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**The resurgence of corporate
legal process outsourcing**

Leveraging a new and improved
legal support business model

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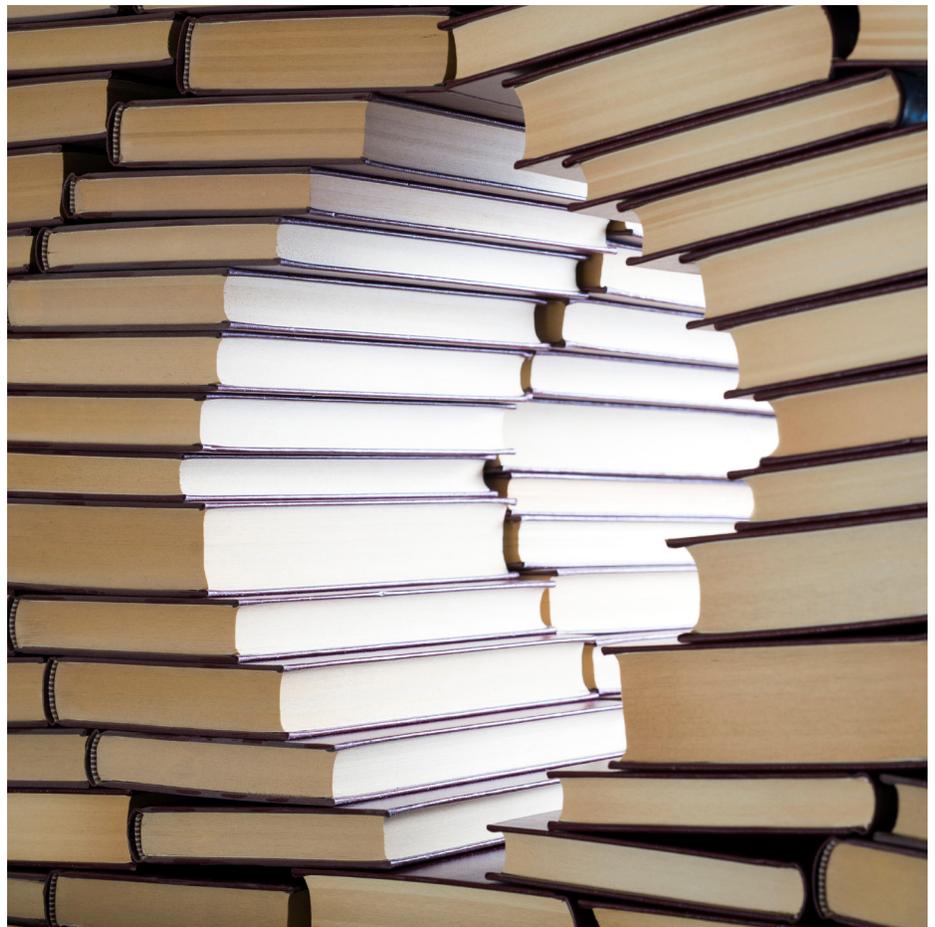
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A new look at LPO

As consumers continue to push pricing down and corporations fight for their survival, growing legal costs have come to center stage. In an effort to contain these costs, an increasing number of companies are beginning to explore legal process outsourcing (LPO) as a possible solution. For instance, a company may ask its procurement teams to identify LPO providers to perform transactional legal work so that the in-house legal department can focus on more specialized activities. Or the legal department itself may turn to an LPO provider instead of more expensive outside counsel for certain legal tasks.

But while interest in LPO is rising, many executives still have doubts about its feasibility and effectiveness. How much money can LPO really save? Will quality suffer? What about the risks of sharing sensitive legal information?

The LPO marketplace, however, has matured to the point where many such concerns can be put to rest, giving corporations renewed incentive to assess the value of a balanced insourced and outsourced legal support business model. Considering the options available today, companies that take a thoughtful approach to LPO have the opportunity to potentially achieve significant cost savings, improve service levels, focus their in-house legal workforce on higher-value activities, and create additional capacity for unanticipated legal needs.



