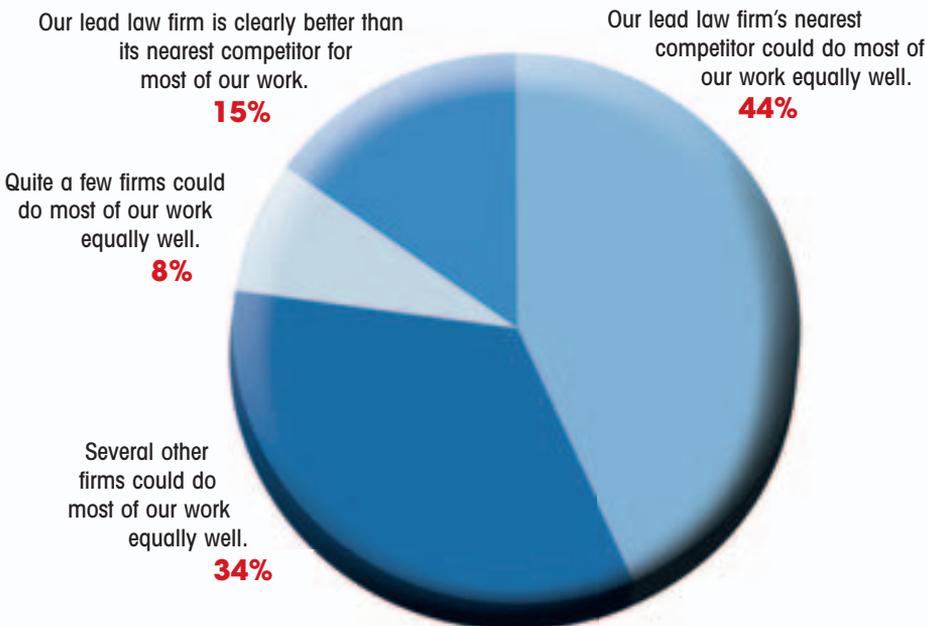


CORPORATE COUNSEL SURVEY

ROOM FOR IMPROV

Our annual survey of in-house counsel shows that 85 per cent of the time law departments don't rate the services of outside law firms as any more impressive than their rivals.

How law departments rate their external law firms.



Ranking of the most important things law firms can do to improve working relationships with law departments.

- | | |
|-------------------------------------------------------|---|
| Be more concerned with costs | 1 |
| Understand our needs better from a client perspective | 2 |
| Be more commercial / practical | 3 |
| Be more creative / innovative overall | 4 |
| Be more concerned with results | 5 |
| Be more pro-active | 6 |

92%

OF LAW FIRMS HAVE NOT ASKED
THEIR CORPORATE COUNSEL CLIENTS TO COMPLETE A
WRITTEN SATISFACTION SURVEY IN THE PAST 12 MONTHS.

EMENT

BY JEFFREY H. WAUGH

Firms take note — you're not the only one who can get the job done. This year, *Canadian Lawyer/Canadian Lawyer In-House* have joined forces with Catalyst Consulting for our annual corporate counsel survey. We've uncovered a trend some managing partners will find alarming (or perhaps see as an opportunity): only 15 per cent of in-house law departments who responded to the survey say their primary external firm performs at a level clearly

above their leading competitor. For the other 85 per cent, it means the other firms waiting in the wings and ready and willing to step in and eat your lunch at the first sign of trouble.

Working with Richard Stock of Catalyst Consulting, *Canadian Lawyer* targeted senior vice presidents and general counsel from a wide range of companies and organizations to get accurate, useful, and insightful responses. We received responses from 73 law department leaders, who provided detailed information for the survey. Eighty-five per cent of their

departments were primarily Canadian-based, with the other 15 per cent representing divisions of an international company.

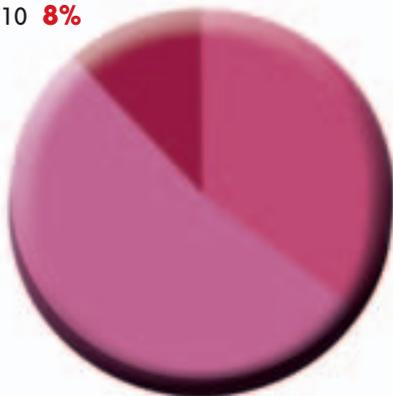
The majority of survey responses came from small law departments of five or less lawyers. But despite their size, survey results show the smaller legal departments generally had the highest external spend. Eighty per cent of the departments with an annual external legal spend of over \$10 million had 15 or less lawyers. It would follow that the larger departments have more resources to complete work

Numbers of firms which received the top 80% of the law department's Canadian legal spend.

