



# Getting valued

With sourcing legal services, demonstrating a return on the legal spend, IP and corporate governance all on the agenda, there was plenty for attendees at the sixteenth Pinsent Masons round table to talk about. **Eduardo Reyes** reports

**IN-HOUSE COUNSEL AT THE SIXTEENTH** Pinsent Masons round table discussion tackled some of the biggest issues facing their departments – how they go about sourcing legal services, the challenge of demonstrating the legal spend’s return on investment, the legal function’s role in corporate governance, and the approach they take to guarding and exploiting their company’s intellectual property.

Several attendees have either conducted, or are in the process of conducting, a review of the law firms they instruct. For those who have completed the process, there were surprises – in two cases not a single firm that they had used previous to their panel review survived the process. Although any company will have within the business an institutional knowledge of the law firms they instruct, the general approach is to give the legal



function full control over the process, and to rely on the way the law firms invited to tender responded to the challenge.

DaimlerChrysler Retail's head of legal, Iain Larkins, recalls that even if the in-house department knew the law firms well, their behaviour at tender was crucial to their success – and none of DaimlerChrysler's previous advisers were retained after the review. 'The winning firms, Shoosmiths and Pinsent Masons, impressed us with their preparedness,' he says. In general, preparation and a willingness to answer questions and meet even small demands without equivocation carried weight. 'We asked questions like: "Will you provide us with a trainee for free?";' he explains. 'Firms that impressed us gave us a straight yes to these questions. Others, including firms who had had very high-value instructions from us in the past, led off with lengthy explanations starting with phrases like "subject to...". If a firm seemed hungry for our work, we thought that said something good about them.'

Sometimes firms might be dropped – even if their good work is known and taken into account – simply because they aren't well-enough aligned with the way the business has changed. This happened when Euronext.liffe reviewed its European panels. Head of legal Adam Eades recalls: 'We were created by the merger of several

exchanges, and, in seeking to run our cross-border business effectively, graduated towards international law firms – firms who operated more like us.'

The size of a company's legal spend had a clear influence on whether they felt they could entice firms to go through a review process in which concessions were won on the way. As Kewill Systems Plc's Richard Allan explains: 'I couldn't justify going through a panel review.'

A willingness to be flexible on billing arrangements is a priority for some. Mercury Interactive's senior corporate counsel, Gee Loong, says: 'In my experience, parts of the business can be shocked by the cost of hourly fees in the UK. We have to state in many instructions that we will only use capped or fixed fees. But if we are doing something like a data audit, I know that no UK law firm is going to do that for a fixed fee.'

Such demands on fees, though, still aren't common. Pinsent Masons partner

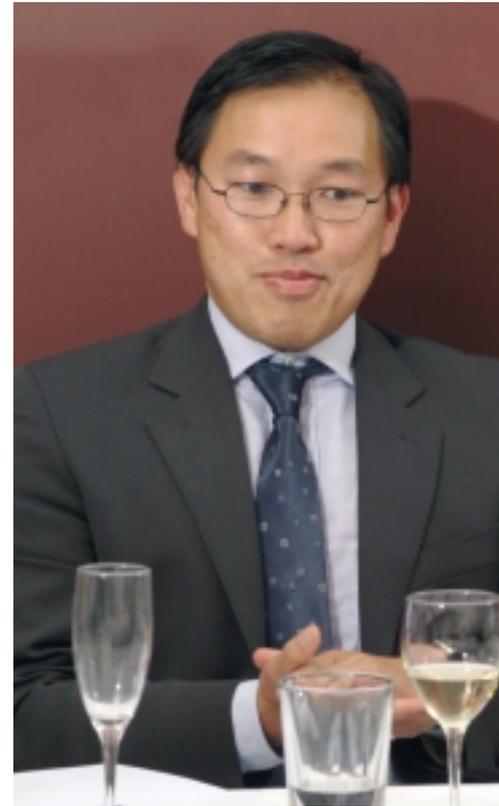
**Left to right:** Adam Eades of Euronext Group/Euronext.liffe with Les Christy of Pinsent Masons; Iain Larkins of DaimlerChrysler Retail with Sarah Atkins of London Underground; Nigel Kissack of Pinsent Masons; and Gareth Williams of Countrywide Plc.

