have long complained that they remain stuck in a back-office role for years before getting interesting work. But it also places a responsibility on legal firms to develop and nurture that talent. “You need to make sure that the associates are properly equipped to have conversations with the client and have the necessary skills and support in place to help them develop and provide a service that clients expect,” says Mr Huckle.

Chart 13:
In addition to the usual client/adviser relationships, with which ‘C level’ or management executives at your law firm would you most value having a relationship?
(Clients of law firms)



Source: Financial Times survey, April 2011

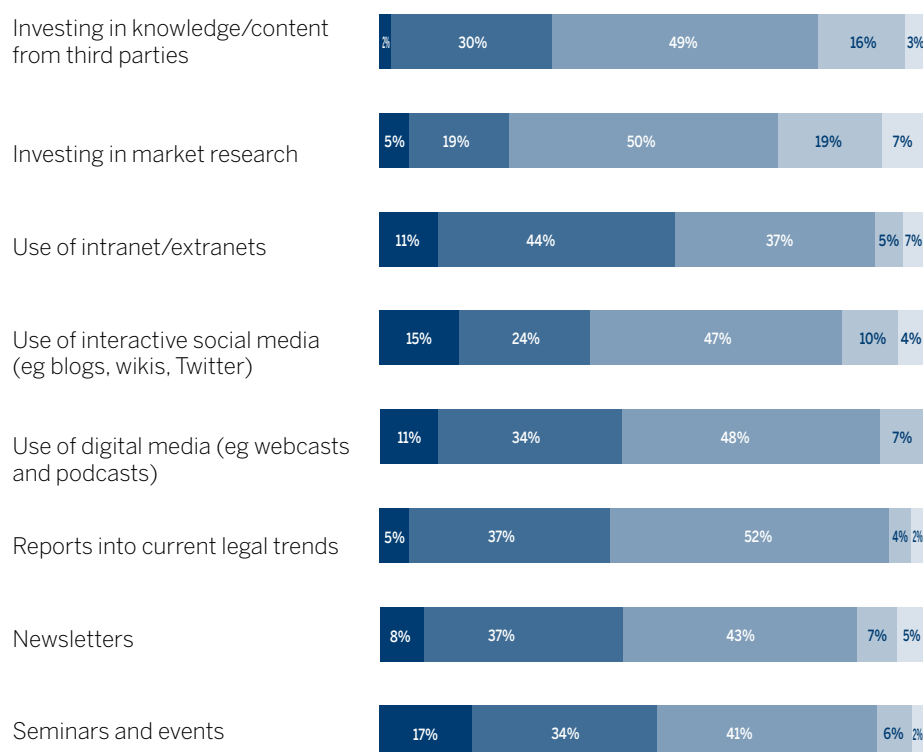
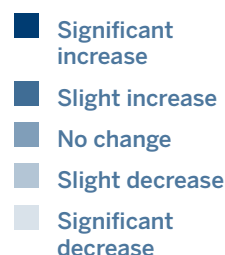
Lessons for law firm management: a changing conversation

Differences in the organisational structure between law firms and their clients can create a mismatch in the relationship. Whereas corporates have been through decades of de-layering and flattening of corporate structures, law firms typically remain much more hierarchical. This can be a barrier to more junior individuals in law firms being in a position to offer valid views. “The hierarchical structure of law firms means that you get junior people who are unwilling to speak if their partners are in the room,” says Ms Downing. “Whereas I actually see great value in junior people being involved, both from a cost perspective and also from a succession planning perspective. Your main client partner is not necessarily always available.”

Knowledge provision

Law firms seem to be somewhat ambivalent for the need to invest in knowledge or know-how for their clients. Although more than half is increasing investment in the use of intranets/extranets, only a minority is spending more across all other aspects of knowledge management. For example, less than one-quarter of law firms are increasing investment in market research and less than one-third in content from third parties (see chart 14). There are notable regional differences. In general, respondents from Western Europe are more likely to be increasing investment than those from North America.

Chart 14:
What changes are you making to the level of investment that your firm makes in the following aspects of knowledge/know-how management?



