

SHOULD LAW FIRMS OBTAIN FORMAL FEEDBACK FROM THEIR PRIVATE EQUITY CLIENTS?

INTRODUCTION

For law firms, the burgeoning practice of obtaining formal client feedback is not yet fully developed. Even within firms which embrace the principle of feedback programmes, there is sometimes a feeling in the private equity practice groups that feedback interviews would be unnecessary or unwelcome for their clients. Private equity clients are expected to:

- vote with their feet;
- let a firm know if they are not happy; and
- be too busy to spend time on feedback interviews.

Firm Sense conducted interviews with private equity executives to put these theories to the test.

“a problem discussed and shared is a problem reduced”

“if people were asking for our feedback more, it would make giving some of that feedback easier”

OBJECTIVES

- To examine private equity executives current levels of satisfaction with the feedback processes employed by their advisers.
- To establish whether private equity executives would welcome the opportunity to provide formal feedback to their law firms through regular client listening programmes.
- To determine which methods of obtaining feedback would be most suitable for private equity clients.

“I’m generally open to forms of feedback”

“legal relationships are totally different from banking relationships”

METHODOLOGY

Firm Sense conducted half hour telephone interviews with a number of private equity executives ranging across the spectrum of market participants from the global mega-buyout firms to UK mid-market houses. Their views have been collated and analysed and many direct quotes are reproduced here. This is an informal piece of research which does not claim to be scientific or statistically significant but the findings are illuminating.

“we do take the relationships pretty seriously”

KEY FINDINGS

- None of the respondents had ever been asked by their law firms to provide systematic, formal feedback on the service they receive but nearly all had provided formal feedback to their other professional advisers.
- The respondents all agreed that the informal feedback mechanisms employed by their law firms did not capture their views adequately. In some cases, unspoken problems had festered resulting in loss of business for the firm concerned.
- The respondents unanimously confirmed that they would be willing to provide formal feedback to their law firms.
- The respondents universally preferred to provide feedback via a structured conversation rather than by ticking boxes.

REPORT

Private Equity Executives Experience of Being Asked for Feedback

The respondents each confirmed that they had never been asked to provide any formal, structured feedback to their law firms. However, they had occasionally participated in "relationship lunches" or meetings in the course of which the client relationship partner would ask of the relationship "how is it going?" or of a deal "how do you think that went?" Certain individual law firm partners were noted to have encouraged informal feedback from their clients. This was felt to be a reflection of the partners' personalities and approach rather than institutionally mandated.

This experience was in sharp contrast to the approach of other professional advisers engaged by the private equity executives such as accountants, commercial consultants and head hunters. All but one of the respondents had been approached by their other professional advisers, notably the accountants, to provide formal feedback although it was acknowledged that this was a relatively recent innovation. Both accountants and commercial consultants requested feedback as a matter of course after each transaction but used different methodologies. The accountancy firms also tended to conduct annual relationship reviews as well.

"accountancy firms do reviews systematically after every project"

"when things are difficult, you probably get across maybe 40-50% of what you want to say and in a less precise way...that can be pretty inefficient"

Current Levels of Satisfaction with Feedback Processes

Critique of the Informal Approach

The current informal approach to obtaining feedback adopted by the respondents' law firms was criticised for being too "haphazard". One respondent described a situation where an issue had arisen in the aftermath of a deal which led to the private equity house giving less business to the firm. The private equity executive felt that, had there been a formal process, the matter might have been nipped in the bud. Ultimately, the matter was resolved but the private equity house continued to work with an additional firm brought in as a result of their dissatisfaction with the incumbent. Executives commented that it was hard to articulate criticisms fully through informal channels.

"if there had been a more formal approach to feedback we might have found a way to get round it but by the time it had built up to a real issue it became more difficult for everyone to engage in it"

Will Private Equity Executives Volunteer Feedback Without Being Asked?

The private equity executives conceded that they could be forthright and might sometimes show their displeasure or require changes to be made to deal teams. However, they still felt that: "there's a lot of important stuff which goes unsaid because people are slightly afraid of confrontation."

"you are able to reflect on things away from the heat of the moment"

They also drew distinctions between "reactive" feedback, given in the heat of a transaction to a problem requiring urgent remediation and the more "balanced, nuanced, detailed feedback" which they felt that law firms would benefit from receiving.

Willingness to Provide Formal Feedback

Willingness to Allocate Time for Feedback

All the respondents were more than willing to allocate time for feedback interviews. They agreed that the deal driven nature of private equity work meant that the most important time to obtain feedback was shortly after completion of a transaction. They acknowledged that they were often busy and stretched but emphasised that they would make time available for feedback interviews. They also noted that their work tended to come in peaks and troughs and therefore feedback interviews would most sensibly be scheduled for the quieter periods that often follow completion of a deal. One private equity executive noted how hard law firms work on transactions and therefore felt that he owed it to the law firms to provide feedback. He went further and said that he felt he spoke for his whole firm on this point. Others remarked that they had themselves been consultants or bankers, both of which are common routes into private equity and that they therefore knew what it was like to stand in their advisers' shoes. This made them more empathetic and willing to help the firms that they worked with.

"we have great long periods when it's not so busy... it's great to get some of those feedback interviews done then"

"if they ask us to make time then of course we would and we do"

If They Aren't Happy, Won't They Just Vote With Their Feet?

Of course private practice lawyers are operating in a competitive environment and over time client allegiances shift. Likewise substantial or persistent dissatisfaction with a law firm, which may not be known to that firm, would prompt a private equity house to replace its legal advisers. However, the private equity executives expressed themselves to be much less willing to switch law firms than private practice lawyers might imagine and distinguished their law firm relationships from some of their other professional adviser relationships in this regard. Many private equity houses have created law firm panels but these may consist of only two or three firms in the UK. Switching the proportion of new deals given to one firm in the panel versus another was relatively common but moving off panel was not something that they would entertain lightly. All the executives valued their relationships with their law firms and were prepared to expend their own time and effort to foster those relationships. They recognised the value in firms understanding their businesses, investment philosophy and "red flags".

"having a common understanding is pretty important for us and that only comes over time"

"to go to another firm...I'd need a very good reason to do it"

Most Effective Techniques

As with all things, there is a skill to obtaining and delivering client feedback. The private equity executives acknowledged that some of their advisers handled the process of obtaining feedback more skilfully than others. They indicated their preferences as follows:

Frequency

They all endorsed the concept of post transaction feedback being taken after every completed transaction. Generally, they were supportive of an annual relationship review being undertaken as a supplement to post transaction reviews. The scheduling and subject matter of reviews would be expected to vary from client to client depending on each client's recent deal flow.

"after every deal that happens and some judgement to be applied around other situations"

Approach

The private equity executives were unanimous in preferring open "qualitative" dialogue rather than formulaic questionnaires. The majority cited the phone as the best method for obtaining post transaction feedback but there might be circumstances where a face to face meeting was more appropriate.

"sitting on the phone for 20 minutes saying '5...6...2...1' is frankly boring"

Independence

The respondents did not have strong views as to whether the interviewer should come from the law firm or from a third party. If the matter was highly sensitive, relating to personal criticism of a lawyer, then some executives indicated that it might be most appropriate to raise the issue with a senior contact within the law firm. However, in the context of post transaction or broader service reviews, the majority felt that the interviewer should not be the relationship partner or person connected with a deal and emphasised the importance of a degree of distance.

"someone not connected to the transaction is where I would prefer to go"

CONCLUSIONS

The private equity executives provided a ringing endorsement of the adoption of regular, formal feedback processes by law firms for their private equity clients.

CONTACT

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