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In-Depth Report 2005

Study into the European market for legal services

Understanding the minds of European in-house counsel

2005 Research Report: LexisNexis Martindale-Hubbell
Research conducted by:

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"Understanding the minds of European in-house counsel": In-depth Report 2005

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1. Foreword

This is the second in-depth research study by the International Division of LexisNexis Martindale-Hubbell into the European legal services market.

Once again the study has concentrated on an examination of the priorities and challenges as well as needs and expectations of today's corporate lawyers based in Europe.

All survey respondents either contribute to, or make the final decision regarding, their company's use of outside lawyers. All have responsibility within the scope of their terms of reference, for facilitating highly complex, multi-jurisdictional transactions.

As this report is broadly similar in scope to the 2003 study, it makes it possible to compare and report on changing priorities, expectations and needs on both sides of the market.

The 2005 study concentrates on four main areas:

- The current priorities and challenges facing in-house counsel broken down at strategic, departmental and individual levels;
- The changing needs and expectations of in-house counsel, with particular regard to their dealings with external lawyers; and
- How satisfied in-house counsel are with their law firm providers.

Whilst senior in-house counsel today recognise the need to be more closely tied to executive activities such as strategic planning and decision-making, this report highlights just how great a challenge many senior in-house counsel are finding this to be. The vast majority of in-house counsel questioned (76%), consider this to be their greatest strategic challenge, more so than the 'hot topics' of the past few years: managing risk across organisations and dealing with compliance and new business regulation.

Derek Benton, Director International Operations
LexisNexis Martindale-Hubbell

International Bar Association

IBA Corporate Counsel Forum Endorsement

Study into the European market for legal services – "Understanding the minds of European in-house counsel"

The Corporate Counsel Forum of the International Bar Association is delighted to see the publication of LexisNexis Martindale-Hubbell's Study into the European market for legal services – "Understanding the minds of European in-house counsel".

The findings within this in-depth report accurately reflect the reality of European in-house counsel's practice as presented at the Corporate Counsel Forum's 4th Annual Conference in Amsterdam this February.

The Report highlights the new challenge faced by in-house counsel in adapting to their changing role from the technical adviser on legal matters to the guardian of corporate risk management and reputation and active participant in business strategic planning and decision making.

As the Report shows, getting value for money and managing outside counsel will remain one of the top priorities for European in-house counsel. This Report will no doubt help bridge the gap between the expectations of the in-house counsel and the aspirations of the outside counsel, bringing them closer together to achieve a win-win situation.

I applaud the creative approach and diligent efforts of LexisNexis Martindale-Hubbell in producing this useful Report.

Jan Eijsbouts
General Counsel, Akzo Nobel NV, Arnhem, The Netherlands
Co-Chair, Corporate Counsel Forum, International Bar Association

International Bar Association
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2. Introduction & acknowledgment

Back in early 2003, LexisNexis Martindale-Hubbell embarked on an ambitious cross-jurisdictional study into the European corporate legal services market. The objective of that study was to present an in-depth insight into the buyer side of the legal market and the more specific needs and expectations of purchasers when employing outside legal assistance.

The resulting 2003 report was something of a first in terms of geographic scope, and considerable interest was generated across the profession. Interest was high among the buyers with the study findings offering the chance to benchmark their teams against numerous departmental best practices and gain a better appreciation of the priorities and challenges facing their peer group in general.

Therefore, whether a corporate buyer or law firm interested in business development opportunities in the region, we trust you will find this latest report both informative and relevant. We look forward to sharing with you the findings from subsequent market research studies we carry out in the future.

Acknowledgment

We would like to extend our thanks and appreciation to all those who gave their valuable time to participate in this study. Without the continued support of the corporate legal community in Europe, we would simply not have been able to offer this balanced representation of the market we originally set as our objective.

James Harley, International Marketing Director
LexisNexis Martindale-Hubbell

3. Research methodology & demographics

Introduction

Participants in this research can be classified as senior European corporate counsel / executives, who play a central role in decisions relating to the purchase of external legal services.

Against the 2003 report, this study sought to achieve a more even geographic distribution of respondents across the region. Rather than the majority (80%) being based in UK, France, Germany and Italy, as was the focus of the 2003 study, in this report less than half (46%) were recruited from these countries.

An important consideration was also to ensure a good level of participation from Europe's largest organisations. More than a third of the in-house respondents (41%) were from Global / European 500 companies. Of those companies in the Global / European 500, 58% were from the UK, France, Germany and Italy.

Interviews

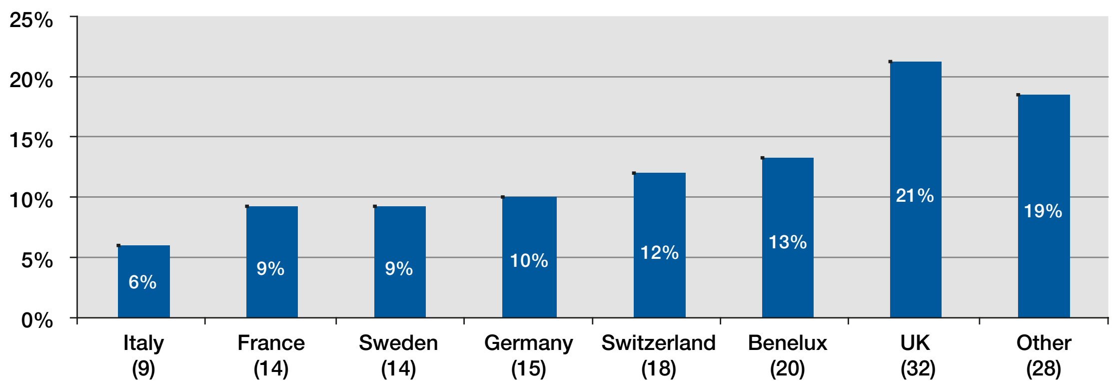
All telephone-based interviews were conducted in local language or English at the preference of individual participants. In summary, the following were conducted:

- 92 in-depth telephone interviews, each lasting about 40 minutes;
  More than three quarters (79%) of these interviews were carried out with non-UK based in-house counsel.

- 58 online questionnaires;
  Just under half (48%) of the online questionnaires completed were from respondents based in the UK.

Geographic distribution of respondents

Whilst remaining the largest single country contributor, the UK contingent comprised just 21% of the respondent base, against 58% in 2003.

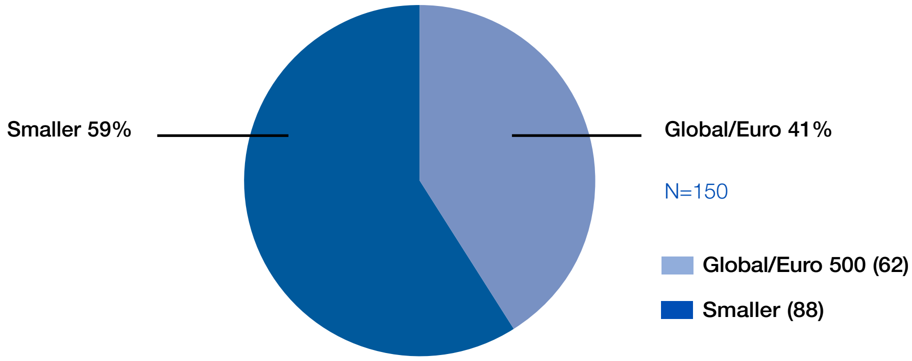


Composition of 'Other' category: Spain(4), Denmark(6), Austria(4), Norway(3), Finland(3), Ireland(2), Slovakia(2), Africa(2*), US(2*)

** Global counsel are based in these countries, but organisations are European headquartered*

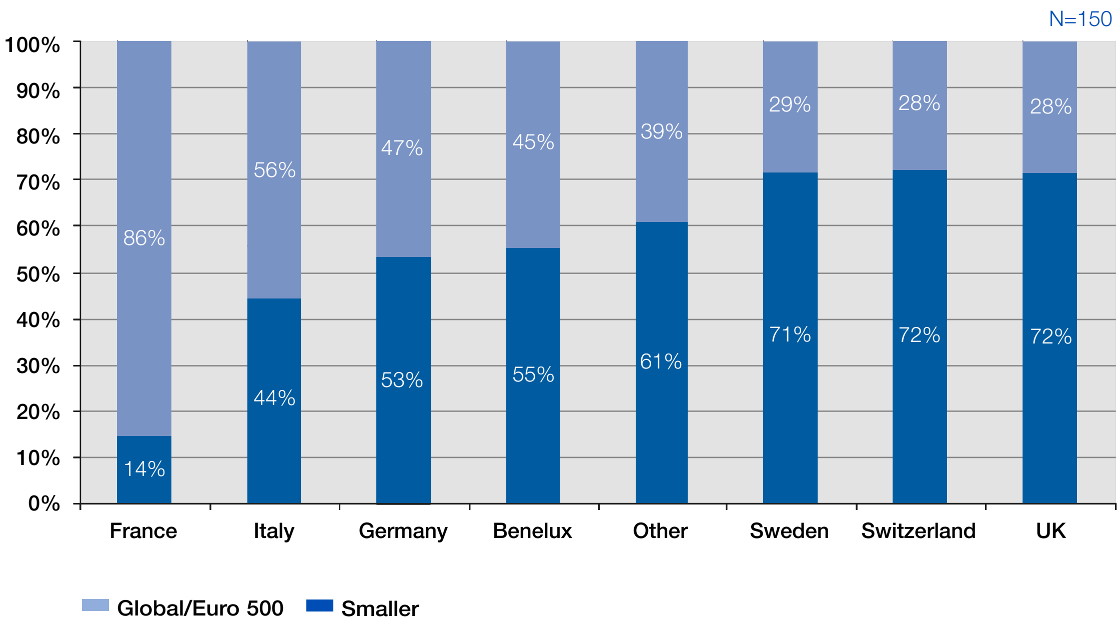
Demographics

Distribution of respondents across Global / European 500



Geographic distribution of Global / European 500

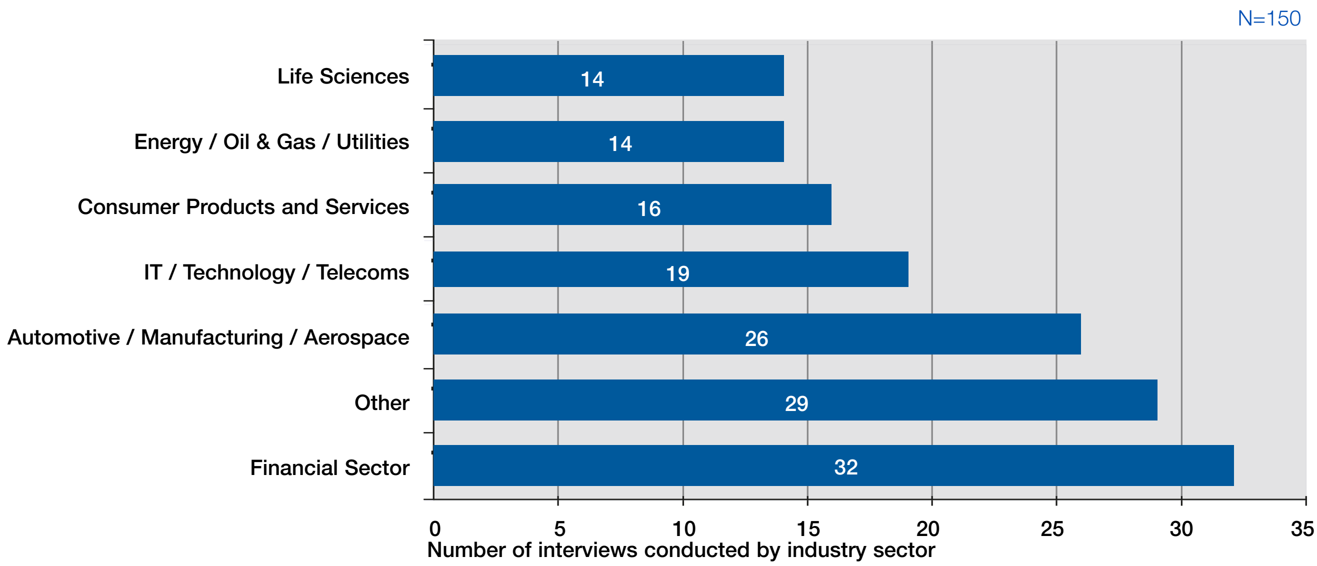
The graph below shows the proportion of respondent organizations, by country, that were in the Global / European 500.



