The Rise of Legal Services Outsourcing

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www.IAOP.org
Legal Services Outsourcing (LSO) is the practice of procuring legal services from an external provider.

(Too often the “LPO” nomenclature is used narrowly to refer to the tactical offshoring of low level legal work.)
Why Study LSO?

It’s the next frontier of disruptions in services...

Accounting

Procurement

Human Resources

Finance

Claims

Consulting on the Cusp of Disruption

The industry that has long helped others sidestepp strategic threats is itself being upended.

by Clayton M. Christensen, Dina Wang, and Derek van Bever, HBR, 2013

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**Research Method**

- **Detailed data on 27 LSO providers** including prices, skills, headcount, team location, team composition, turnover, self-assess capabilities on 22 LSO services

- **Six case studies** of enterprise legal functions engaging LSO providers (client & provider key informant interviews)

- **Interviews with various LSO experts**—authors, advisors, clients, providers
### Overview of the LSO Relationships

<table>
<thead>
<tr>
<th>LSO Relationship</th>
<th>Contract Start Date</th>
<th>LSO provider headcount dedicated to the client</th>
<th>LSO Delivery Center(s) Serving Client</th>
<th>Main LSO Service(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alpha</td>
<td>2010</td>
<td>About 18 lawyers</td>
<td>India</td>
<td>Broad set of services including compliance reporting, contract drafting, and contract database support.</td>
</tr>
<tr>
<td>Beta</td>
<td>2009</td>
<td>12 to 18 lawyers</td>
<td>Primarily India; Some United States</td>
<td>Procurement support; Research, document review, discovery, drafting, and compliance reporting</td>
</tr>
<tr>
<td>Gamma</td>
<td>2010</td>
<td>5 lawyers</td>
<td>Northern Ireland</td>
<td>Services procurement contract support</td>
</tr>
<tr>
<td>Delta</td>
<td>2010</td>
<td>Varies widely from 24 to 120 lawyers depending on size of legal matter</td>
<td>Primarily India; Some United States</td>
<td>Document review for e-discovery</td>
</tr>
<tr>
<td>Epsilon</td>
<td>2011</td>
<td>5 lawyers</td>
<td>Primarily India</td>
<td>Contract management</td>
</tr>
<tr>
<td>Zeta</td>
<td>2011</td>
<td>3-5 lawyers</td>
<td>South Africa</td>
<td>Broad set of services</td>
</tr>
</tbody>
</table>
Forces Shaping Enterprise Legal Services

- Pressure to reduce costs
- Globalization of skills
- Emergence of capable providers
- Technology enablement
- Deregulation
# Globalization of Skills

<table>
<thead>
<tr>
<th>Location</th>
<th>No of Qualified Lawyers</th>
</tr>
</thead>
<tbody>
<tr>
<td>England &amp; Wales</td>
<td></td>
</tr>
<tr>
<td>Greater London and City</td>
<td>43,800</td>
</tr>
<tr>
<td>South East</td>
<td>12,100</td>
</tr>
<tr>
<td>South West</td>
<td>5,700</td>
</tr>
<tr>
<td>Midlands</td>
<td>20,600</td>
</tr>
<tr>
<td>North West</td>
<td>12,300</td>
</tr>
<tr>
<td>North East</td>
<td>7,700</td>
</tr>
<tr>
<td>Wales</td>
<td>3,700</td>
</tr>
<tr>
<td><strong>India</strong></td>
<td><strong>1,000,000+</strong></td>
</tr>
<tr>
<td>Ireland</td>
<td>8,975</td>
</tr>
<tr>
<td>Northern Ireland</td>
<td>3,546</td>
</tr>
<tr>
<td>Philippines</td>
<td>c. 40,000</td>
</tr>
<tr>
<td>Scotland</td>
<td>12,685</td>
</tr>
<tr>
<td>South Africa</td>
<td>20,077</td>
</tr>
</tbody>
</table>

Source: (2011), *Comparative Location Survey for Legal Services Delivery*, OMC Partners
Capable Providers

- Pure-play LPO/LSO
- Global ITO and BPO providers with LSO offerings
Disruptive Legal Technologies:

- Automated Document Assembly
- Workflow & Project Management Technologies
- Interactive, online legal guidance
- Contract Management Systems
- E-Discovery systems
- Virtual Data Rooms
- Data Analytics
American Bar Association agreed that offshore LSO was a salutary practice for a globalized economy in 2008.

In the UK, the Legal Services Act of 2007 opened the dialog for alternative business structures like LSO.

What Might a New Age Law Firm Look Like?

In October 2013 radiant.law won the Financial Times Innovative Lawyers Legal Industry Pioneer 2013 award
What Might a New Age Law Firm Look Like?

