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Outsourcing boasts many benefits, but it is not a quick fix in hard times



Thursday 22 October 2009 by **Catherine Baksi**

In these challenging economic times, even the most conservative law firms are looking at ways to remain competitive and profitable, often by reducing costs.

Firms that expanded when the economy was booming, particularly on the back of the buoyant property market, have had to make cutbacks, including going through the painful process of redundancies. As firms look to build for the brighter days to come, they want to avoid getting stung

the next time the economy crashes.

This desire to adopt a leaner approach – fully capable with lower overheads – is fuelling interest in the idea of outsourcing services to third-party providers, particularly those services that are not core to the provision of legal advice but essential to the proper functioning of a business, such as HR, IT and telephone services.

The rapidly expanding market in outsourced services offers myriad cost-cutting options to law firms willing to think outside the box and act on that thought process.

Secretarial work is perhaps one of the most obvious services a law firm might consider outsourcing. Following a three-month pilot project, national firm Eversheds has recently taken the decision to do just that – in partnership with business services provider Exigent, the firm's secretarial work will be carried out in South Africa. Eversheds will retain a ratio of one secretary to every four internal fee-earners, with the addition of 55 secretaries based in Cape Town.

Eversheds' managing partner Lee Ranson says the firm examined what its secretaries did and found that their role had morphed from typing letters and documents to providing an administrative support role.

'Most lawyers are now proficient in typing and do much of their correspondence by email, so we decided our secretaries should focus on the PA-type work – diary management, and client and administrative support. The other parts could be dealt with more efficiently in terms of cost by an outsourced function.'

Ranson says the pilot project received good feedback from fee-earners and partners, who said they found the quality of work high. The only reservation they had was that, with urgent and enclosure-heavy work, it was more efficient if the work was handled by someone in close proximity to the fee-earner – which backs Eversheds' retention of some on-site staff.

One aspect of the secretarial role – typing up dictation – is ripe for outsourcing and has been taken up by firms of all sizes. Companies such as Voicepath provide the service using secretaries based in the UK, while others, such as nFlow, send the work overseas.

Rob Lancashire, sales and marketing director at nFlow, says the company also offers IT outsourcing, which law firms might move on to after experimenting with dictation. 'Everyone tends to think of it as just typing letters, but there are other things you can do – time entry, which helps with billing, and customer relationship management, which will have a positive impact on a firm's marketing.'

With IT outsourcing, a company generally takes over the running of a firm's servers – taking over managing the software is a bigger step. 'All a firm needs is a computer and an internet connection,' says Lancashire. 'The firm does not have to think about IT maintenance, disaster recovery or IT support. It's about removing the "faff" from IT and allowing lawyers to concentrate on using the technology to do their job.'

He predicts that more firms will consider outsourcing services to give them greater flexibility. 'As we come out of the recession people will be looking at how to get back to the same service level without increasing overheads,' he says. 'They want to keep moving their business forward, but don't want to build up too many overheads in case of another crash.'

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John Ioannou, owner of London litigation firm Devereaux, uses nFlow's digital dictation service. 'For the type of work I do, time is of the essence,' he says. 'This allows us to do significant amounts of mobile dictation and the information is then sent to South Africa to be typed.' Ioannou says that, although he believes in moving with the times, he is also a sceptic at heart – but he has been won over by the speed and convenience of the new technology. 'I equate it with when fax machines came in. Having put this into practice, I wonder how we did without it.'

Good reception

The first real contact clients have with a law firm is usually with the receptionist or the person answering the telephone – so it is vital that a good impression is made.

In 2000 Rachel Clacher co-founded Moneypenny, a company that provides reception and telephone answering services to firms across the country, using staff based in Wrexham. Firms can use companies such as Moneypenny either to completely outsource their reception service or as an overflow service to support their own staff during busy periods or when people are off sick. Either way, this sort of service is using the processes and technology of call centres to deliver value to law firms.

'Calls are routed to a specific person at Moneypenny, but the caller will have no idea that the person answering the phone is not in the law firm,' says Clacher. 'One of our largest law firm clients has five offices – they have their own in-house staff, but when they're busy we take their overflow calls, which allows them to optimise their staffing.' And at the other end of the scale, one of Moneypenny's smallest clients has just five lawyers who all work from home.

HR is another non-core service that some firms have opted to outsource – especially on the hiring side. Alexander Mann Solutions (AMS) has been working to assist with recruitment on-site at magic circle firm Freshfields Bruckhaus Deringer for the past two years. Jonathan Brown, head of client services at AMS, says: 'Freshfields hired us just ahead of the economic downturn, when the war for talent was at its peak. The cost saving is a big driver, but it's more about talent acquisition.'

