



# 2020 Vision: A series of propositions on managing change in the legal sector

**PART 1: DRIVING VALUE FROM THE RELATIONSHIP  
BETWEEN LAW FIRMS AND THEIR CORPORATE CLIENTS**

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This Report contains the first of a series of Propositions to be published that result from our continuing in-depth interviews with Partners in law firms and their clients, mainly the General Counsel of major corporate organisations.

Many surveys of the legal sector have been published. This is not a survey report. We do not propose to produce tabulated responses to standard questions. Nor do we propose to draw general conclusions from the average of responses that surveys typically provide.

Rather, our primary goal is to facilitate constructive discussion within law firms and with General Counsel. We set out to peel away the layers of generalities that often drive debate about the future direction of the legal market. We seek to identify what is important to address. We make practical suggestions to both Partners in law firms and General Counsel on how both law firms and their clients can each achieve effective outcomes that are more likely to deliver their corporate goals.

We do not consider that it is practicable or useful to reduce market changes to a set of high level recommendations about how law firms and clients should react. The evolutionary developments that occur in all markets over time, coupled with sudden and dramatic events such as the 2008 markets collapse, create different sets of challenges for different organisations. These require a different balance of responses. What may work for one law firm may carry little relevance for another. The same clearly applies to corporate entities that can face different business environments and hence different legal support requirements.

That said, according to those we spoke with, there are a number of common, significant themes that are high on the agendas of those who inhabit the legal “eco-system” and that do need addressing. This first report covers one of these - how law firms and their clients can engage more effectively with each other and drive better value from their relationships.

We have discussed the implications of the Legal Services Act with those we interviewed. At this moment, we consider that it is unlikely to have a significant impact on any of the matters discussed in this first proposition.

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## INTRODUCTION: CHANGING LANDSCAPES; CHANGING PRIORITIES

Exploiting, profitably, the new revenue generating opportunities that may be available from international expansion, especially in emerging markets in Asia and the Far East.

Addressing declining fee levels. This is leading to pressure for innovative pricing and value add relationships with clients. They are also leading to the need for greater efficiency in how law firms work.

Responding to perceived changes described as “the balance of power” between firms and clients. This includes the emergence of the General Counsel as a corporate gatekeeper and as a central procurement agent for legal advice

There is a broad consensus over the key issues and the principal challenges facing those in the legal market. And, according to those we interviewed, the pace of change appears to be accelerating. But is the focus of law firms and General Counsel sharp enough for both to plan for and achieve the outcomes they are targeting? Our interviews have identified a number of areas where law firms and clients could get their implementation strategies and action plans more finely honed.

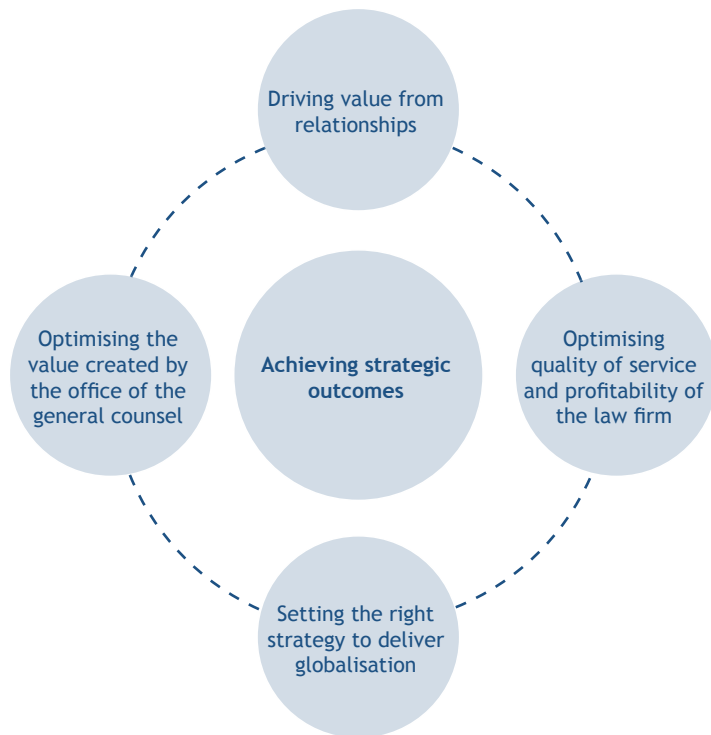
The major overarching market themes are illustrated to the left.

