

Global Trends in Hiring Outside Counsel

EXPLORING THE NEED FOR A BETTER WAY
TO IDENTIFY AND APPOINT LAW FIRMS

Globality

THE LAWYER
Research Service

// Executive Summary

General Counsel (GC) at major international companies still overwhelmingly appoint law firms based on personal connections rather than a rational appraisal of which firms are best for the job. Tellingly, only 32% typically instruct firms beyond their own network, according to a survey of more than 300 GCs and senior in-house lawyers across Europe, North America and Asia-Pacific.

The survey quizzed senior in-house lawyers on the factors that are most important when identifying and appointing law firms. GCs strongly indicated they value sector breadth and expertise most highly, but they don't hire firms in a way that delivers this.

Over two-thirds (68%) of GCs rely on pre-existing relationships or referrals to source new legal providers, be that via their own pre-existing relationships (selected by 44% of respondents), referrals from their personal network (16%) or referrals from existing outside counsel. In contrast only 32% of firms typically rely on methods of identifying firms that reach beyond their own network.

Why does this mismatch exist? It's not because in-house teams are happy relying on their personal networks, but rather because there are few obvious alternatives. Illustrating this, 86% of survey respondents were most excited by technologies for sourcing and/or communicating with legal providers outside of their immediate networks when presented with a series of technologies.

Our research shows that GCs increasingly want to work with smaller firms, but are hampered in

this because these firms tend to be outside their established network.

In part, this is because clients are becoming increasingly frustrated by the level of service offered by larger firms. Our data shows levels of dissatisfaction are three times higher with larger law firms (19%) than smaller rivals (6%).

Client service aside, the survey data shows that companies are enamoured with smaller firms because they are more innovative, are easier and quicker to vet and have superior expertise. Interestingly, respondents with more than 200 in-house lawyers are equally as willing to work with smaller firms as companies with smaller in-house teams, but primarily do so because they are considered more innovative.

The survey data is based on over 100 responses in each of North America, Europe and Asia-Pacific from international organizations that generate more than \$1 billion in annual revenue. Participants work in-house teams ranging in size from fewer than 10 to over 500.

While the main findings of this research are consistent for companies regardless of where they are headquartered or the size of the in-house team, there are some variations. These are covered in detail throughout the report.

We hope you enjoy reading this report.

If you have any questions or feedback, please don't hesitate to get in touch.

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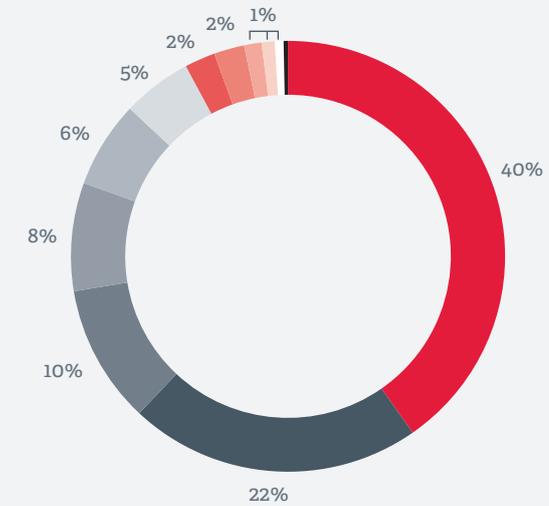
/ IN-HOUSE TEAMS CRAVE A BETTER WAY TO INSTRUCT FIRMS

General Counsel at large (revenues over \$1 billion) international companies are crying out for a more sophisticated and data-driven approach for identifying and then instructing law firms. This is the main finding of our survey of more than 300 General Counsel located in Europe, North America and Asia Pacific.

Our cohort of survey respondents identified that the breadth of firms' industry and sector expertise is their most important criteria when selecting firms. Prior experience of working with a firm is second most important while seniority and experience of partners is third.

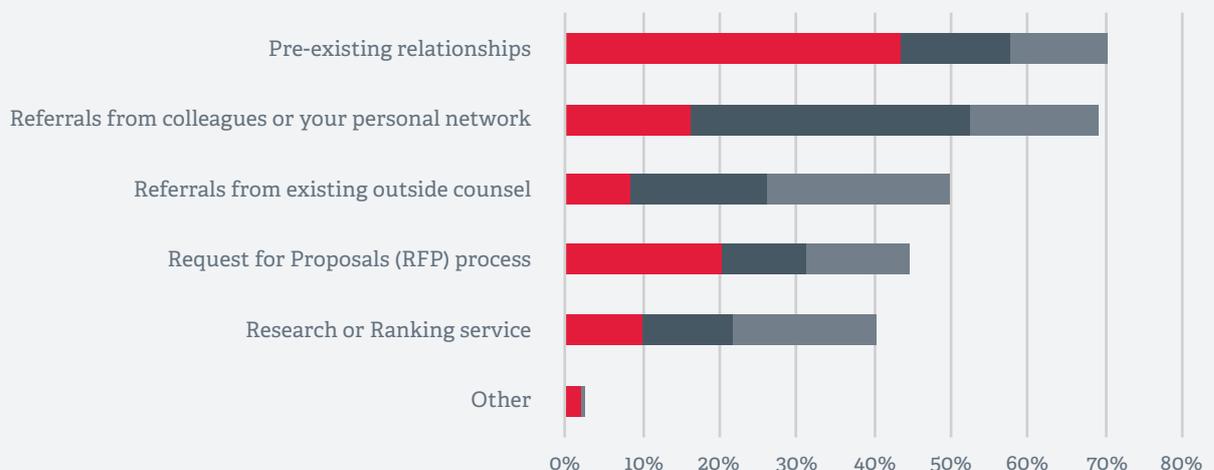
Paradoxically, most clients are not selecting firms in a way that ensures they end up with those with the best industry and sector expertise. Some 44% of survey respondents rely on the outdated method of appointing firms through pre-existing relationships. This accounts for more than double any other method GCs rely on to select firms. An additional 24% primarily rely on referrals, either from colleagues in their personal network or from outside counsel.

WHAT FACTOR IS MOST IMPORTANT WHEN SELECTING LAW FIRMS?



