



Outsourcing the latest legal trend

BOB GOGEL | The Australian | October 28, 2011

DRIVEN by the technology and communications revolutions that fuelled globalisation over the last 30 years, outsourcing emerged as arguably the key strategic business process essential for the successful modern day organisation.

Historically however, the legal profession has lagged behind other industries in embracing the benefits associated with outsourcing by between 10 to 15 years.

Business, engineering and market research functions requiring a degree of subjective analytical expertise were routinely outsourced in the early 2000s.

The global legal profession is one that has been characterised (most routinely by its own members) by specialised, jurisdictionally specific, training and practice, with its members applying domain expertise to solve their clients' legal problems.

Change, however, is upon us with legal services now the "final frontier" for outsourcing.

The large-scale outsourcing of manufacturing jobs that started in the 1970s resulted in a paradigm shift for the world's developed nations in moving toward service-based economies.

In the 1990s, business process outsourcing (BPO) emerged with continued rapid improvement in telecommunications and IT.

Knowledge process outsourcing (KPO) the outsourcing of core business functions that involved subjective decision making, language skills and often specific academic credentials was the next step in the evolution of the outsourcing market.

Legal Process Outsourcing (LPO) is the latest trend within KPO. It enables lawyers to work more efficiently by offloading routine legal work to providers who are often located (although not exclusively) in lower cost, common-law jurisdictions such as India, South Africa and the Philippines.

These providers leverage investments in processes and technology to more efficiently deliver services such as litigation document review, M&A due diligence, legal research, compliance, and patent-support outsourcing.

Although the Australian market was to a certain extent protected from the post-2008 economic turmoil affecting the United States and United Kingdom markets, even before the crash corporate law departments were seeking ways to do more with less.

The financial meltdown simply catalysed more radical change in the relationship between in-house and outside counsel in the US and UK, and this change has begun to spill over to the Australian market.

Legal costs increasingly came under the corporate finance microscope in 2009-10; with a push to save 10 per cent to 20 per cent on annual legal spend.

This trend continued throughout 2011. In-house general counsel began actively exploring new, more cost-effective ways to obtain the services they needed: examples included alternative fee arrangements, expansion of in-house staff, investments in technology and of course, LPO.

LPO began to rise. Recent surveys support this, suggesting that LPO has grown very quickly in the US and UK over the past few years, and is expected to grow dramatically in coming years.

Globally, the revenue from LPO is currently around \$640 million. By 2014 it is expected to be around \$4 billion.

In the UK, 5 per cent of law firms used LPO in 2009. That figure jumped to 15 per cent by the end of 2010, and based on activity seen this year, similarly impressive growth for 2011 is anticipated.

Cost pressures, further legal market deregulation, a new generation of law firm partners, and law firm globalisation and consolidation will all continue to be driving forces for LPO.

Of course, technology has also played a significant role in the emergence of LPO. Technological advances have had a two-fold affect.

First, they enable the performance of increasingly more complex legal tasks at the simple push of a button and in a fraction of the time.

Documentation relevant to litigation is now stored electronically and is available for review anywhere in the world.

With the increased prevalence of hosted document solutions for litigation, government investigations or merger and acquisition deals, it matters little where your junior associates or paralegals are located.

Secondly, through improved connectivity, a vast pool of common law-trained talent from India, South Africa and the Philippines is now available to assist law firms and legal departments in the US, UK and Australia.

Although India is the dominant offshore destination, others cannot be discounted, and perhaps more importantly, some of the leading LPO providers offer onshore delivery.

As the LPO industry matures, scalability and multiple-service capability are becoming a prerequisite for providers in order to attract business from major corporations and leading global law firms.

A rapidly globalising legal profession has reached a tipping point where legal outsourcing is now recognised as a viable strategic option for the delivery of routine legal services.

In its formative years, the industry was characterised by the emergence of numerous, boutique providers. It is now beginning to achieve the scale and consolidation required to meet the demands of an increasingly sophisticated array of Am Law 200, UK Top 50 and now, leading Australian law firms.

Over the course of the last couple of years, several of the largest global law firms and corporate legal departments have announced outsourcing initiatives, and the pace of these declarations is picking up. Although Mallesons Stephen Jaques represents an Australian first, they follow in the footsteps of global legal giants Simmons & Simmons, Allen & Overy and CMS Cameron McKenna who all announced outsourcing engagements with Integreon, while Pinsent Masons and Australian corporate mining behemoth Rio Tinto entered into LPO contracts with Exigent and CPA Global respectively.

The legal profession is changing. Organisations are now, more than ever, actively trying many new and related approaches: technology, back office restructuring, process improvement, LPO, alternative fee arrangements and better knowledge management, among others. Economic pressures are forcing law firms to re-evaluate their business models and implement innovative solutions in order to deliver cost-effective, yet high-quality legal services to their clients.

This demand for change driven by unrelenting cost pressure, globalisation, and technological advances is creating an evolution in the legal profession.

Innovative early movers who embrace change will be better able to meet the cost and quality demands of their clients, and gain a competitive advantage.

The Australian legal profession has already demonstrated a willingness to embrace change by adopting an expansive approach to alternative business structures, which other jurisdictions, including the UK are now following.

LPO has the potential to further transform the traditional Australian law firm model.

Expect to see close collaboration between leading Australian firms, LPO providers and corporate legal departments as they combine to create a blueprint for the future of legal services delivery.

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