Demographics

Distribution of sample across key industry sectors

In keeping with the geographic distribution, a good cross section of industry sectors was represented by the sample.

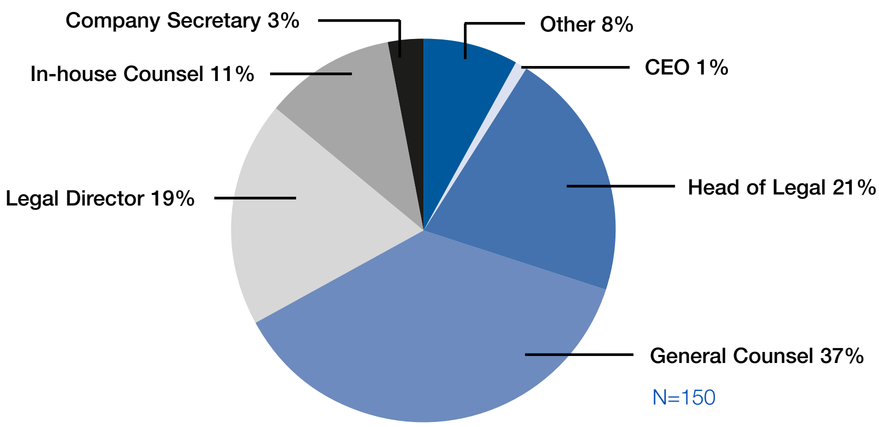


Composition of 'Other' industry sectors category: Construction (7), Chemical (5), Media (3), Shipping (2), Transport (2), Miscellaneous (10)

Respondent demographics

Respondent job functions / titles

Senior positions either representing or responsible for the in-house legal department made up the majority of respondents (77%).



Distribution of respondents by size of organisation

Title of Respondents	Global/European 500	Smaller	Total
CEO	1%	2%	1%
Head of Legal	20%	23%	21%
General Counsel	32%	40%	35%
Legal Director	22%	16%	19%
In-house Counsel	11%	11%	11%
Company Secretary	5%	2%	3%
Other	9%	6%	8%

Participating companies

The senior in-house counsel of 150 companies participated in this study. A sample of the respondent companies is provided below:

AgustaWestland
Airbus Industries
Alcan Holdings Switzerland Ltd
Allianz-Cornhill Insurance PLC
AstraZeneca
Atlas Copco Group
BASF AG
BatiGroup
BNP Paribas
Bobst Group
Bonniers Publishing Company
Bristol-Myers Squibb
BTV
Carlsberg A/S
CIBA Speciality Chemicals PLC
Electrowatt-Ekono Ltd.
ETAM PLC
Finland Post Corporation
Future Publishing Ltd
GE Healthcare
GE Commercial Aviation Services
General Electric
Guardian Industries Europe
Guggenheim Aviation Partners
Gulf International Bank
H & M Hennes & Mauritz AB
H. Lundbeck A/S
H.A. Schlatter AG
Honda Motor Europe Ltd
ING Group
Kuehne & Nagel International AG
Logitec
Monsanto Company
Nestlé S.A.
Nike
Premier Oil plc
QinetiQ Group plc
Readymix AG
Sanofi Aventis
SAP AG
Silicon Graphics GmbH
Skanska AB
Sodera Skulsgarana
SOS International
Statoil AS
Stollwerk AG
Swiss National Insurance Company
Syngenta International AG
Tchibo GmbH
Thales Group
The Capita Group Plc
The Standard Life Assurance Company
The Wellcome Trust
Theratase plc
Thomas Miller Defence Ltd
UBS AG
Unaxis Management AG
Unicredito Italiano
Wiener Stadtische Allgemeine Versicherung AG
Xerox SpA
Zurich Global Corporate UK

4. Executive summary

Key Findings

Working more closely with business units

This was considered by respondents to be the most important departmental task or issue facing in-house teams with 82% of the sample scoring this ≥* 7 on a scale where 0 = 'very low' and 10 = 'very high' importance. The average score across the entire sample was 8.1. Building and maintaining working relationships with business units was, however, seen as a challenge to the in-house function with 86% of respondents rating the significance of the challenge ≥ 7 on a scale where 0 = 'very low' and 10 = 'very high' significance.

More work to be outsourced by corporate law departments in Europe

The report suggests that there is a growing tendency for in-house counsel to outsource work to external law firms in the region. Whilst 34% of respondents to the 2003 study plan to increase the amount they spend on outside counsel, in this report that proportion increases to 43%.

In-house involvement in board meetings and executive decision-making

Irrespective of geography or industry sector an overwhelming majority (88%) of in-house respondents expressed a clear desire to get more closely involved in executive planning and decision-making. Over three quarters of this group, however, recognised that this presented a 'significant' strategic challenge (76% scoring this ≥ 7 on a scale where 0 = 'very low' and 10 = 'very high' significance). Interestingly, greater significance was attached to this than to 2003's 'hot topics' of concern; managing risk (73% scoring this ≥ 7) and the burden caused by new business regulation and compliance (60%).

Law firms should offer more flexible engagement terms

Law firms should demonstrate a willingness to offer more flexible engagement terms to meet the needs, circumstances and budgetary constraints of today's in-house departments. 81% of the sample either agreed or strongly agreed that law firms would be well advised to present alternative fee and engagement arrangements to maximise their chances of being successfully short-listed or selected.

Initial law firm appointment: Price is a secondary consideration

Whilst considerable scrutiny is given to day rates and billing terms at the time of panel review and/or law firm re-appointment, price is one of the least important factors taken into consideration when an external law firm is appointed (just 6% of respondents considered this the most important factor from an arbitrary top-five list of 'factors determining selection'). Other factors considered more influential were: anticipated quality of work (54% of respondents giving this a first ranking), firm experience (30%), industry sector experience (15%) and the anticipated working relationship (11%).

Executive expectations of their in-house counsel remain high

Executive expectations for their in-house departments have remained fairly constant over the past 12 months, however, there is little doubt they remain high. In Germany only 14% of counsel surveyed have experienced some change in expectations (28% in 2003), in Sweden 15% and Belgium / Netherlands 15%. There remains, however, a feeling in certain countries that the burden of expectation continues to grow, especially in the UK (29%), Italy (33%) and France (36%), though these percentages are down on the 2003 study findings – especially in the UK and Italy (down from 49% and 42% respectively in 2003).

* *Greater than or equal to*

Executive summary

Budgetary constraints remain severe

Growing cost pressures mean that for many corporate legal departments, despite clearly increased workloads and broader roles, internal resources are unlikely to be increased. One can expect the calls for more competitively and flexibly priced external legal services to increase.

In-house counsel appear to be more satisfied with value for money from law firms

Comparing 2003 and 2005 report findings, there is a growing perception that external law firms are offering better value for money and a fairer deal to their in-house clients. The proportion of in-house respondents considering law firm fees to be ‘too high’ or ‘high’ has reduced from 73% of the sample in 2003 to 53% in 2005. This may be a function of the tough competition within the market, but may also reflect the price pressure that in-house counsel are exerting on their preferred providers.

Executive summary

In-house counsel developments

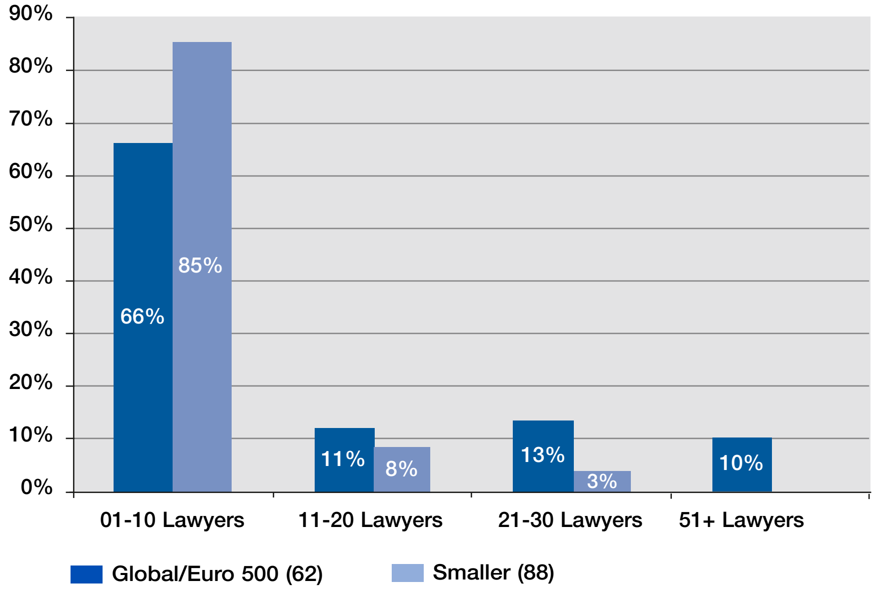
Comparison of study findings: 2003 vs 2005

The table below captures some of the more notable developments and changes in mood amongst European in-house counsel since the 2003 research study.

2003 study findings	2005 study findings
• Cautious mood, growing demands and expectations against a backdrop of budgetary and general departmental resource constraints • Feeling that law firms could offer better value for money	• Executive expectations for their in-house teams, whilst remaining high, appear to have stabilised • Whilst a lower priority area, budgets remain tight • Perception that law firm pricing is more reasonable • Continuing desire for greater flexibility in fee arrangements from external providers
• Panel reviews tend to be informal • Desire for closer, more rigorous checks on firms 'post-project' (as well as ongoing assessments being carried out)	• Low priority given to reviews, checks and discussions concerning work quality • Evidence of growing importance of price resulting in pressure on panel firms and preferred providers • More attention being given to future engagement terms
• In-house counsel must be more closely aligned with business units	• Whilst progress has been made, in-house respondents still recognise that more needs to be done in this area • Aligning with business units is their top departmental priority and challenge
• 34% of respondents were planning to increase the amount of work they outsource	• 43% of respondents plan to outsource more
• Need to be more involvement in board meetings and executive decision-making	• Whilst still a fundamental goal, in-house respondents admit to the significance of this challenge
• Higher quality of work is expected from in-house function (expectation of executive management)	• Expectations have stabilised • In-house teams generally feel more valued and appreciated by their management teams
• More emphasis being placed on corporate governance and risk management	• Whilst both remain priority areas, these no longer seem to carry the 'concern' and priority weighting given them in 2003
• More bureaucracy and paperwork caused at the time by new US legislation	• Little reference made by in-house respondents to this subject
• A more complex regulatory environment, resulting in the need for more timely advice and better access to the board	• Providing good and timely advice remains the definitive and fundamental aspect of delivering excellence in in-house corporate services
• In-house are being tougher in their re-negotiations with existing panel firms, with discussions focusing on cost, the need for improved transparency in billing and alternative fee arrangements	• Remains a key feature of 'incumbent' firms reviews. Price and alternative fee arrangements now seem to be playing a critical role in determining whether a firm is successfully retained. During formal panel reviews – which remain rare, service quality whilst important is a secondary consideration to price
• During the initial appointment of law firms, in-house seek expertise first and foremost, consideration then falls on service levels and price	• Reinforced by the 2005 findings

5. Departmental structure

Size of legal department



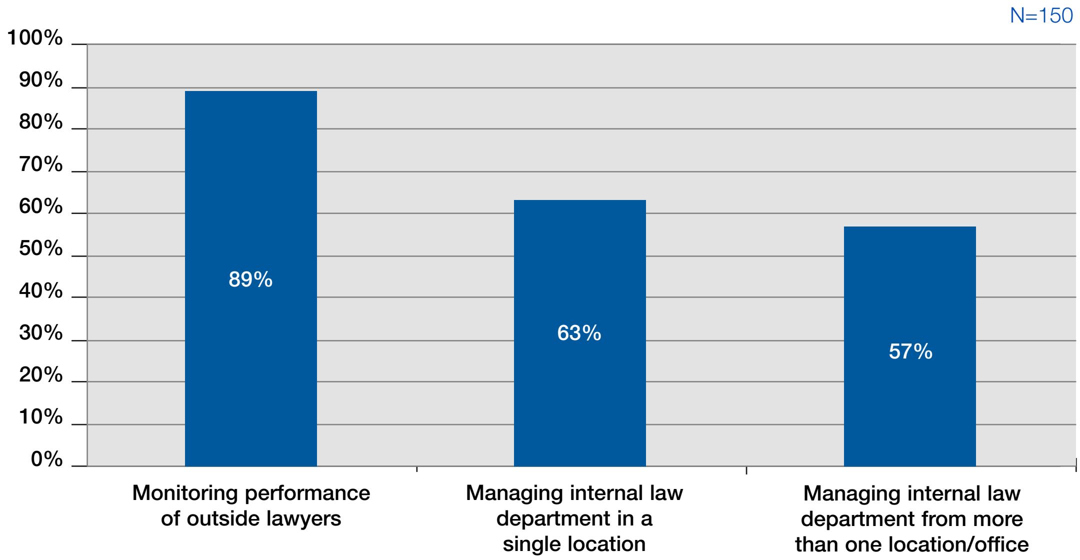
How the in-house counsel function is organised