- Breadth of industry/sector expertise
- Prior experience of working with the firm
- Seniority and Experience of partners
- Existing relationships between the firm and the legal team
- Hourly / headline rates
- Availability of alternative fee structures
- Existing relationships between the firm and the Board
- Geographic reach
- Other
- Diversity of Teams
- League tables / rankings
- Number of lawyers at the firm

HOW DOES YOUR ORGANIZATION TYPICALLY IDENTIFY NEW LAW FIRMS TO WORK WITH? (PLEASE SELECT AND RANK YOUR TOP THREE, WITH ONE BEING THE MOST IMPORTANT)



■ 1 ■ 2 ■ 3

DATA INSIGHT: DO COMPANIES WITH LARGE IN-HOUSE TEAMS BEHAVE DIFFERENTLY?

This survey focuses on the instructing habits of large companies, defined as those with over \$1bn in annual revenues. Within this group there are large disparities of the size of in-house legal teams. The majority of survey respondents have between 11 and 50 in-house lawyers. Some 28% have more than 50 and 12% have less than 11.

We were interested to see if companies with particularly large in-house teams (defined as those with more than 200 lawyers) are generally more exacting in their approach to instructing external counsel. After all, our survey data suggests that companies with large in-house teams value law firms' breadth of industry and sector expertise more highly than those with small teams. Indeed some 48% of surveyed companies with more than 200 in-house lawyers stated that this is their most important factor with selecting firms, more than the 40% of the entire group of survey respondents that stated this is their most important factor.

The data reveals that while this group of companies are slightly more comprehensive in their approach to instructing firms – 40% primarily used an RFP or research / ranking services to identify firms as opposed to 30% of the wider survey group – respondents with large in-house teams still mainly relied on their pre-existing relationships.

It seems that even companies with large in-house teams have a long way to go in adopting a more disciplined and reasoned way of identifying firms.

Does this matter? After all, many GCs have a good understanding of their domestic legal market and have a broad network of professional relationships they can call on for advice.

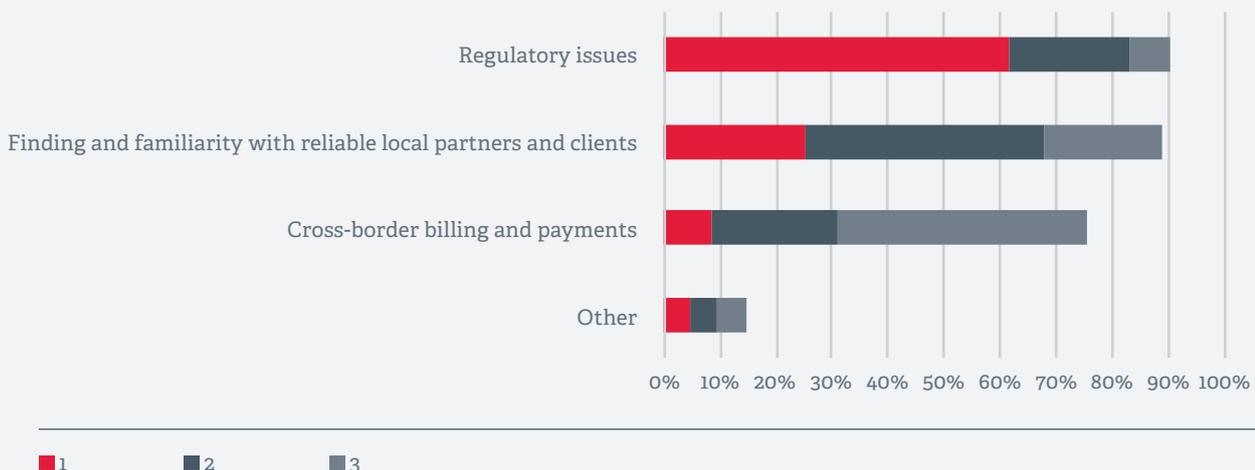
Our survey data highlights two reasons why GCs want to identify firms outside of their network with increasing frequency. Firstly, 62% of survey respondents identified that getting to grips with local regulatory issues is the main challenge when operating in new international markets. Firms with such specific local expertise are more likely to be outside of a GCs personal network.

Secondly, the survey data shows that GCs seek to instruct small and medium sized firms with increasingly regularity as opposed to large international ones (see next section for more detail). Some 71% of survey respondents stated that they outsource the majority of their work to legal service providers with less than 500 lawyers. While firms with 200-500 lawyers may well be well known to GCs, smaller firms are much more likely to be beyond the radar of most GCs personal networks.

It's important to note that GCs aren't relying on outdated methods for identifying law firms because they are resistant to change. The survey data and interviews conducted for this research reveal that they are open to more strategic methods. The issue is the perceived lack of tools or services to do just this.

"For less familiar locations we definitely rely on word of mouth because that is the only way you have a chance of getting the best law firm," explains Virginie Bellehsen, Senior Legal Counsel at Orange. "We know that this isn't ideal but it's the best method we have."

**WHAT ARE THE MAIN CHALLENGES WHEN OPERATING IN NEW, INTERNATIONAL MARKETS?
(PLEASE SELECT AND RANK YOUR TOP THREE, WITH ONE BEING THE MOST IMPORTANT)**



“Technology that finds and recommends lawyers in unexpected locations would be very useful as would technology that enables you to post for advice that law firms can bid for.”

Devottam Sengupta, Senior Legal Counsel at Louis Dreyfus Company

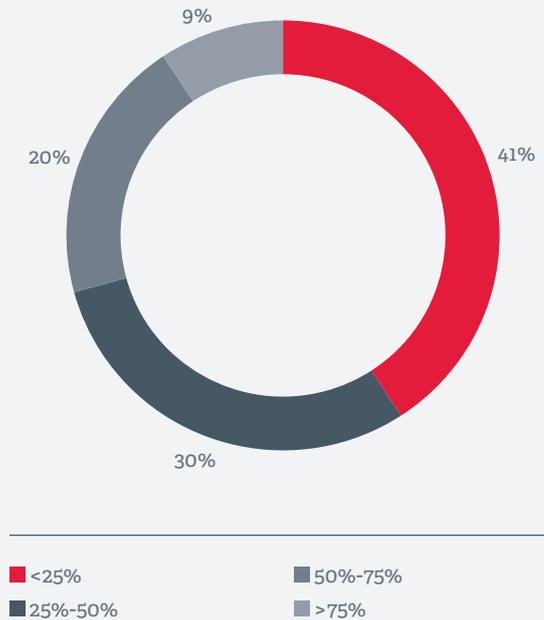
Underlining the fact the GCs require a better method for identifying law firms, a third of survey respondents stated that out of a series of technologies presented to them, those that enable them to connect directly with high quality legal experts excites them most.

