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Law Department Management

Super-Sized Law Firms

The downsides for law departments.

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Dozens of law firms worldwide exceed 1,000 lawyers, and several behemoths have cracked $2 billion in revenue. Despite the current economic downturn, growth is likely to continue for even the largest law firms in both size and earnings.

A first reaction to this development is probably that bigger firms bestow more blessings on the law departments that hire them. Perhaps, and there are certainly ways in which size matters. That acknowledged, growth of mega-firms presents a mixed picture for law departments. Whether law firms merge or grow organically, disadvantages resulting from that growth pile up apace with the increases in lawyers.

The success of law firms depends on a variety of factors, including differences in management, operations and the wide range of characteristics they emphasize. This article hones in on the factor of sheer numbers of lawyers as a primary driver of disadvantages for law departments. It sketches some of the downsides to law departments when they retain massive law firms. Consider seven attributes of giant law firms and their attendant disadvantages for law departments.

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• **Quality controls, training and systems, but higher effective billing rates.** When you are very large you can review work several times and you can instruct your lawyers. Heft allows law firms to invest in more sophisticated software and technology, such as document assembly, knowledge banks and guidelines, but fancy software may distract from thinking, analysis and judgment.

The dark side of all the administrative and substantive overhead is higher costs per hour, not to mention more timekeepers suckling on matters, which may make the chrome and polish not so valuable to law departments. The larger the firm, the higher the effective billing rate at all levels. In research I did for one consulting client, average partner rates rose $13 an hour for every additional 100 lawyers in a firm.

• **Huge amounts of experience, but conflicts of interest.** The larger the firm, the more likely it has represented wide swaths of clients, and continues to do so. All to the good, for a law department, but there is a less favorable side to massive client rosters.

Conflicts of interest within the labyrinths of huge firms entangle many retentions. Big law firms seek waivers in advance because they know they harbor a skein of potential conflicts. Time is taken up in dealing with the law firms' general counsel and the complexities of potential conflicts.

Even if legal or business conflicts don't disable big firms, law departments still have fewer choices as law firms consolidate, and face a future somewhat like publicly-traded companies in the United States that have few accountancy choices.

• **Global coverage, but inconsistent quality and coordination.** The law firms at the top of the league tables have spread throughout the globe. They offer a one-stop option across disciplines and borders that attracts many general counsel.

The downside of global sprawl is that consistent quality across offices and practice groups becomes more problematic as law firms boast more of both. Bolt-on mergers take years and much effort to be melded together for consistency. In-house lawyers can find themselves working with bright bulbs in office one and flickering candles in office two.

• **Deep specialization, but narrower perspective.** Larger law firms can sustain and nurture specialist lawyers. They can attract enough clients to keep the Asian nuclear regulatory practice or the ethanol-environmental group thriving and concentrate a sufficient flow of work to them to deepen the experience remarkably. But if all those specialists each draw very deeply from their own well of knowledge, it may be that the broad view becomes illusory. In any event, the cost to the law department client will rise significantly from that approach.

• **An impressive head-count of legal professionals, but dissipation of a shared culture.** All enterprises that expand rapidly face the problem of digesting growth, law firms included. Very large law firms these days often have one or more mergers in their immediate past and certainly have many new lawyers recently joined. Spread out, bringing very different backgrounds, without opportunities to work together much, partners are often strangers to each other, foot soldiers in a corporate-style conglomerate; trust and connectedness decline; and internal politics consume energy.

Not only is it hard to have a consensus on how to service clients, huge firms may be more willing to cull unprofitable clients. Inter-office rivalries, politics and bureaucracy are spawned. The vaunted talent falls short of what law department managers seek and what they want to pay for.

• **Resources galore, but leverage of law departments declines.** Massive law firms can assemble teams of lawyers and paralegals, not to mention software, practice support professionals, and ancillary businesses. Even so, all that bulk leaves law departments that spend a paltry million or two on outside counsel with less and less influence when the behemoth earns over $1 billion a year.

Big firms set up billing committees that can scotch innovative billing arrangements by partners and refuse requests for discounts or other accommodations. There is, ironically, less autonomy for partners.

• **The best and the brightest hired, but high turnover rates.** The cream of the legal crop may flow to big law firms, after the clerkship, to start their careers. Wonderful raw talent is plentiful.

As revenue is driven higher to sustain the holy grail of profits per partner, chargeable hour requirements whip associates to unworldly billable hours or perhaps bill padding. Burning the candles too short and slogging through mind-numbing piles of paper take its toll. Mega-firms suffer from high turnover rates, and in turn, law departments suffer from seeing the fees they invested in training walk out the door to another firm.

A related downside for law departments is that the astronomical starting salaries of associates, with the commensurate bumps in pay up the line, make recruitment and retention harder for law departments—recruitment because some associates may expect top dollar, retention because some in-house lawyers may be enticed to defect to law firms.

On the partner side, seven-figure incomes create volatility and departures of groups of partners, a consequence that is negative for law departments. Partners decamp for firms that dangle higher profit distributions and lose nimbleness as they become conservative.

Toiling away for modest salaries, in-house lawyers envy the marquee earnings of the lawyers they retain. By this I mean that what may sometimes give a sharp edge to fee negotiations is latent resentment by in-house lawyers over the huge paychecks the partners billing them take home.

Conclusion

My argument is not that large law firms are bad for law departments. Not at all. It is that many of their wonders—depth, breadth, solidity and expertise—have unattractive collateral effects for law departments. The observations made above—strengths mitigated by drawbacks—admittedly overlap and are hardly free of controversy.

Moreover, although these detriments seem defensible to me, the market says that I am wrong to harp on such unheralded faults. If general counsel as a group perceived that gargantuan firms suffer from these drawbacks, they would shift their work elsewhere and growth would slow or stop at the law firms on steroids. So, since general counsel are astute people pressed to control costs and deliver quality services, the good that giant firms bring must outweigh the bad described above. Unless, that is, we haven't sufficiently assessed both sides.