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Outsourcing Legal Services

John Angel asks “Is it really happening?” and “Should law firms be considering it?”

Today, outsourcing is such an accepted and widely used strategic tool that most leading companies have a well-defined outsourcing strategy. No managing director who wants to retain his position would refuse to consider outsourcing today. The outsourcing market is maturing and growing rapidly on a global basis.

Gartner predicts that the global outsourcing market will be US\$1.1 trillion by the end of 2004, and the Business Process Outsourcing(BPO) segment will be \$345 billion. If you take a more conservative view, IDC predicts the global IT Outsourcing(ITO) market to be over US\$200 billion by the end 2004.

Law firms are well aware of this position because they provide advice to these companies on their out sourcing deals. In fact most IT groups in law firms are profitable only because of this very remunerative work.

Despite this, very few law firms have considered outsourcing for themselves and even fewer have an outsourcing strategy. There is however evidence that this position is beginning to change as seen by the recent Legal Week/EJ legal survey of City Law firms which revealed that 60% of respondents expected ‘some’ degree of outsourcing to occur.

Outsourcing Non-core Activities

IT and telecommunications are business support functions which lend themselves to outsourcing. Law firms generally struggle to get value for money from these areas, so why not turn to suppliers whose core business is to provide such facilities on a more cost-effective basis. There is evidence that these suppliers are now targeting the legal sector and law firms are waking up to the benefits they can provide.

Outsourcing Less Peripheral Activities

What is more interesting is that law firms are beginning to outsource some activities directly connected with their core business of giving legal advice. These activities range from indexing and scanning documents, word processing, legal transcription, coding, converting physical data into electronic form, digital dictation, to reviewing transactional and litigation documents, drafting contracts, research memoranda and due diligence reports, prosecuting patents, surveying laws of various jurisdictions and collecting debt.

For over a decade the US firm Legal Research Network(LRN) has been providing cross-State jurisdictional surveys for law firms and in-house counsel at roughly a third of the cost that law firms would normally charge. These consolidated surveys are available by subscription online as a ‘Knowledge Bank’ and claim to contain sophisticated answers to over 60,000 legal issues. In the UK, the Practical Law Company (PLC) provides similar services. It claims that it has already become an outsourcing supplier to a number of practice groups within law firms replacing the supply of legal information from other sources and the need for in-house information officers.

Both LRN and the UK's Complanet provide online legal compliance training. This training is beginning to replace in-house teams and training in law firms which do not have the capacity to do so.

India has attracted much attention for its provision of offshoring IT services and call centres. Less well known is the fact that US and UK law firms, corporations and legal publishers are outsourcing legal services to Indian lawyers and paralegals. Indian lawyers have a similar common law background and are recognized overall as having good academic legal training. A recent US survey (see <http://www.globallawreview.com/outsourcing.html>) quoted that legal assistants and paralegals working on behalf of US law firms earn between \$6-8 per hour. Indian advertisements are quoting annual salaries of \$10-12000 for a paralegal, about a third of the US counterpart.

Three forms of outsourcing legal services have emerged in India. Firstly, overseas companies with a presence in India, for example, GE through its wholly-owned subsidiary, GECIS has created its own in-house legal department in India.

GE reported that in 2001 its plastics division saved approximately half a million dollars that would otherwise have been spent on American advice purchased from American law firms and that by 2002 those savings had already increased by 40%. Dupont already outsources legal work to Indian lawyers. Secondly, foreign law firms, for example Allen & Overy, Baker & McKenzie, and Hammonds Direct, have affiliated with Indian companies. Finally publishers, for example West/Thomson, are operating through pilot offices. So why should law firms consider outsourcing some of their core related activities which are essential to providing legal advice? Essentially, because of similar business reasons to those which drive the outsourcing of other functions.

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Business drivers

There are some particular drivers which should be influencing law firms.

- *Core cost reduction.* The most expensive costs to a law firm are legal and paralegal staff. If these can be reduced it will be possible to provide competitively priced legal advice without reducing profitability.
- *Getting access to capability/resources.* Legal instructions are often received ad hoc and at short notice. In-house resources may already be committed to other clients or the specialists required may be scarce. If it is possible to utilise external resources at short notice to enable the new instructions to be delivered, this can extend the ability of law firms to take on work.

- *Better utilisation of in-house resources by outsourcing low-value services.* Many instructions are for low-value services which need to be undertaken to retain a client's goodwill. Rather than wasting experienced lawyer time on activities which cannot be fully charged out, better to outsource such matters and allow lawyers to concentrate on providing premium rate services.

Outsourcing Strategy

The important thing today is for law firms to have an outsourcing strategy, even if this results in a decision not to outsource. Firms need to have considered the benefits and risks of outsourcing, which will need to be reviewed on a periodic basis as the environment in which law firms operate continually changes. To effectively develop an outsourcing strategy, it must be aligned with the firm's business objectives. Those partners/practice groups which will benefit from the services must play a role in defining the strategy.

There needs to be a business case for the strategy, to include the appropriate financial analysis. Conclusion Law firms are operating in an increasingly competitive environment with significant pressure on fees. If profit levels are to be maintained or increased then law firms need to consider innovative ways of reducing costs. Outsourcing legal services is one viable way of doing this, which some law firms and their clients are already beginning to experiment with and others are at least considering. As with other commercial organisations, if law firms fail to respond they risk losing ground against more imaginative competitors and even worse risk their clients by-passing them completely by directly outsourcing legal services to cheaper countries.

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