“Technology that finds and recommends lawyers in unexpected locations would be very useful as would technology that enables you to post for advice that law firms can bid for,” says Devottam Sengupta, Senior Legal Counsel at Louis Dreyfus Company. “But of course this would have to be done in combination with a personal touch or recommendations from other service users. I don’t know if there is technology that can completely be an intermediary in this way, since procuring legal services is still very much a subjective and personality driven business.”

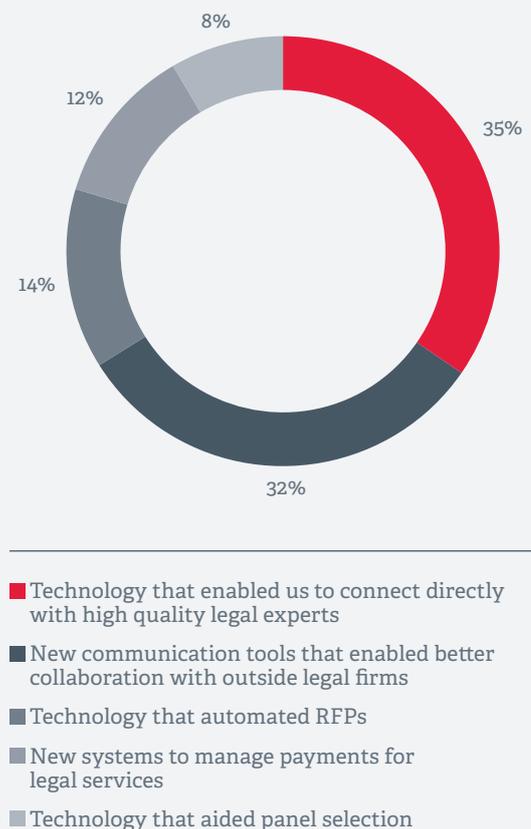
“I can see the process of finding a new law firm to work with becoming a more data driven process, particularly in emerging markets,” adds the General Counsel of an international industrial company. “If an algorithm can reduce a list of 20 firms to three then it’s got my vote.”

Although survey respondents didn’t rank it as one of their top priorities, interviewees often mentioned that they would welcome technologies that automate RFP processes and manage payment processes. Participants in this research were typically more excited by these types of technologies than more innovative technology solutions that law firms tout such as artificial intelligence and machine learning.

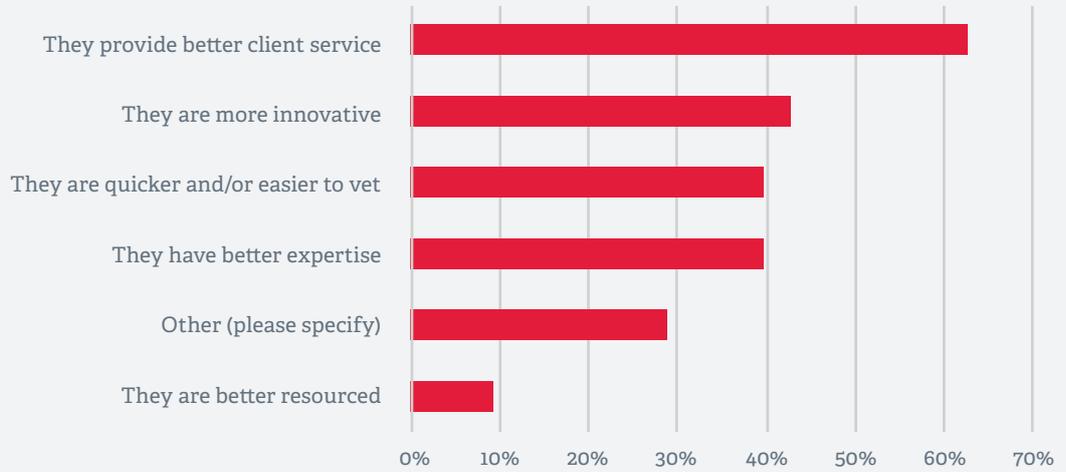
PROPORTION OF WORK OUTSOURCED TO LARGE LEGAL SERVICE PROVIDERS



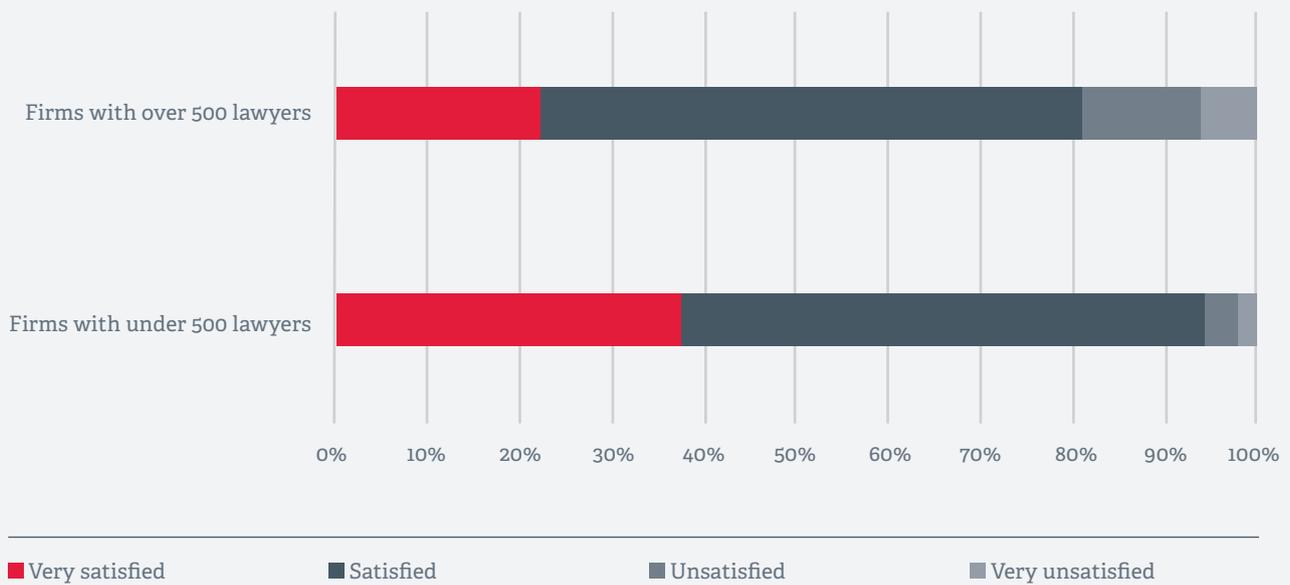
WHICH OF THE FOLLOWING NEW TECHNOLOGIES WOULD EXCITE YOU MOST?