These market forces are challenging law firms to make major changes in the way they do business. There are “calls to arms” from many quarters based on a premise that the established firms are facing changes and opportunities in their markets, and also demands from their clients, that are unprecedented. Those who promote this view argue for the inevitability of fundamental change in the ways in which law firms structure and organise themselves to meet demand and react to competition and opportunity, especially in emerging

markets. Consequently, the prognosis goes that exploiting, or surviving, this market turbulence means that the “traditional” ways in which law firms do business must change. The message is that there is an “old system” that will be replaced by a new order as a result of business evolution and that this is happening rapidly.

In parallel, General Counsel are occupying more central and influential roles in their organisations with the remit to find the best balance in meeting their legal requirements from in-house resource, external commodity suppliers, and legal advisers. The expectation from clients is that there should be greater value at lower cost from their legal advisers. This is partly based on a belief that law firms have the capacity to be more efficient and also on a view that stimulating competition in the market can be used to drive down fees. In this respect, many General Counsel hold a view that, although they have taken steps to enhance the efficiency with which they meet their legal needs, there are more opportunities to be found to drive down costs and enhance value from their advisers.

## INTRODUCTION: CHANGING LANDSCAPES; CHANGING PRIORITIES



The feedback we have received from law firms and General Counsel identifies four areas that are priorities for strategic focus. This and subsequent reports will address each of these areas.

This report addresses the first of these inter-related issues - building better value from the relationships between law firms and their major clients.

The reports that follow will consider the issues and approaches to:

1. Optimising the quality of service and profitability of the Law Firm including: developing commercial propositions and their delivery; creating standardised approaches to delivering work; deciding on operating model options; creating value from support functions; enhancing recruitment and development activities; building appropriate structures and governance arrangements; assuring effective consolidation and acquisition; putting in place appropriate reporting and control arrangements.
2. Optimising the value created by the Office of the General Counsel including: meeting the needs of the internal customer; creating effective commercial propositions and delivery arrangements; putting in place more effective approaches to the sourcing and the tasking of legal work; developing value added partnerships with suppliers and advisers and enabling them to work together; developing and managing the delivery of value.
3. Setting the right approach to achieving a globalisation strategy for a law firm: in particular striking the right balance between having an international presence that meets clients' requirements and expectations and creating the reality of the "international firm."

# 2

## WHERE ARE THE ISSUES IN THE RELATIONSHIP BETWEEN CLIENT AND FIRM?

### Advisor needs include:

- Predictable revenues
- Accurate forecasts of demand
- Payments linked to work done
- Manageable risks
- Profitable relationships
- Long term commitments

### Client expectations include:

- Predictable costs
- Quality advice
- Timely responses
- The right to choice
- Payments linked to outcomes
- Internal capability development
- Knowledge transfer

This first of four propositions explores the developing changes in the relationships between clients and their principal legal advisers. The feedback from both parties points in many cases to a sub-optimal set of relationships. This risks leaving both sides frustrated as neither is able to achieve their corporate goals fully.

In this respect, Partners in law firms may be caught between “a rock and a hard place.” There is often a real challenge in delivering clients’ requirements yet still meeting financial and other objectives whilst conforming to the firm’s current working environments and expectations. In this section we highlight the issues that both parties have raised in respect of their relationships. In later sections we offer proposals that set out structured approaches to help:

- General Counsel enhance their approach to achieving best value from their advisers;
- Law firms to focus on the aspects of their business models and operations that will enable them to meet their client’s expectations and generate profitable business.

Our interviews confirm that a key challenge for the relationship between clients and advisers is how to reconcile their different needs and expectations which often pull in different directions. The critical issues from the client perspective, is how well are his needs being met and are they being met in a way that reduces the risk to his organisation, which after all is a key expectation from using an external adviser.

## Common themes from General Counsel relate to:

- A lack of responsiveness by law firms in their approach to pricing mechanisms for work. By implication, the challenge is that law firms would be far more comfortable falling back on time based billings;
- Limited pro-activity in offering broader, innovative commercial arrangements covering longer term client/adviser relationships;
- Reactive rather than pro-active approaches to account management. In some cases there is a concern supported by ad-hoc evidence of a lack of client-centric behaviours. This creates a concern that the interests of the law firm take precedence over those of the client, and that law firms often do not listen to what their clients are saying.
- Poor project management of more complex requirements that, for example, involve a number of practice areas and/or jurisdictions. This could lead to an overly negative perception that law firms are delivering a less effective service.
- General Counsel, rather than the law firms are occupying the driving seat in setting the pace of change.

