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PERSPECTIVE

ANALYSIS AND ADVICE FROM ALTMAN WEIL CONSULTANTS

Law Firms on the Chopping Block?

BY DANIEL J. DiLUCCHIO

Sixty-two percent of CLOs either have or are considering firing one of their law firms this year. Why? Because they think that their outside counsel are unresponsive. There are other reasons for terminating a relationship, but this is the one reason that appears to stand head and shoulders above others. This reason could be what triggers the dreaded phone call from a client, according to the *Second Annual Chief Legal Officer Survey: The Opinions of Chief Legal Officers on Issues of Importance*.

The 2001 American Corporate Counsel Association (ACCA) annual meeting presented a unique opportunity to ask attending Chief Legal Officers (CLOs) how they felt about strategic management issues. Altman Weil, Inc. and the American Corporate Counsel Association joined forces for the second year to design a set of questions that would provide insights into the changing legal landscape of corporate law departments. Forty of the Chief Legal Officers attending the annual meeting provided input to the survey.

Some of the questions were identical to the previous year, allowing Altman Weil and the American Corporate Counsel Association to develop trending information. The purpose of the *Survey* is to capture the thinking of the CLOs, compare the CLOs' year-to-

year answers and to share the results with the legal profession. Significant events in 2001 — both the September 11 tragedy and the strength of the U.S. economic recession — appear to be reflected in sharp changes in the CLOs' answers between 2000 and 2001.

Staffing Decisions Have Been Rethought

Chief Legal Officers have a choice. They can perform their work in-house or they can retain outside counsel to handle the work. This fundamental make/buy decision results in internal and law firm staffing decisions.

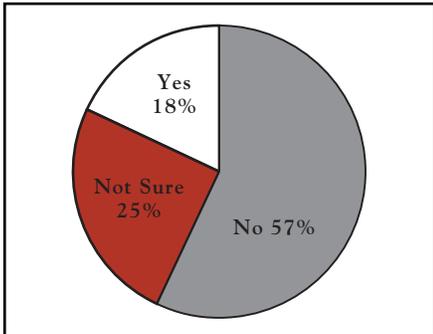
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The following Chart 1 reflects CLO thinking about hiring additional in-house counsel to handle increasing legal work.

Chart 1 WITHIN THE NEXT 12 TO 24 MONTHS, DO YOU PLAN TO EXTEND YOUR IN-HOUSE LEGAL CAPABILITIES BY HIRING ADDITIONAL LAWYERS?



The economy before and after September 11 appears to have taken a toll on the level of optimism regarding the hiring of in-house counsel. In 2000, the CLOs said they were likely to hire more in-house lawyers. However, the number of CLOs planning to add to their law departments dropped significantly from 2000 to 2001. In 2000, 47% of the respondents planned to hire additional lawyers. In 2001, only 18% of the respondents planned additional hiring.

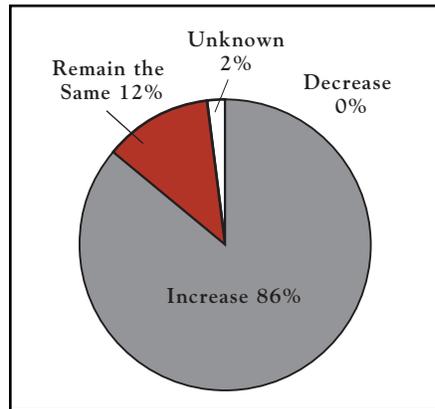
For those few CLOs planning to hire additional lawyers, 88% said that the additional hiring would be inside the U.S. while the remaining 12% said the hiring would be equally distributed inside and outside the U.S.

Outside Counsel Utilization

There is good news for outside counsel. While CLOs changed their plans about hiring in-house lawyers, 98% of the Survey respondents said that they would either increase their use of outside counsel, or utilization will remain the same. From this information, one might draw the conclusion that CLOs expect legal work for corporate America to continue to grow.

According to the Survey, 86% of the CLOs reported a plan to increase their use of outside counsel within the next months. Over the same time period, none of the CLOs plan to decrease their use of outside counsel and 12% foresee no change in their reliance on outside counsel. The following Chart 2 depicts the CLOs' plans.

Chart 2 WITHIN THE NEXT 12 TO 2 MONTHS, DO YOU PLAN TO INCREASE OR DECREASE YOUR USE OF OUTSIDE COUNSEL



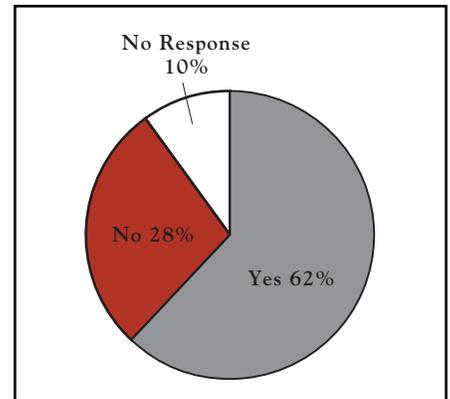
The most important point that can be drawn from these responses comes from the year-to-year Survey comparisons. In 2000, only 35% of the respondents planned to increase their use of outside counsel, compared to 86% in the 2001 Survey.

