

# Why and What Lawyers Should Consider Outsourcing

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## Introduction

Over the last three decades, large law firms have evolved into big and sophisticated businesses. Around 1985, the American Lawyer magazine first published profits per partners ("PPP") for the AmLaw 100. Ever since, large law firms have worked to improve profits. Today, the fear of losing top partners to lateral moves forces firms to focus even more on PPP.

How have firms increased profits? To state the obvious, profits are revenues minus costs. Until recently, firms emphasized revenue growth over cost reduction. They have merged, invested in marketing, added practice groups, and opened offices around the world. Now, however, with a recession likely, cost control is of growing interest.

At the same time, firms face increasing client pressure to improve service and efficiency. Law departments are complaining about rate increases and demanding efficiency improvements. Being top-notch lawyers no longer suffices. Firms must differentiate themselves from competitors with outstanding service and cost-effectiveness.

Outsourcing is one way firms can both reduce cost and improve service. Though already common, outsourcing still has tremendous potential to reduce costs further and to improve operating efficiency. Doing so requires neither diminished service nor staff disruptions.

The story is similar for corporate law departments. They face tremendous pressures to reduce cost and improve operations. Outsourcing is a good way for the general counsel to control costs and improve efficiency.

This article reviews the history of and logic behind legal outsourcing. It then outlines some of the current legal outsourcing options. A detailed discussion of each option is not possible in one article. Instead, the final section takes a close look at one, outsourcing secretarial and word processing tasks. This discussion is a useful analysis on its own plus it illustrates how to evaluate the other options. Left for another day is a discussion of offshore versus onshore outsourcing.

## A Long Tradition of Legal Outsourcing

Law firms long ago realized the benefit of outsourcing back-office functions such as payroll, copy center, mailroom, food service, and travel.

Outsourcing is especially important in technology; the December 2007 ILTA White Paper on Law Firm Staffing<sup>1</sup> ([features/legaloutsourcingoptions.htm#fn1](#)) notes "There are simply too many IT functions to be performed in today's law firm and too many different skill sets required to go it alone; outsourcing some IT functions, either in whole or in part, is the norm for firms of all sizes." It finds that some firms of all size outsource tech functions such as helpdesk, network, training, apps development, and web development.

Outsourcing even extends to law practice itself. Some firms rely on armies of contract lawyers to review the growing volume of discovery documents. Others turn to well-established companies for legal research. One large law firm, UK-based Lovells, farms out aspects of real estate matters to British firms with lower rates.<sup>2</sup>

([features/legaloutsourcingoptions.htm#fn2](#)) And recently, law firms and departments have outsourced administrative and substantive legal work to offshore destinations, especially India.<sup>3</sup> ([features/legaloutsourcingoptions.htm#fn3](#))

Law departments too have extensive outsourcing experience. Almost all retain outside counsel, which is itself outsourcing. Beyond, that many outsource e-discovery and e-billing.

## Lawyers Outsource to Save Money and for Operational Benefits

*Cost Savings and Other Financial Benefits.* Outsourcing can lower costs and offers other financial benefits:

- Many tasks can now be performed away from the main office. Outsourcing providers locate in onshore or offshore markets where labor and occupancy costs less than in the expensive cities where many lawyers work.
- Vendors serve multiple customers. Aggregating demand has two key benefits.
  1. More consistent capacity utilization than any single customer. Fewer peaks and valleys mean lower costs.
  2. The scale to make investments in efficiency-enhancing processes or technology pay off.
- Outsourcing converts fixed costs to variable ones and avoids the need to borrow. Many law firms are under-capitalized. Partners may therefore want to avoid fixed commitments and to minimize borrowing. Similarly, law departments have small capital budgets and like to avoid locking in headcount. For both, outsourcing provides flexibility and avoids capital commitments.
- Allow lawyers to focus on their “highest and best use,” which is serving clients and winning new business. Eliminating managerial distractions from lawyers can let them bill more hours, thus boosting revenue.

*Operational Benefits.* Beyond cost savings, outsourcing offers operational benefits:

- Outsourcing avoids management headaches such as finding, recruiting, and evaluating staff. Vendors can do this more effectively than firms because of their focus and scale.
- Vendors may offer better talent. Recruiting and retaining quality talent can be easier for a large, focused company that chose its location to tap certain labor. Moreover, the bigger scale creates better career paths, which attracts and keeps talent.
- 24x7 service without operating hard-to-manage graveyard shifts. This facilitates better service to lawyers and, more importantly, to clients.
- Multiple locations for business continuity.

Some law firms skip outsourcing but try to replicate the advantages with an internal shared services model, centralizing in one place functions previously distributed across locations.

