Successful Outsourcing Strategies for Law Firms

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FOR MANY highly emotive reasons, the word ‘outsourcing’ has grown to strike fear across many professions. However, while change and threats to traditional ways of working are natural sources of concern, it is hard to stand back while others are addressing the underlying issues which have led to the rise in outsourcing.

Running contrary to the knee-jerk response to ‘more outsourcing’ are significant benefits from investigating and, potentially, adopting alternative ways of delivering the same service. Who could not be attracted to reduced investment, increased capacity, the ability to scale up and down as required, and lower overall costs?

The precise value proposition from legal outsourcing is very specific to each law firm. Smaller firms will appreciate the ability to deliver at scale, while larger firms will take more interest in the ability to provide profitable, fixed-price fee arrangements.

Whether it is to react defensively to the market and the wider economy, or whether it is to add legal process outsourcing (LPO) to a set of market-growth tools depends on how LPO is viewed. At the very least, assessing the market, determining the opportunity, and then deciding whether to act is where law firms should now be operating.

**Defining legal outsourcing**

Right from the start it needs to be clear what is meant by legal outsourcing.

Given how broadly the term is used, this is more about setting parameters than setting specifics. First, the scope of services can be wide or narrow. LPO is not defined by what is outsourced, except in so far as it consists of activities that do not need to be carried out by a lawyer (but historically have been).

Second, the commercial model can vary considerably. LPO can take many different formats, whether delivered by an internally owned and operated delivery center, delivered by an externally owned delivery center, or a hybrid model.

Third, the location does not define what is classified as LPO. LPO does not necessarily mean sending work abroad.

Finally, LPO is certainly about the centralization of activities. On the back of a central delivery operation comes the ability to deliver the benefits.

While the definition may be broad the message is clear: an LPO strategy can be tailored into something that will work for any firm. There are alternatives that may involve the shipping of all transactional activities to an offshore third party in India or the Philippines, or it may involve establishing an internally run centralized delivery service in the same city as the firm’s main operations. The challenge is finding out what is right for your firm.

**The history of legal outsourcing**

There had been forms of legal outsourcing around for years, for example, using lower

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**Chapter 1: The legal process outsourcing trend**
cost law firms in different parts of the country, or local paralegals. While the overall concept of using external parties had been accepted, it really was the economic downturn of 2008 that gave a strong jolt to the business of law around the world. Growth in legal services slowed from 4 per cent annually to barely more than 0 per cent in 2009.

Large corporates embarked on cost cutting and operation optimization that also impacted legal budgets – often for the first real time. In turn organizations asked law firms for creative ways to deliver services for lower headline costs.

On the supply side a new breed of legal suppliers was reaching maturity. Not all of the suppliers were pure-play legal suppliers. Many were part of wider business process outsourcing (BPO) corporations or subdivisions of recruiting firms. With an emerging pedigree and a legacy in business process outsourcing, these suppliers were able to offer credible alternatives to buying all legal services from law firms – high value advice and low value transactional services. Law firms did, in part at least, react by looking at how they delivered these transactional services, but this was neither sufficient nor compelling enough to stem the growth of the LPO market.

This iteration of the legal outsourcing market was different because it:

- Really dissected standard legal offerings into advisory and non-advisory work;
- Recognized that the practice of law relied on very process driven elements;
- Applied the principles of BPO to non-advisory transactional legal activities within that each process; and
- It took an ambivalent position towards law firms, tacitly viewing them as competitors while also offering services to them.

Against this background, and in particular from 2006 onwards, legal authorities across the globe started to pronounce on legal outsourcing and how the profession should address it. While it took a few more years to get to a definitive opinion, the guidelines that were issued in the interim were more than sufficient to fan the growth of the market.

The threat to address

While the two different reactions to the legal outsourcing market may be debated – that is, whether it was a threat or an opportunity – the blatant fact to address is that the existence of large scale legal outsourcing suppliers is taking business away from the traditional legal market. In addition to this, the following points should be considered:

- Any work that is ceded to an LPO supplier is not likely to come back to the law firm; this is a once and for all shift. While buyers may switch LPO suppliers, the work has left the traditional delivery model;
- Law firms are having to reassess how they maintain relationships and prevent loss of further scope to alternative suppliers; and
- Clearly there are emerging suppliers that are able to deliver services better and faster than a law firm. This leads to questions about where a firm should invest and compete when there is real doubt about a law firm’s ability to win when fighting against specialized skills that do not traditionally reside within the firm.

Most strategy projects for law firms usually have a trigger event. The same applies for firms when it comes to establishing a legal outsourcing strategy. For one firm it was losing a competitive bid against a property/real estate processing specialist. For another,
it was seeing their direct competitor open a lower cost delivery center 100 miles up the road.

The trigger event for all law professionals – in practice or in-house – is the fact that the legal world as it has stood for hundreds of years is changing. Given that the time between ‘addressing options’ and ‘implementing a strategy’ (let alone deriving benefits from that strategy), can often be measured in years, any firm that cannot already clearly articulate its strategic approach to legal outsourcing should be addressing this immediately.