“62% OF THE RESPONDENTS HAVE OR ARE CONSIDERING FIRING ONE OF THEIR LAW FIRMS.”

Outside Counsel Relationships

While CLOs are planning to increase their utilization of outside counsel, they are also prepared to sever relationships that aren't working. According to the Survey, 62% of the respondents have or are considering firing one of their law firms. The following Chart 3 shows the results.

Chart 3 HAVE YOU FIRED, OR ARE YOU CONSIDERING FIRING, ONE OF YOUR LAW FIRMS THIS YEAR?



This result is consistent with the prior year's results in which 63% of the CLOs said they have fired or were considering firing a law firm. The top reason for firing an outside firm remained the same from Survey to Survey: "lack of responsiveness." Other reasons offered by the CLOs are:

- high hourly rates;
- lack of desired legal results;
- unreasonably high number of billable hours; and
- the firm mishandled one or more critically important matters.

In spite of intense competition for clients, increasing client sophistication, and an increase in the number of communication tools available to lawyers enabling them to reach out to their clients, many law firms and lawyers fail to meet their client's expectations in very fundamental service categories.

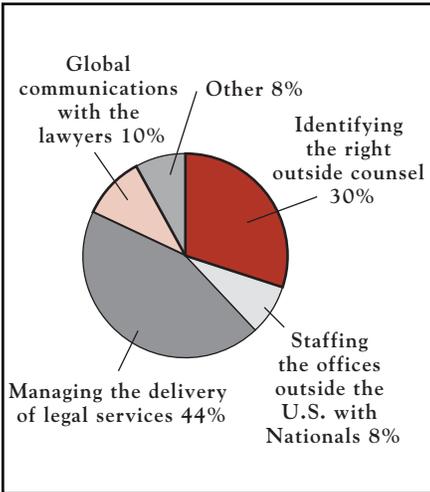
Greatest Challenges for the CLO

Several major trends continue to have impact on corporations and corporate law departments: a U.S. recession, globalization, the need to provide 24x7 legal services, intense scrutiny of financial reporting, corporate compliance and

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public concern about the corporation's business arrangements. CLOs attending the ACCA meeting were asked what organizational challenges are created by the globalization trend. The following Chart 4 provides their answers.

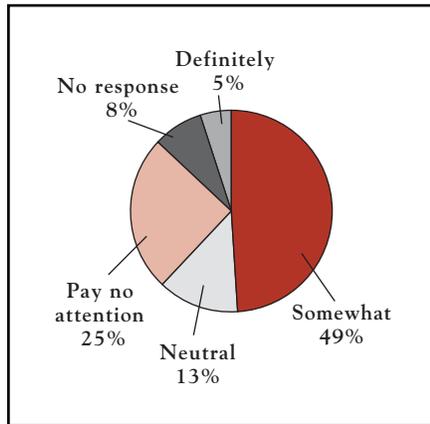
Chart 4 WHAT ARE THE GREATEST ORGANIZATIONAL CHALLENGES THAT GLOBALIZATION CREATES FOR YOU?



For law firms concerned about their client's needs and challenges, this chart might provide a foundation for discussions about how the firm can help the CLO meet these challenges. Managing the delivery of legal services

law firms are spending approximately 1.7% of their gross receipts on promotion (marketing and business development). To shed some light on how law departments view a specific aspect of marketing, the Survey solicited CLO input about law firm "branding." Branding is a relatively new effort for many firms but the impact and value of an effective branding campaign can be seen in the CLO responses in the Chart 5 below.

Chart 5 DOES LAW FIRM "BRANDING" INFLUENCE YOUR SELECTION OF OUTSIDE COUNSEL?



The Survey also offered the CLOs the opportunity to provide additional comments regarding this issue. Some of their selected comments follow:

- "...it (brand) could have a subconscious impact."
- "Branding is not correlated to expertise, experience, geographic coverage, responsiveness or cost."
- "I would like to say that it doesn't (influence selection of outside counsel) but when I see the branding ads, it's hard to ignore them."

The fact that 54% of the CLOs are definitely, or somewhat, influenced by "branding" appears to be supported by the selected quotes above.

Conclusions

For the second year in a row, the CLO Survey has articulated and clarified some of the trends and changes currently affecting the legal profession. It specifically provides a view from the leaders and top managers of major in-house law departments. This year's survey has provided insights on the trends and allowed us to better understand the dynamics of a continuously changing business environment. ❖

"MANAGING THE DELIVERY OF LEGAL SERVICES IN A GLOBAL ENVIRONMENT APPEARS TO BE THE NUMBER ONE CONCERN."

in a global environment appears to be the number one concern, followed closely by the need to identify the right outside counsel.

Law Firm Marketing

According to the Altman Weil 2001 Survey of Law Firm Economics,

- "The individual lawyer's competence and reputation matters most..."
- "The Board desires a brand name (law firm)."
- "Non-branded firms have a tougher hurdle to prove their legitimacy."

DANIEL J. DiLUCCHIO, JR.

is a principal of Altman Weil, Inc. He has been providing management and consulting services to corporate law departments and law firms for nearly two decades. Complete results from the Second Annual Chief Legal Officer Survey are available online at www.altmanweil.com/news/acca.cfm or you can e-mail your request for a copy of the survey to the author at djdilucchio@altmanweil.com.