### Administrative and Legal Functions that Lawyers Can Outsource

Lawyers now have the opportunity to take outsourcing beyond the copy center and IT. Numerous vendors now offer a wide range of services. The table below lists legal, business, and administrative functions that many firms now outsource.

Overview and Comments	Primary Interest To:	
	Firms	Dept's
<b>Legal and Business Services</b>		
<i>E-Discovery</i> Most law firms and departments already outsource a significant amount of data collection and processing for e-discovery. The explosion in EDD has led to numerous outsourcing options, from specific services (e.g., forensic data collection) to "end to end" solutions.	X	X
<i>Litigation Document Review</i> Vendors now offer outsourced document review services, both onshore and offshore. Arguably, this differs little from using contract lawyers. Law	X	X

firm and law department interests may diverge here: some firms do not want to lose their margin on lawyers who review documents.

<i>Due Diligence</i>	Due diligence is similar to litigation document review in that a large volume of documents must be reviewed in a short time period.	X	X
<i>Contract Drafting, Review, and Management</i>	Some law departments must deal with a large volume of contracts. They need to simplify the process so are evaluating a combination of outsourced services and specialized software. This service appears to be offered primarily offshore.		X
<i>Legal Research and Drafting</i>	Domestic companies have long offered outsourced legal research and drafting. The new development here is a large number of offshore providers offering this service.	X	X
<i>Business Research</i>	Lawyers have learned they need to know more about business. Inside counsel must understand their own company, competitors, and industry. Outside counsel must understand their clients and prospects. Obtaining company, industry, and competitor profiles and analysis from library or marketing departments can be hard given the other demands. Outsourcing companies now offer these services (e.g., a recent <i>Recorder</i> article reports that O'Melveny & Myers outsources business research to India <sup>4</sup> ( <a href="http://features/legaloutsourcingoptions.htm#fn4">features/legaloutsourcingoptions.htm#fn4</a> )).	X	X
<i>Intellectual Property Support</i>	Patents require both legal and scientific-engineering know-how. Patents, copyright, and trademark all have numerous, detailed administrative requirements (e.g., maintaining current registrations in multiple countries). Offshoring substantive legal work had its start in IP; today many offshore companies offer IP support.	X	X

<i>Paralegal Support</i>	Paralegals offer critical support to lawyers. Corporate law departments are especially eager to delegate work to paralegals as a way to control cost. Hiring paralegals in some locations is hard and it can be hard to match headcount to fluctuating needs. Outsourcing is a way to access talent and manage capacity.	X	X
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### Administrative Services

<i>Word Processing and Transcription</i>	With the increase in ratio of lawyers to secretaries, firms employ more word processing specialists. Many large firms have centralized document processing and transcription. The leap from a central department to an outsourced service is not that big.	X	X
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<i>Presentation Graphics</i>	As outside counsel learn the value of "pitching business," they increasingly need graphic presentations (typically in PowerPoint). Inhouse lawyers have adopted the practice of their business clients and now rely more heavily on presentations. Many firms and departments are ill-equipped to meet all the demand for high quality presentations. Outsourced services can meet this demand.	X	X
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<i>Finance &amp; Accounting</i>	Finance adds value to law firms; accounting supports finance. Yet in many large firms, the manual demands of accounting (e.g., processing expenses, reconciling the general ledger, and dealing with payables) consume available resources. Outsourcing F&A lower level tasks can free up staff to focus on higher value activities.	X	
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### A Detailed Look at Outsourcing Word Processing

Secretaries and document processing are typically the third biggest cost for law firms after associate salaries and rent. Though the ratio of secretaries to lawyers has fallen, few firms have fundamentally re-thought the role of secretaries and how best to meet lawyers' administrative support needs. Outsourcing can lower costs, improve service, and create opportunities to improve overall operations. This section examines in more detail the benefits

of outsourcing for this specific support function. While the focus here is on law firms, the same logic applies for law departments.

### Matching Resources to Needs

Large law firms face a widespread but little discussed and infrequently solved challenge: aligning secretarial support with lawyers' needs. Secretaries' skills vary as do lawyers' needs - matching secretaries to lawyers is hard, even on objective criteria. Throw personalities into the mix and the pairing process is that much harder.

Another challenge is availability. Support needs vary by month, week, day, and hour, yet staff assignments are fairly fixed; most secretaries work for a set number of lawyers during regular hours. Also, managing scheduled time-off (especially at holidays) and unplanned absences can be a big frustration. The result is that lawyers sometimes compete for secretarial time, especially on big projects where one secretary cannot produce all of the necessary documents. Floor coordinators, informal sharing arrangements, and floaters help balance workloads but do not solve the problem. To provide the necessary back up and 24x7 coverage, firms must staff central departments, which is hard because of the shift work.