WHY DO YOU CHOOSE SMALLER FIRMS (UNDER 500 LAWYERS) FOR THE MAJORITY OF YOUR OUTSOURCED LEGAL MATTERS? (SELECT ALL THAT APPLY)



WHAT IS YOUR LEVEL OF SATISFACTION WITH THE SERVICES PROVIDED BY SMALLER LAW FIRMS (UNDER 500 LAWYERS) AND LARGER LAW FIRMS (OVER 500 LAWYERS)?



/ CLIENTS EXPRESS A PREFERENCE FOR SMALLER FIRMS

Companies want better ways to identify law firms partly because they increasingly want to work with smaller firms that are more likely to be outside their network.

But why are firms increasingly migrating to smaller firms? Our survey data reveals that there are both push and pull factors.

The main reason is that small firms provide much better client service. Of the 71% of respondents that outsource the majority of work to smaller firms, 63% do so partly because they provide better client service. Around 40% of respondents also said they mainly work with smaller firms because they are more innovative, are easier and quicker to vet and have more expertise.

Illustrating the extent to which smaller firms provide a better overall service, only 6% of respondents say they are generally unsatisfied with the services provided by small firms. More than three times this number (19%) say they are generally unhappy with the services provided by larger firms.

This has not always been the case. Interviewees frequently mentioned that local firms in countries with less developed legal markets have significantly increased their level of service in the last five years.

“Increasingly in India, China and some other emerging markets, there are very good smaller law firms that are

keeping the international firms on their toes,” explains Wan Kwong Weng, Group General Counsel at Mapletree Investments. “It is an interesting dynamic that has developed over the last three to five years. I think this augurs well for the legal industry in terms of upgrading the standards and overall service level.”

Of course, good client service encompasses a variety of different practices. Interviewees frequently mentioned that in addition to possessing specific areas of expertise that larger firms do not, lawyers at smaller firms are much more likely to go the extra mile to serve their clients. Interviewees’ reasons for preferring smaller firms are outlined in the box below.

Companies are also becoming increasingly turned off by large firms due to their high prices. Over half of survey respondents stated that their primary frustration when working with larger law firms is cost. The next most significant turn off, identified by 12% of respondents, was the lack of involvement of senior counsel. A perceived lack of innovation, selected by 10% was the next most significant frustration.

“If we need external counsel in somewhere like Africa we’re not going to use a large firm,” confirms the Senior Counsel of a Canadian energy company that wished to remain undisclosed. “It’s quite expensive to use some of the big firms especially for very small matters. It’s just easier and less costly for us to use a smaller firm.”

INTERVIEW INSIGHT: WHY DO YOU ENJOY WORKING WITH SMALLER FIRMS?

“We are not interested in the size of a law firm, rather the quality of the team at the law firm. Recently it has been the case that some teams in larger firms have not performed as well as teams at smaller firms.”

Baron Song, General Counsel at Gome Holdings

“Instinctively you feel that if you are a more important client to a firm you will get a better service. There is a nervousness that if you go to a big city firm you wouldn’t get the same attention even though we are a good client with good business. We’re not a FTSE 100 business so there might be a perception we don’t get treated quite as well as we would by a smaller firm.”

General Counsel of a UK retailer

“We get better client service from smaller firms. We have 4,000 employees and £4bn in turnover. When we instruct a Linklaters we are probably one of their smaller customers and just another customer in the long list they already have. If you go to a smaller firm, even with a fairly small legal spend, we can be an important customer to them. You do get a bit of specialist treatment as a result of that and perhaps they concentrate on you a

bit harder than a bigger firm would do.”

Ben Woolf, General Counsel EMEA at Tate & Lyle

“If you are a smaller firm working for us you drop everything and work for us because we are probably one of your biggest clients. You don’t get the same level of dedication and speed of handling things from big law firms. Smaller law firms will prioritise the work and will place a greater emphasis on being there for you.”

General Counsel of a Japanese industrial and automotive company

“For very specific matters, such as telecom licensing, we do tend to prefer smaller law firms because they often have the specific expertise we are looking for. We had some litigation last year and we used a small law firm in Paris. The associate working on it was not only really specialised in very specific fields of French telecom law, but was available all the time. If we needed her for a meeting she was there. I’m not sure we would have got this level of service from a larger firm.”

Virginie Bellehsen, Senior Legal Counsel at Orange

DATA INSIGHT: DO COMPANIES WITH LARGE IN-HOUSE TEAMS ALSO PREFER SMALLER FIRMS?

