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The shape of things to come

Jack Diggle of princeOMC reveals the results of the inaugural Legal Industry Outsourcing Survey in association with *LB*

We all know outsourcing – and specifically

offshoring – is happening, but is it commonplace within the legal sector? Which areas have been outsourced, and which will be in the future? Most importantly, what are the economic benefits and do cheaper services mean poorer quality?

To answer these questions, princeOMC teamed up with *Legal Business* to survey over 100 senior executives at leading law firms in the UK and US about their experiences of and plans for outsourcing. The answers that came back were in part surprising and in part to be expected. Either way, they suggest a very different future for the global legal industry.

OFFSHORE OUTSOURCING

The first notable aspect of the findings is that the very nature of outsourcing is changing. Over the last five years, the majority (70%) of outsourced activities remained onshore. However, respondents clearly see offshore outsourcing as the future.

A major driver in this has been pressure from clients to reduce costs, with 27% of respondents citing this as a key reason for moving to offshore solutions. Richard Hawtin, an outsourcing partner at Baker & McKenzie in London, says: 'It's clients who will drive this. How clients see offshoring by their law firms – or how firms think clients see it – holds back its development for now. As clients start to drive offshoring

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directly, by applying pressure to offshore to reduce costs, or indirectly, by switching to law firms that take the offshore step and pass on savings to clients, then the speed of change will increase sharply.'

According to respondents, other drivers for the move offshore include talent shortages (10%) and greater competition (22%). Tim Nash, head of financial control at Eversheds, comments: 'Offshoring is set to become more acceptable in the industry as market leaders begin to prove the model works.' This combination means that, inevitably, outsourced solutions taking advantage of cheaper offshore labour forces will become a dominant trend in the coming years.

The move offshore is not necessarily a simple one, however. Whilst offshore solutions undoubtedly present a unique opportunity for cost savings, our data shows that respondents also face a number of challenges. Concerns about data protection (17%), a lack of

trust in vendors (22%) and fears about loss of control (39%) all featured heavily amongst respondents. This demonstrates that, whatever the figures say, the rise of offshored legal services will have its impediments.

HARD FIGURES

The survey detected major potential for economic benefit at leading global firms. The data suggests that, by 2015, there will be savings of around £2bn a year across leading law firms as a result of offshored services. For the 'typical' 1,000-employee law firm, that represents savings of £5m to £10m per year, with a headcount reduction of 200 onshore staff. Respondents estimated that nearly 27% of support practice and over 15% of front-office services could potentially be passed to offshore providers.

Impressive as these cost savings are, they take no account of the accompanying potential for revenue growth as a corollary of outsourcing. Experience from similar activities amongst investment banks suggests that significant growth can be achieved as a result of improved resource allocation, enhanced onshore staff retention rates and more competitive pricing. What this means is not just that the law firms of the future are going to benefit significantly from the outsourcing trend, but that laggards are potentially going to be placed under a dual-competitive pressure from cost-effective and highly productive outsourced businesses.

A GROWING TREND

Another theme emerging from the results is that the pace and scope of outsourcing is increasing. When it comes to the speed of change in the outsourcing market, the indicators suggest there'll be significant acceleration in the coming years. The most commonly outsourced area is information technology: 28.1% of respondents said that their firms had outsourced some aspect of their technology function to date. A massive 62.5% of respondents expected to do so within the next five years.

However, this growth does not imply a total divesting of IT resource to offshore providers. Daniel Pollick, global CIO at DLA Piper, believes that: 'Where an IT activity is relatively easy to encapsulate, without significant person-to-person interaction and business process, outsourcing and offshoring will inevitably grow. I remain sceptical, though, of outsourcing or offshoring any IT activity that requires interaction with our end users – our lawyers and staff – because mutual understanding and the building of relationships are key factors in getting the job done effectively.'

Despite this reservation, our research shows that offshoring won't just develop faster, it'll spread deeper within the business. To date, the adoption of outsourcing has generally been confined to practice support, with IT, word processing and finance the most common processes affected. However, over 53% of

respondents believe that commoditised legal work will be offshored within five years. Meanwhile, 27.6% expect elements of specialist legal work to move outside the firm in the same time frame. This spread of outsourcing into the core fee-earning activity of law firms would be a hugely significant development for the marketplace and one that challenges the very definition of what a law firm is about.

