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The Outsourcing Unit Working Research Paper Series

Paper 12/5 Legal Process Outsourcing: LPO Provider Landscape

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September 2012

The Outsourcing Unit Working Research Paper Series

Legal Process Outsourcing: LPO Provider Landscape

Abstract: The Legal Process Outsourcing (LPO) market is estimated to be worth \$2.4 billion globally and growing rapidly. Nearly all legal firms and in-house counsels will have to consider the opportunities and risks afforded by LPO. The Outsourcing Unit at the London School of Economics, in cooperation and sponsorship by Orbys, launched a research project to help educate and disseminate learning about LPO. In Part I of the two part series on Legal Process Outsourcing, we present the *LPO Provider Landscape*. We assessed LPO provider services, skillsets and qualifications, size of firm, geographic reach, pricing, team composition, staff turnover, and provider competencies for 27 LPO providers. Based on our deep understanding of the evolution of ITO and BPO, we predict that five trends will shape the LPO market.

Legal Process Outsourcing: LPO Provider Landscape

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by Mary Lacity and Leslie Willcocks

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I. The Rise of Legal Process Outsourcing

Legal process outsourcing (LPO) is the practice of a company, organization, or law firm procuring legal services from an external provider. LPO is growing as a result of larger market forces driving enterprise legal functions to transform into leaner organizations. In-house counsels are no longer exempt from the cost cutting and streamlining imposed on all other support functions. Enterprise legal functions are seeking ways to reduce costs by erecting captive centers in low cost areas, by pressuring major law firms to reduce fees and to be more efficient by offshoring, and by engaging offshore LPO providers directly.¹

Bellwether Deals and Test Cases

Bellwether deals have legitimated the adoption of LPO. In 2009, in a well-publicized deal, the global mining company Rio Tinto engaged Indian LPO provider CPA Global and saved \$8 million per year, a fifth of its legal costs.² Leah Cooper, Managing Attorney at Rio Tinto, became a celebrity in legal circles for this decision in the same way Kathy Hudson, CIO of Kodak, became a celebrity in 1989 for her bellwether information technology outsourcing (ITO) deal with IBM, BusinessLand, and DEC. Although both Cooper's and Hudson's deals were not the first LPO or ITO contracts, the deals were big enough and bold enough to gain worldwide attention. Soon after Rio Tinto's LPO decision, other major LPO deals warranted headlines. In March 2010, BT signed a three-year, \$5 million deal with UnitedLex to provide commercial contracting and antitrust regulation services. In May 2010, UK law firm Cameron McKenna signed a £583 million, ten-year deal with Integreon, an LPO and business process outsourcing (BPO) provider based in the US with delivery centers in India, the Philippines, China, and South Africa.³ In June 2010, Microsoft signed a three-year, \$20 million contract with Wipro to provide intellectual property services.⁴

Although bellwether deals and the global economic recession of 2008 have magnified the attention on LPO services, LPO is a long standing practice. As far back as 1969, for example, Computer Patent Annuities (CPA) was founded by UK patent attorneys to provide intellectual property services, specializing in patent renewals. Today, LPO services span a variety of litigation, intellectual property, physical property, procurement, compliance, corporate, employment, and other legal services. LPO providers include specialty LPO/KPO providers like CPA Global, Evalueserve, Integreon, MindQuest, Pangea3, and Quislex, and large, global ITO and BPO providers like Accenture, Capgemini, Infosys, TCS, and Wipro.⁵

Opponents of *offshoring* legal services initially claimed that attorney-client privilege was breached when US and UK client firms began sending legal work to captive centers in India. Although captive centers are not technically LPO because the client directly employs the offshore staff, the offshoring of captive centers provided the necessary test cases that allowed transborder LPO to exist in the first place. According to the Black Book of Outsourcing, *offshoring* of legal services dates back to the mid-1990s, when large companies like Bickel Brewer LLP and General Electric erected captive centers in India. Despite initial opposition, the American Bar Association agreed that offshore LPO was a salutary practice for a globalized economy in 2008.⁶ In the UK, the Legal Services Act of 2007 opened the dialog for alternative business structures like LPO.⁷ With the green light from two of the largest legal markets—the US and UK—the LPO market grew rapidly.