	Global/Euro 500 (N=62)	Smaller (N=88)	Total (N=147)
As a single unit	44%	56%	51%
Lawyers within the department are assisgned to individual business units	15%	13%	14%
Each business unit has their own in-house counsel team	9%	4%	5%
A mixture of ‘b’ and ‘c’ above	29%	23%	27%
Other	3%	4%	3%

6. Responsibilities given department structure

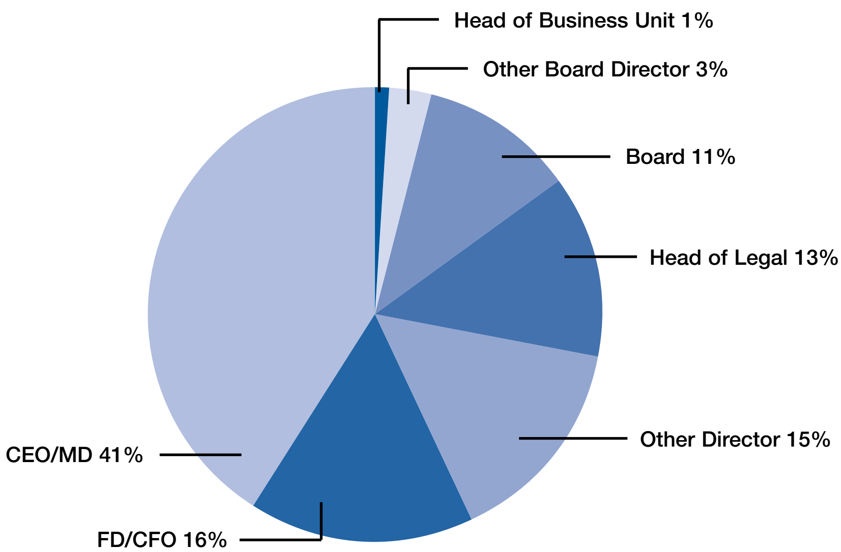
Responsibilities of in-house respondents

Since the majority of counsel interviewed monitor the performance of outside lawyers, and more than half manage the law department from more than one office, an implication for client relationship management by law firms is to maintain close ties not only with the local client but also with senior lawyers managing the department remotely.



Reporting structure

Well over a third of respondents (41%) report directly to the CEO of the company. A third (34%) of respondents report to another director and 11% directly to the board. Only 13% report to another legal role, such as Head of Legal for the entire organisation (against 32% in 2003), which suggests that more in-house counsel may be reporting directly to senior executives in their organisations.



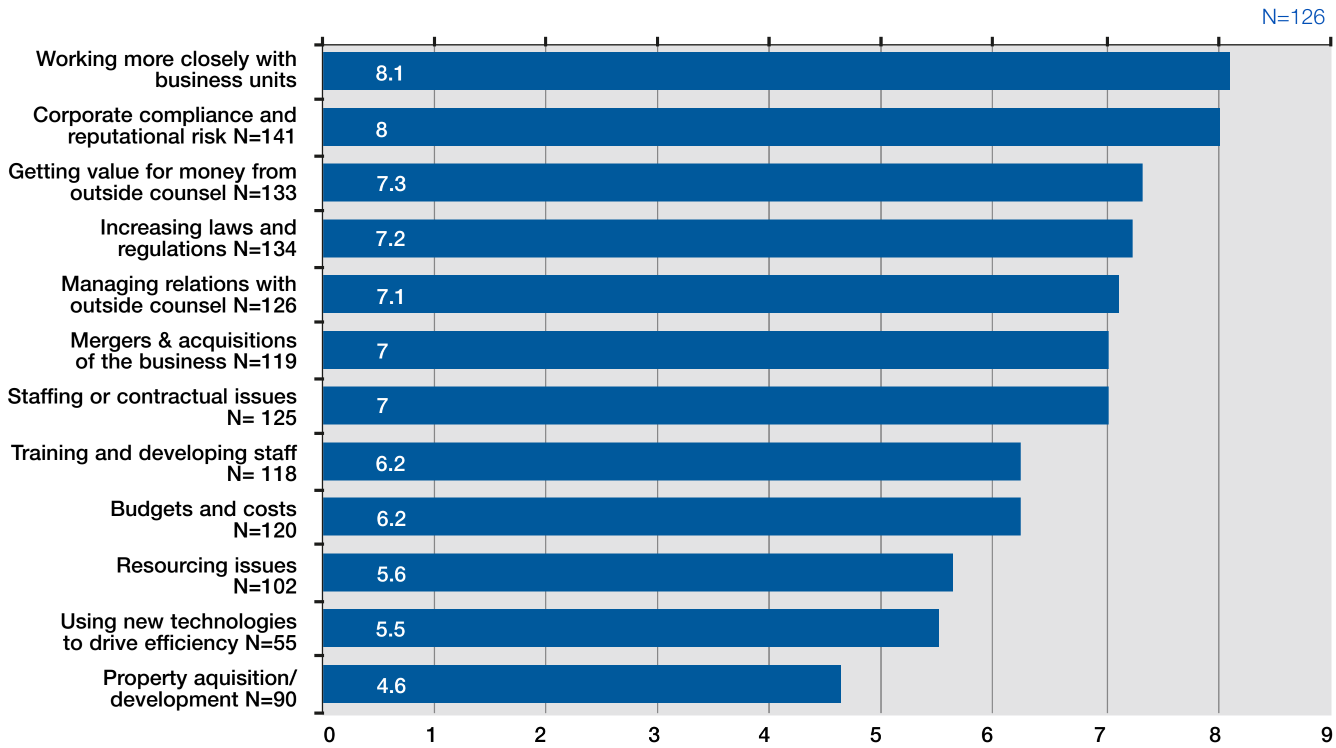
7. Top priorities for in-house teams

The 2003 study accurately predicted that the integration of the legal department into organisations would be ‘a likely priority in the future.’ Given that regulation and compliance at the time of that report were sweeping the profession, ‘working more closely with business units’ was not the highest priority (34% of respondents). This latest study, however, suggests that closer integration with business units is currently a top priority and high profile issue for law departments across Europe. Of those departmental tasks or issues assessed, ‘working more closely with business units’ achieved the highest importance or significance score across the sample (8.1 out of a maximum 10).

Respondents were asked to score each departmental task or issue on an importance scale where 0 = ‘very low’ and 10 = ‘very high’ importance.

Mirroring 2003’s findings, ‘using technology to drive departmental efficiency’ had one of the lowest scores at just 5.5. This low score suggests that either new IT systems or process / workflow improvement software have been introduced in the vast majority of organisations and no significant disruption or focus is required on them or that this matter is considered by respondents as simply a secondary departmental priority.

Average scores for departmental tasks and issues (ranked in order of importance or significance).



Top priorities for in-house teams

How might these priorities change in the foreseeable future?

88% of respondents questioned did not expect their scores to change in the foreseeable future, although a small number of the sample (10%) suggested that corporate governance, compliance and reputational risk would be an area of growing attention and a minority (14%) of Global / European 500 participants predicted that M&A would become an increasingly significant area.

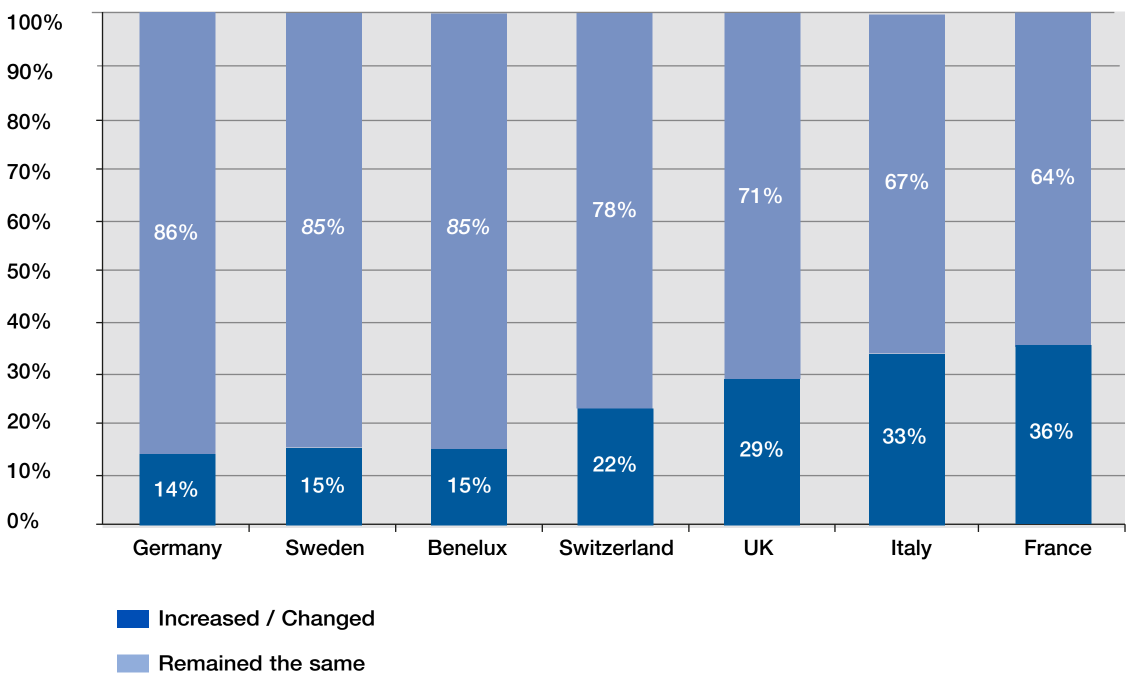
8. Executive expectations

Changing executive expectations towards the role of their in-house teams

The research findings once again presented a mixed response from participants when asked, in the light of the growing regulatory climate, whether or not (and if so – to what degree) the expectations of senior management had changed towards their function over the last year.

With the exception of France where respondents believe expectations have increased / changed (up from 29% in 2003 to the 36% reported in this study), the majority of respondents (77%) believed that their executive had not recently changed their expectations. These percentages indicate a marked change from 2003's within which 46% of the UK's respondents felt expectations had changed along with 42% of Italian, perhaps reflecting at the time, greater executive anxiety caused by the economic slowdown and general nervousness in the wake of the Enron scandal.