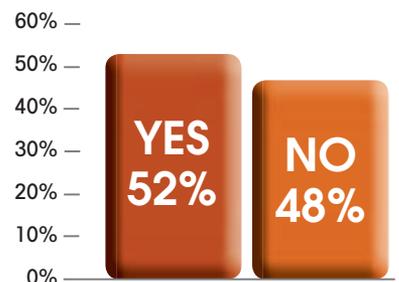
6 to 10 **8%**

3 to 5
37%

1 or 2
56%



Law departments planning on reviewing their working or financial arrangements with top firms in the next six to nine months.



*Figures do not total 100% due to rounding.

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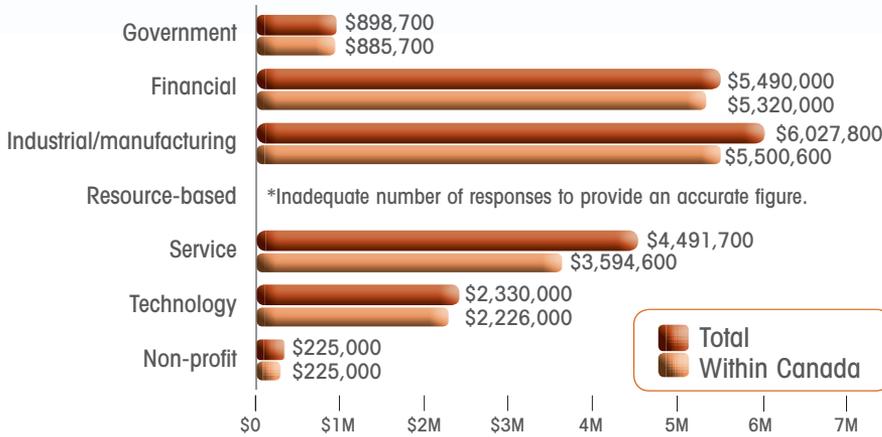
Average external legal spend

Average legal spend (total) **\$3,570,000**

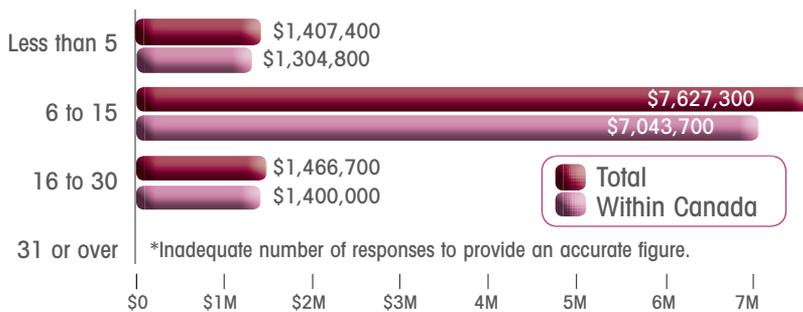
Average legal spend (within Canada) **\$3,238,000**

\$0 \$1,000,000 \$2,000,000 \$3,000,000

Average external legal spend — by industry



Average external legal spend — by department size

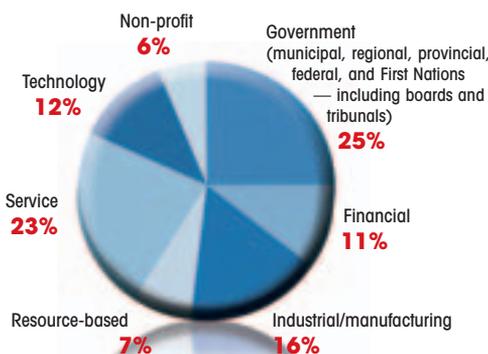


in-house, and are therefore able to keep their external spending at a lower level.