LPO providers' response to concerns

When LPO first emerged over a decade ago, LPO providers faced significant challenges in gaining marketplace acceptance. Common concerns included:

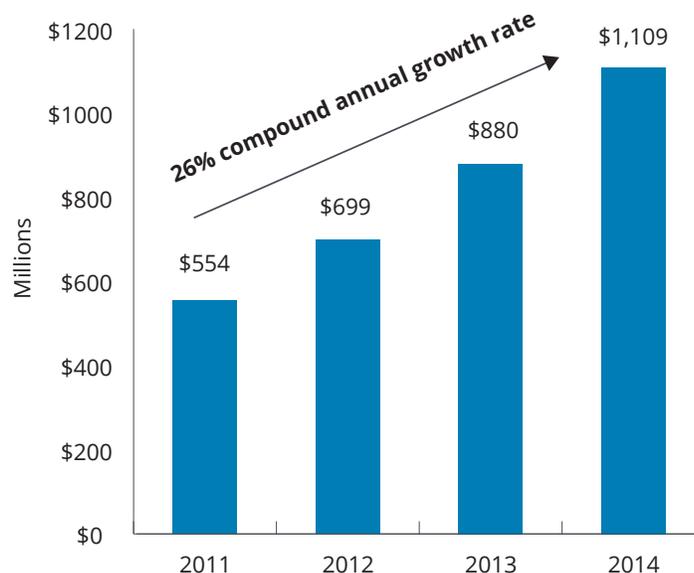
- **Security and confidentiality.** Legal work is confidential by its very nature. Many general counsels worry about transferring data to outside parties, especially if the data is being sent across oceans.
- **Quality.** Corporate legal departments are accustomed to face-to-face interaction with the people performing legal tasks. Legal executives may fear that work performed remotely will not meet the department's quality standards. Additionally, legal executives may be unwilling to support the cost of deploying internal resources to provide quality control over LPOs-provided services.
- **Ethical implications.** Risks related to the unauthorized practice of law made many general counsels uneasy about using LPO providers.
- **Client/outside counsel relationship.** Whether due to the perceived threat of an LPO provider's impact on the bottom line or a lack of trust in the quality of outsourced work, legal departments had a difficult time obtaining outside counsel's buy-in for the use of LPO.

However, these concerns are becoming increasingly outdated. Many LPO providers today have taken a number of steps to address the issues raised by the legal community. In particular, some of the top players in the LPO space have made efforts to:

- **Acquire certifications.** In order to address security and confidentiality concerns, many LPO providers have implemented globally recognized processes and certifications, such as Six Sigma, ISO 27001, and ISO 9001. Additionally, some LPO providers have taken a hands-on approach to training their staff on specific legal engagements, including involving corporate legal personnel to directly lead such learning initiatives.

- **Build strong service-level agreements (SLAs).** The practice of measuring a law department's performance is not common. However, LPO providers have been able to leverage the knowledge acquired in the business process and information technology outsourcing markets to create metrics that assess the quality of the work being provided. The increasing use of such performance metrics facilitates the development of SLAs that hold an LPO to a particular standard of quality. The use of metrics and SLAs can also facilitate a more formal governance relationship between an LPO and its client than may have existed in the past.

Figure 1. LPO market size and projected growth



Source: "Legal Process Outsourcing: Crisis Creates New Opportunities for LPOs," ValueNotes, 2009.

- **Educate general counsels and the general public.** Most LPO providers have collaborated with the American Bar Association (ABA) to clarify the role of LPO in legal work and to delineate an LPO provider's appropriate responsibilities. The ABA has also developed guidelines for engaging an LPO provider. In addition, some LPO providers have made efforts to educate the legal community on the ability of LPO providers to perform certain tasks more cost-effectively than outside counsel and to serve as subject-matter specialists in non-core legal service areas. As a result, outside counsels are coming to recognize that they still have an important role to play in providing oversight of the LPO provider and serving as the ultimate legal decision maker.
- **Adopt a hybrid onshore/offshore model.** Since many LPO providers have faced resistance to having legal work performed offshore, many are now offering combined onshore/offshore solutions to their clients. Some LPOs have expanded their operations in relatively low-wage "near-shore" locations so that work can be performed closer to a client's headquarters but still at a competitive price. With a hybrid approach, LPO providers increase their ability to provide seamless, around-the-clock service by coordinating their onshore and offshore resources' work schedules. They can also offer their clients adaptive pricing models for such resources to fit specific legal department needs.