LPO Market Size

The global LPO market was estimated to be worth \$2.4 billion in 2012⁸ and has seen growth up to 60% annually,⁹ although the estimate of 28% annual growth rate may be more realistic.¹⁰ Indian-based providers are the leaders in the offshore LPO space, with more than one million lawyers and 128 LPO providers exporting legal services worth \$640 million in 2010.¹¹ Indian's LPO market may grow to \$4 billion by 2015.¹² The Philippines, often considered the second largest LPO offshore destination after India, has 40,000 lawyers.¹³

The potential global LPO market is enormous. Just considering the US market, the legal services industry is worth about \$245 billion, of which 80% of the dollars is generated from law firms and 20 percent from in-house counsel. According to First Research, the US market is highly fragmented and includes about 180,000 law offices, with 50 of the largest firms generating only about 15 percent of revenue.¹⁴ Competition is fierce in fragmented markets and increasingly clients are pushing back against large legal bills, for which prices have increased by 75% (compared to 20% for non-legal business services) in the past decade.¹⁵ In 2011, a survey of in-house counsel heads found that more than half of all respondents use or would consider using offshore legal process outsourcing.¹⁶ LPO is a proven way to reduce costs, and thus one of the main drivers of LPO market growth.

Value Proposition

Clients engage LPO providers for the same reasons clients engage ITO providers and BPO providers, namely, to lower costs, to focus on core capabilities, to access skills, and to scale services. First, consider the potential for cost savings. While an attorney in major legal markets such as the US may charge from \$150 to \$350 per hour when performing rote services, LPO providers charge between \$25 and \$50 per hour, depending on the skill level. Besides charging for services by hourly or daily rates, many LPO providers also charge by the unit of work—per contract, per patent, per page, and per project—allowing more predictable bills for clients.

Most LPO providers reduce costs for their clients by locating many of their human resources in low cost areas like India, the Philippines, and China. Offshore LPO prices are lower because salaries are lower. In London, for example, paralegals earn between £30,000 and £44,000 a year compared to £5,000 to £8,000 in the Philippines. London-based lawyers with three years of post-qualification experience earn £75,000 to £86,000 compared to £10,000 to £15,000 in the Philippines.¹⁷ Most LPO providers also employ onshore resources, which are needed for deep customer understanding and to coordinate offshore employees.¹⁸ In addition, US and UK based clients are demanding more onshore resources, which has prompted offshore LPO providers to hire more onshore attorneys. For example, Integreon opened an LPO delivery center in Bristol UK in 2012 because, as the Global Head of LPO announced, *“As the delivery of legal services evolves, it’s clear that most law firms and corporate counsel require a mix of onshore and offshore support.”*¹⁹

Besides cost savings, LPO clients also report additional business benefits. For example, Microsoft reports that Integreon increased contract turnaround by 20% and increased on-time delivery of contracts to 99.5%.²⁰ Clients also engage LPO providers for more strategic reasons, such as helping an organization transform their in-house legal department. According to David Perla, Co-CEO of Pangea3, an LPO with 850 globally located employees, *“We help transform how work is done in legal departments or large law firms. We do things for clients that they have never done before, such as deploying contract management lifecycle systems or combining legal and technical teams by having lawyers and engineers working side-by-side for many years.”*

Client Learning

Like all outsourcing practices, outsourcing of legal services is not about abdicating responsibility, but rather about learning how to manage in a different way. Clients have a significant learning curve to ride, including learning how to mitigate a number of risks and building internal capabilities to develop a sourcing strategy, select providers, contract for and manage LPO services. Successful LPO requires balancing practices that reduce costs (like hiring offshore resources) with practices that protect quality (like hiring onshore resources).