Firms want to connect with the best individuals, he explains, but even the biggest firms can need help getting them. AMS brings a bigger central infrastructure to support direct hiring than an individual business has the capacity to carry.

'Firms can find it hard to differentiate themselves using agencies,' he says. 'We have in-house head hunters building similar networks to agencies, but we are dedicated to one firm. We also have the time to use innovative channels like twitter to find people who might be interested in the job.'

AMS works by performing initial partner briefings, database searches, CV screenings and providing a shortlist of candidates. It then does the initial interview round – Freshfields does the second and third rounds. 'We make the offer to the successful candidate and lead any negotiations before the employment contract is generated by Freshfields,' says Brown. 'We're an integrated part of the firm – people forget we are an outsourced function.'

Susie Kaye, head of HR services at Freshfields, agrees: 'The function is outsourced to AMS, but they work in-house with us. We see them as our people, even though we don't employ them. They are real business partners.'

Explaining why Freshfields made the move, Kaye says: 'We recognised that, when volumes were high, hiring took up a large part of our HR and we understood that we would benefit from specialist assistance.'

Freshfields still uses recruitment consultants, but 'it's a two-pronged approach', explains Kaye. Of course, hiring is not the highest priority for most firms at the moment, but most of the smart money is on more hiring in 2010.

Outsourcing a service to people who perform it on-site seems to work well and could provide an initial step for firms who want to experiment with outsourcing. Kaye says: 'Having [people] on-site is an advantage to the model. When you mention outsourcing, people tend to think of people in far-flung places who don't understand the business, but this is done by people who do understand the business.'

Technological advances

Advances in technology are one of the key factors enabling law firms to change the way they operate. The range of outsourced services offered by IT companies targeting law firm clients is extensive, running from minimal intervention to totally outsourcing a firm's technology infrastructure.

Plan-Net, an IT consultancy and support service provider, advises firms on maximising the efficiency of their IT through IT outsourcing. It worked with City firm Simmons & Simmons when it sought to overhaul its system and Plan-Net now operates the firm's IT helpdesk, providing a 24-hour on-site IT support service to Simmons & Simmons' 22 global offices.

Paul Whitlock, technical services director at Plan-Net, says: 'Productivity is key for law firms. They need high availability and a quick response. The service we provide offers a collaborative and visible approach that allows the firm to benefit without losing control.'

The rather wonderfully named company Outsourcery is also a conduit for firms to outsource all their IT and communications needs via what has become known as 'cloud computing'. Essentially this means that, instead of firms having to buy their own software and servers, which they then have to update and maintain, they pay to use those owned by Outsourcery. All a law firm needs is a computer and an internet connection. In the 'old' days of IT (somewhere around 1999) this was called managed service provision or application service provision, but it is the same thing – your software, hosted off-site, delivered anywhere you are.

Piers Linney, joint chief executive of Outsourcery, says: 'This way of consuming IT is far more efficient. It enables smaller firms to use solutions they could not otherwise afford and removes the need for them to worry about maintenance.'

Outsourcery's part in the 'cloud' is a £10m data centre in Leicester. Linney says the company uses Microsoft products but just changes the way they are delivered: 'This is the way the world is going,' he says. Linney is also looking to provide what he calls 'a telephone system in the cloud' – in other words, a telephone system operated over the internet, otherwise known as voiceover IP, but for a whole telephone system. 'It will be as if you have the phone system in your office – you get all the functionality, without the hardware,' Linney says.

National firm Halliwells has outsourced its IT network management to Outsourcery. Dene Rowe, the firm's IT director, says: 'The current state of the industry means we need to reduce costs and deliver high value. This need has increased due to the recession. We're looking at areas that are non-core to what we do when considering what can be outsourced. I wouldn't rule anything out, but it has to be right for the firm.'

Savvis is another company that provides IT solutions to businesses. Brian Klingbeil, its managing director for Europe, the Middle East and Asia, says that in one sense Savvis provides the platform for a law firm's own software to run on. Though this is not a straight numbers game, Savvis's most recent data centre, set up in Slough, cost £35m, which means at the very least 'it makes sure the power never goes off for our clients', says Klingbeil.

Having good IT, he says, used to be a way that firms could differentiate themselves from competitors, but that is no longer the case.

'Due to the explosion of IT over the past 20 years, firms can find that a disproportionate amount of their staff's time is spent doing technology-related things, which for law firms is a non-core activity. Lawyers need to spend their time doing legal things, and we can take care of the IT better and more affordably. The events of the past two years have created a compelling reason for people to do things differently and law firms are no different.'

