

DIGITAL ACCESS TO SCHOLARSHIP AT HARVARD
DASH.HARVARD.EDU

HARVARD LIBRARY


Hiring Teams, Firms and Lawyer: Evidence of the Evolving Relationships in the Corporate Legal Market

Citation

John C. Coates, Michele deStefano, David B. Wilkins & Ashish Nanda, Hiring Teams, Firms and Lawyer: Evidence of the Evolving Relationships in the Corporate Legal Market, 36 Law & Soc. Inquiry 999 (2011).

Published version

https://doi.org/10.1111/j.1747-4469.2011.01259.x/pdf

Link

http://nrs.harvard.edu/urn-3:HUL.InstRepos:12019028

Terms of use

This article was downloaded from Harvard University's DASH repository, and is made available under the terms and conditions applicable to Open Access Policy Articles (OAP), as set forth at
https://harvardwiki.atlassian.net/wiki/external/NGY5NDE4ZjgzNTc5NDQzMGIzZWZhMGFlOWI2M2EwYTg

Accessibility

https://accessibility.huit.harvard.edu/digital-accessibility-policy

Share Your Story

The Harvard community has made this article openly available.
Please share how this access benefits you. Submit a story

Hiring Teams, Firms *and* Lawyers:
Evidence of the Evolving Relationships in the Corporate Legal Market

Abstract**:**

How are relationships between corporate clients and law firms evolving? Drawing on interview and survey data from 166 chief legal officers of S&P 500 companies from 2006-2007, we find that – contrary to standard depictions of corporate client-provider relationships – (1) large companies have relationships with ten to twenty preferred providers; (2) these relationships continue to be enduring; and (3) clients focus not only on law firm platforms and lead partners, but also on teams and departments within preferred providers, allocating work to these sub-units at rival firms over time, and following "star" lawyers especially if they move as part of a team. The combination of long-term relationships and sub-unit rivalry provides law firms with steady work flows and allows companies to keep cost pressure on firms while preserving relationship-specific capital, quality assurance, and soft forms of legal capacity insurance. Our findings have implications for law firms, corporate departments, and law schools.

JEL Codes: J44, K0, L22, L24, L84, M12

Electronic copy available at: http://ssrn.com/abstract=1831544

Hiring Teams, Firms *and* Lawyers: Evidence of the Evolving Relationships in the Corporate Legal Market[*]

How are relationships between clients and service providers in the corporate legal market evolving, and why? Based on interview and survey data from 166

[*] The authors thank Bob Nelson for his guidance and assistance, Sean Williams for research and management, Nicola Seaholm for organizing and maintaining the data, Young-Kyu Kim for his research and analysis, and Bukola Ayanbule, Harold Birnbaum, Lee Brannon, Justin Liu, Steve Sorkin, Jessica Steinhauer for assistance in assembling and analyzing data for this paper. We also extend thanks to those many people who have discussed this project with us, including participating CLOs and their staff. We also thank the following individuals specifically for comments and discussions: Jeff Carp, Scott Edelman, Stephen Gates, Ben Heineman, Robert Eli Rosen, members of the Advisory Board of the Harvard Law School Center on Lawyers and the Professional Services Industry, participants in the Harvard Law School Leadership in Law Firms programs, and those attending workshops at Harvard Law School, Georgetown Law School, the Conference on Empirical Legal Studies. For funding, we are deeply grateful to Jack Cogan and the Sloan Foundation.

Electronic copy available at: http://ssrn.com/abstract=1831544

chief legal officers (***CLOs***) of S&P 500 companies from 2006-2007, this and related papers[1] investigate the purchase of corporate legal services.

Standard depictions of client-provider relationships in corporate legal services suggest that hiring decisions have become akin to spot contracting based on individual lawyers' skills.[2] Contrary to such depictions, we find (1) large companies typically have ten to twenty preferred providers; (2) relationships with preferred providers tend to be enduring; and (3) clients focus not only on law firms and individual lawyers, but also on the qualities of teams and departments within the preferred providers, allocating work to sub-units at rival firms over time, and following "star" lawyers from firm to firm more often if they move as part of a team. The combination of long-term relationships and sub-unit rivalry provides law firms in these relationships with steady aggregate work flows and

[1] In other papers, we report on (i) the degree to which companies co-manage internal lawyers, law firms and other professionals, such as public relations professionals (Michele DeStefano Beardslee 2009a, 2009b, 2010), (ii) the evolution of law firm-large company relationship from an "agency" model to "legal keiretsus" characterized by convergence, consolidation and partial integration (David B. Wilkins B 2010), and (iii) causes and consequences of CLO turnover (John C. Coates IV 2010).

[2] E.g., Gilson & Mnookin 1985: 385.

allows companies to keep cost pressure on firms while preserving relationship-specific capital, quality assurance, and legal capacity insurance – that is, soft guarantees that law firms will stand ready to provide legal services when and as needed by their clients. These findings have important implications for how CLOs manage relationships with their preferred providers, and for how law firms can and should manage themselves to maximize these relationships. Although our data pre-date the financial crisis, during which large companies cut back on expenditures of all kinds and law firms engaged in unprecedented layoffs, we believe the trends we have identified will only be accentuated by these pressures.

The plan of the paper is as follows. First we review existing literatures to state our null hypotheses – the conventional views that relationships between corporations and law firms have been getting less durable over time and that corporate hiring is now focused on individual lawyers rather than firms – and alternative hypotheses to be tested against the data (Part I). We then describe our methods (Part II), and present findings (Part III). We conclude with implications.

I. **Prior Literature and Hypotheses**

Research on the legal profession has not focused frequently on the interactions of large companies and law firms. Economists have emphasized the asymmetry of information between customers and experts, the resulting difficulties customers have in ascertaining the necessity, quality, or value of the services (Arrow 1963),

and implications of those difficulties: suboptimal investment in expertise; suboptimal demand, diagnosis, and treatment; and targeting of vulnerable customers (see Fong 2005 for a literature review). Gilson & Mnookin 1985 suggest long-term relationships allow law firms to provide quality assurance to corporate clients, but they assert that the cost of information about legal service quality has been falling—in part because CLOs have become more sophisticated as they bring more work in-house, use multiple law firms, and impose pricing pressure on law firms—reducing the value of firm reputation in comparison to the value of individual lawyer reputation. Gilson 1990 argues that increased sophistication of in-house counsel represents the client's internalization of diagnostic/referral functions formerly played by outside counsel, and that this internalization has reduced information asymmetries and switching costs that in the past led to long-term client-provider relationships.

Prior sociological work has focused primarily on legal organizations (e.g., companies or law firms) rather than relationships among them,[3] although some of that work (e.g., Heinz & Laumann 1983) suggests that the legal profession generally and corporate law firms in particular are not "autonomous" but rather dependent on their predominantly corporate clients. Slovak (1979, 1980)

[3] E.g., Nelson 1988, Galanter & Palay 1991; Lazega & van Duijn 1997; Nelson & Nielsen 2000; Samuelson & Jaffe 1990.

interviewed 23 in-house counsel and 9 law firm partners in Chicago in the late 1970s and found that in-house counsel maintained social relations with a number of partners at many law firms, providing them with outside options in bargaining with law firms. Chayes & Chayes (1985) reported on the increased scope of activity of in-house lawyers by the early 1980s, and found that in-house counsel had begun to manage the make-or-buy decision more actively, and that it had become "rare" for large companies to rely on one or a few law firms.

More recently, Uzzi & Lancaster (2004) argue that commercial exchanges may be shaped by "social attachments and affiliations," including long-term relationships, which generate trust and shared norms. These relationships, they claim, may encourage sharing of "soft" (non-verifiable) information, increasing the predictability and reducing the costs of governance of market exchange (Uzzi & Lancaster 2004). At the same time, trusting relationships may facilitate fraud (Heimer 2001) and have other negative effects. Uzzi & Lancaster also report in their data supplement[4] that they "***found no evidence that corporate clients were more likely to sever relations with law firms***" over the period 1989 to 1995. This finding is consistent with our findings from the mid-2000s, reported below.

We extend the foregoing picture in several ways. First, we note that long-term relationships can serve important purposes in addition to reducing

[4] *See* http://www2.asanet.org/journals/asr/2004/uzzi.pdf, at 8.

information asymmetries or encouraging the development of client-specific knowledge. Another benefit of long-term relationships – legal capacity insurance – has been noted in the trade press but not in the academic literature. In effect, a law firm sells a soft guarantee that it stands ready to provide legal services when and as needed by the client. The client pays for the insurance by providing a steady flow of work to the law firm over time. The insurance is "soft" because the law firm does not have a legal obligation to provide the services, and may be prevented from doing so in the event of unexpected conflicts of interest or capacity constraints. The insurance is nevertheless worth paying for because a larger corporate client can generally count on a preferred provider to maintain sufficient capacity that it could handle new matters (within reasonable limits) if the client has unexpected legal needs and to decline work for other clients that would lead to a conflict.

Why don't large companies, in effect, self-insure by hiring qualified in-house lawyers? One reason is that legal needs are variable, unpredictable, and correlated with the legal needs of other rival clients. For example, merger and acquisition (M&A) transactions in a given industry tend to cluster in relatively tight time periods (Mitchell and Mulherin 1996) due to regulatory, technology and supply factor shocks. Clustering also occurs in some kinds of significant business litigation, as plaintiffs' attorneys bring copycat lawsuits against defendants selling similar products, or suffering similar declines in stock prices. Because legal

needs are variable and unpredictable, it is not cost-effective for companies to keep enough qualified lawyers on their full-time payrolls to respond to surges in legal demand. A law firm can pool the variable demand each client may have, lowering overall volatility of demand if the clients' needs are not entirely positively correlated.

Because legal needs are often correlated for competitors, companies can expect to have legal needs at the same time their competitors have the same legal needs. Even if a law firm could handle multiple matters for multiple companies without violating formal conflict rules, the strain on a single law firm's capacity would reduce the quality of the services the firm provides. A company in a long-term relationship with that firm can expect (and demand) the firm give its matters priority over competitors. Finally, because law firms are viewed as having variable quality – with some firms being viewed as having better lawyers on average than lawyers at other firms – a corporate client that does not have any long-term relationships with quality firms will not be able to count on finding any high-quality firm to handle its matters if demand clustering occurs.

Second, there are intra-client complications to the conventional theories of client/attorney relationships: (1) CLOs are agents, too, and may act in ways that systematically depart from the interests of their corporate employers, both generally and in choosing and monitoring law firms specifically; (2) CLOs are

only one of many agents inside a corporation, and do not have the power (even if they had the correct incentives) to monitor or make decisions about the retention of law firm agents, but must compete (in a form of influence contest) for resources necessary to override the preferences with respect to outside law firms of other corporate officers, who may be more or less effective monitors of those law firms than the CLOs; and (3) corporations are not infrequently agents, too, bundling legal and other (often financial) services to resell them to their clients, and may have weak incentives to monitor their law firms, at least to the extent they are able to pass through costs to the corporation's clients.