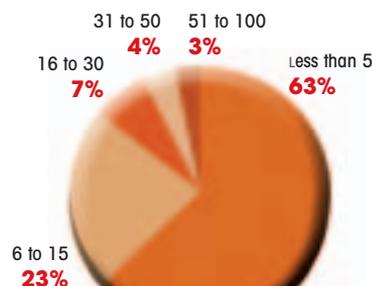
With a variety of small firms with decent budgets for outside counsel, there should be plenty of opportunities for firms looking to take on some of this work. Or, to take the work from others. Forty-four per cent of respondents say most of the work being done by their primary external legal provider could be done equally well by their nearest competitor. A third of the corporate respondents say that several other firms could do the work equally well, not limiting it to those who may typically be perceived as the “close competition.” That gives a lot of wiggle room to secondary or tertiary providers and provides somewhat of a wake-up to firms that may feel they are entrenched.

No firm wants to be considered easily replaceable, so what can be done to stay ahead of the pack? The first step to coming up with a solution is defining the problem — but it appears that surprisingly little is being done by firms on that front. Less than eight per cent of the in-house departments claim to have received a written quality satisfaction survey from their firm in the past 12 months. With our survey showing an average external legal spend of over \$3.3 million on Canadian firms last year, outside counsel want to be sure clients are pleased with the results. And some of those departments are spending far more; a few of the top responses came in between \$35 to \$40 million spent on legal advisers. If firms aren't asking whether their clients are happy and how they can improve,

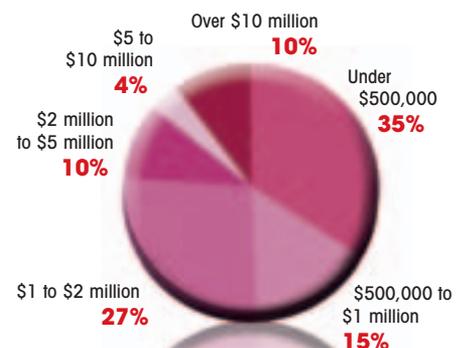
Survey respondents by industry



Survey respondents by department size



Survey respondents by external legal spend



*Figures do not total 100% due to rounding.

A black and tan dog is looking up at a mail slot in a white door. The mail slot is overflowing with a stack of letters and envelopes. The dog's head is in the lower left foreground, looking towards the mail slot in the upper right.

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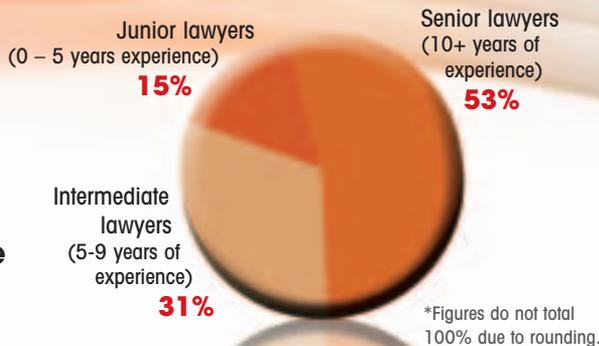
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Range of experience for lawyers in in-house legal departments



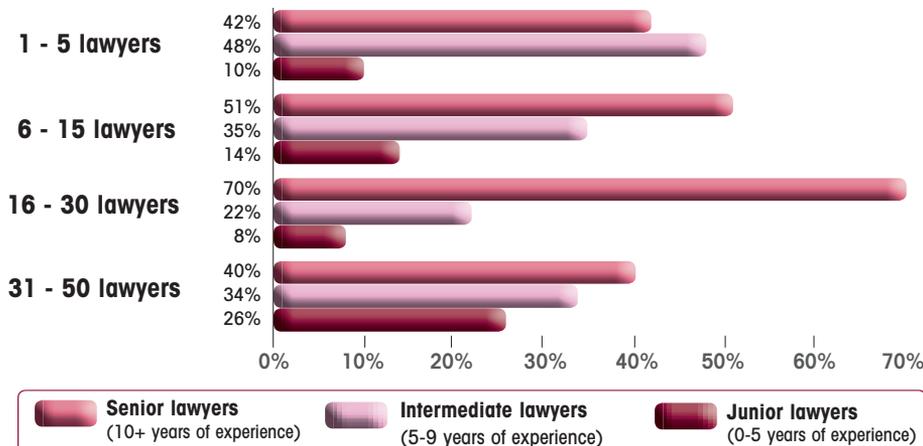
they may be overlooking substantial opportunities for growth.