The solution is over-staffing. Most firms have a net surplus of available secretarial time - they pay for secretaries whether or not there is work to be done. Secretaries are not to blame; extra capacity is a response to the reality that workloads vary far more than the resources.

Outsourcing can resolve these issues. An outsourcer offers a large pool of experienced staff, many willing to work during off hours or on holidays. Tapping this resource, law firms can better leverage secretaries for the tasks that add the most value. Moreover, they can align resources to needs and pay only for the services actually needed.

### Simplifying HR Challenges

Whether a firm relies on ads or agencies, identifying candidates and screening them is a hidden cost in most firms. Another often overlooked cost is training, both to teach new employees firm standards and to maintain and improve the skill level of existing staff. These costs will likely increase over time as the pool of qualified candidates shrinks and the status of legal secretary continues to decline.

Most outsourcing providers operate in domestic or offshore locations where they can tap a bigger and different pool of talent, typically at price points much lower than major cities in the US or UK. With the right contractual arrangements, firms can meet their staffing needs and make recruiting, hiring, training, and dealing the vendor's problems.

### Managing Quality and Performance

Most firms have trouble managing secretarial performance. Part of the problem is structural: administratively, secretaries report to a supervisor, but substantively, they report to a lawyer. Part of the problem is personality: an open secret is that many lawyers fear their secretaries. The combination makes monitoring quality and delivering performance reviews inherently difficult.

Skill mismatches, underperformance, quality control, and personality conflicts often become chronic problems. Through no fault of their own, secretaries may miss opportunities to improve and work may need to be re-done or shifted to other resources. For example, some lawyers send complicated documents to central word processing even if their own secretary has time.

These same issues make quality checking difficult. Secretaries usually work as individuals, so lack colleagues to review and correct work. That neighboring secretaries may help proofread is the exception, not the rule.

High quality outsourcing companies build quality control and performance appraisal into their work process. If they do not maintain high quality, it means more than grumbling lawyers - it means losing a valuable contract.

### Improving Workflow

Document management software allows sharing and version control but does not track progress when someone else works on the document. At most, a lawyer who sends a job to central word processing can see if a document is checked out or not. This can be frustrating and lead to missed deadlines if communications is not

Carefully managed. Good outsourcers cannot afford this problem. They deploy workflow software that allows lawyers and staff to track job status.

### Reducing Costs

The direct cost (salary plus benefits and payroll tax) for a secretary in a major urban area is about \$85,000.<sup>5</sup> [\(features/legaloutsourcingoptions.htm#fn5\)](#) Making reasonable assumptions about hours worked, the hourly cost is about \$50. If, however, secretaries are utilized only 80% of the time, then the internal hourly cost is over \$63 per hour. The table below presents these estimates in more detail. The hourly cost for outsourced support is often lower. Firms may therefore be able to save direct costs while also reducing the indirect management costs described above.

Secretarial Cost per Hour for Large Law Firms in Major Cities

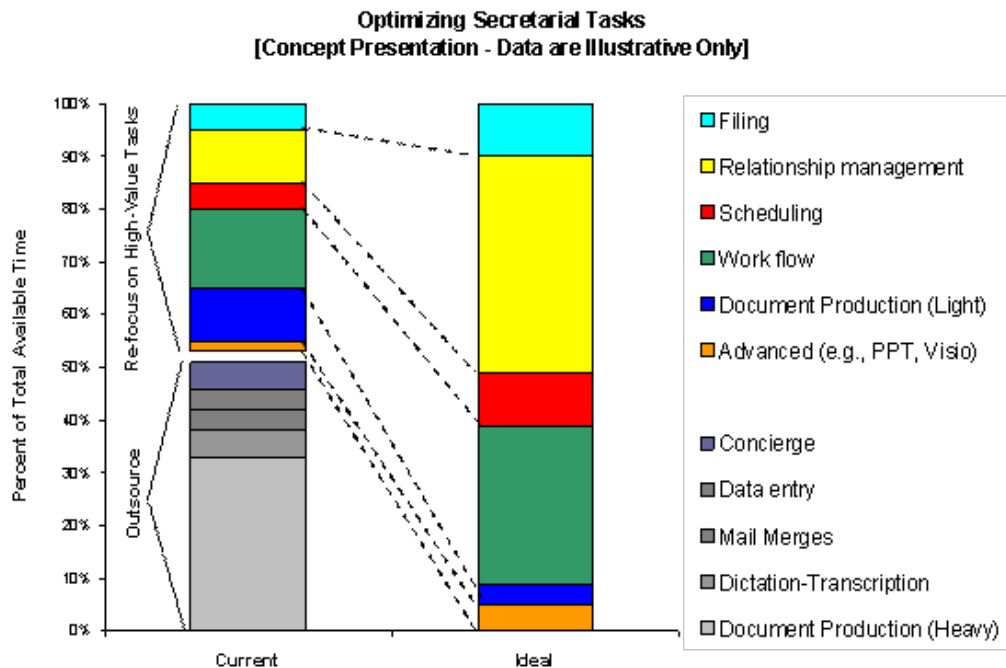
	Assumed Utilization	
	100%	80%
<b>Days Worked Per Year</b>		
<i>Business Days Per Year</i>		
Weeks per year	52	52
Business days per week	5	5
Business days per year	260	260
<i>Time Off</i>		
Holidays	10	10
Vacation	20	20
Sick + personal days	5	5
Total Time Off	35	35
Total Available Working Days	225	225
<b>Hours Worked Per Year</b>		
<i>Working hours / day</i>	7.5	7.5
<i>Utilization</i>	100%	80%
<i>Hours Worked Per Day</i>	7.5	6
<i>Hours Per Year (Days * Hours/Day)</i>	1687	1350

