



THE 2014 OUTSOURCING WORLD SUMMIT

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The Rise of Legal Services Outsourcing

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Dr. Leslie Willcocks, Professor, London School of Economics and Political Science



Legal Services Outsourcing



- ✦ **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.)



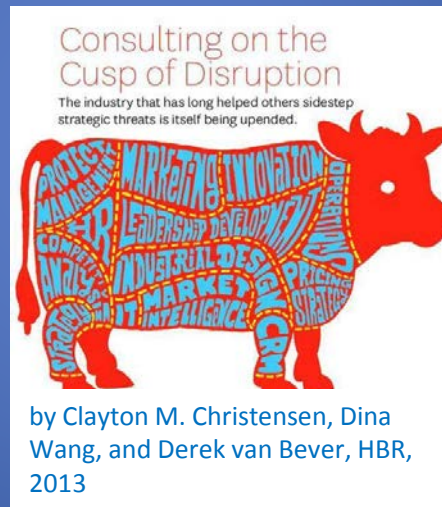
Why Study LSO?



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



Accounting



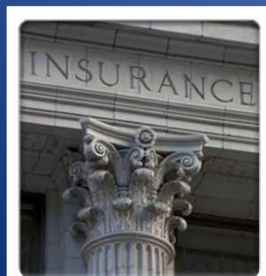
Human Resources



Procurement



Finance



Claims

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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



Six Case Studies



Overview of the LSO Relationships

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



Forces Shaping Enterprise Legal Services



PRESSURE TO
REDUCE COSTS

Enterprise
Legal
Functions

- ☀ Globalization of skills
- ☀ Emergence of capable Providers
- ☀ Technology enablement
- ☀ Deregulation



Globalization of Skills



| Location | No of Qualified Lawyers |
|-------------------------|-------------------------|
| England & Wales | |
| Greater London and City | 43,800 |
| South East | 12,100 |
| South West | 5,700 |
| Midlands | 20,600 |
| North West | 12,300 |
| North East | 7,700 |
| Wales | 3,700 |
| India | 1,000,000+ |
| Ireland | 8,975 |
| Northern Ireland | 3,546 |
| Philippines | c. 40,000 |
| Scotland | 12,685 |
| South Africa | 20,077 |

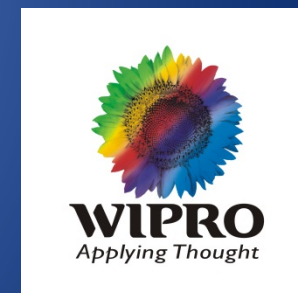
Source: (2011), *Comparative Location Survey for Legal Services Delivery*, OMC Partners⁷



Capable Providers

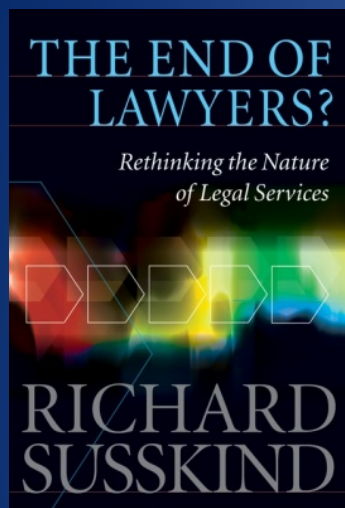


- ☀ Pure-play LPO/LSO
- ☀ Global ITO and BPO providers with LSO offerings



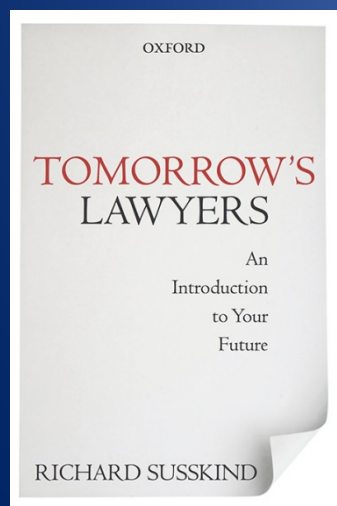


Technology Enablement



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





Deregulation



- ☀ 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.**



Lin, A. (2008), "ABA Gives Thumbs Up to Legal Outsourcing," *New York Law Journal*, August 27.



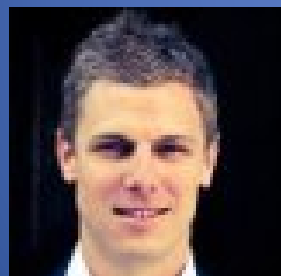
What Might a New Age Law Firm Look Like?