Since only 60 per cent of the departments that responded to the survey say they have a written retainer agreement in place, moving work around to another firm would be neither difficult or unlikely. In terms of whether or not there is real risk of that, more than half of the respondents said they're likely to be reviewing the arrangements they have with their law firms over the next six to nine months. One quarter of the departments have already replaced one of their top law firms at some point in the last two years.

If you're looking for options of what to improve upon, our top-level respondents pinpointed one area in particular — and it probably won't come as a surprise. Most corporate law departments want their external firms to be more concerned with costs. It ranked as the number one priority in terms of what firms can do to improve the working relationship with the department.

If you think your fees are on par, there are many other ways respondents say

Range of experience for lawyers in the department by department size





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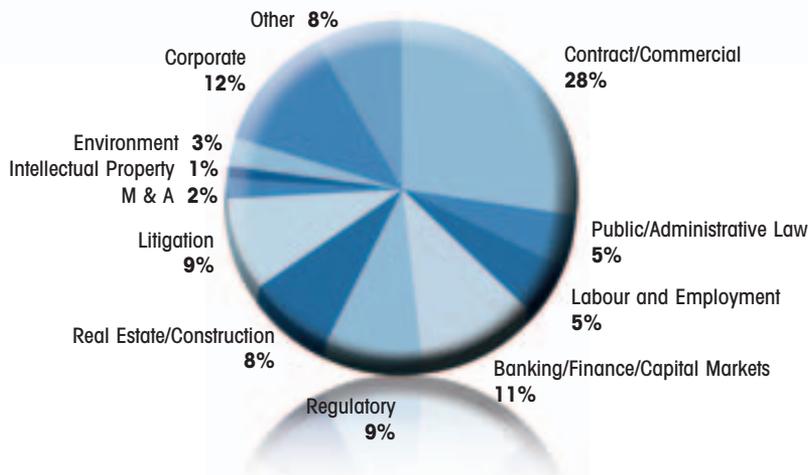
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OF RESPONDENTS DO NOT HAVE A

WRITTEN RETAINER AGREEMENT IN PLACE WITH OUTSIDE LEGAL COUNSEL.

**Distribution within departments of lawyers by specialization
(where each spends most of their time)**



firms can distinguish their lawyers and services as top-notch. The survey showed in-house legal department want their advisers to better understand the needs of the company, from a client perspective. Firms should also focus on being more commercial and practical in terms of the work they do for their corporate counsel. Other ways respondents say law firms can improve relationships is better communication and a heightened level of involvement between the parties.

The majority of corporate law departments say they're expecting the volume of legal work (combined for both the department and external firms) to grow in 2009. And while much of that work will be absorbed into the company's own department, almost a third of the companies foresee passing along the extra volume to their law firms.

Lawyers frequently move from private practice into in-house counsel positions, bringing that experience to the boardroom table, so to speak. While the survey didn't ask for details of previous experience, it did show many corporate counsel have been in their positions for some

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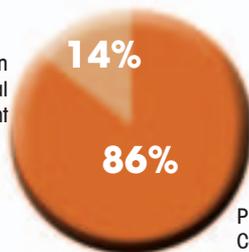
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\$181 MILLION

LAST YEAR'S COMBINED EXTERNAL LEGAL SPEND FOR ALL SURVEY RESPONDENTS CAME IN AT MORE THAN \$181 MILLION.

Location of the Canadian law department

Part of an international law department



Primarily in Canada

If primarily in Canada, do the lawyers outside of Canada report through to a Canadian general counsel?



time. When asked the makeup of their departments, more than 53 per cent of the members of the respondents' teams had 10 or more years experience; only 15 per cent of the lawyers in their teams had been practising for under four years.

Of course, more years on the job means a greater chance of leaving the position for retirement or to pursue other opportunities. About a third of in-house departments say they're concerned about succession when their main law firm relationship manager leaves the department. It may be worthwhile, both for firms and corporate counsel, to expand their gateway partners and make for an easier transition in the future. Losing contact with your relationship manager in the legal department is likely the largest threat leading to dwindling revenues from existing corporate clients. As new people step into the role, the tendency will be to explore all of the options and see what else is out there. The wise firms will have prepared for this, and positioned themselves in a manner that makes a reduction in revenue unlikely. **CL**

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