The Business of Legal Outsourcing

The last few years have witnessed tremendous growth in the legal outsourcing industry. The value proposition in outsourcing back-end support operations to an offshore vendor and allowing in house personnel to focus on core functions has been recognized and capitalized by multiple corporations and law firms the world over. More and more organizations are beginning to show interest and experiment with legal process outsourcing. Quick to cash in on this growing buzz are multiple outsourcing outfits being set up every day across various cities in India.

Legal process outsourcing or LPO as popularly called is not only an attractive proposition for corporations/law firms outside India, but also a great business opportunity for Indian entrepreneurs. As per the Value Notes reports on Offshoring Legal Services to India, there were over 100 LPO vendors in India in the year 2006 employing around 7,500 people. This number is expected to rise upto 32,000 by the year 2010, which may mean substantial expansion by existing LPO companies and entry of many new players in the market.

This impending expansion raises interesting questions on the dynamics of setting up and operating an LPO. Right from the point of setting up – whether to form a sole proprietorship, a partnership or a corporate entity, multiple options are available. What are these options? What are the prospects and more significantly what are the pitfalls? What is the business of legal outsourcing?

For years, foreign firms and entrepreneurs have watched the Indian market with a combination of interest and trepidation. The growth of Indian economy, particularly of the service sector industry, has ripened this interest and helped overcome the initial apprehensions. The past decade has seen more oversees investment in India than ever before. In the legal services space, no foreign investments could be seen because of restrictions by the Bar Council Rules.

Foreign law firms are restricted from setting up liason offices in India by the Bar Council Rules. While the country debates opening up of the Indian legal services space, foreign investors do not wish to lose out on the time-cost advantage that India has to offer. Partnering with Indian entities and setting up legal outsourcing units in India hence becomes a lucrative proposition.

Many foreign law firms have taken advantage of this model and have set up LPO companies in India in partnership with local entities. Typically in such an arrangement, the foreign partner brings in funds, training and quality control support, while the local partner contributes equity and takes care of the day to day administration.

Contributing further to the interest in legal process outsourcing is the laudatory BPO success. Combining the best practices of the BPO model with the knowledge rich legal services industry offers a successful business proposition. The key to success being the common phrase: “PO” or “Process Outsourcing”.
Multiple service variants exist in legal process outsourcing. While many LPO vendors offer wide-ranging legal services, others choose to restrict themselves to niche areas that require strong domain expertise. Legal services offered range from low skill - high volume activities like legal transcription, coding & indexing, paralegal support, etc. to high skill activities like patent drafting, patent analytics and corporate due diligence.

Each service area brings with it the requirement for meticulous understanding of the domain specific issues and related international laws, rules and regulations. This understanding needs to be converted into processes and combined with qualified manpower and appropriate training to form a successful business model. Like BPO, LPO too is a process driven environment. Each service offering is fragmented and broken into micro steps to be performed by trained personnel. However unlike BPO, all legal services cannot be automated. The extent of intellectual application for many of the outsourced legal services is higher and mandates better skill sets and advanced training for the personnel.
A successful LPO model must support periodic training and have in-built quality control mechanisms. Multiple check points need to be interleaved in the work process to ensure consistent quality performance. People and processes need to be supported by adequate infrastructural resources to boost scalability. Client concerns on confidentiality need to be addressed.

Lately multiple steps are being taken by vendors to ensure data security and client confidentiality. From creating china walls to restricted physical and data access, port blocking software and periodic security audits, vendors has escalated confidentiality to international levels of standardization such as ISO 27001.

Once the above have been complied with and the operations are set, the next biggest challenge is to attract the clients. Accessing potential clients, building a value proposition and successfully convincing them become signification. To facilitate client accessibility, many LPO vendors have opened up small offices in the target locations like US /UK. The foreign offices support minimum number of domain experts for quality control support and often a dedicated sales staff to accelerate sales and be the client point of contact. The sales team accesses potential clients and convinces them to send pilot projects to India. Quality of work delivery there from determines the future client relationship.

In this respect a critical operational challenge being faced by all LPO companies is the threat of employee attrition. Companies recruit fresh or semi trained personnel, put them through a rigorous training program to find them many of them leaving within an average time frame of 18 – 24 months. With increase in the number of LPO units, the requirement of trained resources is exceptionally high. Companies offer higher compensation, better position and attractive perks to draw the best of talent. Recruitment and training hence becomes a continuous activity for all LPO companies.

Another facet of the growth in number of LPO vendors is the increasing competition. Each vendor competes with the other to prove differentiator and higher value add for the clients. A positive impact of this competition can be seen in the price regulations. In the last few years, outsourcing prices have come down with vendors offering competitive rates and volume discounts to attract clients. This competition is expected to further intensify as new vendors enter the space.

The growth trend however cannot be expected to last forever. The industry would eventually reach a plateau, whereupon the market will begin consolidation. With rupee frequently appreciating, cost arbitrage has ceased to be the only value proposition in outsourcing. High quality services need to be provided and consistency maintained to retain clients. Consistent quality performances will differentiate players in the market. Leaders will emerge and lay the rules of the game. Mergers and acquisitions can be expected. Eventually the space shall harmonize and India will join the flat world of legal services.

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