



BY RICHARD STOCK

# Changing Law Firms

There are a couple of approaches for companies moving to systematic firm selection

**MORE THAN** three-quarters of companies have long-established relationships with primary law firms and local counsel. Still, times are changing for companies great and small, and the procurement/strategic-sourcing team is always enthusiastic to introduce more structure, process and economic targets when the company retains counsel. Collaborative technologies and alternative fee arrangements have made it irresistible, if not inevitable, to assure leading practices in the management of the legal-services portfolio.

Unsurprisingly, too few law firms initiate the business-to-business dialogue with key clients. Companies regularly craft requests for proposals (RFPs) for legal services in order to reset relationships in all dimensions: number of firms retained, work-intake and allocation protocols, collaborative technologies, management of the legal supply chain including of local counsel, pricing and innovation. At times the RFPs are bilateral and, at other times, they are high-stakes competitive processes that are disruptive and result in long-term value propositions for the client that differ dramatically from the status quo.

Threshold factors and RFPs do result in companies reducing and changing the configuration of their primary law firms. More than 70 per cent of the work referred to firms by corporate law departments is litigation or labour and employment work. Regular commercial work is typically much more cost-effective to in-source, while complex transactions and financings are referred to firms that have the bench strength for this work.

I was asked recently whether there are best practices governing how a company should replace one firm with another.

When hourly billing was the order of the day, a law firm's services could be phased out over a few months and new work allocated to the replacement firms. Companies are better now at projecting the scope of work for multiple matters, specialties and regions. Many are prepared to make commitments for three to five years in return for stable legal teams and predictable pricing that is non-hourly.

Without exception, law departments want to rid themselves of the administrative work that comes with retaining firms

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and processing fees in traditional ways.

It follows that companies do not wish to pay a fixed fee to one firm that will overlap with fees paid to firms that are being transitioned out. At times, a network of local counsel is replaced with a new network. At other times, primary firms are replaced, even for strategic matters.

Companies are migrating from the traditional model of a panel of firms (“I select the lawyer, not the firm”) to more structured business-to-business models.

There are two ways to manage the transition. The first is to designate one or two firms as primary national, primary regional (e.g., the Americas) or primary global counsel. These firms are asked to review all active files currently with the company, and then to propose a fast-track transition (four to six weeks) of the files. It is normal that

some files will remain with legacy counsel until a certain milestone is reached or even until they are closed. These “carve-outs” are estimated for fees, and the fixed fee of the primary firm is adjusted accordingly.

The second approach to managing the transition to a new configuration of external counsel is to have the primary firms immediately oversee the work and the matter budgets of legacy firms, receive and approve their invoices, and pay them from the fixed fee they are receiving. This creates a better balance of incentives for the company, and for primary and local counsel to quickly reach a new equilibrium in legal-services delivery, in legal fees and administration.

This latter approach has a beneficial side effect. Individual members of legal departments and business units form attachments to legacy counsel. Professional relationships, especially those that are effective, are difficult to disrupt. Some rank-and-file members of corporate law departments will passively resist changes to established legal-services delivery arrangements. A managed transition prompts a dialogue for new expectations, and introduces new players within a framework that is more businesslike.

General counsel should insist on a clear transition plan from legacy firms. The plan should be fast-tracked in its execution and minimize duplication of fees and administrative time from lawyers and others in the company to develop it and put it in place. The very best law firms should be tasked with proposing the details of transition plans and be evaluated on their success for doing so seamlessly. ☐

Richard Stock, M.A., FCIS, CMC, is a partner with Catalyst Consulting. The firm has consulted to over 250 law departments over 20 years. Reach him at (416) 367-4447 or at rstock@catalystlegal.com.