Pushpendrasinh Jhala, chief executive of Nivid, another IT outsourcing company, says: 'The recession is affecting everyone – they are all trying to cut costs. It is important for businesses to remain competitive and provide a cost-effective service.' Outsourcing IT and other back-office services, says Jhala, is one way businesses can achieve this. Like the other IT outsourcing companies mentioned, firms can outsource all of their IT provision to Nivid, turning the company into, essentially, the firm's IT department.

Even conservative firms will have to outsource and look at these ideas to stay afloat, he says, as clients are no longer able or willing to afford high fees. 'Firms have to change the way they practise and will be forced to look at innovative ways of cutting costs,' says Jhala.

A lot of the resistance to outsourcing is based, says Jhala, on bad stories people have heard about it. 'But as with all things, there are good and bad examples,' he points out. Law firms are dealing with highly sensitive data and fear breaches of confidentiality when any part of their business is outsourced; but, he points out, breaches can also happen in law firms. The trick is to be thorough and never complacent, which goes for both in-house or external IT. Nivid is also looking into providing outsourced legal services, such as paralegal and secretarial work.

Part of the process

In the past, many firms would have balked at the idea of outsourcing any work that could be described as legal in nature, but economic pressures are compelling some to consider it. A new term has been coined to describe this – legal process outsourcing, or LPO – and a plethora of new companies has emerged to assist firms with this.

Transcription service UK Typing, for example, has evolved from being a company that simply sent dictation to India to be typed up into one that performs other paralegal tasks, such as document review, drafting wills and powers of attorney and legal research.

Near the other end of the scale, mixing both LPO and remote working methods, management consultancy Law Firm Strategy is touting technology to make it feel like a firm's LPO workers are an integral part of the firm. It will do this by using a 'terminal' acting as a document server in law firms which, for example, legal workers in India can log into and work on documents without removing them from the firm. Marcus Selmon, a consultant with Law Firm Strategy, says that this 'can effectively put an Indian paralegal or solicitor in the office with the UK solicitor and their team'. However, the service aimed at high street firms is so new that no law firms have yet signed up for it.

Kesh Sharma, managing director of established outsourcing consultancy and implementation company Magellan, says he offers clients the opportunity 'to dip their toe in the water' of outsourcing. Magellan gives firms advice on the process of outsourcing and helps them implement the most appropriate strategy for their business through the contacts it has, whether it be outsourcing secretarial work, finance and accounting, HR and payroll, or parts of the conveyancing process.

'The job of a lawyer is to give legal advice – other bits are not core functions and can be outsourced,' says Sharma. 'The problem is that the law is a very conservative profession so doing things differently can be a hard idea – lawyers are put off by fear, uncertainty and the idea of a loss of control.'

LPO people like Sharma are also seeing opportunities in the recession: 'A lot of our clients are finding they've cut themselves back to the bone because of the recession. As they're getting busier, they don't want to go back to the old days – they want to stay lean, and outsourcing provides them with the flexibility to do this.'

Other LPO companies, such as CPA Global, RR Donnelley and LegalBase send legal work for law firms overseas to the likes of India, the Philippines and Sri Lanka. LPO may hold more promise for in-house legal units than for law firms – after all, they already outsource legal work as a matter of course. Mining giant Rio Tinto caused shockwaves earlier this year when it announced it had entered into a legal services outsourcing agreement with CPA Global to send some of its legal work to India.

But Lovells and Eversheds have already offshored work to India, while Clifford Chance has its own offshore centre in the subcontinent. Rumour has it that Slaughter and May is looking into the idea.

Baker & McKenzie has gone down a route that it calls 'insourcing'. It established Baker & McKenzie Global Services Manila (GSM) in the Philippines, where it runs a team of almost 400 GSM employees who provide typing and document management services as well as a range of client and internal support in IT, marketing, finance and communications. The firm began the venture in 2000 with a limited number of processes, handled by a group of employees that had received extensive training in the firm's practice and culture.

According to the firm, insourcing's full value can only be realised through a long-term commitment; so it is not the best option for firms seeking to cut costs overnight – only after eight years is Baker beginning to see the strategy's full potential, it says.

Whatever one chooses to call it then, farming out work to wholly discrete or semi-detached providers to save on overheads is here to stay. But as costs remain under fierce scrutiny post-recession, and alternative business structures loom, one big issue that remains is precisely how much of what law firms and in-housers do can truly be labelled 'non-core'. That debate will continue for some time yet and not all firms will come up with a similar answer.

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