Third, we note that long-term relationships vary – some are exclusive for both parties (bilateral monopolies), some are exclusive for one party (monopolies and monopsonies), some are not exclusive for either party.[5] Companies need not choose between exclusive long-term relationships, on the one hand, and spot contracting, on the other: they can develop multiple, non-exclusive long-term

[5] Prior research on law firms has not sharply distinguished between these variants, assimilating them into a stylized image of monopsony: a long-term relationship in which a company exclusively relies on one law firm, which in turn is free to work for multiple companies, subject to conflict-of-interest rules, an image drawn from depictions of the corporate legal market during the law firm "golden age" (the middle of the twentieth century), as in Galanter and Palay 1991.

relationships with rival law firms. It is exclusivity (and not long-term relationships per se) that generate certain kinds of costs: (1) dependency, in the form of bargaining power on the part of the monopsonist, or more specifically, the risk that a law firm may hold up a company for above-market fees, or shirk on cost-adjusted quality, and (2) blunt incentives, with law firms not needing to worry as much about providing responsive or high-quality services as they would in a spot market setting. Non-exclusive long-term relationships may be able to provide benefits without generating all of the costs of exclusive long-term relationships. By maintaining long-term relationships, the companies retain at least some of the benefits of quality assurance, firm-specific knowledge, and legal capacity insurance. But by maintaining non-exclusive relationships with multiple law firms, they also can reduce their dependency and preserve sharp incentives for those firms.

Fourth, the degree to which law firms function as integrated organizations remains an open question. Anecdotal reports suggest that many law firms function more as networks of co-branded cooperative teams than as integrated firms. Law firms to date have typically retained little capital, rarely obtained significant outside capital (even long-term debt), own few fixed assets, have weak management structures, and have been unable (for regulatory reasons, in the US) to prevent other firms from hiring away lawyers. Lawyer turnover has been high in recent years, amounting to yearly attrition of close to 25% for all lawyers, and

far higher percentages of associates.[6] Extensive lateral hiring may increase the variability of the quality of lawyers at the same firm, even those providing similar services. Law firms are typically organized as nested pyramids, with little cross-cutting communication or sharing of tasks. This is particularly true of the increasing number of firms in the U.S. that have moved from "lockstep" to "eat what you kill" compensation systems where the majority of a partner's compensation is determined by his or her individual contribution to the bottom line.[7] As a result, a given set of legal services may be performed best in small, modular, discrete teams. If law firms are best conceived not as tightly integrated organizations, but as weakly integrated networks of co-branded teams, then a company may be able (and have reasons) to maintain a relationship with a given law firm while retaining the flexibility to pick and choose among the teams of lawyers at that firm, even for relatively similar work. As a result, the smaller units within law firms (teams, departments) may be as important for large corporate

[6] See Heinz, et al 2005 (discussing the increasing lateral movement of partners); NALP 1998 (presenting evidence that more than 40% of all entering associates have left their initial law firm within three years). See also AJDII 2009 (reporting that 55% of all associates working for law firms of over 250 lawyers in 2003 were no longer at the same firms in 2007).

[7] Regan 2004.

clients as firms or individuals for addressing asymmetric information, building relationship-specific capital, and addressing bargaining power. Because most currently available objective data about legal services (e.g., rankings, league tables, surveys) are about law firms, however, it is likely that CLOs that seek to use such information will be more likely to make legal purchasing decisions at the firm-level.

In sum, the two related null hypotheses – the conventional wisdom – that we test with our data are as follows:

> ***1a. As information asymmetries have declined over time between large companies and outside law firms, long-term relationships have declined in importance.***
>
> and
>
> ***1b. As long-term relationships between companies and law firms have declined, large companies have come to identify individual lawyers (rather than law firms) as the focus of hiring and firing decisions.***

The competing, alternative hypotheses, are:

> ***2a. Long-term relationships remain important in law firm hiring decisions at large companies.***
>
> and

2b. Large companies identify the relevant units for hiring and firing decisions as including not only individuals but also teams, departments, and whole firms.

III. **Methods**

To explore the foregoing hypotheses, we study self-reported perceptions of CLOs of large corporations about how they hire, fire, and evaluate law firms. Our targets of inference are large US public corporations, and we focus on the S&P 500, which constitutes ~75% of the equity market capitalization of US stock markets.[8] Our data include (1) detailed interviews with 44 CLOs[9] of S&P 500

[8] A committee of analysts at Standard & Poor's selects the S&P 500 from among companies whose stock trades on the New York Stock Exchange or Nasdaq with the goal of including a representative selection of industries in the US economy; most companies are US. The Fortune 500, by contrast, includes the 500 US companies with the largest revenues, regardless of industry composition.

[9] Although some of the interviewees had the title "General Counsels" and two were deputy general counsels, we refer to the interview subjects generally as "CLOs" for brevity.

corporations, and (2) a survey sent to CLOs of all S&P 500 companies on 31 December 2006, which elicited a 28% response rate (n=139).[10]

A. **Interviews**

For interviews, we oversampled three sectors – banks (commercial and investment), petroleum companies, and pharmaceutical companies. Each of these sectors has high demand for legal services.[11] All CLOs in the selected sectors were contacted by phone and/or by email on average three to four times. CLOs were told that the interview topic was the way in which their companies purchase, assess, and monitor legal services. They were also told they and their companies would remain anonymous.

---

[10] Seventeen survey respondents were also interviewed, so our total number of unique CLO respondents is 166 = 44 + 139 - 17. The survey itself is available at [URL to come].

[11] Bureau of Labor Statistics data show that of lawyers in the private sector outside of law firms and temp agencies, 12% work in financial companies, 4% work in pharmaceutical manufacturing and scientific research industries, and 2% work in oil and gas companies. The only for-profit industries with higher legal employment levels are insurance, real estate, and management consulting, which are relatively underrepresented in the S&P 500 because many companies in those industries are not publicly traded.

From July 2006 to November 2007, forty-three interviews were conducted across the three selected sectors. Fifteen were conducted in person, the rest by phone. Interviews averaged 76 minutes in length. All but five were recorded and transcribed.[12] Interviews included a combination of closed-ended and open-ended questions.

B. **Survey**

After pre-testing, the survey was slightly revised and mailed to all S&P 500 companies. The survey elicited a 28% response rate, including 17 of our interview respondents, for a total sample (interview and survey) of 166, representing a third of the entire S&P 500. The survey respondents' companies accounted for between 30% and 40% of the S&P 500's revenues, assets and employees. The survey contained 26 multi-part questions and took an estimated 15 minutes to fill out. The survey also requested that CLOs include a copy of their *curriculum vitae* with their survey response, and 80 CLOs did so. While interviews concentrated on financial services, pharmaceuticals, and oil companies, survey response rates did not vary in statistically significant ways across major industry categories.

IV. **Findings**

[12] For the five interviews in which the interviewees would not allow a recording, the interviewers typed or handwrote notes during the interview.

A. **Description of samples**

For both interviews and surveys, we compared companies at which respondents and non-respondents worked, and found that in most respects the two subsamples were similar. Survey respondents had somewhat larger legal departments, revenue, operating expenses, and demand for legal service, but respondents and non-respondents had statistically equivalent levels of assets, long-term debt, earnings before interest and taxes, net income, and reported litigation settlements.

Table 1. Summary Statistics on Companies in 2006

	N	Mean	Standard Deviation
Survey Respondents			
Assets	135	61974.7	180699.7
Employees	135	66.4	170.4
Net Income	135	1748.9	3510.2
Revenue	135	23448.5	42000.5
Interview Respondents			
Assets	41	308824.3	463026.6
Employees	41	46.1	63.4
Net Income	41	5714.7	8190.8
Revenue	41	45995.6	67136.1

Data Source: Compustat; employees in 000s; other amounts in $ mm.

Companies. As reflected in Table 1, the companies included in our samples were large (survey respondents' companies had on average assets of $62 billion and revenues of $23 billion) and profitable (survey respondents' companies had

on average earnings of $1.7 billion). Less than five percent of survey respondents' companies had net losses for the year. They were important employers, with between 2,000 and 280,000 employees, at the fifth and ninety-fifth percentile, respectively. The median survey respondent company had 23,000 employees. Interview participants worked for even larger companies, with average 2006 assets of $309 billion, revenues of $46 billion, and earnings of $5.7 billion. Year-to-year correlations for these measures of company size and profitability during 2004-2006 were high, suggesting that aggregate legal demand should be stable in our study period.

Table 2. Summary Statistics on Legal Departments of Respondents

	Mean	Min	25th p-tile	Median	75th p-tile	Max	N
Survey Respondents							
Legal budget in 2006	65.42	3.50	15.00	37.00	76.00	606.0	131
% spent on law firms	60%	2%	20%	60%	70%	97%	130
# of law firms in 2006	127.05	5	30	65	150	1000	133
… in 2003	141.82	4	27	75	170	1000	117
# of top firms in 2006	15.09	1	5	10	20	110	135
…in 2003	17.31	1	5	10	25	100	115
Change in top firms '03 to '06	-2.2	-80	-2	0	1	44	114
# of lawyers	68.85	0	17	35	75	1250	134
CLOs reporting to CEO	89.2%						139
CLOs male	80.0%						80
Tenure of CLOs [1]	4.6	1	2	3	7	19	80
Tenure at company [1]	9.6	1	3	6.5	14	35	86
CLO promoted from within [1]	56.4%						78
CLO salary [2]	468.6	201.92	356.00	420.42	517.50	1513.2	46
CLO total compensation [2]	2459.9	463.53	1287.16	2208.32	3099.67	7278.6	39
% CLOs male [2]	87.0%						46
Data from Interview Participants							
Legal budget in 2006	210.79	10.00	40.00	91.50	332.64	750.0	18
% spent on law firms	53%	20%	40%	50%	64%	90%	27
# of law firms	239.86	6	40	150	300	1000	29
# of top firms	20.00	1	5	10	20	100	31
Use preferred provider lists	60%						40
Preferred provider lists that are mandatory	17.5%						40
# of lawyers	161.07	2	40	100	150	1480	41
# of non-lawyers in legal department	112.17	3	112	75	112	500	23
CLOs reporting to CEO	59.5%						41
CLOs male	76.7%						41
CLOs oversee compliance	81.0%						40

Notes. Data sources are surveys or interviews except as noted: [1] *American Lawyer* 2007 Survey of Fortune 500 Legal Departments; [2] Execucomp. Data from 2006 unless otherwise noted. Legal budgets exclude compliance. "Top firms" means firms receiving 80% of outside legal expenditures. Legal expenditures are in $mm; salary and total compensation are in $000.

Legal Departments. The legal departments overseen by our respondents varied in size and importance (see Table 2). The median legal department had 35 lawyers, but one respondent had wholly outsourced its legal function, and another company employed 1250 lawyers, which would place it among the largest of law firms, were the department organized as a separate organization. The distribution of the size of legal departments among survey respondents is skewed – the mean (69) is more than double the median (35), with skewness of 6.5 – but is comparable to data on Fortune 500 legal departments reported by the *American Lawyer*.

By comparison, legal departments of our interview sample – which, recall, was designed to include the firms with high legal demand – is more normally distributed (skewness of 1.4), similar to the distribution of law department sizes reported by *Inside Counsel*, which annually surveys CLOs of what it reports to be the 200 largest law departments. Put differently, among large companies generally (our survey sample), a small number of companies have very large law departments relative to the size of typical large company large departments, whereas among companies that have the greatest legal needs (our interview sample), law departments are large overall, and their size follows a normal distribution. In studying large companies' purchase of legal services, researchers need to consider whether their findings are reflective of a "typical large

company," a "typical large company with high legal needs," or some mix of the two.

