

Banks and their Lawyers: What Happened to Value?

Reports in this week's AFR about the approach being taken by corporate counsel from the major banks to managing law firm relationships are absent an important concept: value.

The AFR reported that corporate counsel are looking for ways to lower the costs of legal services supplied to the bank from external law firms.

Some firms have responded by raising long standing issues to do with alternate billing methods to the hourly rate.

Law firms need to respond. They need to engage banking clients in a discussion about what constitutes good value.

Value is a function of costs and benefits received. There is nothing wrong with high fees provided there is commensurate level of benefits.

If corporate counsel received a high level of benefit for a reasonable cost they might conclude they made a good purchase or even a bargain purchase.

Conversely, if they paid a lot for few benefits they would feel, quite rightly, ripped off.

Comments about legal costs that do not address the issue of value suggest that law firm clients are behaviourally loyal - not attitudinally loyal. Law firms should be concerned.

Behaviourally loyal clients may continue to use the law firm, but they are constantly looking for a cheaper, faster, better deal without seeking to improve and deepen the relationship.

Attitudinally loyal clients would be working at the relationship because they continually derive value from it. They would only make positive comments about their legal service providers in the public domain.

To achieve such a win-win result a close working relationship accommodating the supply of value and giving the law firm a fair return is necessary. Talk of one party holding power, while reflecting economic reality, does not help create an appropriate environment.

Paul Montgomery

Faculty Head

Centre for Professional Services Management