1. New Age Law Firm
   High-end, experienced legal team located close to client

2. New Age Law Firm sells end-to-end legal services at a fixed price to clients

3. Leverage automation

4. Leverage cheaper, globalized labor

5. Build playbooks to transfer knowledge, to embed new learning and to protect against turnover

6. As LSO relationships mature, they can be part of an integrated, seamless service to clients
Client Case Study

Kunoor Chopra
 VP Strategic Accounts

- Previously Founder, President & CEO of LawScribe – founded 2004
- SVP of Global Legal Services at UnitedLex, which acquired LawScribe in 2010
- Previously an attorney at Nossaman and at Fulbright & Jaworski in Los Angeles
‘Legal Ecosystem’
Support day-to-day tasks for GC

Advise on legal technology strategy

Help manage Outside Counsel relationships and spend

Provide managed services for:

- Contract review
- Electronic Discovery
- Document review
- Legal Project Management
- Due diligence
- Research
Case Study: NetApp

2013 Value Champion

2013 Legal Department of the Year
Technology category

2013 ‘IC-10’
Top 10 most innovative legal departments
LSO Value Proposition

- Focus In-house lawyers on strategic work
- Utility Pricing
- Process Transformation
- Lower Costs
- Increase Delivery Speed
- Improve Service Quality
- Access Innovation
- Scalability
- Spur Competition
- Commercialization
Labor Arbitrage ≠ Total Cost Savings

Whilst an attorney in major legal markets such as the USA may charge from $150 to $350 per hour when performing services, LSO providers may charge between $25 and $50 per hour, depending on the skill level.

Total cost calculations must include:

- Salary
- Payroll Taxes
- Lost Productivity during transition
- Coordination Costs
- Transaction Costs
- Communication Costs
- Transportation Costs
- Cultural Costs
- Time Zone Costs

Based on our case studies, the clients reported total cost savings of 30% to 50%.
Lessons Learned: Similar to ITO & BPO

- **LSO Strategy**
- **LSO Provider Selection**
- **Stakeholder Buy-in**
- **Contractual governance**
- **Transition & Coordination of Work**
- **Manage Provider Turnover**
- **Relational governance**
Lessons Learned: Similar to ITO & BPO

“We are transitioning our own legal team from bedside doctors to people who are trying to get the process to move as fast as it possibly can.” – General Counsel, Gamma Client

LSO Strategy:
1. Conceive of LSO in the broader context of legal transformation
2. Learn to disaggregate work
3. Seek more value than just cost savings

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LSO Provider Selection:

4. Consider provider capabilities (not just price)
5. Test provider capabilities with a controlled experiment

“We selected our provider because of their flexibility and their willingness to do what is right for us.” – Director, Delta Client

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Stakeholder Buy-In:
6. Communicate Early; Involve in-house lawyers
7. Prove the concept
8. Use KPIs to incent adopt
9. Invest in face-to-face meetings
Lessons Learned: Similar to ITO & BPO

One GC said, “We haven’t linked price at any specific volume criteria at this point.”

Another GC said, “I think one of the challenges of unit pricing is finding enough volume to get to that kind of model. Legal services have much less volume altogether.”

Contractual Governance:
10. FTE pricing for cost predictability, simplicity & administration ease
11. Unit pricing for high-volume, standardized work
12. Mandate productivity improvement
13. Dedicate time to drive innovation
14. Gainshare on innovation projects

Advanced Practice, not widely adopted yet
Lessons Learned: Similar to ITO & BPO

Transition & Coordination of Work:

15. Assign a high-level point person to manage provider relationship
16. For large projects, use an onshore engagement manager
17. Build a playbook to specify requirements
18. Build a portal to request and route work
19. Direct in-house lawyers to nurture LSO provider employees
20. Joint & frequent communication among client, LSO provider, law firm & technology provider

“If you think you can just throw the work over the fence and expect to get something back exactly as you like without any other investment, chances are they will not be that successful on their own.”
– Chief Counsel, Beta Client

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Relational Governance:

24. Treat the LSO Provider as a partner, not a vendor
25. Resolve issues and conflicts together

“I think treating them truly as a partner on the team, a team member versus a vendor that we are trying to beat up on price every time we are talking to them.” – Director, Delta Client
Manage Risk of Provider Turnover:
22. Have LSO provider overstaff the project
23. Keep playbooks up to date

“Turnover has been very, very low. It has been absolutely no impact at all to me.” – one LSO client

“The turnover has been high within the dedicated team.” – another LSO client
How is LSO Different?

LSO is more challenging than ITO & BPO:

- Three parties, not two (client, law firm, LSO)
- Jurisdictional requirements
- Qualification requirements
- Heightened risk averseness
- Limitations from partnership consensus management

Attributes of the Legal Profession
How is LSO Different?

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- Provider market structure
- Predominantly an offshore model
- Continual market development and maturing
- Relatively small provider base
- Specialist technologies
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- Predominantly an offshore model
- Continual market development and maturing
- Relatively small provider base
- Specialist technologies
- Lack of process maturity
- Focus on cost reduction
- Tactical projects
- Lack of data and experience

Attributes of the Legal Profession

Emerging LSO Provider Landscape

Immature Client outsourcing capabilities
Eight Trends

1. The shape of enterprise legal functions will increasingly move from “pyramids” to “diamonds”
2. Enterprise legal functions will conduct more panel reviews, reduce the number of law firm partners and increase bundled legal services
3. Law firms will respond
4. LSO providers will move up the value chain
5. New engagement models will emerge
6. Significant M&A and strategic alliance activity will fuel provider growth and capabilities
7. New locations will become competitive
8. Technology will play an increasing role in the provision of legal services