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## WHERE ARE THE ISSUES IN THE RELATIONSHIP BETWEEN CLIENT AND FIRM?

General Counsel frequently challenge the performance of law firms, and remain cynical over the extent to which firms have responded to their requirements for doing business in a different way.

On the other hand, Partners in law firms see a different set of issues.

Partners in law firms would rightly argue that the client's interests always come first and that they continue to seek better ways of providing services to meet clients' outcome requirements as well as provide value for money. They point to the highly competitive open market environment in the legal sector that means the balance of power between client and adviser will remain in the client's favour. Nonetheless, Partners still need to deliver profitable client portfolios.

It is understandable why corporate organisations are seeking more capability from their General Counsel as litigation avoidance and risk management are becoming ever more central issues for business. General Counsel are now occupying more senior corporate positions and become more central by taking greater responsibility for developing strategies

for the delivery of cohesive and cost-effective approaches to the best use of internal and external legal resource.

What is less clear to law firms is whether the best option for corporate clients is to place General Counsel at the fulcrum of their relations with their advisers and to task them to manage and deliver the end-to-end legal requirements of their business. The expertise of most General Counsel lies in legal areas rather than in service procurement and supplier relationship management. Yet it is these latter qualities that are crucial in orchestrating the best quality of service delivery.

Also, it is not clear to the law firm whether it is a good thing for the market that General Counsel should be emerging as sole conduits and "gatekeepers" into their organisations. There appears to be an apparent contradiction between clients demands that their advisers have a greater understanding of their businesses, so that their advice is more relevant, and yet at the same time requiring the majority of contact be channelled through General Counsel.

### Three examples that show how the current approaches used by General Counsel might cause issues for law firms:

- First, many corporate clients have replaced informal purchasing arrangements by panels of advisers that can be called upon, as required. The next stage in panel development has been to rationalise by categorising work so that firms are used only in defined circumstances. Many of the panel arrangements provide no certainty to law firms that their services would be called upon. In such circumstances, it is challenging for Partners managing such client relationships to convince fellow partners that committing to client facing investments are worthwhile when they have no definite revenue stream.
- Second, there is a reliance on transaction by transaction commissioning approaches, where formality often restricts access to the client, restricts creativity in the proposal, yet still demands innovative and risk based pricing.
- Finally, packaging of work is not widely evident. Under such an arrangement, law firms would be given the certainty of a range of commissions relating to a specific requirement of the business or in respect of a specific jurisdiction. An absence of these approaches makes planning and budgeting by Partners more complex and risky.

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### WHERE ARE THE ISSUES IN THE RELATIONSHIP BETWEEN CLIENT AND FIRM?

In spite of the uniqueness of the legal sector, there are parallels in the development of client relationships in this sector and other professional services sectors where a fundamental re-think in where the balance of responsibility should lie between client and provider is facilitating value for both.

In the next section we make the proposition that the relationship between a client and their key advisers need not be a “zero sum game” where one group prospers at the economic expense of the other. Rather, we propose a process through which General Counsel can enhance the value they receive from law firms whilst meeting many of the key business requirements of their advisers.

- 
- Many professional commercial relationships have, over time, moved well away from “cost plus” contracting where the customer typically underwrote the provider’s costs of production and margins. These have moved to a range of commercial arrangements from hourly rates, through fixed fees to fees on a contingency basis. So it follows that invoicing from law firms based on full recovery of hourly rates is not going to be a comfortable way of doing business from a client perspective, other than in exceptional circumstances.
  - As the business pendulum swung away from “cost plus”, common practice developed such that services suppliers in particular have been under continuing pressure to take greater risks in respect of achieving their rewards. However, experience during the last ten years has shown that the best results for clients occur when their providers are also meeting their key business objectives; endorsing co-operative sourcing for the benefit of both parties.
  - Through this journey clients have become more sophisticated, mature buyers of services. This underlines the importance of a more sophisticated approach being adopted by clients in respect of their relationships with their legal advisers. It argues for General Counsel becoming expert at optimising value from key relationships; and becoming more effective and sophisticated clients.