## Cost Per Hour

<i>Fully loaded costs</i>	\$85,000	\$85,000
<i>Cost per hour</i>	\$50.37	\$62.96

## Opportunities to Improve Support

With the right planning, firms can do more than just save money by outsourcing. They can also benefit by re-organizing how they deliver support generally. For example, firms can outsource "heavy" document production tasks and transcription. This frees-up secretaries for higher value tasks such as relationship management, workflow, and contributing to knowledge management systems. The chart below provides a conceptual view of how outsourcing can lead to a new mix of higher value tasks for secretaries. Outsourcing enables this type of workplace re-engineering but does not guarantee it; firms have to give considerable thought to such changes.



(<http://s277.photobucket.com/albums/kk54/bmjm/?action=view&current=barchart.gif>)

## Conclusions

Even before the advent of the Internet made tapping low cost labor offshore so attractive, outsourcing was a common business practice. The "build versus buy" decision is one that lawyers must periodically re-visit. Today, since most work is computer-based, it is easily shifted from one location to another. This has created new opportunities to outsource.

As the discussion of secretaries above illustrates, significant costs savings and operational benefits are possible. Law firms and departments considering outsourcing can apply a similar type of analysis to other functions. For example, offshoring document review has received significant press and some controversy. Once the discussion moves from rhetoric to actual analysis, lawyers can make informed decisions. The outcome of a hard, analytic look at how the work is done today versus how it would be done on an outsourced basis would likely address most lawyers' concerns.

The legal market has steadily evolved and adopted ever more business-like approaches to operations and law practice. Law firms and departments that seek to improve operations, offer their lawyers and clients a higher level of service, and reduce costs should consider the outsourcing option based on a rigorous analysis.

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- 1 [2007 IT Staffing Survey \(http://www.iltanet.org/communications/pub\\_detail.aspx?nvID=000000011205&h4ID=000001128505\)](http://www.iltanet.org/communications/pub_detail.aspx?nvID=000000011205&h4ID=000001128505) , International Legal Technology Association
- 2 This is the so called Lovells' "Mexican Wave." Detail are available at [Lovell's website \(http://www.lovells.com/Lovells/OnlineServices/MexicanWave/Mexican+Wave.htm\)](http://www.lovells.com/Lovells/OnlineServices/MexicanWave/Mexican+Wave.htm)
- 3 [A List of Outsourced Legal Services \(http://www.prismlegal.com/index.php?option=content&task=view&id=88&Itemid=70\)](http://www.prismlegal.com/index.php?option=content&task=view&id=88&Itemid=70) is available at the Prism Legal web site. It lists law firms and law departments that have outsourced and also includes a list of legal outsourcing vendors.
- 4 [Picking an Outsourcing Partner \(http://www.law.com/jsp/legaltechnology/pubArticleLT.jsp?id=1206700935974\)](http://www.law.com/jsp/legaltechnology/pubArticleLT.jsp?id=1206700935974) , *The Recorder*, March 31, 2008.
- 5 Staffing company Ajilon Legal surveys law firms across the US. The company's 2006 Salary Guide reports that the average salary in NYC, DC, Chicago, and Minneapolis for secretaries with 3+ years experience is \$65,000. An old rule of thumb for additional costs is 25%. With higher health care costs and the generous law firm benefits, the percent is probably higher. In fact, a recent Bureau of Labor Statistics [press release \(http://www.bls.gov/ncs/ect/sp/ecnr0066.pdf\)](http://www.bls.gov/ncs/ect/sp/ecnr0066.pdf) reports that benefits for office workers are 40% of hourly wages. Applying a conservative 30% benefit factor, the fully loaded cost is \$85,000.