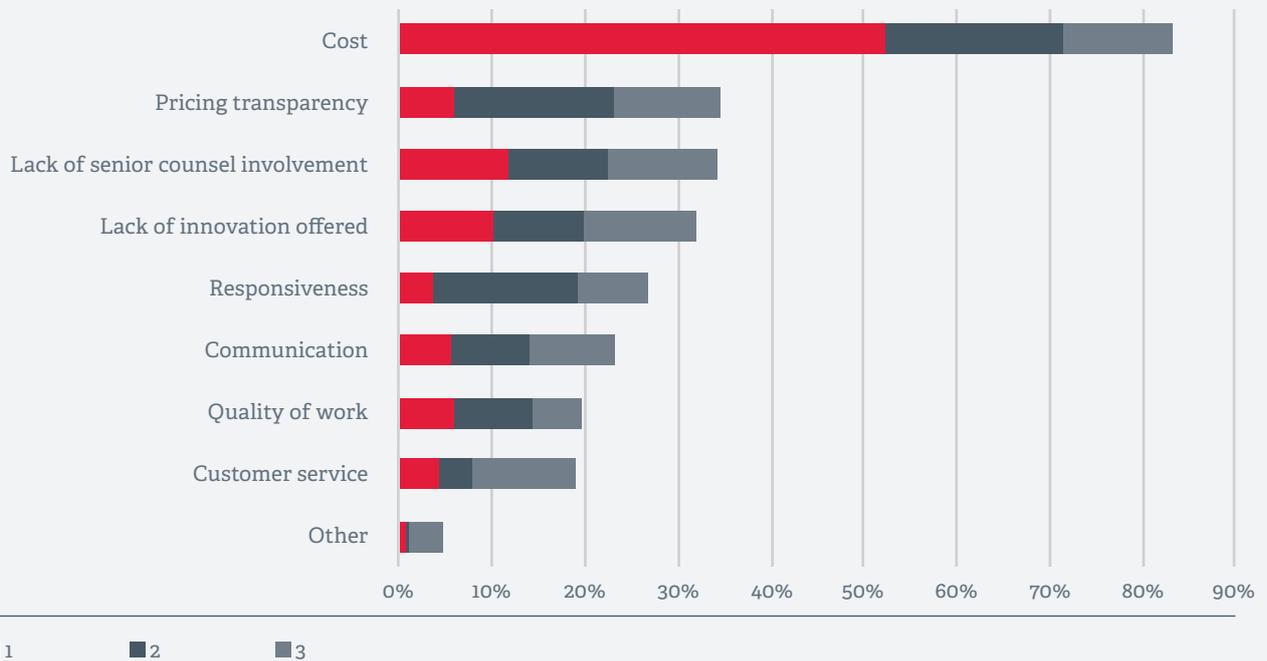
We wanted to test whether companies with large in-house teams also increasingly prefer working with small to medium sized firms. Companies with large in-house teams are likely those that also outsource significant amounts of work to law firms. It might be the case that those that frequently outsource work might prefer working with larger firms due to their strong reputation and breadth of resources.

However, our survey data reveals that companies with large in-house teams are equally as enthusiastic to work with small and medium sized firms. Some 70% of companies with large legal teams typically outsource the majority of their work to smaller firms, in line with the 71% of the overall group of survey responses that do so.

Interestingly though, companies with large in-house teams have different motivations for doing so. Half of this group of companies say they primarily work with smaller firms because they find them more innovative. In contrast the wider group of respondents prefer working with smaller firms because they provide better client service.

Of course, these two factors go hand-in-hand, but it is interesting to note that respondents with large in-house teams value smaller firms' innovative initiatives. Many GCs like the agility and client service that smaller firms offer, but might have considered that the large international firms are driving the innovation agenda. That said, our survey data suggests that this is clearly not the case and that smaller firms can in fact be more innovative.

WHAT, IF ANY, ARE THE MAIN SOURCES OF FRUSTRATION WHEN WORKING WITH LARGER LAW FIRMS? (PLEASE SELECT AND RANK YOUR TOP THREE, WITH ONE BEING THE MOST IMPORTANT)



/ GOING OFF-PANEL? KNOWLEDGE OF SPECIALISED FIRMS IS KEY

Fewer companies have formal legal panels than might be expected. Some 70% of survey respondents stated that they maintain at least one panel of preferred law firms, although there are some regional variations. The majority of respondents (62%) on average maintain less than ten firms on each panel.

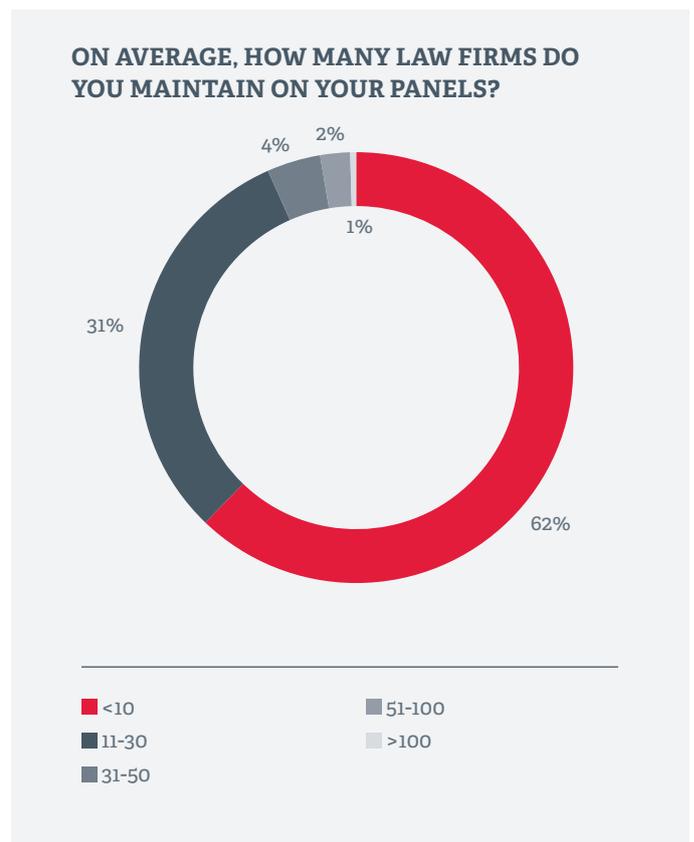
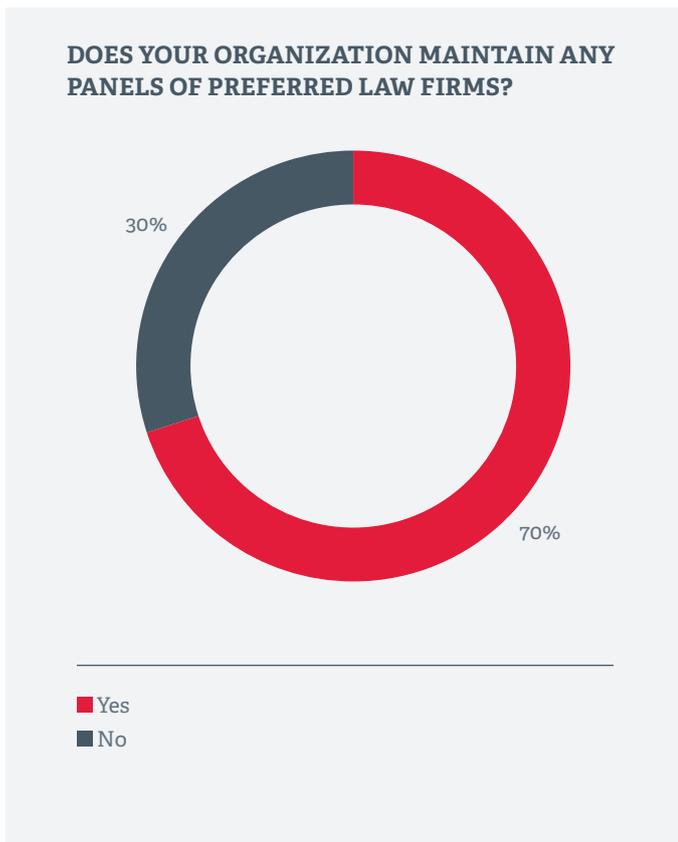
Interestingly, the survey data reveals that a relatively small number of companies (55%) currently instruct panel firms for at least 40% of all matters that are outsourced to law firms.