## HOW CAN CLIENTS CREATE BETTER VALUE?

### Strategic Sourcing

A sophisticated service procurement regime & regular re-evaluation of requirements

### Supplier Relationship Management

Maximising value from key supplier relationships; performance & commercial management

### Service Integration

Structured management of both in-house resources & a range of advisers to maximise value

The commissioning of legal advisory services has been steadily changing. Most of the General Counsel we interviewed nonetheless accepted that they had not yet fully developed their procurement of legal advisers to a point where they could feel wholly satisfied with the outcome of the arrangements they had put in place. We propose that General Counsel can usefully explore additional ways of building value from their relationships with law firms. This would, for example, include starting to work more collaboratively with key legal advisers and taking a more strategic approach to managing these relationships. This could be undertaken in a way that enhances the benefits available to both parties. To achieve this, clients will need to manage well three areas of capability that are set out in the diagram to the left.

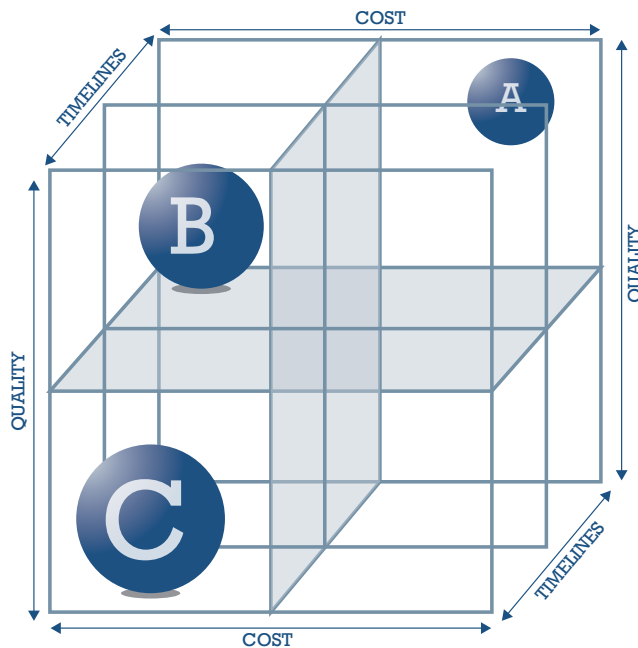
Clients might want to measure themselves against these areas and assess where they could improve so that they can build and manage environments that create efficiency and value from their advisers.

## Strategic Sourcing

Strategic Sourcing focuses on identifying and procuring the best mix of suppliers that can deliver against the longer term needs of the client organisation. In this report, we are focused only on how to create this relationship with law firms. The issues facing General Counsel in meeting the full range of their corporate legal needs are extensive, go beyond the boundaries of this report, and will be dealt with in a future report.

All surveys show that clients always put quality and reliability as the top requirements from their advisers. What is less clear is how much clients should trade off quality and reliability against price. This is not a simple exercise, but surely it is critical for clients to address this analysis in a structured and careful way in deciding the make-up of their panels, or indeed, whether one firm could in practice meet the great majority of their key advisory needs.

## HOW CAN CLIENTS CREATE BETTER VALUE?



- A:** BUSINESS CRITICAL EVENTS
- B:** REVENUE/COST SENSITIVE
- C:** REPETITIVE PROCESS BASED

We therefore suggest that clients should have, at the core of their sourcing strategy, a process that helps them classify their legal needs against three key axes (as shown in the diagram to the left):

- The reliability and quality of the advice required
- The speed with which that advice is made available
- Costs, related to the nature of the work and the outcomes desired

Understanding the categories of services required and the likely volume of work in each category will enable clients to position their advisers more effectively against their needs and to understand, in competitive panel selection, what is important for any prospective adviser to demonstrate.

### Supplier Relationship Management

Clients expect law firms to understand and have insight into their businesses. It is also the case that Clients could benefit from developing a more intimate understanding of how value and profitability arise in a law firm setting and how this can incentivise both positive and negative behaviours towards the Client. Clients ought to understand better the types of constraints and issues their advisers are faced with addressing and how they could, for example, package work to enable Partners to best budget and manage internal resource. This approach would call, for example, for a more consultative and open tendering process that enables law firms and their clients to identify the relationship options that are likely to deliver best service; such as team selection, performance reviews, issues/dispute resolution & governance. It also means that clients ought to invest time with their law firm advisers to understand how, on both sides, aspects of service and the balance of risk, investment and reward can be mutually enhanced.