Changing executive expectations

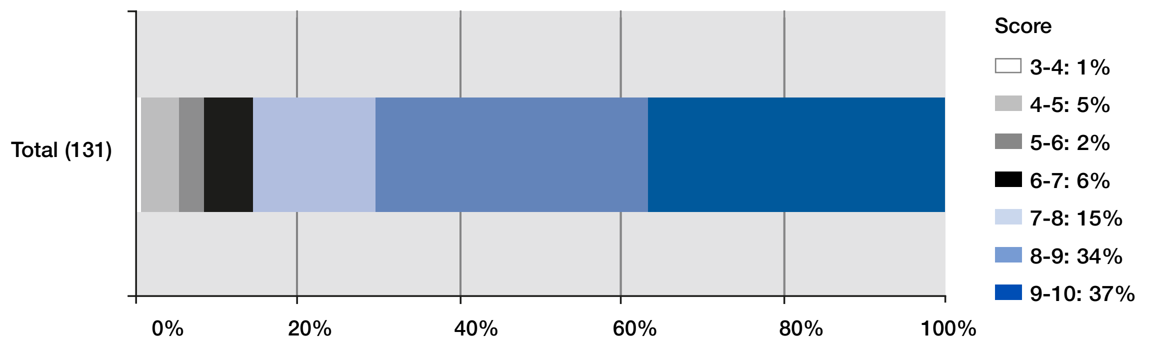


9. Challenges facing in-house counsel

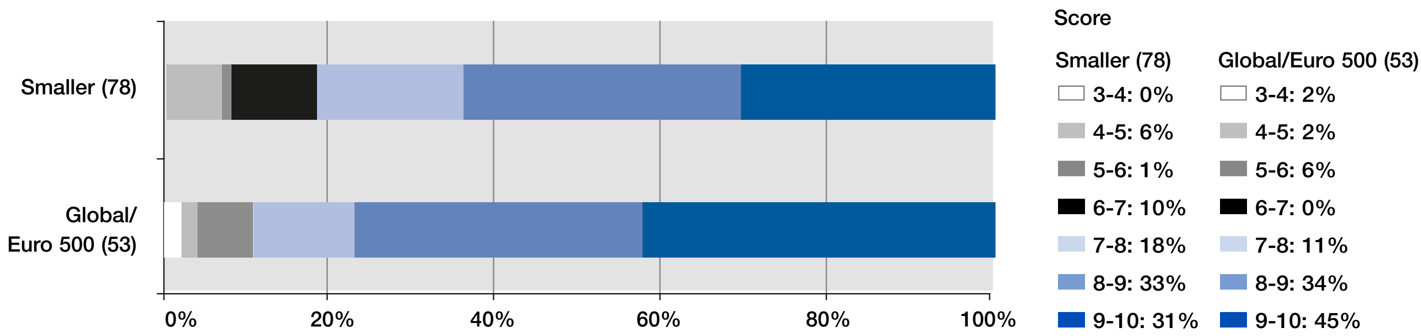
Departmental challenges: working with business units

Interestingly, whilst the need to integrate with business units was identified across the sample as a priority area (see section 7); building and maintaining relationships with business units was also highlighted as an area that in-house teams find challenging. The scale or significance of the challenge amongst those responsible for developing and managing internal relationships across much larger organisations was also highlighted: 79% of Global / European 500, against 64% of smaller organisation respondents scoring this challenge an ≥ 8 on a scale where 0 = a 'very low' and 10 = a 'very high' significance.

Distribution across the sample



Distribution by size of organisation

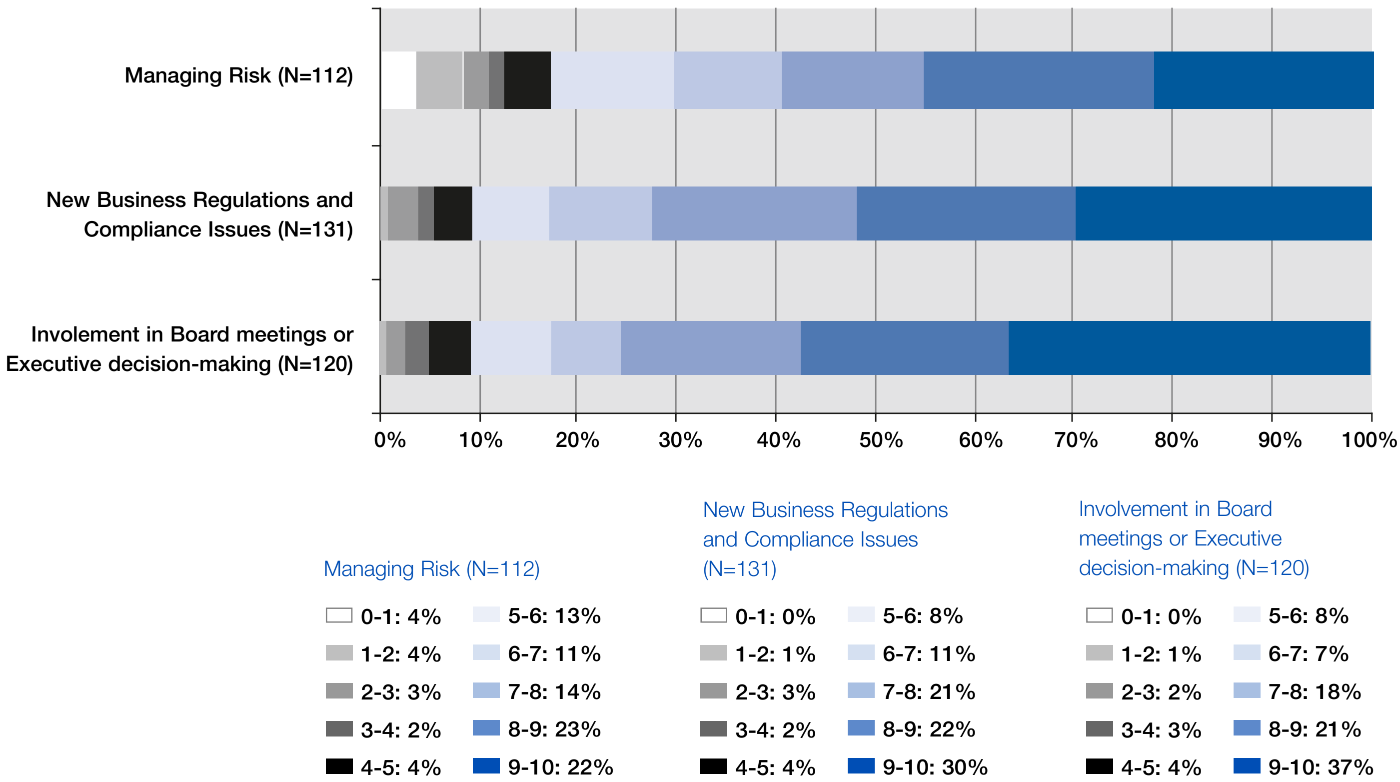


"Whilst a severe burden, the regulatory climate is forcing us to work more closely with businsess units. There's no denying it has enhanced our profile especially amongst the executive, though this has its challenges."
Energy/oil and gas/utilities, Germany

Challenges facing in-house counsel

Strategic challenges facing in-house departments

Respondents were asked to score the importance of the following strategic challenges facing their departments. Perhaps unsurprisingly, managing risk and new business regulations / compliance both scored highly with 59% and 73% of respondents scoring these ≥ 7 out of 10 on a scale where 0 = a ‘very low’ and 10 = a ‘very high’ significance. The most significant challenge was considered by participants to be getting more involved with board meetings and executive decision-making with 76% scoring this issue ≥ 7 out of 10.

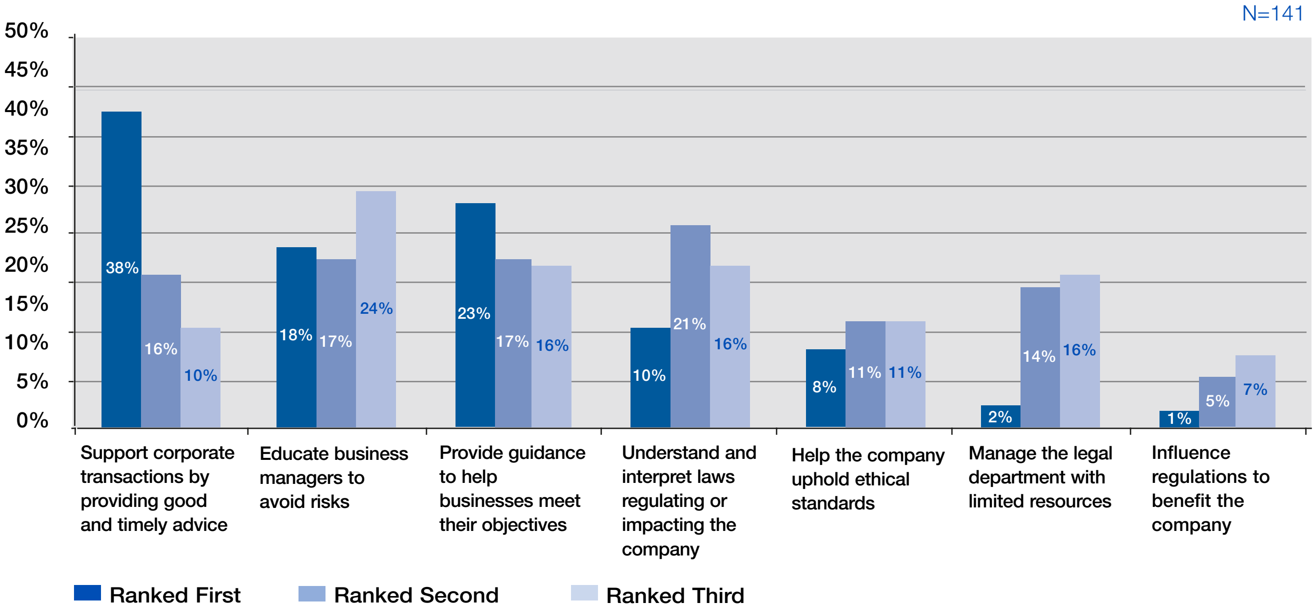


10. Defining excellence in delivery

When asked to define what 'excellence' means in terms of the service they provide to their organisations, in-house counsel were keen to stress the importance of supporting transactions with 'good' and 'timely' advice, with 38% of respondents citing this as their top criteria.

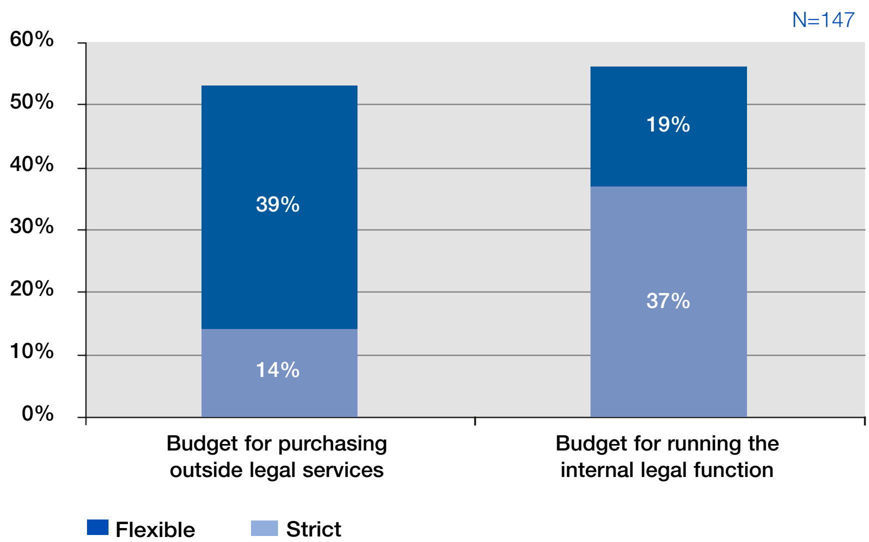
Respondents were asked from the list below to select the top three defining criteria and to rank them in order of significance.

How in-house counsel define excellence in their everyday roles / tasks



11. Budgets

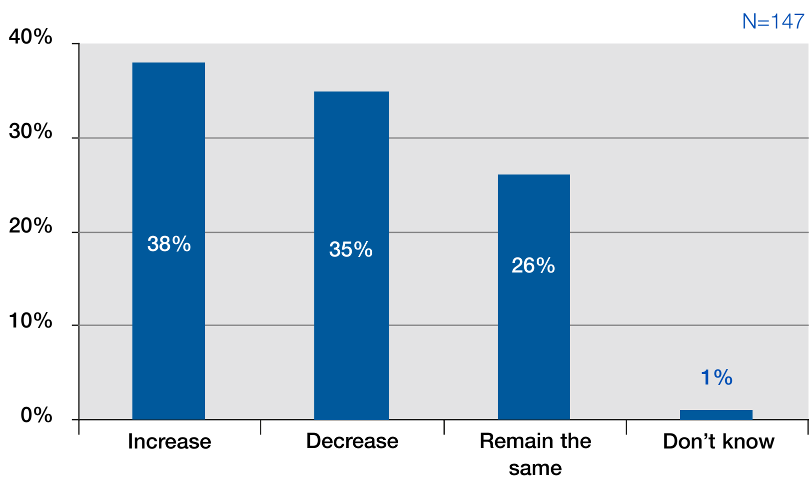
In an almost exact repeat of the 2003 report findings, European in-house counsel appear to have more fixed budgets for running their internal departments than for purchasing outside legal services. The research suggests, however, that budgets on the whole seem to be quite flexible as in-house counsel appear to struggle with predicting legal spending and associated costs across their organisations. Whilst in-house counsel in Europe seem to have some difficulty in predicting what their exact needs will be in the future, 39% appear to have at least a flexible budget for purchasing outside legal assistance.