The evolution of LPO

The LPO space has undergone several transformations in the decade since its inception:

- **Increased scalability and diversification of services.** Many LPO providers have extended the geographic reach of their services and now support multiple languages. In addition, LPO providers today are more likely to offer end-to-end, ongoing legal services as opposed to one-off services.
- **Consolidation and collaboration.** Over the past decade, many small LPO players in India were forced to shut down or to consolidate with other LPO providers due to their inability to reach sufficient scale to operate profitably. The LPO market is becoming increasingly dominated by large business process outsourcing players that are making large investments in the higher-margin LPO market. Capital investment in LPO is on the rise,¹ and a number of collaborations between law firms and service providers have recently been formed.²
- **Large multi-year contracts.** An increase in the number of large outsourcing contracts with corporations has signaled the growing maturity of the LPO space. In 2010, for instance, Microsoft signed an agreement with Integreon Managed Solutions for legal support services, including contract review. It has also retained Integreon as its exclusive provider for offshore managed document review.³ As another example, in 2009, CPA Global contracted with mining giant Rio Tinto to provide legal outsourcing work.⁴ Although these are just two examples of recent corporate LPO deals, various sources have projected overall growth in the LPO market by approximately 26 percent between 2011 and 2014 alone.⁵

1 Barbara Rose, "Law, the Investment: Entrepreneurs attract major cash to draw legal services away from law firms," ABA Journal, September 1, 2010. Available online at http://www.abajournal.com/magazine/article/law_the_investment/.

2 Sanket Purani, "'LPO' should stand for Legal 'Partner' Outsourcing," LPOsavvy.info, January 12, 2011. Available online at http://lposavvy.info/index.php?option=com_content&view=article&id=332:-lpo-should-really-stand-for-legal-partner-outsourcing&catid=1:public&Itemid=32.

3 Hodges, Jeremy, "Microsoft signs up to new outsourcing deal with Integreon," Legal Week, April 7, 2010. Available online at <http://www.legalweek.com/legal-week/news/1600014/microsoft-signs-outsourcing-deal-integreon>.

4 "Rio Tinto Signs Legal Services Outsourcing Agreement With CPA Global," PR Newswire, June 18, 2009. Available online at <http://www.prnewswire.co.uk/cgi/release?id=259609>.

5 "Legal Process Outsourcing: Crisis Creates New Opportunities for LPOs," ValueNotes, 2009.

The LPO business model

To adopt an effective LPO strategy, corporate legal departments should first understand the new business model the LPO market is promoting. In the LPO business model, outside counsel is used only for legal tasks requiring the most significant level of specialized legal knowledge and experience (e.g., legal opinions). Less specialized work that requires a moderate level of legal knowledge and experience (e.g., contract review) is pushed down to in-house legal resources, some of whom may be organized under a shared services model to deliver services required by multiple business units. Finally, repeatable legal tasks requiring relatively little specialized knowledge and experience are sourced to LPO providers. Examples of such tasks include routine and/or transactional activities such as e-discovery, legal secretarial/billing services, patent services, legal research, and contract management.

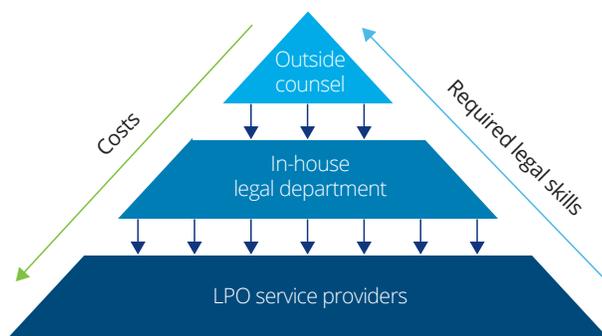
Effective use of this new business model can give companies the opportunity to realize cost savings as more work moves to lower-cost providers, with LPO providers providing significant savings over the use of outside counsel. In addition, by using the business model to more precisely define what work to delegate to outside counsel, a company can position itself to further reduce costs by consolidating the number of outside legal vendors and negotiating new and innovative procurement and sourcing deals with outside counsel based on the company's redefined legal needs.