Nigel Kissack notes: 'Our tendency has been to think that fixed-fee products and concepts like risk sharing will be in demand. But clients seem less interested in such arrangements than we expect.' Allan suggests this is because: 'When a project goes wrong it is rarely the lawyer's fault, so I wouldn't expect them to share the pain with us. So when a project goes right, why would I want to share the upside with them?'

#### WHAT YOU SEE

Although the process of sourcing external legal services may separate in-house lawyers from law firms and barristers, demonstrating a return on investment for the legal spend creates a common cause. That said, amongst the in-house lawyers >

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Left to right: Donna Pumfrey, MBNA; Richard Allan, Kewill Systems Plc; Gee Loong, Mercury Interactive; and Susan Ward, LCH Clearnet Ltd

present, the most common way of demonstrating return on investment for the legal spend is to compare the hypothetical hourly rate of the in-house lawyers with that of their private practice counterparts. At times, Eades points out, there is an obvious benefit that should be effectively communicated to the rest of the business. 'ROI can be demonstrated in litigation if you have a win, or in crisis management situations when a legal solution has got the company out of a hole,' he explains.

There is, however, a general wariness about aspiring to prove that the legal spend is any more than a cost. As Pinsent Masons partner Martin Webster asks the group: 'Isn't there a danger in saying you are just like any other profit centre? Much of the legal expenditure will be something the company has to do, rather than a commercial choice like any other.'

LCH Clearnet Ltd's general counsel, Susan Ward, concurs: 'You are a cost centre. You never turn a profit. You must watch costs and demonstrate the value you got from the external team. But for our clients the most important issue is often not cost, but issues like timeliness - did the external lawyer get the job done on time? Or did they hold up an important transaction?'

Donna Pumfrey, MBNA's director of legal and corporate affairs, adds: 'For transactional work, the main agenda for my

business is - though I know it's a hackneyed phrase - that they want advisers who see solutions, not problems. That's their measure of success on their legal spend.'

For some, including Ward, greater visibility for work done is achieved by internal billing - for work done by both in-house lawyers and private practice advisers. 'My clients see external lawyers as suppliers like any other, so they want to deal with them with the same commercial view,' she says. 'So I bill back to them, and attach any work done by the in-house team.'

Allan remains reticent: 'We do ROI calculations in other areas, but I don't think we could do it in legal. When it comes down to it, we are a cost. For the most part, all you can hope to do is minimise cost - otherwise you are setting yourself an impossible task.'

Countrywide Plc does carry out comparisons with private practice costs, but perhaps, as its head of group legal, Gareth Williams, says: 'The most important thing is communications - letting the top 200 decision-makers know what the department does. Otherwise they will see you as a cost.'

#### THE BOARDWALK

All those present have key responsibilities for corporate governance - and discharging those responsibilities goes to the heart of how they manage their in-house status. Ward says: 'As someone who is integrated in

the business, and is expected to be commercial in their outlook, to be constantly reminding people about corporate governance is difficult. You need years of experience to walk that line with confidence, and I think it's particularly challenging for younger lawyers to know when you need to take off the business hat, and put the lawyer's hat on to say: "No I can't do this, and neither can you."

But it's a challenge that most are keen to meet. 'It's a huge opportunity for in-house lawyers,' Williams argues. 'The board know they desperately need knowledge on corporate governance, and who better to use than a commercial lawyer?' Eades confirms this view: 'The focus on corporate governance is a huge opportunity to play a very important role at a senior level. And it's happening right across the western world.'