Will budgets increase or decrease?

When asked whether budgets had increased or decreased in the last year, the suggestion from the sample was that there has been a slight easing in the cost cutting which has been evident in recent years, with more respondents this year (38%) reporting that their budgets had increased rather than being trimmed (35%). Clearly, budgets remain tight and these constraints will see in-house teams continuing to seek value for money and more flexible terms from their external providers.

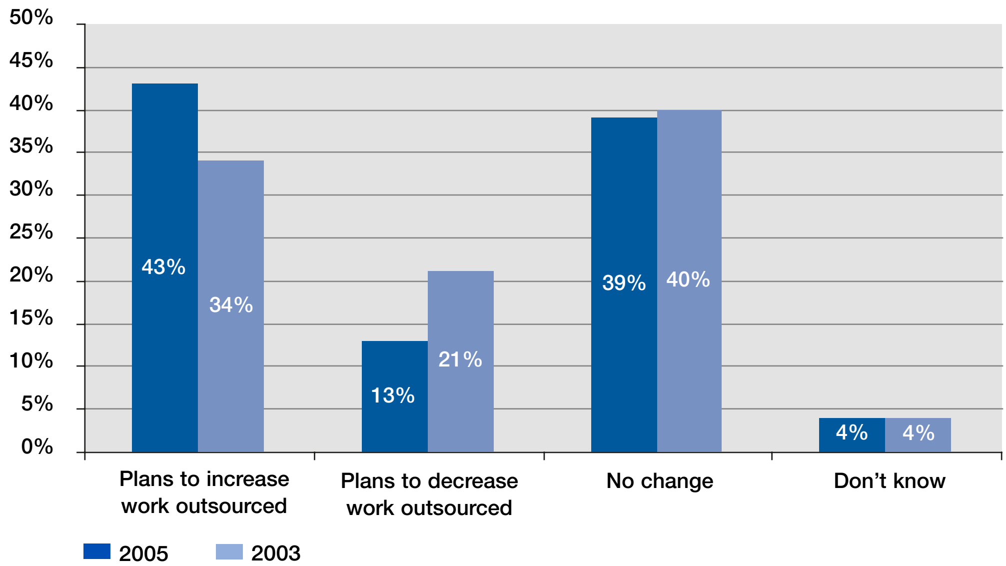
Predicting future budgets



12. Outsourcing plans

Organisations continue to increase the amount of work they outsource to law firms. 43% of in-house counsel plan to increase the volume of work they outsource, a substantial rise from the 34% reported in 2003's study. Just 13% of those interviewed plan to decrease the amount of work they outsource in the next twelve months. Interestingly, whilst a high proportion of respondents from organisations in Europe's leading jurisdictions expect the amount they outsource to increase, the highest proportion was from the 'other' countries category (comprising Spain, Denmark, Austria, Norway, Finland, Ireland and Slovakia) where 57% of respondents plan to increase the amount they outsource.

Comparing findings (2003 vs 2005): Outsourcing intentions



Who will be outsourcing more?

In-house counsel are more likely to increase the volume of work they outsource if:

- They are based in Spain, Denmark, Austria, Norway, Finland, Ireland and Slovakia (57% of this group are likely to increase the work they outsource);
- The company is in the following industry sectors: financial (55%), energy / oil and gas (46%) and IT / telecoms (44%);
- The company is not in the Global / European 500 (45%);
- The company currently only has on its panel (or regularly uses as preferred providers) 1-5 small independent firms;
- The internal department has less than 10 lawyers (43%). The more lawyers a business has, the less likely their need for external assistance.

13. Outsourcing to law firms

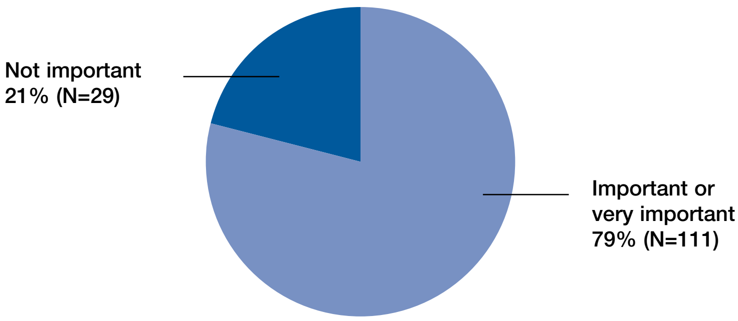
Working with local firms in Europe

Local preferred providers / panel firms

(N=140)	None	1-5 firms	6-10 firms	11-20 firms	More than 20 firms	Don't know
How many local firms do you regularly use as preferred providers	6%	59%	12%	9%	11%	4%
How many local firms do you have on your panel	29%	36%	10%	9%	8%	8%

In a clear vote of support for the contribution made by smaller, local firms in Europe, respondents from Global / European 500 firms were just as enthusiastic about local firms as their colleagues from smaller organisations with 79% of the total sample considering their role to be 'important' or 'very important.' Whilst there are the obvious attractions of lower fees, most in-house felt local firms had something more to offer. In-house commented on the closeness of the working relationship, the local knowledge within such firms, their responsiveness and willingness to understand the client's needs and circumstances.

The importance of local firms



"They know you and your company and know what you want. The bigger the firm gets, the more likely you are to get a different person each time."
Automotive/Manufacturing/Aerospace company, Sweden

"In small firms it is easier to find specialists than in big, global firms. There is also more trust and reliability because of relationships that have been established over many years."
Financial Services company, Germany

"For certain types of work, e.g. property and employment law, they provide excellent service for a lower price."
Chemicals company, UK

Outsourcing to law firms

Working with global firms (preferred providers and panel firms)

(N=140)	None	1-5 Firms	6-10 Firms	11-20 Firms	More than 20 Firms	Don't Know
How many global or multi-national firms do you have as preferred providers	23%	64%	9%	1%	1%	2%
How many global or multi-national firms do you have on your panel	39%	39%	12%	4%	2%	5%

Preferred Providers (global vs local firms)

	Average no. of global firms as preferred providers	Average no.of local firms as preferred providers
Automotive / Maunufacturing / Aerospace	3	6
Consumer Products and Services	2	8
Energy / Oil & Gas / Utilities	3	5
Financial Sector	4	7
IT / Technology / Telecoms	2	8
Life Sciences	3	7

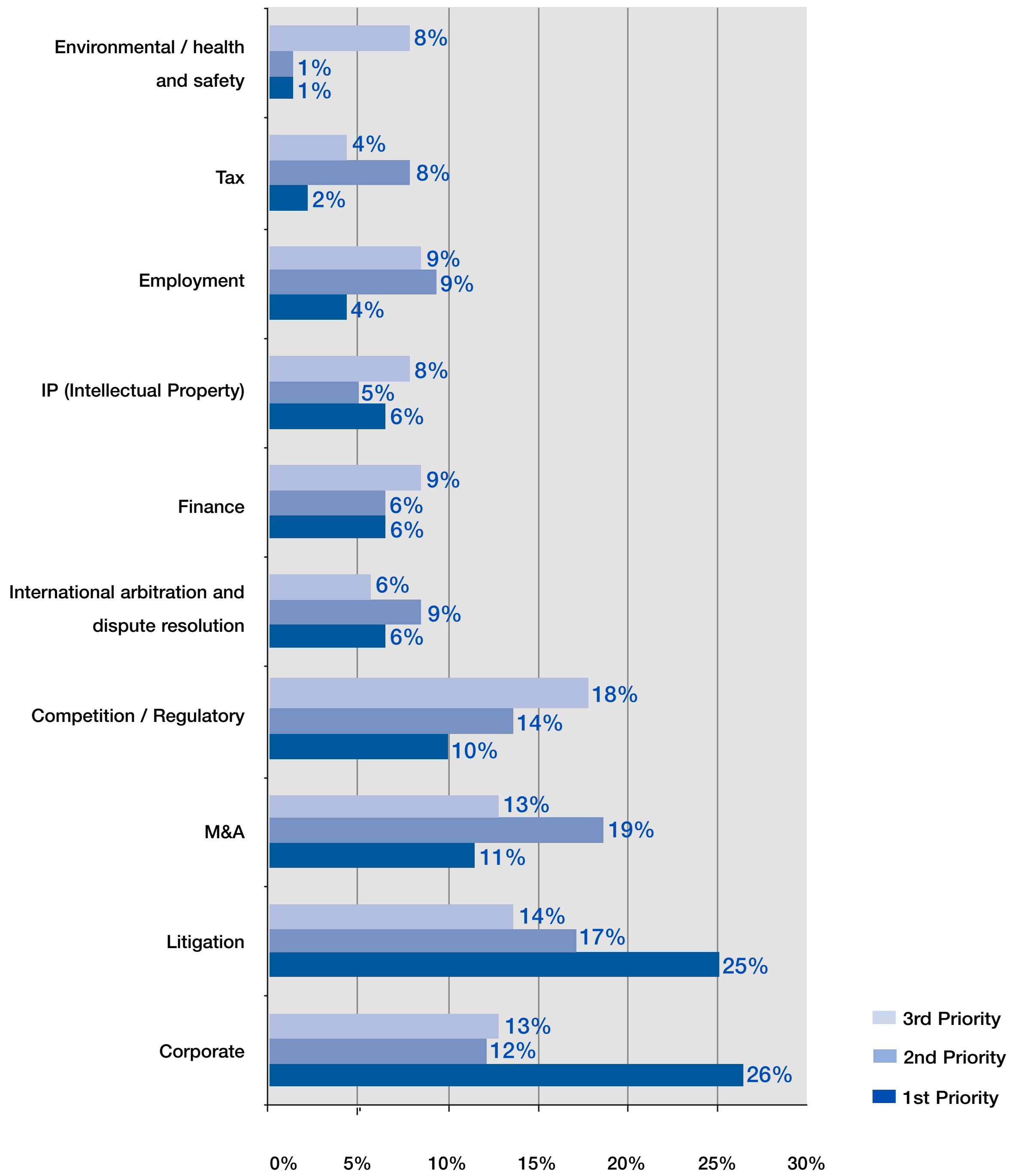
Panel sizes (global vs local fims)

	Average no. of global firms on panel	Average no.of local firms as on panel
Automotive / Maunufacturing / Aerospace	3	5
Consumer Products and Services	3	6
Energy / Oil & Gas / Utilities	4	7
Financial Sector	3	6
IT / Technology / Telecoms	5	5
Life Sciences	3	6

14. Practice areas to be outsourced

Those practice areas most likely to be outsourced by European in-house counsel in the next twelve months are shown in the graph below. Respondents were asked to select the three most likely to be outsourced and then rank by importance / priority.