Legal Budgets and Outside Legal Spends. Most legal budgets of our survey respondents fall in the $25 to 50 million range. But responding companies also varied significantly in legal budget size. At the low end, one company spent $3.5 million on legal costs in 2006; at the high end, one company spent more than $600 million. Legal budgets are also right-skewed, with the average budget of $65 million almost double the median budget of $37 million. Interview companies, in industries with high legal demand, spend considerably more, averaging $211 million per year.

Legal budgets and legal department size are correlated (0.66), as are legal budgets and assets (0.53), net income (0.55), and cash flow (0.53). The number of total employees is less strongly correlated with legal department size (0.30) and legal budget (0.25). Our survey respondents spend a median of $1.1 million per in-house lawyer each year, and have a median of 1.9 outside law firms per in-house lawyer; these measures are also highly correlated (0.79).

The share of the legal budget paid to outside law firms (the "outside spend" in trade jargon) also varies, though less than legal budgets. For survey respondents, the median is 60% and the distribution is approximately normal (skew=-0.7, kurtosis=3.6). For interview participants, the median is 53%. Whereas the one survey respondent with no legal department not surprisingly spends the entire

legal budget on outside law firms, the five companies with the largest legal departments (ranging from 220 to 1250 lawyers) nevertheless spend more than do other companies on outside law firms (an average of 73%, compared to the overall sample average of 60%). Again, our interview sample is less skewed, likely because it was selected from industries with high legal demand, although the difference in the shape of the legal budget distribution between interview and survey samples is less pronounced than for law department size (3.6 for surveys, 2.1 for our interviews).

CLOs. Most (89%) of the CLOs responding to the survey report directly to the CEOs of their companies (Table 2). Among survey respondents, CLOs who report directly to the CEO work for smaller companies ($49 bn in assets vs. $171 bn), but their legal departments and budgets are not statistically different from other companies, nor are the net income or revenues of their companies. CLOs are less likely to report directly to CEOs at financial institutions (60% vs. 94%, p-value < .001), implying a more hierarchical structure for those companies. The result holds even after controlling for the size of legal budget. In interviews, 81% of CLOs also reported overseeing compliance.

For a subset of respondent CLOs, we draw on data from *American Lawyer's* survey of the Fortune 500 CLOs in 2007, the same year as our survey. For those CLOs (n=80, about 60% of our survey respondents), we can infer length of tenure as CLO: an average of 4.6 years, with an additional seven having joined the

company between the time of our survey and the time of the *American Lawyer* survey – consistent with a finding reported by one of us elsewhere that CLO turnover has risen rapidly in the 2000s.[13] Approximately 56% of the CLOs were promoted from within the company, having been at their companies for an average of 9.6 years.

A different subset of respondent CLOs (n=46, about 33% of survey respondents) comprise CLOs who are among the top five most highly compensated executive officers at their companies. For these "top five CLOs," we report data from Thomson's *Execucomp* database on salary ($420,000 median) and total compensation ($2.2 mm median) for 2007 – comparable to the profits per partner reported for top AmLaw 100 law firms in 2007. Top-five CLOs all report directly to the CEO. Of that subset, 87% are male, a higher fraction than in the overall survey sample (80%), or in our interview sample (77%).

B. Qualitative Findings

1. Convergence and Preferred Providers

Our survey indicates that "convergence" – the phenomenon of large companies significantly shrinking the number of outside law firms to which they

[13] Coates (2010).

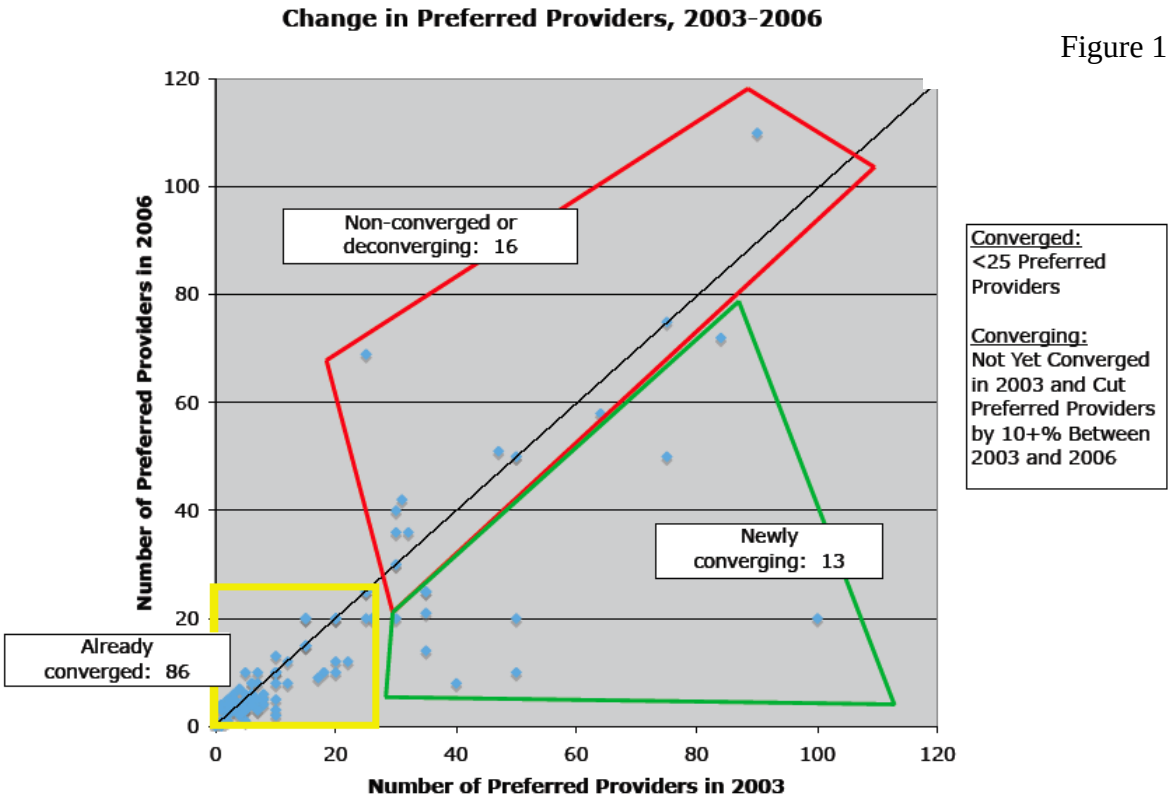
direct the large portion of their outside spend[14] – has indeed occurred, as widely reported in the trade press. By 2003, more than 60% of our survey respondents allocated 80+% of their outside spend on fewer than 25 law firms, and 39% allocated 80+% to fewer than 10 law firms. (We refer to the group of firms receiving 80+% of companies' outside spend as "preferred providers.") As shown in Table 2, survey respondents allocated 80% of their outside spends to an average of 17 law firms in 2003. Larger companies, and companies with larger budgets, tended to have more preferred providers in both 2003 and 2006; in a simple regression of the number of preferred providers on a company's assets and legal budgets (with or without controls for industry, using four-digit SIC codes), assets were significantly positively related to the number of preferred providers (at the 95% confidence level), whereas legal budgets fell from statistical significance.

But contrary to the standard depictions, we also find that by 2003 convergence had already occurred and, indeed, had reached steady state across large companies. From 2003 to 2006, the mean number of preferred providers remained essentially unchanged, at 15. The number of companies reducing the number of

[14] Du Pont is generally credited with the first major use of convergence among large companies, having cut its US law firms from 350 to 34 in the early 1990s. Gibeaut 2004; Dull & Gould 2002.

preferred providers was 40%; the number increasing was 30%; the number remaining unchanged was 30%. More tellingly, the great bulk of the respondents barely altered the number of preferred providers, with more than 90% altering the number by less than five firms, and 86% by less than three firms. For a depiction of this steady state, see Figure 1.

Figure 1



Noticeably, however, significant variation among large companies persists in the number of preferred providers. For example, a small number of companies changed their preferred provider list dramatically from 2003 to 2006, with four

companies shrinking the number by more than 30 (and one by 80), and four companies expanding the number by more than 10 (and one by 44).

Some variation is attributable to industry-based legal needs: in 2006, financial companies used 190 outside law firms, on average, compared to 111 for non-financial firms ($p<.05$). But variation exists within industries, too. The number of law firms used in 2006, for example, ranges from 5 to 1,000 within the financial sector, and from 50 to 800, even for large commercial banks. Financial companies do not use more preferred providers than non-financial firms, moreover, suggesting that the cost of a significant amount of legal work outsourced by financial firms is passed through to clients. This is consistent with our interview evidence, in which financial firms frequently made distinctions between the way they chose law firms for work done in connection with client-paid transactions, and work done for matters in which the financial company was itself paying for the legal work.

Interviewees told a similar story. Most CLO interviewees stated that their companies had already undergone some convergence. Generally, the stated explanations were efficiency and cost reduction. Many CLOs claimed the only way for a law firm – even a top-tier nationally recognized firm – to "get on the list" was by agreeing to some discount or blended rate. As one CLO related: "There were two law firms who were very good law firms whose names you would know that came back to me after a lot of to and fro and said, 'Sorry, we

don't think we can do this. It's not fair to our other clients,' blah, blah, blah. I said, 'I completely understand. I respect your decision and we'll continue to be friends, but unfortunately we're not going to be able to work together anymore.' They were stunned." [GCIB at 6][15] In addition to discounts or blended rates, many CLOs talked about other restrictions they might impose on preferred firms: "we entered into this new relationship where we expected certain things like, for example volume discounts, quick pay discounts, 1%/2% off if we pay within a certain time period, we talked about what the extraneous fees would be for processing, secretarial … [and] they have to accept our retention guidelines because when we got here, they were giving us their guidelines so now they have to accept ours… What we paid for photocopy, what we paid for those sort of things. ... We negotiated a certain range of travel services, we expect the law

[15] The codes in brackets represent the anonymized respondents: 'GC' for General Counsel Interviewees (numbered 1 through 44), 'IB' for Investment Bank, 'CB' for Commercial Bank, "PH" for Pharmeceutical Company, and "P" for Petrolium Company. See Appendix A for more information. *See also* GC17CB at 15 (explaining that generally those on the preferred provider list provide discounts or blended rates).

firms that we are going to spend doing most of our business to use those services and get the benefit of the rates." [GC7IB at 6][16]

Although cost is important, preferred providers are not selected primarily on cost or willingness to provide discounts, unlike firms engaged primarily to perform commodity work. Instead, in determining who gets on the list, CLOs said that they placed considerable weight on fit and past experience: "[W]e looked at ... who had good personalities and who was efficient, those were the other kinds of things that came into play that these firms were noted for those results and stood out from the others, and as we whittled it down to look to those, that's how they came out on top." [GC26P at 14][17] As another CLO explained when selecting a firm for this role, "[I tend] not to do a beauty contest of having firms come in and do RFPs and proposals." [GC26P at 10] Instead, s/he tries to "identify firms with whom [we] already have relationships, that on a personality basis, the way they do their business, the type of people they are, meshed up with [us]." [GC26P at 10] As the CLO went on to explain, this is as much about

[16] *See also* GC30CB at 8-10 (explaining that firms at top of preferred provider list generally provided discounts or blended rates).

