Understanding the price of collaboration between law firms and corporate law departments

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Thesis

True collaboration with a corporate law department would inevitably transform a law firm from a full-service, multiple-client platform for lawyers' services into a streamlined, businesslike entity dedicated to the strategic enablement and advancement of one client's (or a few clients') goals. This unacceptably high price will prevent most firms from establishing truly collaborative client relationships.

Background

Clients who seek greater collaboration with their outside counsel usually say they want to build a partnership with the law firm. But "partnership" implies a deep, long-term relationship that fulfills fundamental needs and renders measurable value for both parties. If only one partner enhances its value, then the relationship is not so much a collaboration as a shakedown of one's supplier or customer for a better deal.

But collaboration efforts between law departments and law firms are fundamentally hobbled by the enormous gap between each party's understanding of "enhanced value."

A corporate client could express and measure enhanced value in legal services in several ways, up to and including a demonstrable contribution by the legal function to the company's profitability, market share, or brand strength. But most law firms measure enhanced value in terms of immediate revenue and profit increases, and they lack the structure and cohesion to envision a longer-term view of success and sustainability.

This is a highly condensed explanation for why client-firm collaboration is so rare. But suppose that a law firm with strong and inspired leadership could meet the requirements of true collaboration with a client. This brief paper suggests that the price of that collaboration would transform the firm in ways that its shareholders would reject.

Argument

To craft a true partnership with a corporate client, a law firm needs to know the client inside out — to understand its purpose, goals, priorities, strategies, markets, products, customers, rivals, competitive advantages, regulatory environments, compliance responsibilities, and more. It must assemble and analyze deep reservoirs of data about the client and its world, building and maintaining strong relationships with the client's key personnel, in order to not just solve the client's problems, but also to anticipate and minimize its troubles and risks and help it to achieve its core business objectives.

To achieve this goal would require the firm to expend a tremendous amount of effort, energy and bandwidth on the client. But all these resources are finite. What a firm devotes to one client is what it cannot dedicate to another. The scope and intensity of a law firm's focus on its collaborative partner might ultimately render it best suited to serve only that client, or a few others very much like it.

As clients push their primary outside counsel to "know our business deeply" and "be our collaborative partners," the firm could be forced to sacrifice general market knowledge in favour of deeper client insight. But this might paradoxically end up reducing the firm's value to the client, because clients rely on their firms for intelligence and insight garnered from a wide range of other clients in the same or affiliated industries.

What's more, the firm would experience a reduced capacity to serve other clients, costing the firm work from these clients and inevitably, the departures of lawyers and practice groups outside the core collaborative relationship. These obstacles to true collaboration between corporate clients and law firms will likely hobble such efforts in practice.

But it is also possible that such collaborations not only succeed and catch on, but actually transform the supply side of the legal market. Massive full-service law firms teeming with myriad disparate clients could give way to a new model firm that specializes not in a practice area or industry sector, but in the strategic enablement and advancement of a single client's goals. In that scenario, the market might coalesce into one group of providers that delivers a wide range of services to an extremely small handful of clients, and another group that delivers the traditional full-service multiple-client model.

Questions

1. In theory, do these objections to the success of collaboration efforts between corporate law departments and law firms hold up to scrutiny?
2. In practice, what should we make of strong efforts in this direction by Microsoft, especially as it relates to the law firm of Perkins Coie?
3. If law firms prove structurally and culturally unable to become clients' true collaborative partners, might law companies and ALSPs fill this role instead?

Further Reading

- The reality of collaboration and The price of collaboration, by Jordan Furlong

- Huge, If True: How Microsoft's Big Ideas Could Transform Legal Buy, by Jae Um

- Beyond the Billable Hour: It's Not About Economics—It's About Relationships, by Neal Suggs of Microsoft and Judy Jennison of Perkins Coie