According to the survey data, the three main reasons for instructing a non-panel firm are if a company has had a bad experience of a panel firm, if there is a specific requirement for in-depth regional expertise or if there is a requirement for in-depth sector expertise.

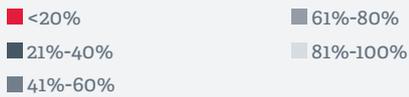
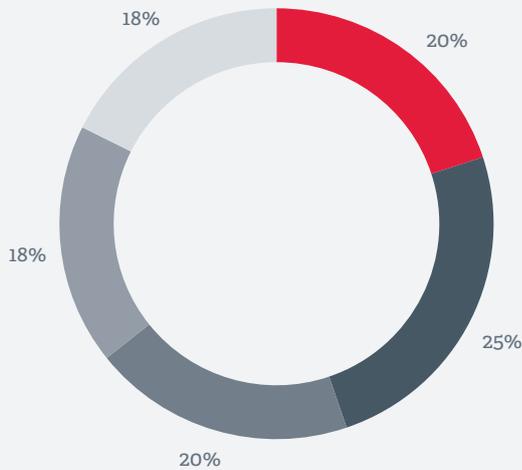
For companies with particularly large in-house teams (those with more than 200 lawyers), a requirement for specialist regional expertise is by far the most important reason for going off panel.

These reasons would likely favour small and medium sized firms being instructed over large international firms.

“Our panel has different types of firms to manage complexities in specific regions and situations, but even so we still have to go off-panel if we have something that is so specific,” explains the General Counsel of a US technology company that wished to remain undisclosed. “Sometimes the quotes we get from our panel firms for a specific type of work are very high, so while they might be able to do it, it makes more sense to go off-panel.”



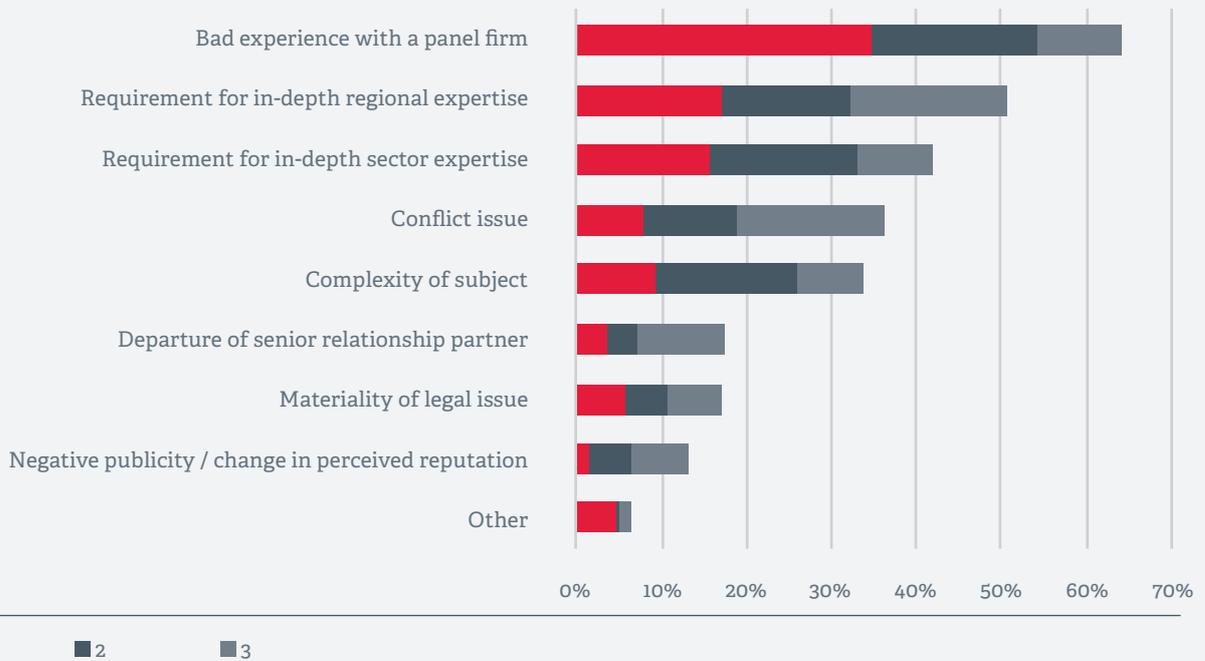
WHAT PERCENTAGE OF YOUR MATTERS GO THROUGH YOUR PANELS?



“When we do RFPs for individual deals we always set out in as much detail as we can what exactly we want and then ask firms to respond to that”

Andrew Wallace, Managing Counsel at CDC Group

WHAT ARE THE MOST IMPORTANT FACTORS THAT MIGHT CAUSE YOU TO GO OFF-PANEL? (PLEASE SELECT AND RANK YOUR TOP THREE, WITH ONE BEING THE MOST IMPORTANT)



DATA INSIGHT: DOES LOCATION AND SIZE OF LEGAL TEAM LEAD TO DIFFERENCES IN PANEL STRUCTURE?

The survey data reveals that there are some subtle regional differences when it comes to panel usage. For a start, 75% of respondents located in Asia-Pac operate at least one legal panel, significantly more than the 68% of European and North American respondents that do so. Companies with more than 200 in-house lawyers are significantly more likely to operate a panel – 82% of respondents from such companies maintain a panel.