[17] *See also* GC13CB at 16 ("We looked pretty hard at the existing providers first to see the ones that were used most often to see where they were and whether or not we thought they were a good fit.").

culture and fit as any specific policy or practice: "As a company we're ... known as a Midwest ethic kind of group, hard-working and honest and all those good things you think about Midwesterners. We looked for firms that had the same ... work ethic and, to the extent you can find, lack of ego, and develop[ed] a good synergy between us." [GC26P at 10] As other interviewees confirmed, if the cultural fit is strong enough, firms can remain on the preferred provider lists even when they refuse to provide discounts.

Although CLOs pay considerable attention to getting the right firms on their preferred provider list, considering a range of factors in addition to cost, our respondents also emphasized that when it comes to particularly strategic or important matters they freely hire firms off the preferred provider list. As a typical respondent explained, in these circumstances "[I] need to pick the best law firm in the country [and] I am not going to say to [a law firm], well, we'd love to use you but you're not on our list so you know we're going to have to go back to somebody else who's never tried an anti-trust case before and hope that they do a good job at it." [GC17CB at 15].

Even when CLOs take work to a firm outside their established network, however, they continue to be concerned about the relational implications of their actions – both how their actions will affect their relationship with their core firm as well as how lack of a continuing relationship with a firm will affect the quality of the service that they receive. One CLO captured the tension felt by many:

"When I have my board saying to me 'are you absolutely sure that that's the way the SEC is going to see this issue?'" the CLO will call on the expertise of a law firm that is a recognized expert even if it is not on the company's preferred provider list because it refused to discount its fees. But when doing so, s/he conceded "I do worry that if I'm not using them on a routine matter or I'm not generating enough billing for them, they will not respond to me with the same urgency that I may feel on a matter. I worry about that. That's part of the trade-off. ... I guess what I'm saying is that we will focus most of our business on the more cost effective relationships. We're not going to totally divorce some of these firms. And we're going to make that clear to them." [GC20IB at 12] Said another, "We try to pick ... from the list [but] don't prohibit people from going off the list...." GC17CB at 15

2. Hiring Criteria for Large Companies in "Very Significant Matters"

Our research suggests that convergence is only one of the ways that relationships continue to matter in legal purchasing decisions by large companies, at least with respect to "very significant matters." In the survey, "very significant matters" were defined as "matters of strategic importance to the company, such as litigation with very large liability exposure, high-risk regulatory matters, and large M&A transactions" but not so significant that they would constitute a "bet the company" matter. Regardless whether a matter was sent to a firm on a preferred

provider list, relationship – and not price – was the primary consideration for hiring outside. As an interview respondent explained: "the factors that drive me … for these types of matters tends not to be price. Price is very important to us as a general matter because we consume huge volumes of legal services. But for these more sensitive matters, price is not the most important or even frankly a significant component ... of deciding on an outside law firm." [GC11CB at 4]

Our survey data confirm that CLOs place primary weight on relationship factors when hiring outside counsel for important matters. Survey respondents were asked to identify the most recent "very significant" matter they had referred to outside counsel. Over 50% of the time respondents stated that the matter involved litigation, with another 37% identifying strategic corporate matters or regulatory issues (see Table 3).

Table 3. Matters Identified as
Most Recent "Very Significant" Matter

	N	%
Intellectual Property	13	9%
Litigation (class action, consumer, etc.)	69	50%
Regulation (antitrust, investigation, etc.)	17	12%
Strategic (corporate, tax, M&A, etc.)	35	25%
Other	5	4%
Total	139	100%

Respondents were asked to rate on a 5-point scale the importance of 17 factors that they may have considered in hiring outside counsel for the most recent very significant matter, with 1 corresponding to "not important at all" and 5 to "very

important." Column 1 of Table 4 presents the average importance given by survey respondents to each factor. Three relationship-connected factors dominated all of the rest: "prior experience," "reputation," and "results in similar cases." Across all matters, "prior experience with the lawyer(s) or law firm" was identified as a "very important" criterion for the hiring decision by 60% of respondents. "Reputation" is as important, identified as "very important" by 60% of respondents, although somewhat less often in intellectual property (IP) cases. These results are even stronger for financial companies, over 85% of which report "prior experience with the lawyer(s) or law firm" as "very important." "Results in similar cases" was the only other element mentioned frequently as "very important," being so identified by between 40% and 50% of respondents. By comparison, all other considerations included in the survey, ranging from third-party rankings, geographic scope, and market share to profits, leverage, ethical infrastructure, and commitment to diversity were almost never identified as "very important."

Table 4. Average Importance of Factors in Hiring Decisions, Overall and by Source of Knowledge

		Internal Sources		External Sources	
	(1)	(2)	(3)	(4)	(5)
	Overall Average	Based on Personal Knowledge	Based on Intra-Firm Second-Hand Knowledge	Based on External Second-Hand Knowledge	Based on Public Data
Overall average		97% = yes	75% = yes	50% = yes	17%= yes
Prior experience with lawyer(s) / firm	4.4	4.5	4.5	4.4	3.8
Reputation of lawyer(s) / firm	4.5	4.5	4.5	4.5	4.2
Rankings in periodicals	1.9	1.9	1.9	2.1	2.2
Results in similar cases	4.5	4.5	4.6	4.6	4.5
Size	2.9	2.9	3.0	2.9	3.2
Geographic scope	2.6	2.5	2.7	2.7	3.0
Market share	2.2	2.2	2.3	2.2	2.4
Recent growth history	1.7	1.6	1.7	1.7	1.8
Leverage	1.8	1.8	1.9	2.0	2.0
Turnover rates	2.0	2.1	2.1	2.2	2.2
Partnership structure	1.4	1.4	1.4	1.5	1.7
Ancillary businesses	1.4	1.4	1.4	1.5	1.6
Pro bono	1.8	1.8	1.8	2.0	2.0
Commitment to diversity	2.7	2.7	2.8	2.9	3.0
Profits per partner	1.5	1.5	1.6	1.7	1.9
Partner compensation system	1.6	1.6	1.7	1.8	2.0
Associate compensation systems	2.0	2.0	2.2	2.2	2.3
Quality control systems	2.6	2.7	2.7	2.9	2.6
Ethical infrastructure	2.6	2.6	2.7	2.9	2.5

Table 4 also identifies how survey respondents obtained the information upon which they evaluated potential outside counsel on each of these factors. As the row entitled "Overall Average" makes clear, the most important sources of information for CLOs is their own first-hand knowledge (97%) or second-hand, intra-company knowledge from other lawyers within the company (75%). Only 50% of CLOs reported seeking information or advice from anyone outside their organization, with only 17% consulting public sources of data to investigate the

quality of potential outside counsel. In the two instances where the respondent did not rely on intra-firm sources of information, they relied on both external second-hand knowledge and public sources of information.

Our surveys report that the selection of outside counsel is almost always determined by prior experience with the company based on the CLO's personal knowledge about the lawyer or law firm, and our interviews were consistent. CLO interviewees stated they base hiring decisions primarily on personal experience with the lawyer, team of lawyers, or law firm. This personal knowledge, CLOs believe, helps ensure quality and fit. As one CLO interviewee explained, "At the end of the day, it is personal relationships. At the end of the day ... I'm looking to you individually to assure the quality of the support. You may choose to put other people from your new firm or other people you brought into your firm on this matter. But I am holding you accountable for making sure that individual brings the same quality and competence to the work that I know you have brought here." [GC20IB at 21] Another CLO described the selection process as follows: "We begin with the premise that they must be the best in the industry, you know, must be subject matter's experts. ... [B]eyond that, they must understand our business and be able to work well with our businesspeople and I generally select people that the businesspeople trust .... [W]e might try different firms on different projects and the one that becomes the most trusted advisor is the one that I will use on an ongoing basis." [GC2IB at 7-8] Another put it this

way: “[T]he manner of interaction between the law firm and our company that’s going to make me personally comfortable, make the other lawyers comfortable, and make my management comfortable. We’re looking for not only people who can get great results and demonstrate their ability but also people you think you are going to be compatible with culturally ... And then finally I always personally take the greatest comfort in if I’ve worked with somebody personally in the past and I can say – [in a] matter that could have a potentially big impact on my company and on me personally – I’m the one to put my trust in that person.” [GC11CB at 5-7]

In addition to quality and fit, interviewees noted the advantage of institutional knowledge when using the same lawyer, team of lawyers, or law firm – knowledge which often exceeds that of many CLOs, given their short tenures. One CLO described following a litigator through six different firms. “So one of the reasons that I follow this lawyer everywhere he goes is that I don't have to reeducate him. ... I had a problem ... and talked to him about it and he said, ‘Oh, this is like the other time when your company did that,’ and I didn't even know that we'd had that situation.” [GC2IB at 32-33]

The survey question did not (unfortunately, in retrospect) permit CLOs to indicate, as between the two, whether personal knowledge of the lawyer(s) or personal knowledge of the firm (or submit) mattered more. In interviews, the CLOs repeatedly remarked that they hired the lawyer or team of lawyers, not the

firm.[18] However, after probing, it appears that it is hard for the CLOs to separate the two. As one CLO explained "yes you hire lawyers not firms, but typically the lawyer you are hiring is a relationship person within that firm who is providing 80% of the types of advice that you need in a particular matter. They hand you to their, particular subject there, a real estate specialist in a particular matter and you say, you know what I like you, I like your firm, you have always provided me with great resources but this one [lawyer] just didn't work, find another to replace." [GC36PH at 9] That said, when they did not have any relationships with lawyers within a law firm, CLOs agreed uniformly that it was extremely difficult for the firm to get hired. As one CLO explained, "if those are firms that we don't have relationships ... a firm needs to carefully read our 10-K, other securities filings, read analyst reports about us ... -- and apply a little common sense; they know we've been around for a while and we use a lot of lawyers and we use a lot of recognizable named firms. So, if somebody is going to break in, they are going to break in because they have something special to offer that they reasonably think we need. Those are the kind of issues -- they are quite rare I must say that have a chance for being successful." [GC30CB at 17]

[18] E.g., GC23CB at 19 ("I'm also a big believer that you hire a lawyer, not a law firm."); GC31PH at 4; GC2IB at 15; GC36PH at 17.

Results from the survey and interviews indicate that second-hand knowledge is also relied upon, particularly within the company, and particularly for relatively new CLOs. CLOs with shorter tenures are more likely to report using second-hand knowledge from inside the company ($p<.01$ in a simple regression, R-squared = .09), consistent with a new CLO being more dependent on other officers. This effect appears to be driven as much by power as by knowledge, as CLO tenure does not correlate significantly with use of second-hand knowledge from outside the company, or with use of public data sources, implying that the reason the CLO consults second-hand sources is more for intra-firm political reasons and less to obtain more information *per se*.