In summary, by utilizing LPO for appropriate legal tasks, a corporate legal department may be able to:

- Reduce the size of its internal group
- Reallocate high-level resources to more complex tasks
- Absorb some of the work typically performed by outside counsel

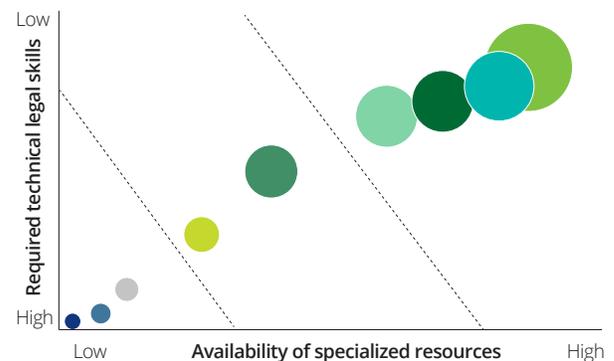
- Access subject-matter specialists in common legal fields (such as e-discovery) in which the company lacks an in-house capability
- Facilitate a 24/7 (“follow the sun”) work model by utilizing both onshore and offshore resources
- Benefit from preferential pricing due to the evolving legal outsourcing market
- Monitor and maintain performance by enforcing SLAs based on measurable criteria
- Reassess its current sourcing and procurement initiatives with outside law firms
- Develop a shared services approach to in-house legal functions. The potential bottom-line benefit: The ability to carry out necessary legal activities at a lower cost — without sacrificing quality.

Figure 2. The LPO business model



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Figure 3. LPO services by market size



- E-discovery
- Secretarial services
- Database management
- Billing services
- Patent drafting/review
- Contract drafting
- Legal opinions
- Negotiation support
- Legal counsel

Note: Market size estimates based on Deloitte industry experience.

Key considerations in evaluating LPO options

When examining whether LPO — or a particular LPO provider — fits a company's legal needs, leaders should consider three key areas:

- Current legal needs.** A company should evaluate its overall legal needs and its use of legal services to see which services, if any, are suitable for LPO. Factors to consider include the extent to which the services relate to core versus non-core business functions, the extent to which the services recur, and the current internal and external spend for the services. Services that frequently recur (such as preparing patent applications) or that are high-volume (such as litigation document review) may be considered for outsourcing to a lower-cost LPO provider.
- Inherent risks.** Organizations need to consider risks around confidentiality when sending legal work to an LPO provider, particularly to an offshore provider. Companies should confirm that the LPO provider has the required security and risk management protocols in place, including the necessary training and screening of its personnel (including, if necessary, background and/or conflict checks). Companies also need to be confident that the LPO provider is not administering services to other clients that may create a direct legal or other conflict of interest in the litigation at hand. Given the potential legal implications, an LPO provider should agree not to engage such clients in the future.
- Cost, quality, and capacity.** In terms of cost, an LPO provider can offer companies individualized, flexible price arrangements tailored to the size and type of a specific legal engagement. Cost, however, should not be the sole criterion for selection; quality is just as important. An LPO provider should commit to providing a specific level of service based on concrete metrics for assessing the LPO's performance and the quality of the legal work product. Finally, companies should look for an LPO that has the flexibility to build capacity at a moment's notice — an increasingly common need in the fluctuating environment of corporate litigation.

Across the globe, corporate legal departments are recognizing an immediate need to reassess their internal and external legal spend. Legal executives should carefully examine the LPO business model to determine whether they can capitalize on the potential cost savings and related benefits provided by the resurging LPO industry. After all, the volume of corporate litigation may be growing, but that does not mean that your budget has to follow suit.

Questions to ask when considering LPO

- Is my organization seeking to reduce internal and/or external legal spend?
- Does my organization have high-volume or regularly recurring legal work?
- Have potential LPO providers adequately addressed my security and risk concerns?
- Would my company benefit from scalable pricing arrangements for legal work?
- Would the potential for flexible staffing create new efficiencies in my legal group?
- Could measurable service levels help my organization to establish a higher standard of quality in our legal work?
- Does my approach to legal service delivery appropriately balance insourcing and outsourcing?

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