North American respondents have a greater tendency to have a larger number of firms on their panels – 50% of North American respondents say they typically maintain more than ten firms on their panel, compared with only 32% of European and Asia Pac respondents.

Interestingly, having more firms on the panel doesn't automatically make it less likely that a company will go off-panel. Only 49% of North American respondents give at least 40% of their matters to panel firms. A larger share (55%) of the entire group of respondents outsource at least 40% of their matters to panel firms.

Companies with large in-house teams are not only more inclined to operate a legal panel, they are much less likely to go off-panel. Some 78% of these types of respondents give at least 40% of their matters to panel firms.

This may seem paradoxical because, as explained earlier, companies with large in-house teams are equally as enthusiastic about using smaller firms, which are typically not on panels, as other companies.

So why do they go off-panel less frequently? It is most likely because companies with larger legal teams typically go off-panel when they need specific regional expertise – 41% say this is the most important reason for going off-panel. In contrast the total group of respondents said they mainly go off panel because of a bad experience with a panel firm.

In short, companies with large in-house teams are perfectly willing to go off-panel, but there are fewer occasions to do so.

/ A SOLUTION TO THE OUTDATED RFP PROCESS IS REQUIRED

Our survey data reveals that companies rarely use formal RFP processes to identify and select firms to work with. Only 18% of surveyed organisations outsource the majority of their matters through a formal RFP process while 12% outsource more than 75% of their matters via a RFP. A larger number (33%) of respondents with more than 200 in-house lawyers outsource the majority of their matters through a formal RFP process while 24% run more than 75% of matters through a RFP.

Use of RFPs is relatively low because they can take a significant amount of time to prepare and run. Most companies therefore default to articulating matters to external firms via email. This is suboptimal because it can result in the scope of matters not being articulated clearly, potentially leading to cost and time overruns.

“When we do RFPs for individual deals we always set out in as much detail as we can what exactly we want and then ask firms to respond to that,” explains Andrew Wallace, Managing Counsel at CDC Group. “You have to be as detailed as possible on the RFP so you can compare like for like on the estimate. But it also gives the firms clear parameters as to what is in and out of scope. If the firm ends up with more time on the clock it is easier to hold them to their original quote. This all takes time but it is worth it.”

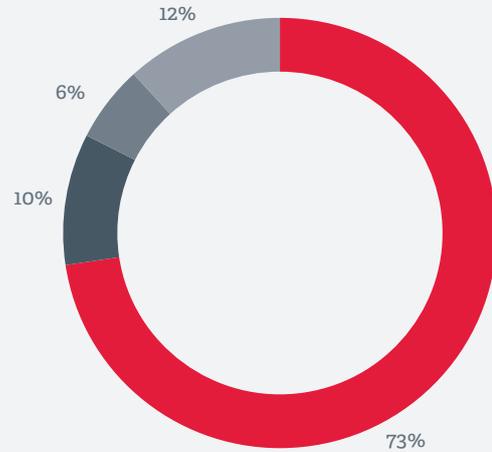
/ ALTERNATIVE LEGAL SERVICE PROVIDERS ARE FAILING TO MAKE AN INROAD

Despite all of the hype about alternative legal service providers, our survey data reveals they are failing to make inroads with the large international companies surveyed for this report. Only 4% of respondents outsource more than a quarter of their work to these types of organisations, with the remainder going to traditional law firms.

These findings are consistent around the world. Only 3% and 4% of respondents from Asia-Pac and Europe respectively outsource more than a quarter of their work to these types of organisations. At 7%, this figure is slightly higher in North America. A slightly larger number (9%) of respondents with more than 200 in-house lawyers outsource more than 25% of their work to alternative legal service providers, but even this figure is relatively low.

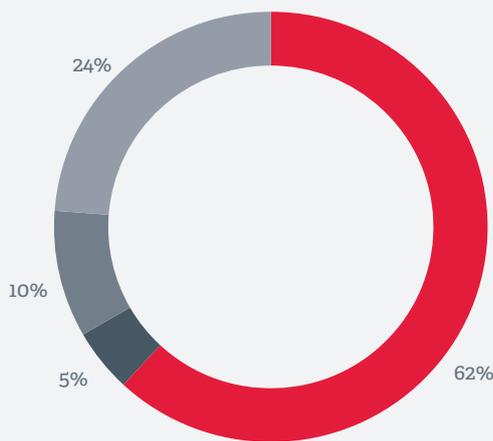
“Everything we do outsource goes to traditional law firms,” says the Group General Counsel of a US healthcare company. “We’ve spoken to some alternative providers but they are nearly always not as good and too expensive. That said the quality they offer is gradually improving.”

OUTSOURCED MATTERS THROUGH A FORMAL RFP PROCESS?



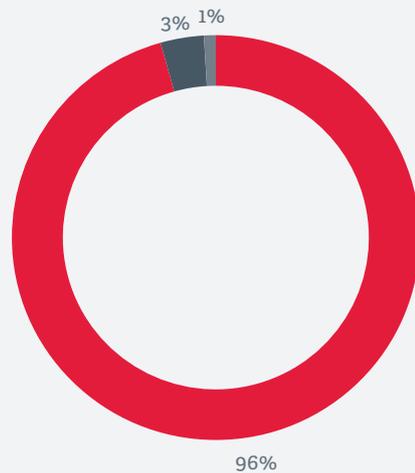
■ <25% ■ 50%-75%
■ 25%-50% ■ >75%

OUTSOURCED MATTERS THROUGH A FORMAL RFP PROCESS? 200+



■ <25% ■ 50%-75%
■ 25%-50% ■ >75%

OUTSOURCED ALTERNATIVE LEGAL SERVICE PROVIDERS PERCENTAGE



■ <25% ■ 50%-75%
■ 25%-50% ■ >75%

// Conclusion

General Counsel at large international companies are overly-reliant on their personal networks when shortlisting and selecting firms to work with in jurisdictions where they aren't familiar with the legal market. This often leads to firms being instructed that don't have the best local expertise.

This is the main finding of our survey of over 300 General Counsel and other senior members of in-house teams at large international companies.