Our interviews confirm the importance of second-hand knowledge, particularly when the CLO is new. "I mean I wouldn't call someone unless the other had direct experience. Otherwise, they'd ruin the place." [GC6CB at 26] "[B]y and large my experience is that [CLOs] are pretty candid with each other. So, you know if I call somebody up and say you know some day you'll be doing the same things. Some day you'll be calling me asking I want to know about this lawyer. Did they do x, did they do y, did they do z? You can ask them pretty direct and probing questions. And I've gotten some- you know, you know how to gauge the responses after a while and I think those are extremely helpful. Extremely helpful." [GC17CB at 15] However, such reliance is rarely to the exclusion of first-hand experience. When asked how the CLO knew who the best

person was for the job, a typical response was "You know the areas of practice for us are very specialized. And communities of lawyers are small and everybody knows everybody. So it's who do you know who does this. And if I don't know that person, I know somebody who knows that person." [GC2IB at 14]

CLOs also identify a firm's general reputation as a significant factor, regardless of the source of their knowledge about the firm. [GC2IB at 21] When asked how an unknown attorney from an unknown firm in an unknown location (e.g., Alaska) could convince the CLO to let him/er do a pitch, the CLO responded "I think the answer is you're not going to ... if you're moving in from Alaska, you're not going to get me. You've got to work a little while and have a relationship .... [F]or me, people have the reputations and their reputations are well known. And so it's sort of the matter of I'm going to come to you more than you're going to come to me." [GC2IB at 34-35]

The fact that CLOs rely heavily on "reputation" in selecting outside counsel complicates the distinction between "hiring the lawyer" and "hiring the firm" because CLOs gauge reputation based on who works with the lawyer. As one CLO recounted, "the reason I'm recommending him in part is because he's worked with this other guy. They know each other. He's got a great reputation. I know him from reputation. I trust him." [GC2IB at 21]

Perhaps it is not surprising that CLOs continue to place so much emphasis on factors such as prior experience, reputation, and prior results – and their own and

their colleagues ability to assess these factors internally. Each of these factors can be seen as a proxy for the difficult-to-evaluate criterion of quality. As one CLO interviewee bluntly stated: "I don't think quality is something that can be objectively measured [for] a lawyer. Instead, according to many of the CLO interviews, quality (which is the main attribute they look for in a lawyer) is often equated with "demonstrated expertise."[19] Interestingly, however, at least some CLOs believe they can judge expertise and quality on their own. As one CLO explained, "Law firms only tell you that they are experts in whatever it is. You know what, I wouldn't call you if you weren't an expert. I know who the experts are. You don't need to tell me that. You don't need to tell me that you're qualified, 'coz yeah, you're qualified, but so are 14 other law firms just as qualified as you." [GC2IB at 26] The assessment of whether a lawyer is qualified is done based on personal experience or secondhand recounting of personal experience.[20]

By contrast, public sources of data are only occasionally used, even as a supplement to personal or second-hand knowledge. When asked if they rely on rankings or other objective measures to make hiring decisions, a typical response of the CLO interviewees was: "Yes, of course I have looked at them, but I do not

[19] GC11CB at 4; GC30CB at 10, 36.

[20] GC30CB at 10; GC17CB at 14.

really take them that seriously. [I] would not make a selection based on that. I may look at one that in this list a law firm comes to mind and I may give someone a call but I would not make a decision based on those rankings alone because you have to take all these rankings like everything else." [GC31PH at 9-10] The lack of reliance on such measures is likely because many CLOs believe that "[q]uality is a subjective assessment." [GC30CB at 10] As one typical CLO stated: "I know that there's been, there are movements to try to quantify and six-sigma and do all that kind of stuff. I don't think this is an area that lends itself to that. As much as one might argue that it's not, the legal relationship is an extremely personal relationship. So if I don't like the lawyer that's working for me, I'm not gonna pick up the phone and call him." [GC2IB at 11] Thus, despite the influx of objective measures into the field of law, the survey and interview data indicate that the way CLOs hire lawyers and law firms has not yet changed materially, at least for very significant matters. [GC24P at 11]

Where public sources are used, however, even in combination with other sources of information, interesting differences in decision criteria emerge. For CLOs who did consult public sources, a law firm's prior experience with the company was significantly less important ($p<.001$), whereas the law firm's size, geographic scope, and commitment to diversity assumed significantly greater significance ($p<.02$), each rating over 3 (corresponding to "somewhat important") on a five-point scale. As we indicate below, this may indicate the beginnings of a

change, as ranking and metrics become more widely known and perceived to be reliable.

3. Firings and Work Reductions

a. Terminations

Standard depictions of the legal market over the past twenty years would lead one to believe that large companies frequently terminate law firm relationships, as sophisticated CLOs – inspired by GE's Ben Heineman – shifted the purchasing model from long-term monopsonies to "spot" contracting (Wilkins 2010). Contrary to that story, however, relatively few (about 20%) survey respondents reported terminating preferred provider law firm relationships more than once a year over the three year period 2003 to 2006, and over 30% report not having terminated any such relationships in that period. This finding is consistent with the finding reported above, that "convergence" had reached equilibrium prior to 2003. But the end of convergence alone would not imply the end of "spot" contracting – companies might have ceased cutting the number of preferred providers but might have continued to drop and add new preferred providers regularly. Most large companies do not appear to be doing that, however.

Our interviews are also inconsistent with conventional depictions of "spot contracting" and frequent firm terminations. CLO interviewees confirmed that firing or taking a law firm off a preferred provider list (post-convergence) was a

significant corporate event. As one explained, "[t]aking them off the list is obviously a big step, you know, you don't do that to people." [GC30CB at 15] Instead, CLO interviewees generally reported trying to solve problems with preferred providers before they escalated to that extent. Law firm relationships survive in the face of cost pressures, one CLO explained, because "they tend to replicate themselves, so that as some of the lawyers [charger higher billing] rates, they can't afford to work for us anymore, so they backfill [i.e., push the work down to younger, less expensive lawyers]. We have found the lawyers that … step up into the relationship are every bit as good as the lawyers that have … gone onto bigger and better things. So, it would be difficult to not want to go …with which you're very familiar and … comfortable with."[GC26P at18-19]

b. Work Reductions (The "Penalty Box")

By contrast, CLOs report that their companies *reduce* work given to particular preferred providers much more frequently: almost twice as many (37%) report having reduced work more than once a year in the period 2003-2006 than report having terminated preferred provider relationships that often, and only 20% report not having done so at all in that period. Work reductions – described to us separately by one CLO interviewee and one large law firm managing partner as being put in a "penalty box" – seem to have become the tool of choice for CLOs seeking to manage firm relationships in recent years. "One case that I'm thinking of, they, definitely, came in and pleaded to get back on our good graces, and, for a

long time, we refused to do that, and then there came a time when we thought that enough time had passed and the people that were involved were sufficiently … and we took them out of the penalty box." [GC22IB at 31]

Firing is a blunt instrument, and CLOs have become more refined in punishing poor performers. They tell their law firms that they do not want particular partners, teams of lawyers, or departments to work on its business. One CLO described the situation as follows: "We had a firm that we used a lot, and they had assigned a lawyer to the case and our people and ... the quality was not up to our standards, or really up to that firm's standards and so we went to the firm and said, we have to take so and so off this case and we don't want him on any of our cases in the future." [GC30CB at 16] As a typical CLO explained: "I did have to speak with the firms and I did have to sometimes say – X doesn't get it. X is just so driven by billing hours and doesn't know solutions. Can you put somebody else on it?" [GC15CB at 19]

Although unhappy at times with certain people and the quality of the work, CLO interviewees generally did not report taking the work away from a firm entirely. "I would not engage the particular people in that firm again, for that kind of a project. I used other people in that firm. [W]e still do business with the firm, but again, we just have to be more tactical." [GC2IB at 18] CLO interviewees remain with a law firm when they are not happy with a particular partner because "[they] [are] able to say, we appreciate you [the law firm] ... it

was the right thing to do; this one partner didn't work, we don't want to see that partner. But yes, there are other pieces in your firm where things are developing nicely and you do have a future." [GC5IB at 17] Although such decisions are sometimes driven by the recognition that the firm and its culture is the right fit for the company, other times the decisions to remain with a firm is driven by the fact that the CLOs recognize firing a firm may not solve their problems of poor service. As one CLO explained, "If I have a fit and I fire you, I'm going to go to another law firm that's going to have the same set-up with the same issues and it could happen again the same way. These guys already know that it's happened, so you've already bumped your nose once." [GC2IB at 24]

According to many CLOs, "the law firms ... are generally very good about making sure that [the CLOs] are happy with the people working on the account." [GC31PH at 10] One CLO described one instance where a top-tier firm "provided unsatisfactory service": "[I]t was a very big matter, a very big firm for us and it had to do with the partner who had the expertise being called off on to another [client's] matter ... I called the managing partner of the firm and expressed my unhappiness and we got it resolved." [GCIB30 at 15] As another CLO explained, "We've had instances even with [our preferred law firm] and some of our preferred relationships where a particular lawyer has not delivered and asked for somebody else and have gotten somebody else, just to make sure that it doesn't work all the time, but it works most of the time." [GCP26 at 17] Or

as another CLO put it: "The firms that we have relationships with you know, they like us. They wanted to continue to do our work. ... So they were pretty responsive .... [T]hey understood ... – and they've adjusted their staffing and the way they face off with us to take into account the feedback." [GC17CB at 22] Although CLOs have issues with individual lawyers or teams, as a whole, the firms are often seen as responsive to the CLOs concerns and, therefore, willing to make changes to the teams as needed.

c. Teams and departments

This brings us to the increasingly important role that teams or work groups are playing in law firm hiring decisions. Table 5, which is based on our surveys, depicts what happens when CLOs decide to place a firm in the "penalty box" because of underperformance. It shows that when the company reduced the work given to an individual lawyer who underperformed, it also frequently reduced work given to others in the law firm. Only in 10% of (11 out of 112) instances where work was reduced did the CLO confine the penalty to the offending lawyer. Much of the time, work was also reduced to the firm as a whole, underscoring the connection between the lawyer and the firm in the mind of CLOs. More interestingly, most CLOs appeared to treat neither the individual nor the firm as the relevant unit of analysis when handing out extra punishment. Instead, in 54% of (60 out of 112) reductions, the CLO took work away from the relevant team or

department rather than reducing work to the firm as a whole, or to just the individual.

Table 5. The Penalty Box: Effect of Underperformance on Individual, Team, Department and Firm

CLOs reporting reduction of work to preferred providers based on underperformance	Reduced work just to individual	Also reduced work to team (but not rest of department or firm)	Also reduced work to department (but not rest of firm)	Also reduced work to rest of firm	Total
Reduced work to the individual who underperformed	11	7	28	37	83
Did not reduce work to individual who underperformed		8	18	3	29
Total	11	15	46	40	112

Indeed, as shown in the second row of Table 5, companies reduced work to teams and/or departments even when the underperforming individual was not specifically identified as receiving less work. CLOs reported reducing work to the department and *not* to the individual in 26% of (29 of 112) work reductions, as compared to only 10% of reductions to the individual alone. These results are consistent with the theory that as firms have grown in size and scope, the relevant units of choice for companies have shifted from firms to teams and departments. CLOs of large companies are acting on the basis that individual lawyers – however unique they may be – can function as effective corporate lawyers only in conjunction with other lawyers at their firms.