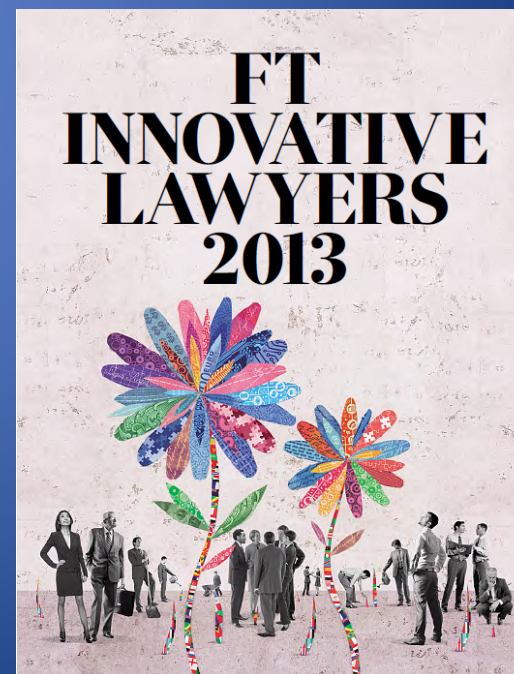
In October 2013 radiant.law won the Financial Times Innovative Lawyers Legal Industry Pioneer 2013 award



Alex Hamilton

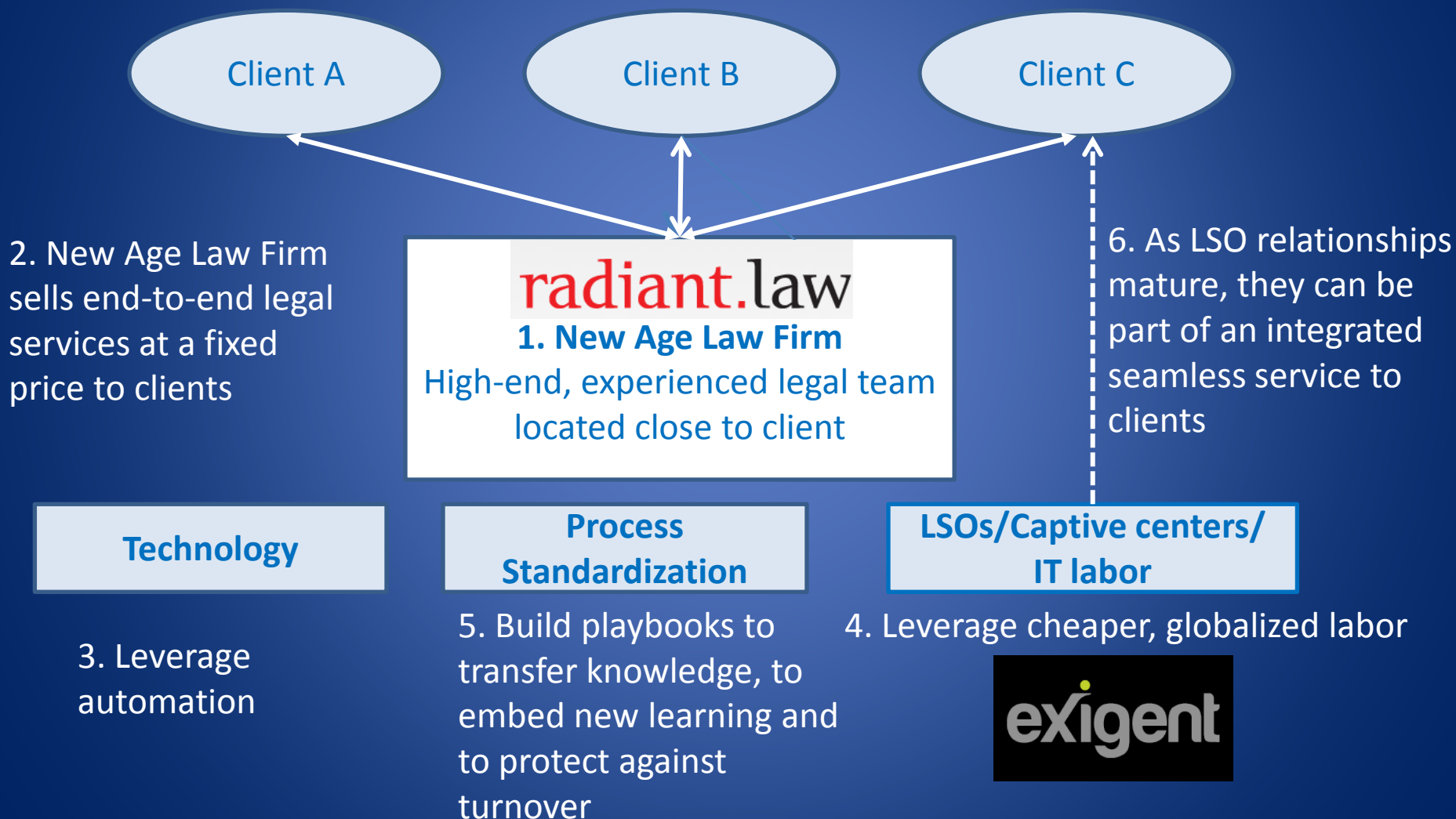


Jason McQuillen





What Might a New Age Law Firm Look Like?