There are, inevitably, different perspectives. While the figures above suggest an unstoppable wave of change, a note of caution must be injected. Much of the qualitative feedback from the research emphasised the importance of personal service, suggesting an essential incompatibility of outsourcing with some areas of the business. This belief is backed up quantitatively, with a significant minority (48.3%) believing that specialist legal work will never be outsourced from their firm.

QUALITY COUNTS

Another theme is firms' perceptions of quality in the outsourcing process. One barrier to outsourcing has traditionally been the belief that outsourcing means a drop in quality – an argument often backed up by reference to overseas call centres. Indeed 15% of those questioned felt that the quality of service delivery was worse in an outsourced arrangement.

The worries about quality have led to an ongoing debate about whether outsourcing in the legal sector will use a captive offshore service (owned and run by the firm itself) or a third-party offshore provider. This point was emphasised by Kevin Rang, outsourcing specialist partner at Mayer Brown in Chicago. 'I see full-service law firms using captives to lower costs, while maintaining control to address quality and liability concerns,' he says. This hybrid approach represents a new route to securing cost savings whilst overcoming some of the challenges and barriers.

However, most respondents were more positive, with 24% feeling that outsourced providers offered 'about the same' level of quality as in-house personnel. A noteworthy 62% detected a significant or marginal improvement in service quality in outsourced work. Interestingly, whatever their stated experience of an outsourced relationship, only two respondents had considered reversing outsourcing moves and none had actually done so.

THE FUTURE'S BRIGHT

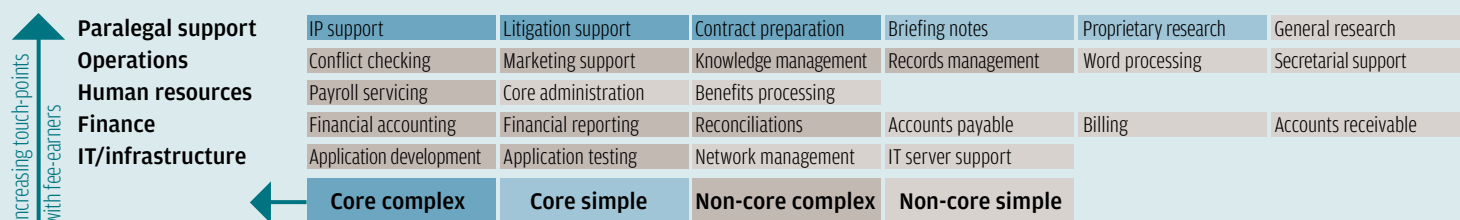
It's clear from the research that outsourcing has delivered significant benefits to the legal industry, both in terms of cost savings and, in a well-structured engagement, improved service delivery. These are the core promises of the outsourcing provider and, perhaps, the very least one would expect. However, to see them confirmed by working legal executives with 'coal-face' experience of outsourced relationships sends a powerful message to doubters.

Additionally, it's apparent that outsourcing is not just a consideration for law firms' IT departments. Support services are clearly the optimum starting point, but the road leads deep into the very heartland of the legal business. As outsourced providers achieve ever-higher levels of training and specialisation, it will be no surprise to see more legal tasks come within their ambit. It's obvious that the most important client relationships will remain in-house, and for some, even the most commoditised legal task will always be a home game. However, as cost competition continues to bite, it's likely that the refuseniks of today will become the eager adopters of tomorrow.

A full copy of the princeOMC Legal Industry Outsourcing Survey in association with LB is available from www.princeomc.com/legalo8.html

Jack Diggle

SAMPLE OFFSHOREABLE LEGAL SUPPORT SERVICES PROCESSES



Source: Legal Industry Outsourcing Survey

THE CURRENT STATE OF PLAY

| | Already done | Within 2 years | 2-5 years' time | 5-10 years' time | 10+ years' time | Never |
|---------------------------------------|--------------|----------------|-----------------|------------------|-----------------|-------|
| IT | 28.1% | 39.1% | | | 23.4% | 4.7% |
| Generic business support ¹ | 14.1% | 37.5% | | 26.6% | 7.8% | 14.1% |
| Lawyer support ² | 21.9% | 43.8% | | | 23.4% | 6.3% |
| Paralegal functions | 6.7% | 31.7% | 30.0% | | 3.3% | 1.7% |
| Commoditised legal work | 10.2% | 27.1% | 25.4% | | 10.2% | 3.4% |
| Specialist legal work | 5.2% | 5.2% | 22.4% | 15.5% | 3.4% | 48.3% |

¹ For example, finance, human resources. ² For example, word processing, research.

Source: Legal Industry Outsourcing Survey