



Charles Maddock

How Clients Choose

By Charles Maddock

The question of how corporate law departments select outside counsel is one of perennial interest to law firms, and that interest only intensifies as the legal marketplace becomes increasingly more competitive and the economy slumps.

Two studies recently conducted by Altman Weil provide insights into the ways corporate clients choose outside counsel and measure trends in the inside/outside relationship. Several key findings emerged from these studies, including the trend toward consolidation of the number of law firms retained (especially in the U.S.) and a marked feeling of dissatisfaction by general counsel with many of their outside firms.

These results represent both risk and opportunity for law firms. While Chief Legal Officers' reported selection criteria run along traditional lines (expertise, quality and reputation), beyond that, baseline law firms need to find ways to differentiate themselves from competitor firms. Those firms that can offer better client service, technology interfaces, cost efficiencies, and effective marketing programs may have an edge. In addition, law firms that are members of associations such as Lex Mundi are perceived to have a competitive advantage over their unaffiliated brethren.

The Studies

The first study was conducted for the Lex Mundi legal association and included corporate counsel worldwide. The second study, commissioned by the American Corporate Counsel Association, examined preferences among Chief Legal Officers (CLOs) in the US.

Each of these surveys was designed to help inside and outside counsel understand the current status of legal decision-makers and their law departments, identify the selection process and preferences, learn which marketing tools they rely on for making decisions and, in the case of the Lex Mundi survey, to determine their preference for specific legal associations worldwide.

Lex Mundi Survey

The Lex Mundi survey was modeled on surveys conducted by the organization in 1990

and 1992, which were among the first corporate counsel surveys of their kind. The most recent survey, conducted in 2002, found that many CLOs intend to closely scrutinize their outside counsel and some will consolidate the number of firms that they use. Consolidation appears to be more prevalent in the US than in other jurisdictions. The survey also found that many US corporate counsel plan to expand their law departments, while the majority of their colleagues outside the US will maintain or even reduce the size of their law departments.

The same survey found that 92% of chief legal officers or general counsel select or direct the selection process of outside counsel. The most important factors in hiring outside counsel are expertise in a specific area, perception of high-quality work, reputation of an attorney in the firm, fee structure, local market knowledge and, for international matters, languages spoken.

The Lex Mundi survey also found that one-third of all respondents maintains lists of approved outside counsel for work performed domestically. Over one-third maintains a list for international selection of law firms and 41% do not maintain such a list. When asked how they identify new outside law firms to represent their organizations, most favor the traditional means of marketing: referrals, beauty contests and articles written by the firm's lawyers scored the highest of 17 choices. Internet directories, such as www.martindale.com, also did quite well.

The Lex Mundi organization was also interested in name recognition of their association. The association did quite well, scoring three to five times higher name recognition among legal decision-makers than other law firm networks. More specifically, 61% of Lex Mundi firm clients and 49% of non-clients recognized the association by name; the next-highest ranked association scored 19 percent name recognition. Most of the other associations had recognition scores of well below ten percent.

American Corporate Counsel Association Survey

Turning to The American Corporate Counsel Association (ACCA) study of Chief

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Legal Officers, this survey found that a significant number of CLOs were dissatisfied with some of their outside counsel. In fact, 55% of chief legal officers surveyed indicated that they had fired or were considering firing outside counsel in 2002. Each year, "lack of responsiveness" has been a number one reason for dissatisfaction. Most alarming, when asked about the most innovative practice proposed or instituted by outside counsel, the greatest number of respondents said "none."

The ACCA and Lex Mundi surveys were consistent on the question of

in-house hiring patterns. The ACCA survey reported that 37% of US CLOs plan to increase their in-house legal staff in the next 12 months, compared to 18% in the 2001 survey. There was some good news for US law firms in that 24% of CLOs planned to increase their use of outside law firms, 19% plan to decrease and 50% will remain the same.

When asked to identify the most important things a general counsel does for his or her organization, recent US business headlines were clearly on their mind. Most general counsel said that their most important

functions were to "candidly assess the risks of various sources of action," "ensure appropriate corporate governance," and ensure "sound corporate compliance programs." Chief Legal Officers' most frequent response regarding the value that a law department provides to its organization was "minimizing risk."

Full results of both surveys are posted on Altman Weil's website, www.altmanweil.com. ♦

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