Given LPO's strong value proposition and huge market potential, clients with little or no LPO experience will want to learn more. We prepared this two-part series to help educate potential clients about LPO services and the global LPO landscape. Part I is based on numerous sources of information, including data held by Orbys, market data and interviews with advisors working right at the centre of the market. The data on 27 LPO providers includes information about specialist LPO providers, full service LPO providers, and global BPO providers that offer LPO services. Using this data, we assessed LPO provider services, skillsets and qualifications, scalability of services, geographic reach, pricing, team composition and provider competencies. The report specifically covers:

- Ten LPO service towers: litigation, intellectual property, corporate, compliance, procurement, employment, property, resourcing, consulting, and bundled services
- Three levels of skills spanning ten legal activities—document management, research, matter preparation, legal analysis, legal management, commercial analysis, drafting, non-legal services, legal action, and legal advice
- Low, high, and average daily rates charged by LPO providers
- Average LPO revenues
- Average headcount by provider, by service, and by geographic location
- Average onshore/offshore team composition by service
- Maturity of LPO service competency

Part I concludes by examining five LPO trends. Part II covers LPO risk mitigation and best practices based on interviews with LPO clients and providers.

II. LPO Provider Landscape

LPO Service Towers

What services do LPO providers perform? Adapting a framework from Orbys (a sourcing advisory firm working in the legal transformation market), we conceive of the entire suite of LPO services as comprising ten service towers (see Figure 1). Seven towers support traditional legal activities:

Tower 1. *Litigation Services*—discovery, document, and case management services

Tower 2. *Intellectual Property Services*—patents, trademarks, and domain name services

Tower 3. *Corporate Services*—mergers & acquisitions, transaction agreements, and corporate financing services

Tower 4. *Compliance Services*—regulatory and company policy compliance services

Tower 5. *Services Procurement*—contracts, service agreements, and outsourcing services

Tower 6. *Employment Services*—employment contracts, disputes, immigration and injury services

Tower 7. *Property Services*—purchase, lease, rent, or sale of physical property

Three towers provide supporting services:

Tower 8. *Resourcing*—staff augmentation, including administrative, paralegal, and legal staffing

Tower 9. *Consulting Services*—high-level consulting on strategy, transformation, policy, and procedures

Tower 10. *Bundled services*—information technology, business process, and knowledge process services that complement or support LPO services

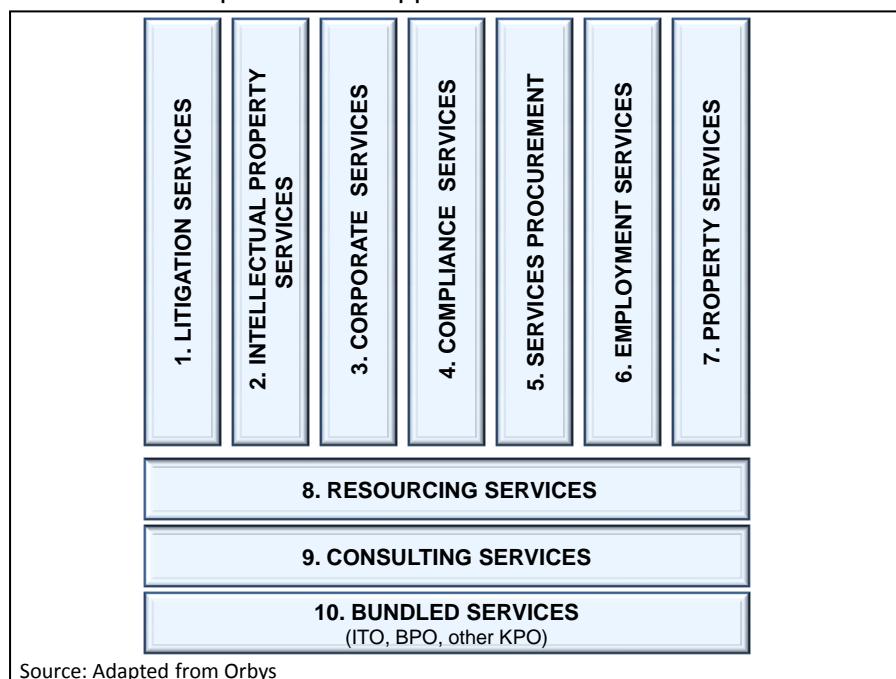


Figure 1: LPO Service Towers

LPO Skillsets and Qualifications

Common legal activities are performed within each of the seven main service towers, such as researching, drafting and managing documents, preparing matters, performing legal and commercial analyses, providing legal advice, taking legal action, and managing legal and non-legal services (see Appendix B for definitions). Different skill levels and qualifications are needed to perform these common activities (see Figure 2):