# 3

## HOW CAN CLIENTS CREATE BETTER VALUE?

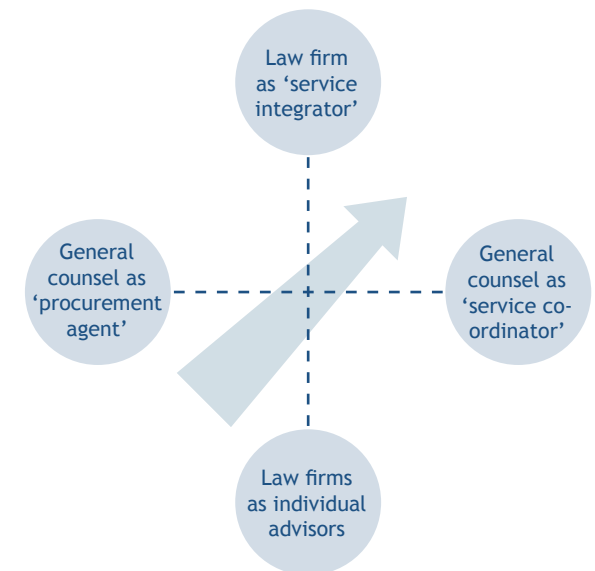
### Adopting a more holistic approach to managing relationships with advisers can help to:

- identify, control and eliminate strategic risk
- improve the quality of service
- standardise on processes
- optimise the number of advisers
- achieve best value for money
- anticipate problems before they occur
- improve processes for commissioning and getting work done
- deliver a continuous improvement regime

### Service Integration

Clients have several options in respect of the co-ordinated management of service provision to meet their internal corporate customer requirements. A key question that links directly to sourcing strategy relates to the roles of the General Counsel and their teams in the management of service quality to internal customers, and how this relates to their strategy for engaging with their advisory community. The diagram to the right could be used to illustrate this debate.

In many instances those we interviewed explained that, from their perspective, most client:law firm relationships are quite firmly entrenched in the bottom left quadrant, where we would argue that value for both parties continues to be undermined. The challenge facing General Counsel and legal advisers is over how to evolve strategies to migrate relationships towards the top right quadrant where value could be enhanced for both parties.



# 4

## HOW CAN LAW FIRMS BEST RESPOND TO CLIENT NEEDS?

### Fee Levels are in Long Term decline

Major clients want the same amount of output from their advisers for less cost. Lower fee rates and heavy discounting have become the norm and this is putting pressure on margins.

### More innovative approaches to pricing are needed.

Client's underlying dislike of time based billings needs to be met by different approaches to pricing, including fixed & contingent fees

### Value adding services are being demanded

As part of the growing influence of General Counsel, corporate clients are regularly seeking “free” services from law firms, for example access to technical knowledge and legal updates as part of relationship building.

Most law firms are grappling with how best to respond to three key issues that are at the centre of their agenda both in winning new clients and strengthening their relationships with existing ones.

### Law Firms' Responses – So Far

From the clients' perspective, the reaction of law firms to these challenges has tended to focus on developing tactical responses, such as:

- “back office” cost reduction, where outsourcing and off-shoring projects are being undertaken;
- standardisation, for example in key document production;
- moving less critical legal support work from legal professionals and placing them in the hands of others - either internal or external resource;
- building more effective knowledge networks to save time on matter management, especially where standard repetitive technical advice is needed;

- offering point responses to clients, for example over knowledge sharing and in-house capability development;
- coaching partners in better client relationship management and in enhancing commercial and business acumen to achieve better commercial responses to client needs.

To enhance these tactical responses, law firms should also place greater emphasis on the question of how best they could target and then develop a set of “world class clients” that underpin their business. Clearly, it is not appropriate to invest in all clients equally; but in most firms there will be a limited number of key clients, or target clients who carry strategic value. These clients will have the potential to provide substantive levels of revenues and profits on a consistent basis over a reasonable future timescale. They will also add to the reputation of the firm. Their relationship will consist of multiple transactions, over several Practice Groups and possibly across different jurisdictions.

# 4

## HOW CAN LAW FIRMS BEST RESPOND TO CLIENT NEEDS?

These clients will justify substantial in-house investment in, for example, developing a deep understanding of their business such that the adviser can act both proactively and reactively to emerging legal needs.