These developments are especially true for lead partners (i.e., heads of teams). When a team's lead partner or department head is underperforming, a CLO loses confidence not just in the individual but also in the whole team or department. The decision to not use that partner then leads to not using associates or partners that work with him/er. As one CLO who reported having to hire a new law firm mid-matter explained, "I don't think I'll ever use that person again because I think the risk would be – I just wouldn't have confidence that the same situation wouldn't emerge again. Plus, I realized that the team around this person at firm A was not anywhere near the quality of the team around the person that we now have [from firm B]. So although we made the shift because of the individual person, the fringe benefit is that we got a spectacularly good team now, not only just individuals." [GC17CB at 25] Dissatisfaction with a lead partner, in other words, spreads to the whole team.

Interestingly, this CLO also explained that there was one individual lawyer "who did not get along so much with [the] business person" but despite this, the company "asked for her again on some [other] work" because "she was a showcase" and spectacular. [GC17CB at 25] Thus, CLOs understand that some individual lawyers will not fit with some of the internal employees and that law firms have a difficult task in figuring out the right staffing. In those situations, the CLO may not "penalize" the individual *or* the team. At times a CLO only decreases the work to the team, as in the prior example, but at other times a CLO

might penalize the entire firm. Another CLO explained, "[T]ypically what happens is that, there is a partner of the firm, who is sort of the lead partner working with us, and by that point, that partner is usually a part of the problem; it was just what's happening ... there [are] 100 firms out there, you can find somebody who does the same things." [GC5IB at 18-19] When asked whether he would fire the law firm or simply reduce work to the team or individual, one CLO responded as follows:

> It would depend upon whether we feel that what happened here was specific to the individual or that there was inadequate oversight of the activity. ...[I]f a senior partner makes a strategic error in a given call, we might move to a different partner. If, however, the firm has allowed us to entrust business to the hands of a more junior lawyer, or a partner has without our knowledge entrusted the work to a more junior lawyer who made the mistake, then when it's an issue of management oversight in general, we will leave the firm entirely. [GC20IB at 24]

d. Causes of Terminations and Reductions.

In our survey responses, the dominant reason given for terminations and work reductions was the quality of the services (60% of those reporting terminations, 78% of those reporting reductions), and not cost (as implied by standard depictions of cost-conscious CLOs overseeing a "spot" market for legal services). Indeed, cost was mentioned on its own as the reason for a termination in only 7%

(5 out of 68) of instances where a CLO explained their terminations. Given that we directed respondents to think about "very significant" legal matters, it is perhaps not surprising that respondents did not cite cost as the most significant factor. Yet the fact that financial considerations were so rarely the focus of the decision is noteworthy. Even apart from "bet the company" matters, cost plays less of a dominant role than the standard depiction implies. (That said, as discussed above, cost is a factor motivating convergence.)

The second most common reason given was ethical issues (27% for terminations, 10% for reductions), followed by responsiveness (19% for terminations and reductions). No other factor was mentioned by more than two survey respondents.

Generally speaking, these results track our interviews. Although a willingness to cut costs may help a law firm get placed and remain on a preferred provider list, cost was generally not a factor in terminations. The prevailing reasons CLO interviewees gave for terminating law firms centered on quality and service issues, e.g., knowledge of the case or client, and responsiveness. CLOs said, for example, "I didn't feel they really knew the case ... They really weren't able to answer my questions to my satisfaction" [GC5IB at 18] or "[T]he most important thing I think is to have understood our business better going into it." [GC2IB at

31] Or the law firm did not know the relevant law or have the expertise.[21] Or the firm partner was not responsive to complaints about service or quality. One CLO explained that she terminated a department of a firm when the relationship partner did not respond appropriately to the CLO's complaints about a particular partner handling a matter and the firm went back on its word on what it would charge the company on the back-end. [GC13CB at 20-23] She did not fire the law firm itself entirely because "they're fairly embedded here; and so they're getting used for less and less as different people in different areas are starting to understand the differences in quality between other law firms that are available to them and this one."[22]

In addition to quality, the other prevalent reasons for terminating law firms centered on ethics, particularly conflicts of interest. Often the CLO interviewees mentioned conflicts. "It's a fundamental affront to our dignity, so they were taken off the list when they represented who's suing us; anybody who represented somebody suing us goes off the list -- goes off the approved list, not just the

[21] E.g., GC1IB; GC6CB at 2; GC6CB at 23 (explaining however that "[f]or the high-end stuff, it's like quality first and service a close second").

[22] GC6CB at 23.

premier list." [GC30CB at 13][23] CLOs also mentioned unethical billing practices as being part of a decision to terminate the relationship. One CLO explained the company "had terminated relationships where we've found funny business in [the law firm's] billings" such as "[b]illing a 24-hour day to us and their other clients, irregularities." [GC26P at 16] CLOs did not draw a sharp line between violations of professional responsibility rules and their view of broader ethical obligations, such as so-called "business conflicts" in which one of the company's primary law firms was discovered to be working for a business competitor. CLOs report business conflicts frequently resulting in work reductions or even terminations. As one CLO drolly noted: "[W]e are big boys and girls, and they made a business

[23] *See also* GC17CB at 32 ("We had a firm that sued us and we were a client and they said oh no, no it was your subsidiary that was a client and … it was actually a firm that we merged with, so we don't think that that counts, and we have an opinion from our own firm's [CLO] that is going to say it's ok for us to sue you. And we said [OK]… But we're not going to pay you any money ever again. Across the board, we're not going to do that... . [I] never [hired them again]. And you know, I just thought that was ridiculous. It was ridiculous so you know so if the firm takes that kind of unscrupulous approach to conflicts you know that's going to get them off the list.").

decision, the result of which is, I took them off the approved list and that's fine." [GC30CB at 13]

In taking business conflicts seriously, CLOs are responding to a firm's violation of its promise to provide capacity insurance. As one CLO explained, it matters "how sensitive [the law firms] are ... to business issues and concerns. You know, these law firms are enormous. You know, we certainly assume that they are not going to put themselves in conflict situations where there is a clear violation of the rules of ethics. But what we also expect from them is that they avoid situations where there may not be a specific sort of conflict in the legal sense. There is a conflict that's either an issue or with respect to a business counterpart. And, again, the better firms know that we have a high level expectation that our key firms are not going to be doing things anywhere, whether it's for us or for some other clients, that is at odds with our interest." [GC18IB at 9] CLOs appear to expect that their go-to firms be available and they get "pissed" when "their" firm does not check with them before taking on a "possible" competitor or when they ask their firm to get rid of a new client and the firm can or will not: "We'd expect from our major providers that when taking on a matter if its crystal clear we're going to need help too that they don't take the matter... hopefully someone from our law firms would call us and tell us and ask us if we want to engage them before they accept with a competitor." [GC1IB] Indeed, one CLO claimed that when he was with his old company, they "terminated a relationship with a firm

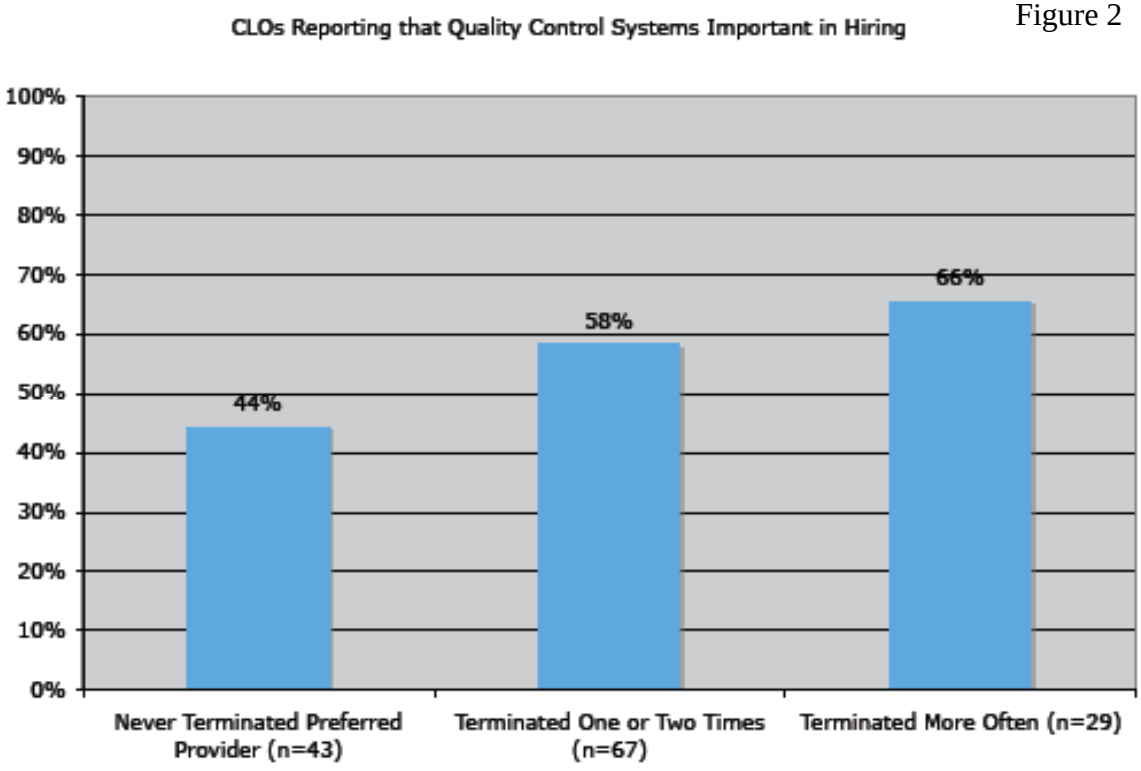
because where a law firm took a position that it did not regard as being adverse for purposes of disqualifying it from representing either [them] or a new client. But on a matter of principle, [they] decided that [they] could not be represented by the law firm even in light of the firewalls that might be put up or other typically acceptable ways of dealing with conflicts." [GC20IB at 24]

In contrast to quality and ethics, CLOs rarely described legal mistakes or bad outcomes as grounds for terminating relationships. Rather than point fingers at law firm counterparts, they often took some ownership and responsibility for the failure and expressed an understanding that things can go wrong. Given the close interaction between the CLO/client and the law firm, CLOs might find it hard to plausibly blame only on the law firm (and not themselves as well) for bad outcomes. As one CLO explained, "So it's part your fault, part our fault. It's possible we didn't even ask the right question." [GC6CB at 22] Even when CLOs do fire firms, they still recognize their role in the problems that arose. One CLO described this recognition as follows: "We felt that in this piece of litigation they ran up a very big deal -- that's probably our fault because we didn't manage it, and kept telling us that we had a great case, and the other side's settlement demands were outrageous until we got right up to close to trial, when they said, well, you are going to lose and you really ought to settle for what they ask. I was very unhappy. That's our problem; we didn't manage that case correctly but it's not what I expect from any firm on our approved list." [GC30CB at 13]

When it comes to matters such as quality and ethics, they draw a harder line. Thus, quality and ethical issues, viewed as more under the law firms' control, were identified most frequently as factors leading to terminations. That ethical issues are more likely to be associated with an outright termination than a work reduction suggests that, in contrast to the management of quality and responsiveness at the sub-unit level, ethics remains a matter that large company CLOs perceive to be managed over the entire firm, so that lapses by one lawyer or team reflect poorly on the firm as a whole. Consistent with this finding, we also find in our survey that companies that have reported terminating firms are more likely to view "quality control systems" in hiring a firm for a new very important matter. As shown in Figure 2, more than 50% of CLOs who did not report terminations in the 2003-2006 period said "quality control systems" were not important in hiring decisions, whereas 66% of CLOs who reported more than one or two terminations in that period view such systems as important (p-value of Wilcoxon ranksum test < .06). Although our data do not allow us to determine whether more frequent terminations make companies more conscious of the importance of a firm having better quality control systems, or conversely, whether companies that pay attention to such systems are more likely to be disappointed in the services that their firms provide, the connection between quality control systems and terminations suggests that at least some CLOs are holding the firm as

a whole responsible for failing adequately to monitor the quality of individual lawyers.