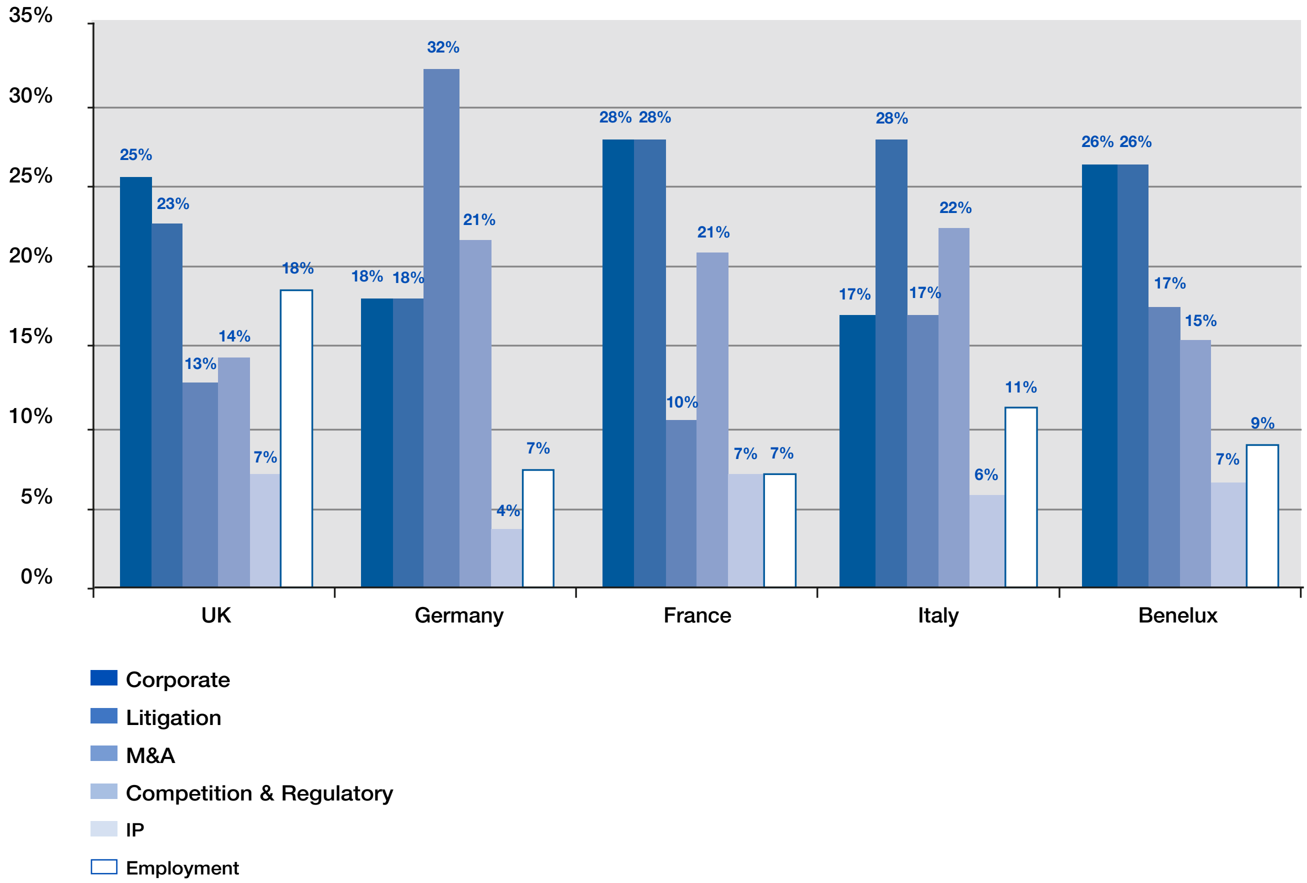
Practice areas most likely to be outsourced are corporate / commercial (26% rating this their top priority) and litigation (25%).



Practice areas to be outsourced

Unlike the 2003 study, this year's report revealed only a slight variation in those practice areas likely to be outsourced when analysed by country. Whilst M&A is a priority area for outsourcing by German in-house teams and litigation by Italian, most countries reflect the trends / findings for the group as a whole.

Practice areas most likely to be outsourced by country

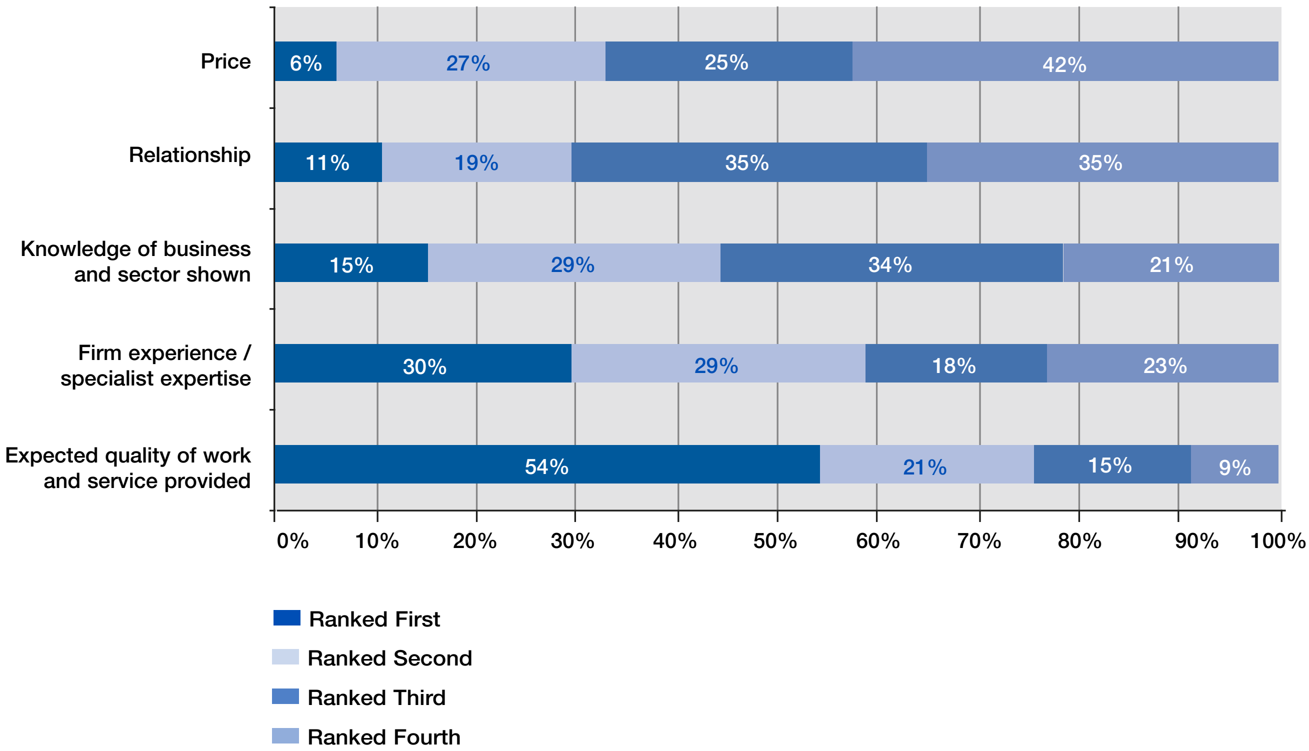


15. Appointing law firms

Finding and appointing external assistance

Whilst in-house counsel's immediate peer group are the most influential and important when looking for or selecting a new law firm, the research highlighted a number of interesting findings which law firms should take into consideration when pitching to corporate prospects. Of the five key factors influencing the decision on law firm selection, price is the least important being ranked the most important by just 6% of respondents and least important by 42% of the sample. The anticipated quality of work and service provided was considered the most important factor influencing the selection decision, with well over half of the sample (54%) giving this the highest ranking.

Factors influencing the selection decision



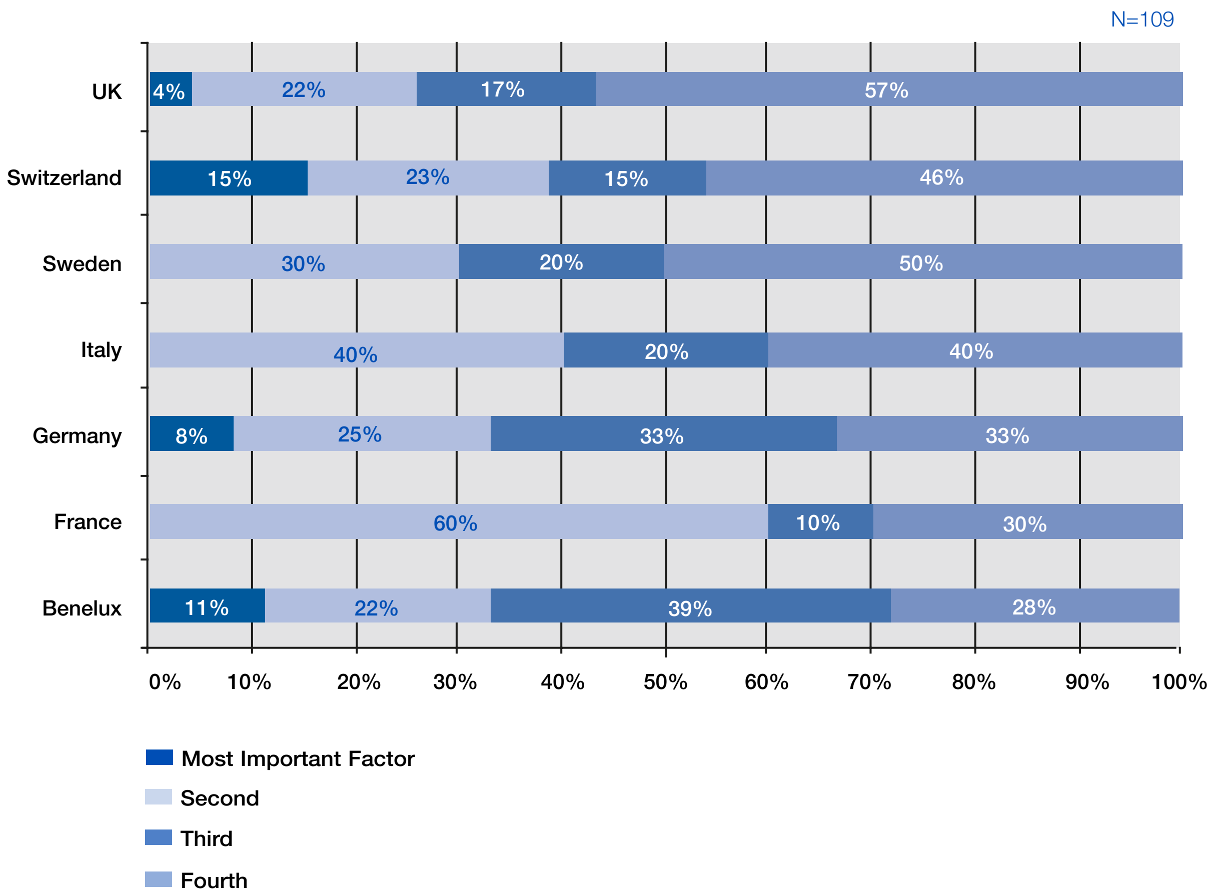
"Economic reality means that the low billing rates obtained from a law firm are often reflected in a lower level of service and the firm does not staff the matter adequately. Quality, experience and responsiveness must therefore continue to remain the most important factors in the choice of outside counsel."
Consumer company, Italy

16. How important is price in selection?

Analysis by Country

How important is 'price' in initial law firm selection?

Not a single respondent in either France, Sweden or Italy considered price to be the most important factor influencing the law firm selection decision. Having said that, in these countries it was the second most important factor after firm experience and expected quality of work. In the UK and Sweden there is the least sensitivity to price in the selection process where 57% and 50% of respondents, respectively, rated price the least important factor.

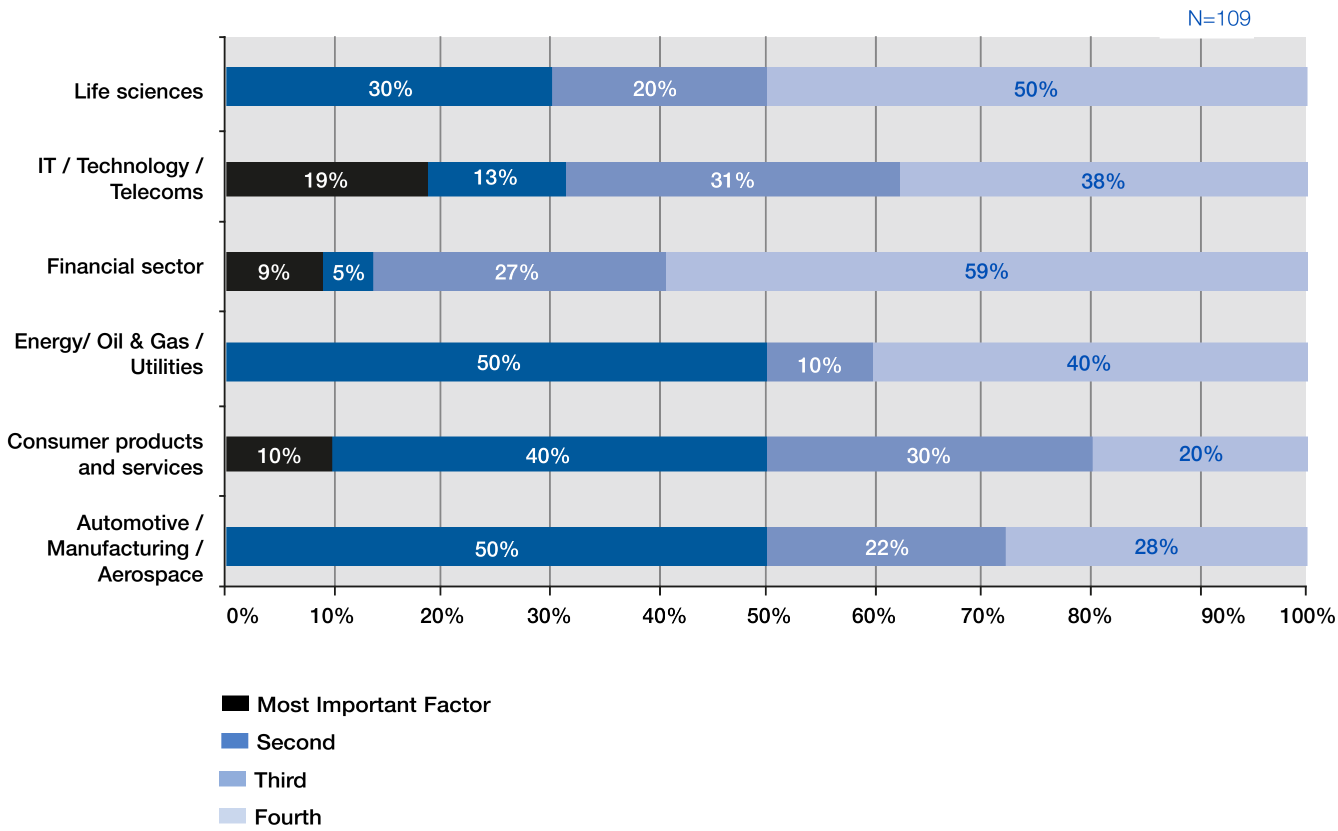


How important is price in selection?