Like any group of in-house lawyers, the round table attendees are split on whether they should get a place on the board as a result of that augmented role. Those who doubt that a place on the board is helpful are concerned about the impact it has on a lawyer's ability to independently advise other directors. As non-board member, London Underground's head of legal, Sarah Atkins explains: 'I can advise the board on



compliance and health and safety issues, and need to do so objectively. If I were a director, I would also be liable for health and safety issues, which I think wouldn't be ideal!

Although Eades is adamant that most in-house lawyers 'can hold two bats', and sees no problem with lawyers being on the board, Williams disagrees. 'Because there are constraints on the number of executive and non-executive board members, I think it's an indulgence to have a lawyer on the board,' he argues. 'There are so many other profit-generating parts of the business that need to be represented.' The best role for a lawyer, he says, is company secretary. But there is an important caveat: 'I think the business needs to see the company secretary as being as important as the finance director.'

#### PICKING FIGHTS

The next topic on the agenda is intellectual property. Eades explains how his company discovered the importance of its IP: 'We suddenly realised that, as an exchange with electronic trading systems, we were sitting on assets that could be exploited. And our ownership of the IP contained in those systems can actually be used as a lever against a competitor - as a bargaining chip.'

In contrast, with several famous trade marks to protect, Larkins's main concern is the protection of the brand: 'I was involved

for several years in trying to protect the Mercedes brand, which a lot of people were trying to exploit. Our initial problem was that we didn't know who to pick off, so we were firing at everyone.' He and his advisers set out a strategy to identify the targets that were worth pursuing. 'The principle was that over time, with damages, actions brought to defend the brand would fund our costs,' he says.

Pinsent Masons barrister Les Christy cautions against a total reliance on the self-funding of IP cases: 'If you say that your policy has to be self-funding, and that is the expectation of the rest of the business, then there is a danger that you target the easiest cases, rather than the ones that are most important to the business to fight.'

A point they fully agree on is that publicity can be an effective tool in protecting a brand. Christy points to the record of the easyGroup companies: 'They've been vigorous in defending their rights - on occasion regardless of the merits. Some they win, some they lose. But their actions generate a lot of publicity, and it sends a very powerful message that they are fighters.'

That, Larkins concludes, makes practical sense: 'We won't agree to confidentiality clauses in any settlement we make - even if that increases the cost.' IHL  
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#### Who's who

##### RICHARD ALLAN

**Group legal counsel and company secretary, Kewill Systems Plc.** Allan is responsible for legal and related commercial issues at the FTSE quoted company.

##### SARAH ATKINS

**Head of legal services, London Underground.** Atkins provides London Underground with the legal services needed to support its six major PPP and PFI contracts.

##### LES CHRISTY

**Barrister, Pinsent Masons.** Christy is a senior associate and barrister in the firm's intellectual property practice.

##### ADAM EADES

**Group head of legal, Euronext Group/Euronext.liffe.** Eades is responsible for the provision of legal advice across the business, and liaising with external lawyers and regulators.

##### NIGEL KISSACK

**Partner, Pinsent Masons.** A dispute resolution partner at the firm, Kissack is also charged with effecting the integration of its component parts post-merger.

##### IAIN LARKINS

**Head of transactions and legal, DaimlerChrysler Retail Ltd.** Larkins has advised the retail side of DaimlerChrysler since it was set up from a standing start in 2001.

##### GEE LOONG

**Senior corporate counsel, Mercury Interactive.** Loong is responsible for commercial legal matters within the northern and southern Europe region.

##### DONNA PUMFREY

**Director of legal and corporate affairs, MBNA.** Pumfrey is responsible for providing a full range of legal services to MBNA Europe.

##### SUSAN WARD

**General counsel and group company secretary, LCH Clearnet Ltd.** Ward provides legal services to the recognised clearing house. She also sits as a part-time Immigration Service judge.

##### MARTIN WEBSTER

**Partner, Pinsent Masons.** Webster is a corporate partner and also advises clients on corporate governance issues.

##### GARETH WILLIAMS

**Head of group legal and company secretary, Countrywide Plc.** Williams handles a wide range of legal work arising from the activities of Countrywide Plc and its operating divisions.