



Outsourcing the core

By Andrew Hedley, director, Hedley Consulting

On 15 June 2009, *The Times* predicted that the next two years will see a reduction in the number of lawyers employed in private practice in the UK by 10,000 (or over ten per cent). On 13 July 2009, the *London Evening Standard* carried a feature 'Mumbai Law: 1000 City staff "will lose jobs"' as legal work goes to India, outlining Indian law firms providing outsourced services to UK law firms and corporates. The article profiled Delnaz Palkhivala, 36, with a law degree from Sheffield University and seven years post-qualification experience, who earns £15,000 in Mumbai. Rio Tinto now plans to send legal work to India too, while Pinsent Masons has opted to offshore the work of some qualified lawyers by giving clients the option of having early-stage litigation work conducted in South Africa.

Outsourcing of legal services is entering a new, dynamic and paradigm-shifting phase. In addition to commercial clients seeking smarter ways of spending their legal budget, we can also expect to see the commodity market being targeted by the 'call centre' culture that has impacted on so much of the services sector at large.

There is a third wave of outsourcing that should also interest the professional firm strategist. Law firms will be using outsourcing arrangements within their own proposition. By subcontracting elements of their legal processes, firms are able to offer clients both reduced costs and single point responsibility.

In truth, this is nothing new. Lovells introduced its Mexican Wave concept a number of years ago, in which lower-value property work was subcontracted to lower-cost, but appropriately qualified, firms outside London. Is what we are seeing not simply an extension of this cost-quality logic?

Yes – the market will always strive to procure services at the best price point when factoring in complexity and risk. And no – the range and potential of what is now happening defines a more fundamental and far-reaching shift in the relationship between professional and client.

Two factors will shape the market penetration of this legal process outsourcing (LPO) over the next few years: technical expertise and emotional barriers.

Technically speaking, it might be argued that a couple of factors have constrained development in the past for all but the most straightforward of work. These are shortcomings in communications technology, and a paucity of the advanced project-management skills needed to disaggregate a legal service, have the constituent parts handled independently, and

then reconstitute the service at the point of delivery to provide a seamless client experience.

Such technical and management challenges can now be overcome. What remains is the emotional barrier of managing so much of the legal process at arms length within a profession in which many partners have been reticent to let work leave their own desks, let alone firm, country or continent. At an organisational level there are also issues of trust, confidence and client confidentiality that will need to be overcome. At what point will economic imperatives overcome these social and management impediments?

Of course, we are talking here about outsourcing process. Some will be very complex, but they are processes nonetheless. What about the strategic and directional judgments that represent the real added value a lawyer delivers? These judgments are made by partners, their skills honed by their expertise, years of experience and commercial acumen.

Where will the partners of tomorrow come from if firms are outsourcing so much of the work that has traditionally been their learning ground?

A different question should be asked to provide the necessary insight. Why recruit so many graduates (nearly all of whom will leave the firm within ten years) in order to populate the lower reaches of the gearing pyramid if these tasks could be performed more efficiently and cheaply elsewhere? Why not invest in being better at identifying and recruiting the partners of tomorrow, and then focus talent-management budgets on developing them?

By recruiting a much smaller cohort, and giving them much more bespoke training and exposure to clients, firms will be in a strong position to create an industry-beating partner group. But what will happen to the many thousands who are undertaking law degrees that do not fall into this category? It is not coincidental to observers of macro-economic drivers in the industry that the Law Society recently found itself in the news as it suggested that those considering a career in law should think long and hard about it!

I believe these changes are inevitable. How far reaching they will be, and over what timescale, are the key issues law firm leaders will need to consider when deciding on the best approach for their individual organisations. ■

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