Figure 2

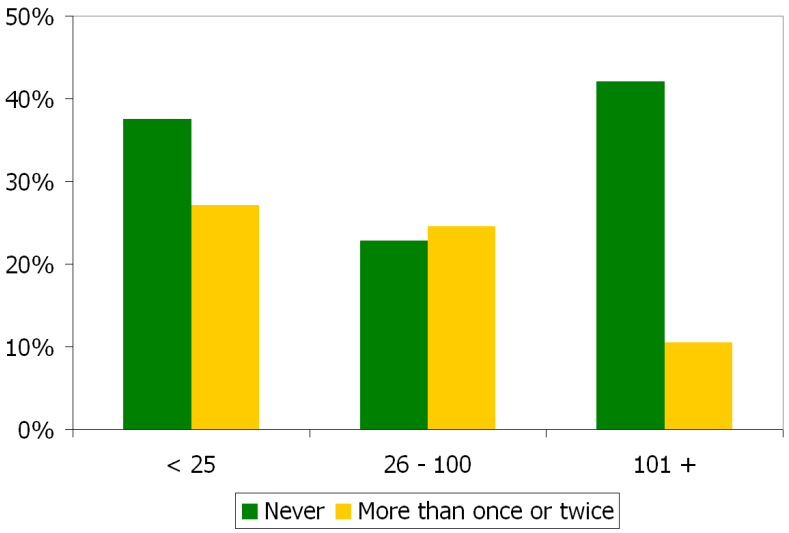


In addition to salient triggers for terminations, latent structural factors are at work. Law department size, for example, has a significant but non-linear relationship with the frequency that a survey respondent reported terminating preferred provider relationships. As shown on Figure 3, companies with small- or medium-sized legal departments were more likely to terminate preferred providers than companies with large (101+) law departments (p-value of Wilcoxon rank-sum test <.05). The same is true of work reductions. Although our

data do not allow us to test explanations for these correlations, one conjecture is that companies with small legal departments are more dependent on outside firms, and that companies with large legal departments have many ties between different in-house lawyers and lawyers at their law firms, making both types of companies less likely to discipline their preferred providers than those with moderately sized departments. Consistent with this conjecture is the fact that terminated law firms rarely have accounted for more than 20% of the company's outside spend, and most frequently accounted for less than 5% of the company's outside spend.

Figure 3

Terminations by Law Department Size



In addition, work reductions are significantly less likely if the CLO has been in office for a shorter period of time (p-value <.05 in a simple regression of work reductions on CLO tenure, R-squared = .05).[24] This could be partly to do with

[24] By contrast, the length of the law firm's relationship with the company had no correlation with the termination: terminated relationships varied from less than five years to more than 15 years, roughly evenly spread out. Likewise, CLO tenure has no strong relationship with terminations, although the sign on the relationship is negative, as with work reductions; the lack of any strong within-sample statistical relationship may simply reflect the fact that there are so few terminations at all.

institutional memory – if the CLO just joined the company, he may not have known about reductions in prior years and failed to indicate that the company had done so in filling out our survey. However, this result is even stronger for CLOs that had been in office for at least three years (p-value < .01), and were CLOs during the period during which they were asked about terminations and reductions. The inverse correlations between CLO tenure and work reductions and terminations likely reflect the relative power and/or knowledge of the CLO. The longer the CLO has been at the company, the more likely the CLO will have developed the political capital to prevail against other officers who may have relationships with the law firms, and/or to have developed the knowledge sufficient to make the quality assessments that drive those decisions.

e. The Cutting Edge?

Finally, we note that those few CLO survey respondents who report having terminated preferred providers more than once a year differ from other CLOs in several ways. First, as shown above in Figure 2, they are more likely to view quality control systems as being important in hiring decisions. Second, they are more likely to report relying on external sources of information in making hiring decisions for new very important matters. Third, they are more likely to report that the profits per partner of law firms were relevant to their hiring decisions. Included in that group were CLOs who reported terminating law firms that accounted for more than 50% of their companies' outside legal spends. Together,

these findings suggest that there is a subset of CLOs who are more cost conscious and less reliant on existing relationships and personal knowledge in managing law firm relationships, who work for companies with medium-size legal departments, and who are more aggressive in terminating those relationships than other CLOs .

These CLOs may be outliers who will eventually be marginalized or reabsorbed into the dominant mode of the client/provider relationship described above. But it is also possible that these outward-facing and more aggressive CLOs are the leading edge of a new trend that will redefine the relationship between companies and their principal outside firms in a manner that combines the market discipline of "spot contracting" with an appreciation of the value of relationship-building, along with an understanding of the structural and attitudinal factors required to make "cooptition" work in this context. (See Wilkins 2010.) Only time will tell.

D. **Lateral Moves of Star Lawyers**

Finally, the survey also included a set of questions that asked if CLOs have an impact on lateral moves of "star" (high profile) lawyers at the firms that serve them, and if they move work in response to the moves of star lawyers. Among our survey respondents, 54% of CLOs reported observing star lawyers move

laterally.[25] The frequency with which the CLOs observed such moves did not vary significantly across industries, although, unsurprisingly, CLOs with large (above-median) outside legal expenditure observed more star moves than did CLOs with small (below-median) outside legal expenditure ($p<.10$).

In the majority of cases (57%), CLOs reported that lawyers moved to firms that were approximately the same size as the firms the lawyers were leaving. In 26% of the moves, CLOs reported lawyers departing for larger law firm. Only 17% of the lateral moves reported were to smaller firms.

Of the star lawyers whose moves the CLOs recalled, 46% consulted with CLOs every time they moved, 21% consulted with them sometimes, and only 33% did not consult with the CLOs. Although lawyers sought their advice, CLOs proactively suggested them to join specific law firms in only 11% of the cases. However, 15% of the CLOs reported that they actively engaged in "matchmaking," i.e., suggesting to lawyers specific firms that they might consider joining and suggesting to law firms particular lawyers they might consider recruiting. Asked if he had actively asked a law firm to build up a particular area of expertise, one CLO responded "No, but I have, upon being pitched for particular areas, told firms that the reason they don't get our business in that area

[25] Groysberg et al. 2004 find that "star" analysts move infrequently and less often than "non-stars."

is, they don't have the depth that we're looking for, and that they could take and deal with that as they wish. So, I've never suggested they need someone but I would explain that they don't get the work in some instances because they don't have the depth." [GC30CB at 17] CLOs are important informational conduits in the labor market for star lawyers and, at least in self reports, are more than willing to advise star lawyers on their moves and even advise firms on occasions to recruit particular star lawyers.

In addition to variation in where star lawyers moved to, CLOs also reported significant variation in whether these lawyers moved by themselves or as part of a group. According to survey respondents, of the stars they recalled moving from one firm to another, 63% moved solo whereas 37% left with other team members. When star lawyers did move in teams, team sizes were generally small. Team size was greater than five in less than 30% of team movement cases and greater than ten for only 11% of the cases. CLOs with large (above-median) outside expenditure reported observing team movements more frequently than did CLOs with small (beloe-median) outside expenditure ($p<.05$). Likely, stars serve large clients as members of teams, whereas stars serve small clients solo.

There was also variation in whether the stars moved to establish new practices at their destination firms or to join existing ones. According to respondents, more than two thirds (69%) left to join established teams, while the remainder (38%) established new practices or offices. To the CLOs' knowledge, star lawyers rarely

(4%) replaced lawyers in their new firms who had either left prior to the star's arrival or were quickly replaced thereafter.

Finally, CLOs reported that the vast majority (about 80%) of lawyers that had moved over the past three years were still with the firms they had joined. This finding differs somewhat from a prior study on research analysis conducted by one of us which demonstrated that star analysts that move once were much more likely to move again and tended to have relatively low average tenure at their new host firms.[26]

These variations in destination and the circumstances surrounding their departure and arrival had some important consequences for whether CLOs reported that they were likely to follow star lawyers by moving some or all of their work to the star's new law firm. As Figure 4 demonstrates, the overwhelming majority of CLOs (87%) moved at least some work to the new firms that the star lawyers joined. This is consistent with our interviews. [GC20IB at 16] The following account of one CLO, perhaps extreme in detail, was typical: "Eight years ago, [some of the lawyers from Firm A] joined our bank. But the ones that didn't come that did our work, a securities lawyer and a financing lawyer and a bank regulatory lawyer, those three partners jumped ship and went to [Firm B]. And with that jump, we followed them. And they were our

[26] *Cf.* Groysberg et al. 2008.

primary counsel. We were the largest client, I think, of [Firm A] for a number of years. They used to do all of our M&A work and bank regulatory work. That has changed now. They're doing less of our work." And that wasn't all: "[Firm C] had an attorney who did our IP work, trademark, trade name. She's been in three different firms, and we followed her everywhere she's gone. She's built a team in each firm. She happens to be at [Firm D] now. And so yes, we do follow people around." And there was still more: "In fact years ago, we had somebody doing our IP work and he went out on his own. It was only after several years that we decided that we really needed somebody who had more bench strength. And so we switched. But for a while we were using a solo practitioner to do that." And finally one more: "[Firm E] was doing the bulk of our highly sophisticated outsourcing arrangements. He was with [firm E] and we had a strong allegiance to [firm E]. But last year, he jumped ship to [firm F]. And we followed him there. And he's still doing the very same work that he did when he was in [firm E], only he's doing it for [firm F]."

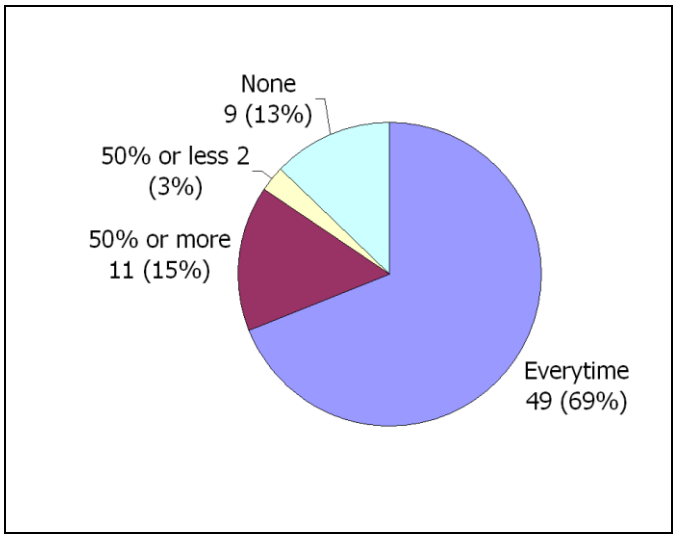
The decision to move work to follow star lawyers seems driven in part by whether CLOs place more importance on the lawyer or the firm. As the CLO of a financial services company stated: "I'm also a big believer that you hire a lawyer, not a law firm. So, generally, the ability of that lawyer to service me is not impacted by the move or that there isn't any other specialized skills set in the firm; that enabled that partner to support my needs. I'm kind of agnostic."