Source: Financial Times survey, April 2011

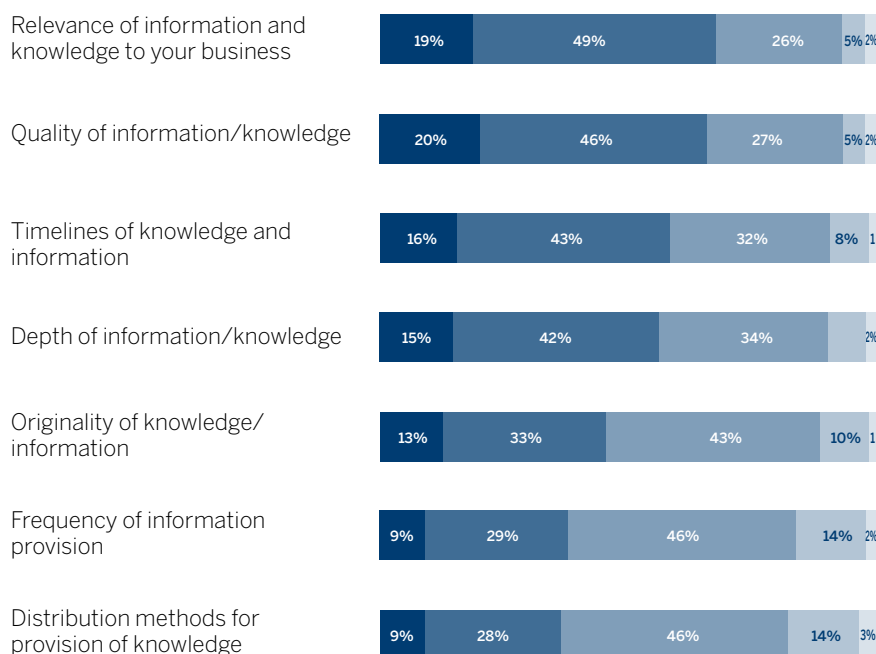
Lessons for law firm management: a changing conversation



Of course, increased investment at a time of economic uncertainty is challenging, but knowledge could be an important differentiator. It is certainly something that clients consider important. When asked about the aspects of knowledge that they consider most important to ensure an effective relationship, clients point to in-depth knowledge of their business as the leading factor (see chart 8).

Yet levels of satisfaction among clients about the provision of knowledge are fairly lukewarm. Although 68% are satisfied with the relevance of knowledge to their business and two-thirds are pleased with its quality, other aspects attract less positive feedback. Less than one half is satisfied with the originality of knowledge provided and only slightly more than one-third are happy with its timeliness and the methods of distribution (see chart 15). There are slight regional differences, with respondents from North America generally more satisfied with the knowledge they receive than those from Western Europe.

Chart 15:
How satisfied
are you with the
following aspects
of the provision of
knowledge by your
main law firm?



Source: Financial Times survey, April 2011

Lessons for law firm management: a changing conversation

There are also quibbles that more formal information – in the form of legal advice – is not always presented in a way that is appropriate for a commercial audience. “There are ways of presenting advice that give a much more targeted and specific answer for your company but it’s rare to get that,” says Ms Bertin. “It’s important to use pragmatism and to make sure that advice is presented in a commercial way as opposed to a purely legal way.”

This is particularly important when the intended audience are time-poor management executives who want a clear understanding of a legal position, rather than an extended treatise. “Business managers don’t want an opinion that goes on for page after page and they don’t want jargon or legal gobbledee-gook,” says Mr Huckle. “They want good, sound advice that is predicated on an understanding of their business and provides some commercial insights.”

Conclusion

The relationship between law firms and their clients has rarely been more important. In an uncertain economic environment when structural change in the global economy is forcing major changes to geographical focus and business models, sound legal advice is fundamental to business growth. At the same time, law firms must work harder than ever to attract and retain their customers in an environment of increased competition, new market entrants and continuing cost focus.

Our survey shows that clients are broadly happy with the service they receive from their law firms. But there are issues around the margins that need to be addressed. A more formal approach to performance management on both sides will help to add structure and process to the relationship. The provision of timely, accurate and in-depth knowledge is emerging as a competitive differentiator. And there is a growing desire among companies for the relationship with their law firms to broaden beyond the purely legal. At a time of considerable change and uncertainty for both sides, this broader dialogue could be a highly valuable conversation to have.

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