Companies are not doing this because they are happy with the status quo. Survey participants and interviewees frequently mentioned they would prefer a more sophisticated and data driven approach to identifying and appointing firms.

The survey data also reveals some interesting trends about companies' preferences for working

with small and medium-sized law firms. Some 71% of respondents outsource the majority of work to smaller firms. Of these, 63% do so partly because they provide better client service. Around 40% of respondents also said they mainly work with smaller firms because they are more innovative, are easier and quicker to vet and have more expertise.

The key takeaway is that if clients had access to technology that could help them source the right legal providers outside their immediate networks, it would present them with an exciting opportunity to work with firms that are more innovative and possess the right expertise in the right jurisdictions.

If you have any questions about any of the findings in this report, please contact any of the individuals listed below:

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// About the research

This report was produced by The Lawyer Research Service, a division of The Lawyer, in collaboration with Globality. The report was underpinned by a survey of over 300 General Counsel and other senior members of in-house teams that work for international companies with annual revenues of over \$1 billion. The survey was conducted between September and October 2017.

These respondents were evenly split between Europe, North America and Asia-Pac. The majority (54%) of respondents work at companies that operate in more than ten countries. Some 23% of respondents work at companies that are present in more than 50 countries worldwide.

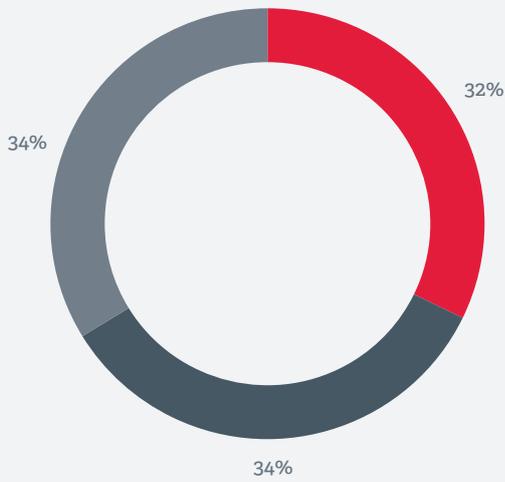
Most respondents work for companies with between 11 and 50 in-house lawyers. Some 7% have over 200 people in their in-house team.

To supplement the survey data, in-depth phone interviews were conducted with twelve senior members of in-house teams that have significant experience of identifying and then instructing law firms on an international basis. Nine of these were prepared to be quoted on an attributed basis in this report. They are:

- Andrew Wallace, Managing Counsel at CDC Group
- Baron Song, General Counsel at Gome Holdings
- Devottam Sengupta, Senior Legal Counsel at Louis Dreyfus Company
- Wan Kwong Weng, Group General Counsel at Mapletree Investments
- Izhar Bin Ismail, Head of Legal at Tenaga Nasional Berhad
- Virginie Bellehsen, Senior Legal Counsel at Orange
- Ben Woolf, General Counsel EMEA at Tate & Lyle

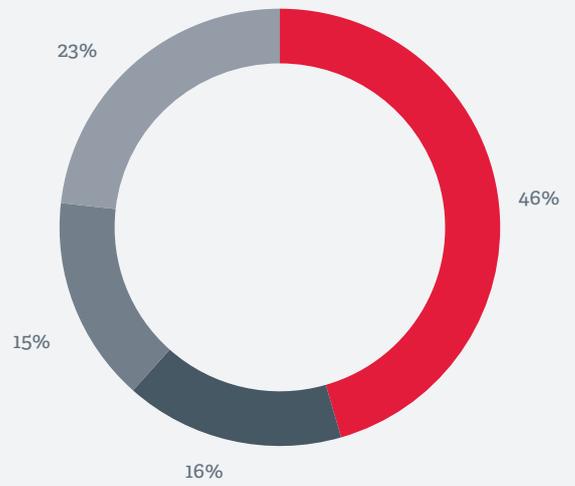
A further four individuals located in the US, Canada and Japan were interviewed but wished to remain anonymous.

RESPONDENT LOCATION



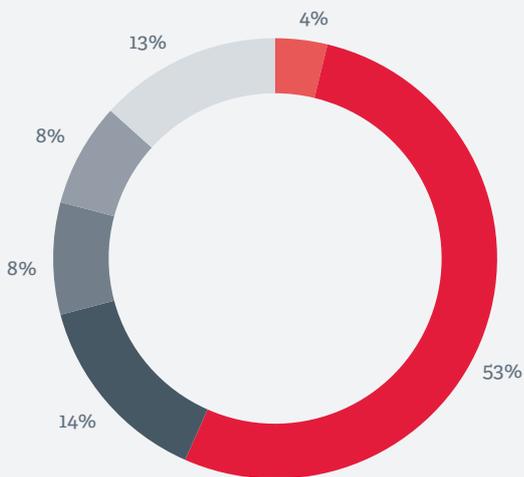
- Asia-Pacific
- Europe
- North America

HOW MANY COUNTRIES DOES YOUR COMPANY OPERATE IN?



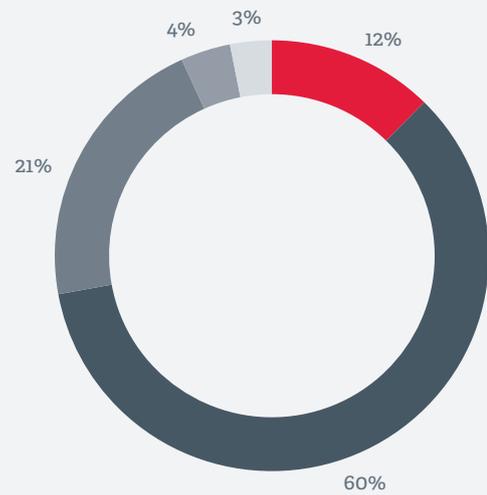
- 1 - 10
- 10 - 25
- 25 - 50
- > 50

WHAT IS THE SIZE OF YOUR BUSINESS (MEASURED BY REVENUES)?



- <\$1bn
- \$1bn-\$5bn
- \$5bn-\$10bn
- \$10bn-\$20bn
- \$20bn-\$50bn
- >\$50bn

HOW MANY LAWYERS ARE IN YOUR IN-HOUSE TEAM?



- 1 - 10
- 11 - 50
- 51 - 200
- 201 - 500
- > 500

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