Client Case Study



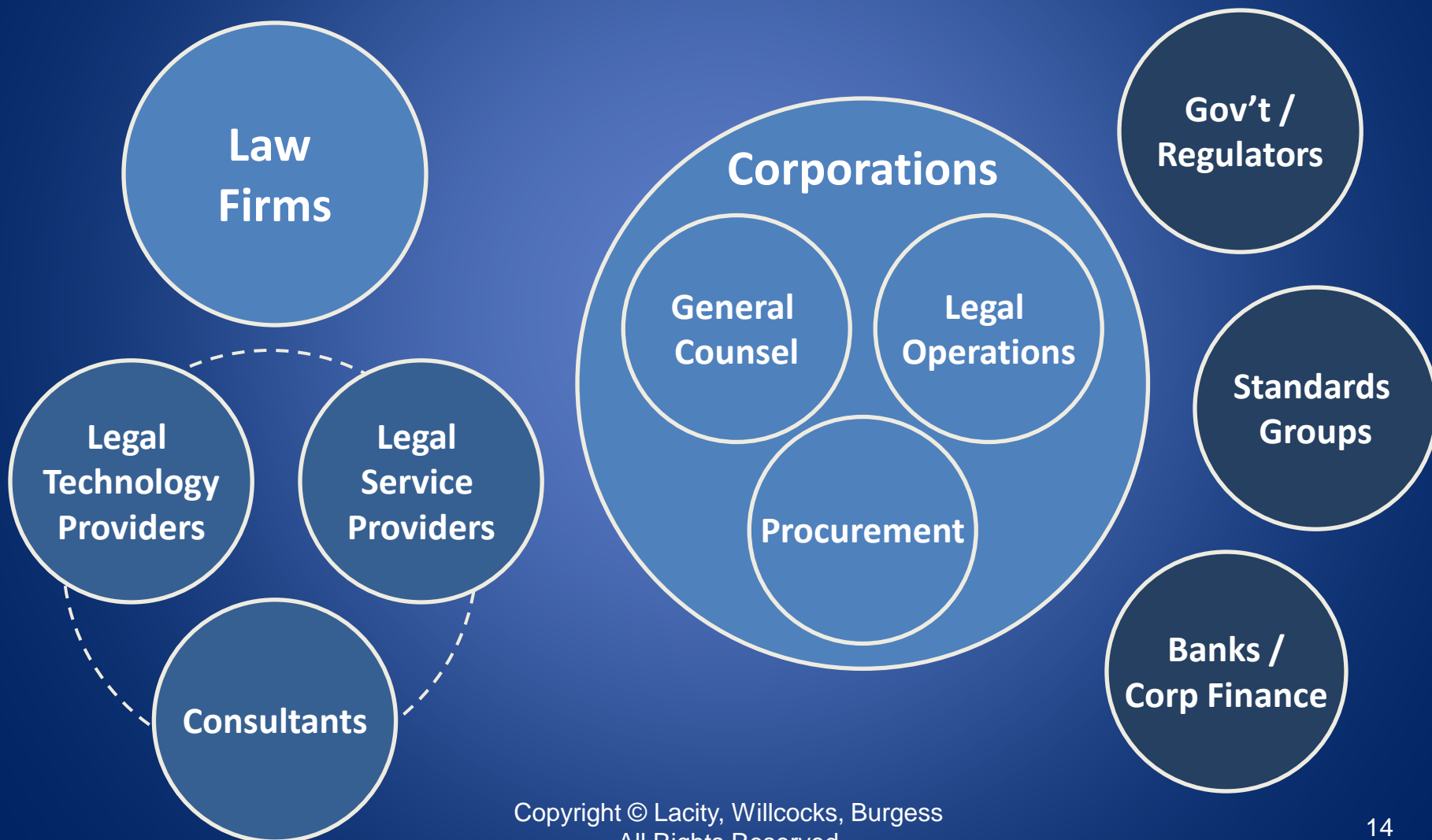
Kunoor Chopra *VP Strategic Accounts*



- 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'





Case Study: NetApp



- 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





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





Lessons Learned: Similar to ITO & BPO



LSO
Strategy

“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
OUTCOMES

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



Lessons Learned: Similar to ITO & BPO



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

LSO Provider Selection:

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



Lessons Learned: Similar to ITO & BPO



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*"We are part of the
my
spe
pro
can
said*

*"The main concern was
that the LPO provider
would not be capable of
doing the work," said
another client.*

Stakeholder
Buy-in

O
OMES

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

LSO
OUTCOMES

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***



Lessons Learned: Similar to ITO & BPO



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

**LSO
OUTCOMES**

Relational
governance



Lessons Learned: Similar to ITO & BPO



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

LSO
OUTCOMES

Manage
Provider
Turnover



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



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- Provider market structure
- Predominantly an offshore model
- Continual market development and maturing
- Relatively small provider base
- Specialist technologies

Attributes of the
Legal Profession

Emerging LSO
Provider
Landscape



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- Provider market structure
- 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