Analysis by Industry Sector

How important is ‘price’ in initial law firm selection?

Price appears to be the least important factor influencing selection in the life sciences and financial industry sectors. No in-house respondents in life sciences, automotive and financial sectors consider it to be the most important factor. Indeed 50% and 59% of respondents from these sectors (respectively) consider it the least important factor.



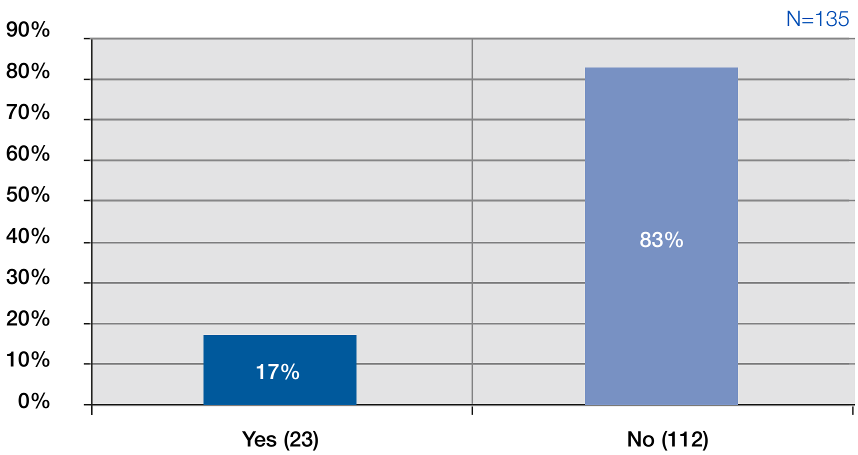
17. Appraisal Process

Surprisingly, there has been very little change to the number of in-house departments formally appraising the performance of their outside lawyers. Whilst three quarters of the sample review their internal teams, only 17% do so for outside lawyers (13% in 2003). Given that the vast majority of in-house departments have panels or preferred providers, once again this is a significant finding.

	Percentage of organisations with local firms on panel	Percentage of organisations with global firms on panel
Automotive / Maunufacturing / Aerospace	63%	58%
Consumer Products and services	71%	64%
Energy / Oil & Gas / Utilities	76%	69%
Financial Sector	80%	64%
IT / Technology / Telecoms	76%	58%
Life sciences	50%	44%

Furthermore, research in the 2003 study suggested that more organisations would take the time to introduce more structured processes to appraise and scrutinise performance so as they might be better positioned at the time of panel review to renegotiate fee arrangements and rates. This does not appear to be the case; even so in-house respondants remain extremely cost conscious at the time of review.

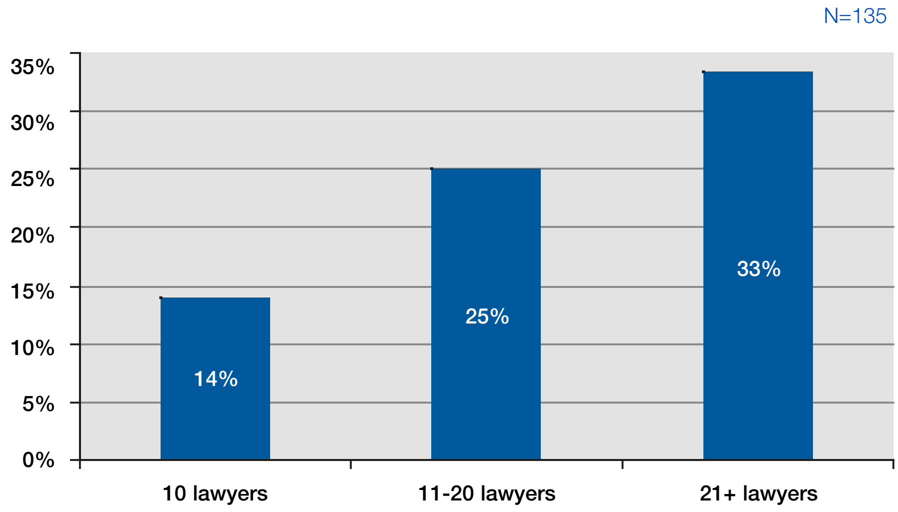
Do you have a formal appraisal process for your outside lawyers?



Appraisal Process

Of the organisations that have a formal appraisal process for their external providers, larger internal departments are more likely to have one in place, perhaps reflecting the resource and time that has to be committed to their completion.

Analysis by size of legal department



18. Assessing law firm performance

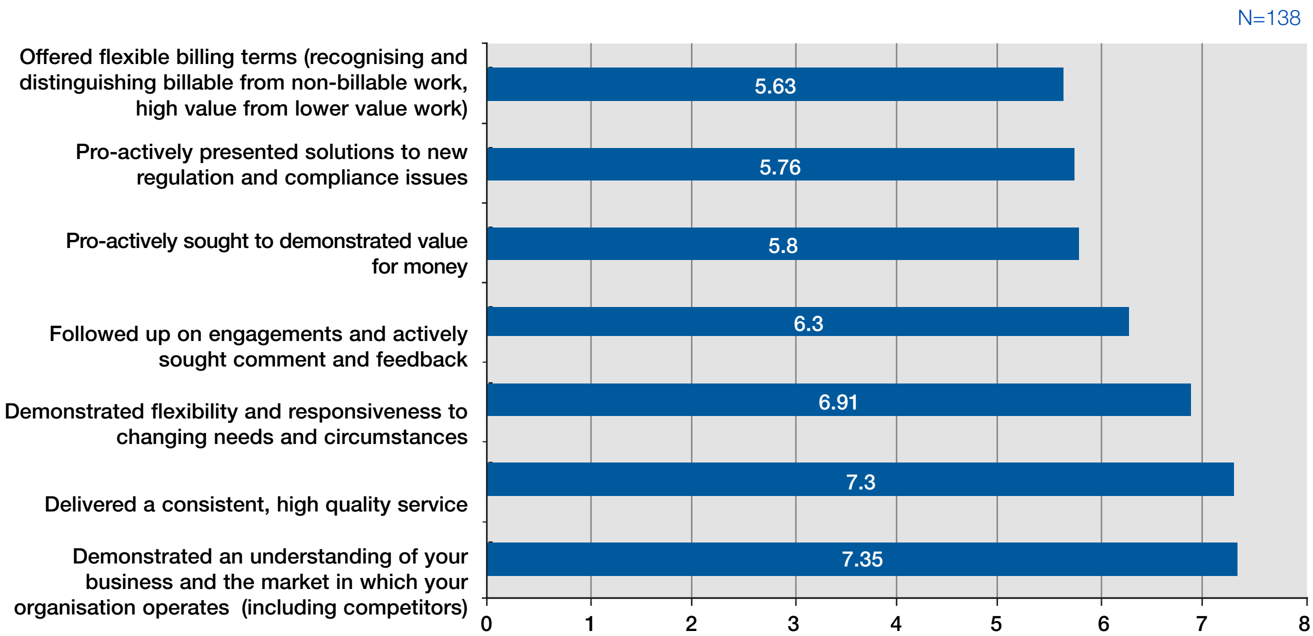
Overall, law firms received fairly favorable performance ratings from respondents. The three areas which the study suggested law firms might do more to enhance their performance were in their:

- Preparedness to offer more flexible billing terms (average score 5.63),
- Proactive presentation of solutions to regulation and compliance issues (5.76) and
- Presentation and demonstration of value for money (5.8).

Two areas where law firms would appear to have made particular progress since the 2003 study are in:

- Demonstrating a better understanding the client's business and market in which they operate (7.35), and
- Delivering a consistent, high quality service (7.3).

How do you rate the performance of your external providers in the following areas?
(0 = performed very poorly 10 = performed very well)



"As we outsource more legal work it is very important that law firms are able to understand our specific requirements, and "plug-in" easily to the way our legal department works. Plenty remains to be done as often external providers do not focus enough on this aspect of the relationship."
Consumer company, Italy

"What I like to see from the firms we outsource work to is not just an understanding of our immediate needs and priorities but the things that determine those needs and priorities."
Finance company, Germany

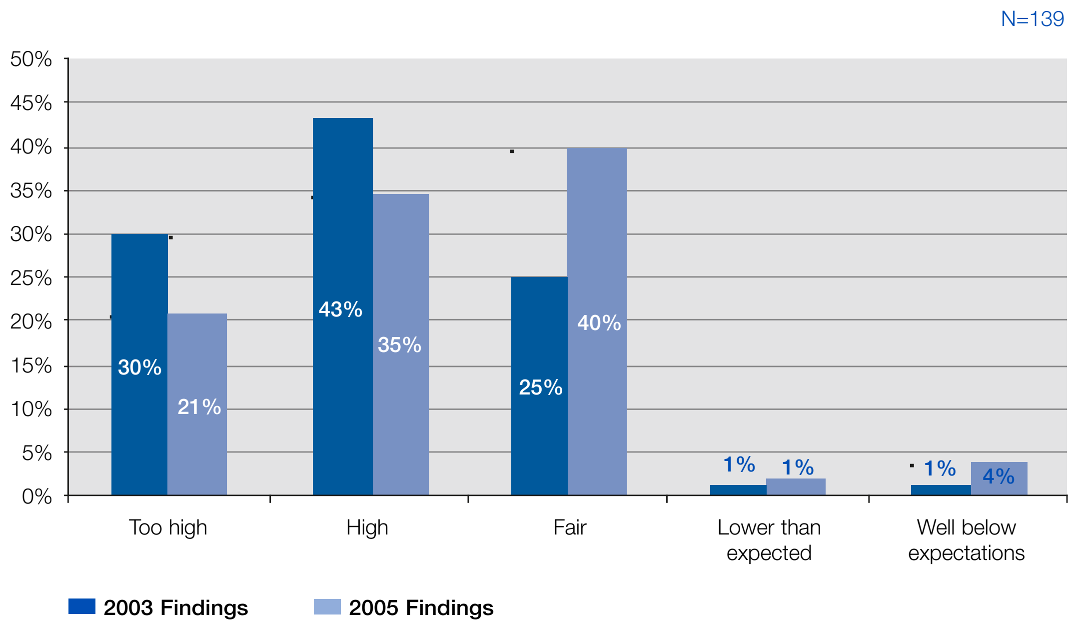
19. Value for money

Comparing Findings (2003 vs 2005)

Opinions on external law firm pricing

There is a suggestion in these findings that in-house counsel in Europe believe their external law firms are offering better value for money, or that in-house counsel are better managing their existing law firm relationships to derive more value from them.

Furthermore the proportion of respondents suggesting fees were simply 'high' has declined from 43% in 2003 to 35% in 2005. Interestingly, a number, albeit a small minority (4%), of participants believe their external providers are now offering very attractive rates which fall 'well below' expectations.