Targeting and building these substantive relationships in an effective way carries with it a requirement to ensure that internal ways of working are being aligned with meeting client relationship management objectives. We have grouped this challenge into seven areas. The key questions for each law firm to address is how well they are performing, in each of these areas, and what needs to change.

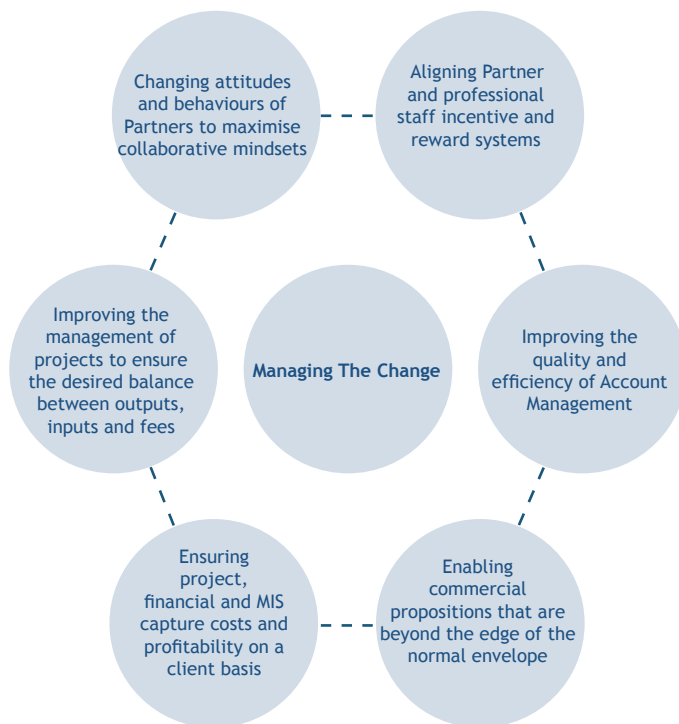
### The key issues to consider in each of the areas includes

**ALIGNING INCENTIVES.** It is still a feature of the profession that long hours, highly chargeable time, and high billings are perceived by Partners and professional staff as a key component of success and recognition. So it is important to understand where other mechanisms (such as client service and feedback) for setting objectives and measuring performance on major accounts can come into play.

**IMPROVING ACCOUNT MANAGEMENT.** As General Counsel have frequently pointed out in interviews, law firms are not always fully engaged in managing and developing relationships with their clients. Firms may need to ask themselves “what constitutes good account management?” and “how can I apply those practices in a way that is proportionate to the scale of opportunity presented by the client?”

**ENCOURAGING COMMERCIAL INNOVATION.** Commercial innovation cannot be offered in isolation and it is unlikely to occur on a transaction by transaction basis. As discussed earlier, the client needs to take the right steps to enable it, but it is important that law firms have set in place policies that define, for Partners, the boundaries of innovative pricing approaches and provision of value added services. Firms must also have defined processes for assessing and managing commercial risk.

**GETTING THE RIGHT INFORMATION.** Most project accounting systems tend to be fee based e.g. rate per hour, utilisation metrics and headcount being the key information provided. This ‘production, based mindset needs to be complemented by more client and market based information such as client satisfaction, client profitability and benchmarking comparisons.



# 4

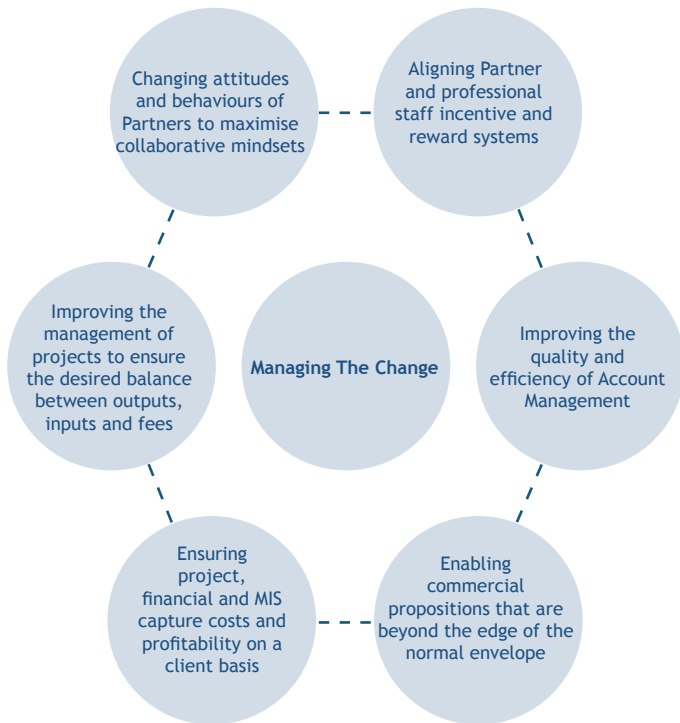
## HOW CAN LAW FIRMS BEST RESPOND TO CLIENT NEEDS?