[GC23CB at 18] Another CLO answered differently: "I know people move from firm to firm... . [I]n recognition of the fact that the people you rely on can leave, I am a little bit more flexible. We have those cases where we move cases when lawyers have left firms. There are cases and situations where we felt comfortable keeping them no matter even if the lawyer has left. [GC27CB at 11]

But at least some of the decision is driven by CLO recognition of the importance of sub-units, such as teams, and of the fact that firm reputations are important over and above their role as proxies for quality. CLOs were more likely to move work if the star lawyers moved as part of a team ($p<.05$). One CLO explained his reluctance to follow a lawyer that went to a considerably smaller law firm: "There are reputational issues. I would never say, 'Never,' but I think there has to be… it's partially reputational, partially, in a belief to the difficulty in adequately servicing from that environment, given the nature and extent of our needs. Part of the value that they bring is their exposure to the market, their exposure to other clients, their judgment calls, their expertise gaining and representing other clients – it's not just the specific A, B and C they do for us. I believe that their quality of lawyers is the quality of clients they represent, and I think in a no-name firm, unless they're really experienced lawyers in a very specialized area, they lose the market sense, they begin to lose the client base, they won't get more significant client matters; they'll kind of lose their edge, their

sharpness. In things like employment law, that's less of an issue, but in our core areas, the regulatory and the transactional, it just doesn't work." [GC23CB at 19]

Figure 4 Work moved with movement of star lawyers?



In about 75% of the cases where CLOs switched work with stars moving, they reported the quality of work did not change, whereas in about 20% of cases they reported the quality of work improved. CLOs with larger outside legal expenditure reported more often than did CLOs with smaller outside legal spend that the quality of work improved after the star lawyer moved.

In sum, it seems that CLOs view star lawyers as the critical client-specific resources, are willing to move their work to new firms to which their lawyers move, and are satisfied with the quality of work after the move. Once again, this result is somewhat at variance with the findings of the study of research analysts that found that the performance of stars in this industry who moved declines more

than the performance of star analysts that did not move (Groysberg et al. 2008). This difference could be because of one of three reasons: (a) the legal market is different from the equity analyst market, involving more individual- or team- (versus firm-) specific contribution to "stardom"; (b) CLOs perceive and recall only "successful" lateral moves of star lawyers; and (c) CLOs recall only those lateral moves that worked for them.

Conclusion: **Implications**

Our findings are inconsistent with the "conventional wisdom" reflected in hypotheses 1a and 1b, and are consistent with the alternative hypotheses 2a and 2b. Even if information asymmetries between large companies and outside law firms have declined over time, long-term relationships between companies and firms remain important. Large company CLOs do focus on individual lawyers in making hiring and firing decisions, and show a willingness to follow "star" lawyers from firm to firm. But they also focus as much if not more on sub-units and entire firms when making work reductions and selecting the relatively stable set of ten to twenty preferred providers to which they direct the bulk of outside legal expenditures.

Our research was conducted before the current economic downturn, and a follow-up study would be valuable. Nevertheless, we believe that our findings have structural roots that likely transcend – and may even be exacerbated by – the

increased scrutiny of law firms stimulated by the downturn. At the most general level, our findings support the view that large law firms are neither "autonomous" from their large corporate clients, nor dependent in any simple way on them. Rather, large corporations and large law firms are interpenetrated – entangled with the other in complex and enduring relationships, and mutually dependent on one another. Corporations have taken the cost-cutting effects of winnowing the ranks of their outside firms as far as they can – they are now left with the more difficult task of enlisting the survivors to improve productivity. Firms are subject to discipline, but also can count on continued flows of work, absent extreme lapses in judgment.

For CLOs, our findings underscore that corporate clients have a greater stake in the health of their top law firms than the standard story about "spot contracting" suggests. The slowing of convergence reveals the limits to the strategy of tying a company's fortunes to an ever-smaller group of firms to squeeze out costs. CLOs will have to find creative ways to manage law firm relationships, as the small but significant minority of our respondents are beginning to do, by experimenting with more creative and sustained interventions in the legal market more broadly, and by developing and collecting data on performance metrics and other objective sources of information about quality.

Law firms are beginning to need to justify what was once purely internal. Companies are intervening in areas such as staffing by, for example, requiring

firms to report on the demographic composition of lawyers working on the company's matters, and in some instances mandating that firms change the "relationship partner" who oversees the company's business (Wilkins 2004). While we find that diversity does not play a primary role when companies are deciding which firms to hire for an important matter, the mode of intervening in the internal affairs of firms now prevalent in the diversity area has the potential to spread to other firm attributes, as CLOs seek to align compensation systems and organizational structure of their preferred providers with company goals. Dedicated client teams, client-accessible knowledge platforms, law firm run training programs, and secondments of lawyers are all ways firms can signal commitment (Rosen 2002). If companies now have no choice but to move from cost pressure via convergence to productivity improvements via active management, pressure is likely to mount on firms to adopt more such measures in coming years (Susskind 2009).

For law schools, our most general finding – that the legal and corporate sectors are highly interpenetrated, with long-term relationships still prevalent and work organized and evaluated at the team rather than just the individual or firm level – suggests that students anticipating jobs in large law firms should more appropriately view themselves as entering careers in firm/company joint ventures. In such a corporate setting, legal skills need to be complemented by business skills: strategy, value, marketing, team-building, leadership, budgeting, planning,

public relations, and control systems. Where those skills are best learned remains uncertain, but law schools could play a role in teaching students to work in teams, as business schools have long done.

This brings us to scholarship. Until recently, law schools have produced little scholarship about the profession they purportedly serve. Serious interdisciplinary scholarship on the profession, although it exists,[27] is rare. Even fewer academics engage with lawyers about changes in practice. What is needed is a sustained dialogue among scholars from a variety of disciplines – and sophisticated practitioners – about the organization and development of the profession. In this article, we have attempted to participate in such a dialogue and to demonstrate that multiple academic disciplines can inform and be informed by simultaneous application of quantitative and qualitative methods to a set of socially important professional service relationships. We look forward to continuing the conversation.

Bibliography

Michele DeStefano Beardslee, *The Corporate Attorney-Client Privilege: Third Rate Doctrine for Third Party Consultants*, 62 SMU L. Rev. 727 (2009)

Michele DeStefano Beardslee, *Advocacy in the Court of Public Opinion Part I: Broadening the Role of Corporate Attorneys*, 22 Geo. J. Legal Ethics 1259 (2009)

Michele DeStefano Beardslee, *Advocacy in the Court of Public Opinion Part II: How Far Should Corporate Lawyers Go?*, 23 Geo. J. Legal Ethics 1119 (2010)

[27] *See, e.g.*, Nelson 2008.

Abram Chayes and Antonia Chayes, *Corporate Counsel and the Elite Law Firm*, 37 Stan. L. Rev. 277 (1985)

John C. Coates IV, *Causes and Consequences of CLO Turnover*, Working Paper (2010)

Yuk-Fai Fong, *When Do Experts Cheat and Whom Do They Target?* 36 RAND J. Econ. 113 (2005)

Marc Galanter and Thomas Palay, *Tournament of Lawyers: The Growth and Transformation of the Big Law Firms* (1991)

John Gibeaut, *The Outside Looking In*, 90 A.B.A.J. 46, 49 (2004)

Ronald J. Gilson, *The Devolution of the Legal Profession: A Demand Side Perspective*, 49 Md. L. Rev. 869 (1990)

Ronald J. Gilson, Robert H. Mnookin & B. Peter Pashigian, *Sharing Among the Human Capitalists: An Economic Inquiry Into the Corporate Law Firm and how Partners Split Profits*, 37 Stan. Law Rev. 313 (1985)

Boris Groysberg, Ashish Nanda and Nitin Nohria, *The Risky Business of Hiring Stars*, 83 Harvard Business Review 92 (May 2004)

Boris Groysberg, Linda-Eling Lee and Ashish Nanda, *Can They Take It with Them? The Portability of Star Knowledge Workers' Performance: Myth or Reality*, 54 Management Science 1213 (July 2008).

Carol A. Heimer, *Solving the Problem of Trust*, TRUST IN SOCIETY, (New York: Russell Sage Foundation; Karen S. Cook, ed.) (2001)

John Heinz and Edward Laumann, *Chicago Lawyers: The Social Structure Of The Bar* (1983)

John Heinz, Robert Nelson, Rebecca Sandefur, Edward Laumann, *Urban Lawyers: The New Social Structure of the Bar* (2005)

Emmanuel Lazega and Marijtje van Duijin, *Positon in Formal Structure, Personal Characteristics, and Choices of Advisors in a Law Firm: A Logistic Regression Model for Dyadic Network Data*, 19 Soc. Networks 375 (1997)

Robert L. Nelson, *Partners with Power: The Social Transformation of the Large Law Firm* (1988)

Robert L. Nelson and Laura Beth Nielsen, *Cops, Counsel, and Entrepreneurs: Constructing the Role of Inside Counsel in Large Corporations*, 34 Law and Soc'y Rev. 457 (2000)

Robert L. Nelson and Laura Beth Nielsen *Divergent Paths: Conflicting Conceptions of Employment Discrimination in Law and the Social Sciences* (2008)

Milton C. Regan, Jr., EAT WHAT YOU KILL, (Ann Arbor: Univ. of Michigan Press) (2004)

Robert E. Rosen, *We're All Consultants Now*: *How Change in Client Organizational Strategies Influences Change in the Organization of Corporate Legal Services*, 44 Ariz. L. Rev. 637 (2002)

S. S. Samuelson & L. J. Jaffe, *A Statistical Analysis of Law Firm Profitability,* 70 B. U. L. Rev. 185 (1990)

Jeffrey S. Slovak, *Working for Corporate Actors: Social Change and Elite Attorneys in Chicago*, 1979 Am. B. Found. Res. J. 465 (Summer 1979)

Jeffrey S. Slovak, *Giving and Getting Respect: Prestige and Stratification in a Legal Elite*, 5 Am. B. Found. Res. J. 31 (1980)

Brian Uzzi and Ryon Lancaster, *Embeddedness and Price Formation in the Corporate Law Market*, 29 Am. Soc. Rev. 319 (2004)

David B. Wilkins, *From 'Separate is Inherently Unequal' to 'Diversity is Good for Business': The Rise of Market-Based Diversity Arguments and the Fate of the Black Corporate Bar*, 117 Harvard Law Review 1548 (2004)

David Wilkins, *Team of Rivals? Toward A New Model of the Corporate Attorney/Client Relationship*, 78 Fordham L. Rev. 2067 (2010)