

Why and What Lawyers Should Consider Outsourcing

Abstract: Outsourcing is one way firms can both reduce cost and improve service. Though already common, outsourcing still has tremendous potential to reduce costs further and to improve operating efficiency.

This article reviews the history of and logic behind legal outsourcing and explores some current legal outsourcing options.

The first part published this week provides a brief introduction about legal outsourcing, its benefits and the type of legal and administrative functions that a law firm or a corporate legal department can outsource.

Introduction

Over the last three decades, large law firms have evolved into big and sophisticated businesses. Around 1985, the American Lawyer magazine first published profits per partners ("PPP") for the AmLaw 100. Ever since, large law firms have worked to improve profits. Today, the fear of losing top partners to lateral moves forces firms to focus even more on PPP.

How have firms increased profits? To state the obvious, profits are revenues minus costs. Until recently, firms emphasized revenue growth over cost reduction. They have merged, invested in marketing, added practice groups, and opened offices around the world. Now, however, with a recession likely, cost control is of growing interest.

At the same time, firms face increasing client pressure to improve service and efficiency. Law departments are complaining about rate increases and demanding efficiency improvements. Being top-notch lawyers no longer suffices. Firms must differentiate themselves from competitors with outstanding service and cost-effectiveness.

Outsourcing is one way firms can both reduce cost and improve service. Though already common, outsourcing still has tremendous potential to reduce costs further and to improve operating efficiency. Doing so requires neither diminished service nor staff disruptions.

The story is similar for corporate law departments. They face tremendous pressures to reduce cost and improve operations. Outsourcing is a good way for the general counsel to control costs and improve efficiency.

This article reviews the history of and logic behind legal outsourcing. It then outlines some of the current legal outsourcing options. A detailed discussion of each option is not possible in one article. Instead, the final section takes a close look at one, outsourcing secretarial and word

processing tasks. This discussion is a useful analysis on its own plus it illustrates how to evaluate the other options. Left for another day is a discussion of offshore versus onshore outsourcing.

A Long Tradition of Legal Outsourcing

Law firms long ago realized the benefit of outsourcing back-office functions such as payroll, copy center, mailroom, food service, and travel.

Outsourcing even extends to law practice itself. Some firms rely on armies of contract lawyers to review the growing volume of discovery documents. Others turn to well-established companies for legal research. One large law firm, UK-based Lovells, farms out aspects of real estate matters to British firms with lower rates. And recently, law firms and departments have outsourced administrative and substantive legal work to offshore destinations, especially India.

Law departments too have extensive outsourcing experience. Almost all retain outside counsel, which is itself outsourcing. Beyond, that many outsource e-discovery and e-billing.

Lawyers Outsource to Save Money and for Operational Benefits

Cost Savings and Other Financial Benefits. Outsourcing can lower costs and offers other financial benefits:

- Many tasks can now be performed away from the main office. Outsourcing providers locate in onshore or offshore markets where labor and occupancy costs less than in the expensive cities where many lawyers work.

- Vendors serve multiple customers. Aggregating demand has two key benefits.
 1. More consistent capacity utilization than any single customer. Fewer peaks and valleys mean lower costs.
 2. The scale to make investments in efficiency-enhancing processes or technology pay off.

- Outsourcing converts fixed costs to variable ones and avoids the need to borrow. Many law firms are under-capitalized. Partners may therefore want to avoid fixed commitments and to minimize borrowing. Similarly, law departments have small capital budgets and like to avoid locking in headcount. For both, outsourcing provides flexibility and avoids capital commitments.

- Allow lawyers to focus on their "highest and best use," which is serving clients and winning new business. Eliminating managerial distractions from lawyers can let them bill more hours, thus boosting revenue.

Operational Benefits. Beyond cost savings, outsourcing offers operational benefits:

- Outsourcing avoids management headaches such as finding, recruiting, and evaluating staff. Vendors can do this more effectively than firms because of their focus and scale.

- Vendors may offer better talent. Recruiting and retaining quality talent can be easier for a large, focused company that chose its location to tap certain labor. Moreover, the bigger scale creates better career paths, which attracts and keeps talent.

- 24x 7 services without operating hard-to-manage graveyard shifts. This facilitates better service to lawyers and, more importantly, to clients.

- Multiple locations for business continuity.

Some law firms skip outsourcing but try to replicate the advantages with an internal shared services model, centralizing in one place functions previously distributed across locations.

Administrative and Legal Functions that Lawyers Can Outsource

Lawyers now have the opportunity to take outsourcing beyond the copy center and IT. Numerous vendors now offer a wide range of services. The table below lists legal, business, and administrative functions that many firms now outsource.

Overview and Comments		Primary Interest To:	
		Firms	Dept's
Legal and Business Services			
<i>E-Discovery</i>	Most law firms and departments already outsource a significant amount of data collection and processing for e-discovery. The explosion in EDD has led to numerous outsourcing options, from specific services (e.g., forensic data collection) to "end to end" solutions.	X	X
<i>Litigation Document Review</i>	Vendors now offer outsourced document review services, both onshore and offshore. Arguably, this differs little from using contract lawyers. Law firm and law department interests may diverge here: some firms do not want to lose their margin on lawyers who review documents.	X	X
<i>Due Diligence</i>	Due diligence is similar to litigation document review in that a large volume of documents must be reviewed in a short time period.	X	X
<i>Contract Drafting, Review, and Management</i>	Some law departments must deal with a large volume of contracts. They need to simplify the process so are evaluating a combination of outsourced services and specialized software. This service appears to be offered primarily offshore.		X
<i>Legal Research and Drafting</i>	Domestic companies have long offered outsourced legal research and drafting. The new development here is a large number of offshore providers offering this service.	X	X

<i>Business Research</i>	Lawyers have learned they need to know more about business. Inside counsel must understand their own company, competitors, and industry. Outside counsel must understand their clients and prospects. Obtaining company, industry, and competitor profiles and analysis from library or marketing departments can be hard given the other demands. Outsourcing companies now offer these services (e.g., a recent article reports that O'Melveny & Myers outsources business research to India).	X	X
<i>Intellectual Property Support</i>	Patents require both legal and scientific - engineering know-how. Patents, copyright, and trademark all have numerous, detailed administrative requirements (e.g., maintaining current registrations in multiple countries). Off-shoring substantive legal work had its start in IP; today many offshore companies offer IP support.	X	X
<i>Paralegal Support</i>	Paralegals offer critical support to lawyers. Corporate law departments are especially eager to delegate work to paralegals as a way to control cost. Hiring paralegals in some locations is hard and it can be hard to match headcount to fluctuating needs. Outsourcing is a way to access talent and manage capacity.	X	X
Administrative Services			
<i>Word Processing and Transcription</i>	With the increase in ratio of lawyers to secretaries, firms employ more word processing specialists. Many large firms have centralized document processing and transcription. The leap from a central department to an outsourced service is not that big.	X	X
<i>Presentation Graphics</i>	As outside counsel learn the value of "pitching business," they increasingly need graphic presentations (typically in PowerPoint). In-house lawyers have adopted the practice of their business clients and now rely more heavily on presentations. Many firms and departments are ill-equipped to meet all the demand for high quality presentations. Outsourced services can meet this demand.	X	X
<i>Finance & Accounting</i>	Finance adds value to law firms; accounting supports finance. Yet in many large firms, the manual demands of accounting (e.g., processing expenses, reconciling the general ledger, and dealing with payables) consume available resources. Outsourcing F&A lower level tasks can free up staff to focus on higher value activities.	X	

Source: *Ilrx.com*, September 2008

To be continued...