### IMPROVING THE QUALITY OF PROJECT MANAGEMENT.

Clients frequently criticise law firms for a lack of good quality project management especially where complexities arise in co-ordinating across Practice Groups and/or jurisdictions. Firms may need to look at their capabilities and processes for planning, managing and monitoring performance of projects. Poor project management doesn't just affect the client; it also inhibits the financial performance of the firm.

**ENCOURAGING COLLABORATION.** The challenge faced by many firms is how to balance the importance of the quality of work performed by individual lawyers and their teams, and the reputational importance that the work of individuals carries (as for example, underpinned by Chambers Directory). There are challenges in getting the best out of cross-Practice Group referrals and cross jurisdiction working.

**MANAGING THE CHANGE.** Governance models, the lack of leadership and management experience outside the sector and prevailing cultures can be impediments to change management - whatever the change is.



## SUMMARY AND CONCLUSION

Major corporate clients are becoming more demanding buyers of legal advice. Law firms argue that they are responding to this new environment. Yet most General Counsel continue to challenge the performance of law firms. They remain unconvinced of the extent to which their advisers have responded to their requirements for doing business in a different, more value-based, way. Equally, many law firms are not convinced that emerging client approaches to commissioning legal advice will lead to best value for money on either side.

Most of the General Counsel we interviewed had changed how they commissioned their legal advisers. However they also accepted that they had not yet fully developed their procurement of this advice to a point where they could feel wholly satisfied with the outcome of the arrangements they had put in place.

The key challenge for the General Counsel is, therefore to initiate an action plan that delivers a better strategy for securing best value from their advisers. To achieve this benefit, they need to raise their game and adopt best practice in devising their overall procurement strategies, in the way they commission packages of work, and in how they cultivate much stronger and effective relationships with their key advisers.

The action plan for General Council should include:

- adopting a more rigorous and structured approach to identifying where, for their businesses, value is critical or where cost is king;
- identifying how more innovative approaches to commissioning legal advice can be put in place that better meet the needs of their business.
- designing, in conjunction with their advisers, more balanced economic models that provide them, as clients with the value they require, yet enable their advisers to provide cost effective yet profitable services.

Law Firms, in turn, need to develop their business models so that they can meet the expectations of their clients, deliver best quality advice, and meet

their own requirements for profitability. Thus far, from the clients' perspective, the reaction of law firms to these challenges has tended to focus on developing tactical rather than strategic responses.

If law firms are to meet client demands and their own corporate objectives they need to ensure that they are developing:

- a culture at partner level that is conducive to working collaboratively in delivering Clients needs across jurisdictions and Practice Groups;
- ways of pricing and costing work that meet both client expectations, deliver profit and manage risk;
- rewards, incentives and financial and performance measurement arrangements that are aligned with what is needed to build and maintain profitable client relationships;
- better account management and project management arrangements;
- integrated and cost effective service models that leverage technology, cost effective professional resource, and support services in the best possible way. Tactical outsourcing driven by cost reduction aims is not the answer to this challenge.

## ABOUT BLUEGROUND PARTNERS

Blueground Partners is an advisory services firm that has a special focus on the Professional Services and Business Services sectors.

Our firm consists of a select team of highly experienced and capable professionals, each of whom either has been a partner in a leading international professional services firm or has been a senior industry and business services leader.

Collectively, our unique and practical knowledge and experience of how to design and deliver change gives our clients rapid insights and also the ability to achieve outcomes that dramatically improve the returns on their business transformation investments. We do not employ junior staff, so we offer much greater experience than typical advisory firms, and knowledge transfer to our clients is a key aspect of our work.

We have provided telling advice to many of the world's leading organizations, bringing experienced board level insight to bear on their transformation agendas, and their design and execution.

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