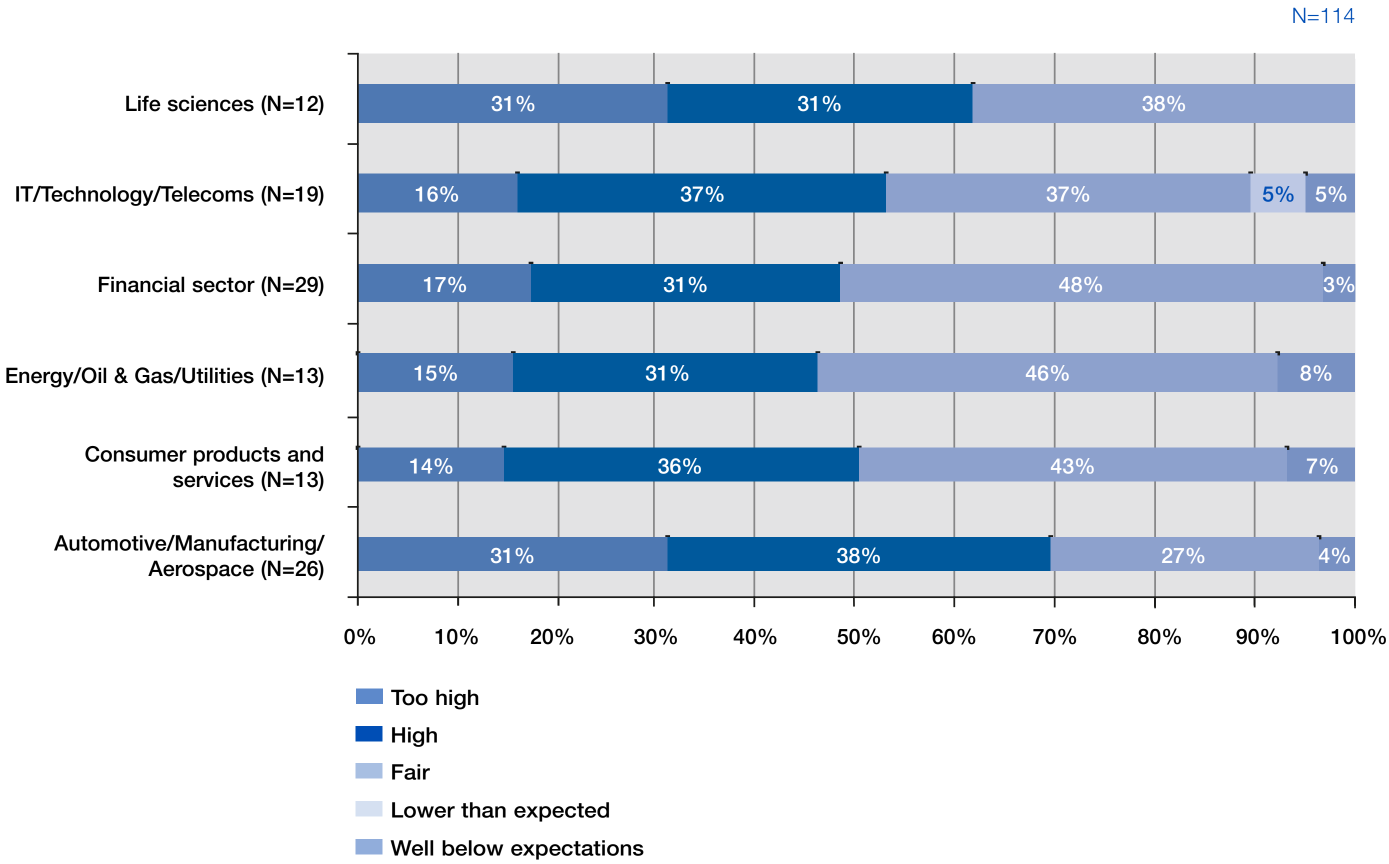


Value for money

Analysis by Industry Sector

Do your external law firm providers offer value for money?

Just over 10% of respondents from the IT / technology / telecoms sectors consider the fees charged by their external providers to be below expectations. Interestingly whilst life sciences and automotive sectors consider pricing to be more excessive than their colleagues in other areas of industry, as was revealed earlier, it is the least important consideration influencing their law firm selection decision (these could therefore be considered more price in-elastic sectors of the market).



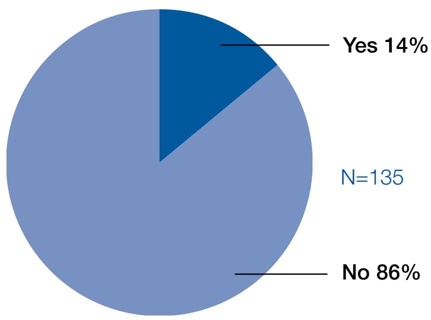
20. One-stop-shop

Over the past few years there has been much debate on this subject. The findings this year reinforce those from 2003.

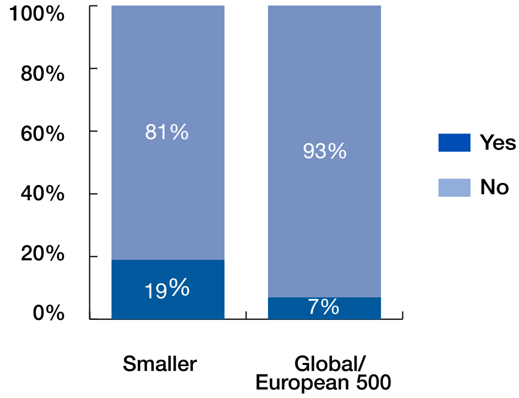
Even though many of today's firms are likely to position themselves as one-stop-shops capable of serving all legal needs, there remains a high degree of scepticism and doubt amongst in-house counsel that any one law firm can satisfactorily (and consistently) meet all the cross-jurisdictional needs of a large organisation.

Consequently it is perhaps not surprising that almost half (46%) of respondents believe this to be more a marketing statement with questionable credibility and substance.

Can a single law firm meet all your external legal service needs across Europe?



Analysis by size of organisation



From the research it would appear that smaller companies are more likely to be supporters of the one-stop-shop proposition. 20% of respondents from smaller, against just 7% of Global / European 500 organisations, believe that a single law firm can meet all their external legal service needs across the region. Possible explanations for this include:

- Smaller organisations, with their correspondingly smaller in-house departments, are perhaps more likely to seek a simple outsource solution; because of the limited legal resource within such organisations they may find it difficult to manage and co-ordinate numerous external providers;

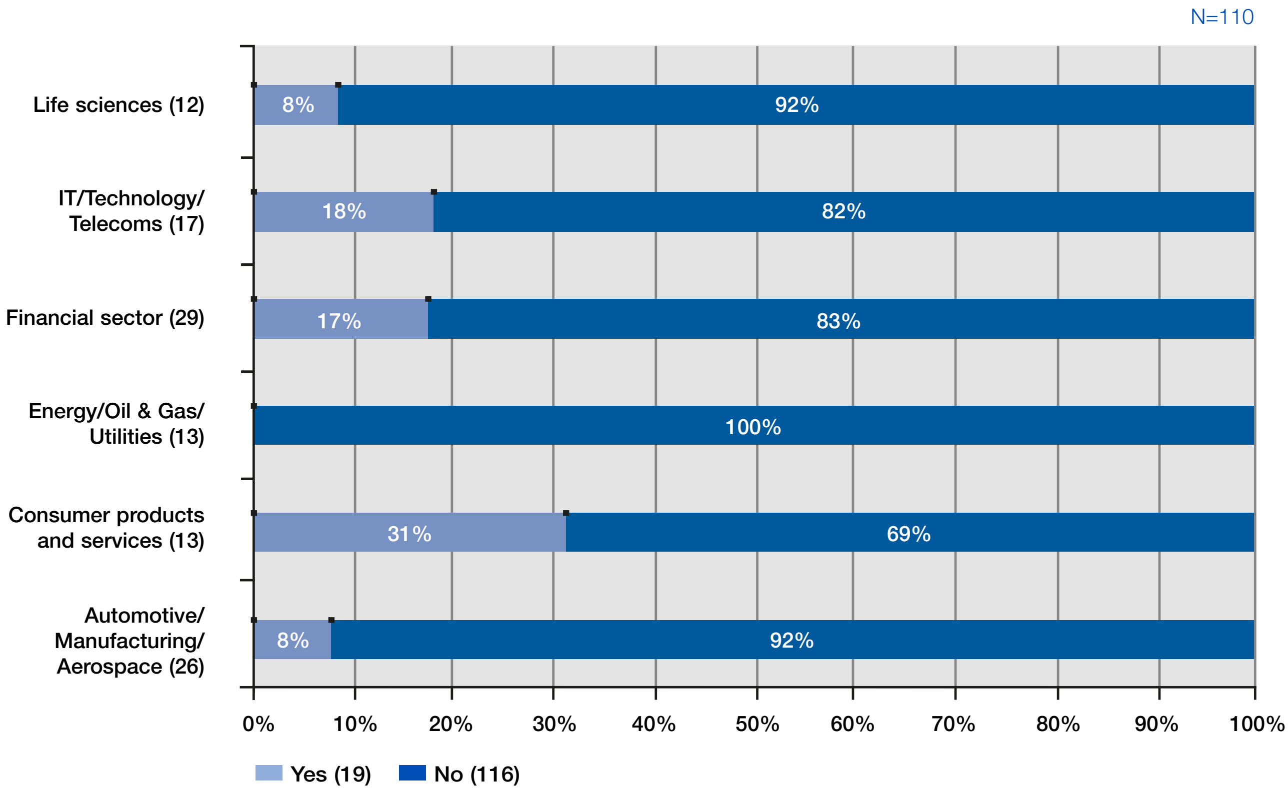
- Larger organisations are likely to require assistance in more diverse and potentially complex areas than smaller businesses and may be more inclined to shop around for firms that best fit their specific requirements and circumstances;

- Larger firms are more likely to be routinely involved in global or cross border transactions that demand highly specialised assistance.

One-stop-shop

Analysis by industry sector

Can a single firm meet all your external legal service needs across Europe?



Questions asked of in-house counsel concerning the one-stop-shop proposition

0 = strongly disagree and 10 = strongly agree (Scores aggregated 0-2, 2-4, 4-6 etc)

	0-2	2-4	4-6	6-8	8-10	n=
Experiences have not met the expectations set	10%	9%	35%	20%	26%	137
This is largely a marketing statement with questionable credibility	6%	12%	26%	25%	31%	138
Firms would do better presenting a one-stop-shop proposition for practice areas in which they specialise	6%	4%	26%	25%	39%	138
Articulate more clearly what they mean by a seamless service	8%	8%	21%	31%	33%	132
Present themselves in a way that is more closely aligned to the industry sector in which we operate	5%	8%	14%	35%	38%	136
Place greater emphasis on value than quality	13%	9%	28%	26%	25%	134
Better understand our business, its market and competitors	2%	6%	17%	41%	34%	135
Take more time to understand our legal department structure and constraints	14%	13%	28%	31%	13%	134
Demonstrate a willingness to offer more flexible engagement terms that meet our needs, circumstances and budgetary constraints	4%	2%	13%	33%	48%	134

One-stop-shop

Reasons for the skepticism towards the one-stop-shop proposition.

One firm cannot:

- Offer a service of consistent quality across numerous locations;
- Satisfactorily cover all jurisdictions.

Other reasons:

- Experiences have failed to match expectations set by the firm;
- Using a single, large firm can be costly;
- Using one firm eliminates competitive tension;
- Using one firm is viewed as risky especially given today's regulatory climate;
- Global firms are perceived as not having a consistently high level of local market knowledge;
- In-house counsel want the freedom to choose local firms, based on the assignment and skills required;
- In-house counsel, especially those on the continent, appear to be strong supporters of local firms in the region.

Counsel to Counsel

Connecting Corporate Counsel and Leading Law Firms Globally

About our global Counsel to Counsel programme

LexisNexis Martindale-Hubbell, has been hosting Counsel to Counsel forums throughout the world since 2000. These sessions, which bring together senior corporate counsel and partners at law firms, are designed to facilitate the exchange of ideas and best practices regarding corporate legal department management.

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The website below provides details about forthcoming Counsel to Counsel events and includes information on how you can participate as well as key findings from past sessions.

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