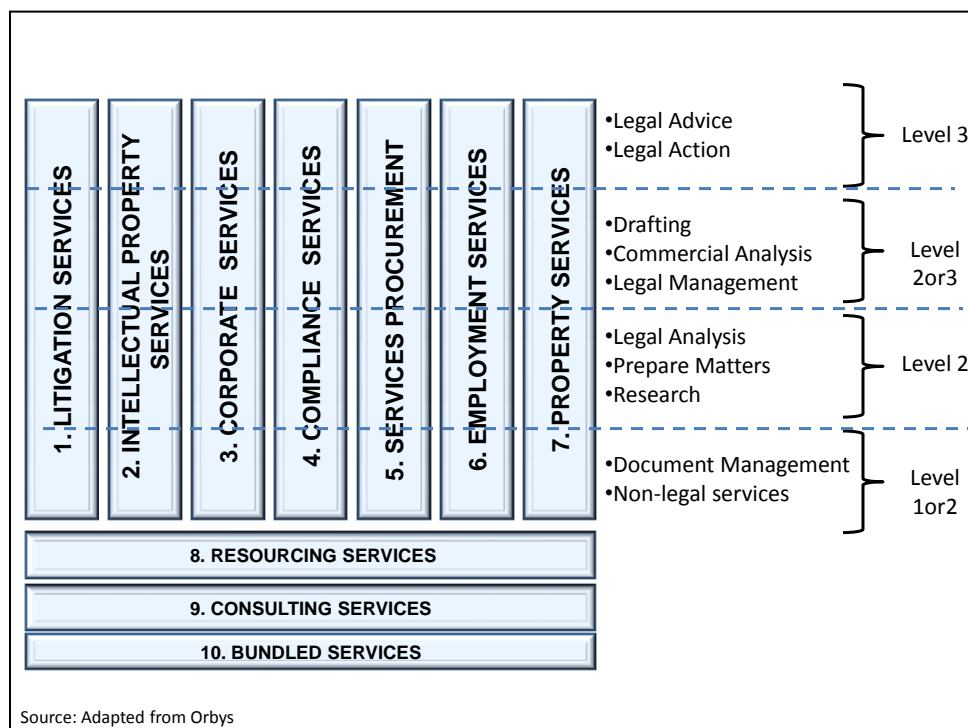


Figure 2: Skillsets Required to Perform LPO Activities

Level 1: Activities that can be done by generalist resources, such as secretarial or administrative staff and therefore do not require any specific legal knowledge. People with Level 1 skills are qualified to perform non-legal and document management services.

Level 2: Activities that require some legal knowledge and context but do not necessarily require legal qualifications to carry them out, such as legal analysis, matter preparation, and legal analysis. Depending on the complexity of the activity, people with Level 2 skills may also be qualified to perform drafting, commercial analysis, and legal management services.

Level 3: Activities that are of high value require at least some legal qualifications to carry out. People with Level 3 skills are qualified to provide legal advice and to take legal actions; people

with Level 3 skills may be needed to perform complex drafting, commercial analysis, and legal management services. These activities, though, generally exclude the ‘legal opinion’ normally provided by senior in-house counsels and external law firms.

LPO Provider Pricing

Potential LPO clients are interested in the would-be cost savings, and therefore will want to compare their own daily rates for skillsets with those of LPO providers. Based on pricing data held by Orbys, we analyzed daily rates for Level 1 (administrative), Level 2 (paralegal) and Level 3 (technical legal specialists and fully qualified lawyers). The range of prices is very wide (see Table 1). For example, the daily prices for fully qualified lawyers range from \$160 to \$2000 per day. The average of \$530 includes averages from all locations. We have price data specifically for India-based staff from ten providers, and these averages are considerably lower than the averages across all locations.

Table 1: LPO Provider Daily Rates for Skillsets (One day = 8 hours)				
Skill Level	Low	High	Average Overall (all locations; n = 26)	Average (India only; n = 10)
(1) Administrative	\$60	\$320	\$201	n/a
(2) Paralegal	\$75	\$400	\$249	\$176
(3) Technical	\$160	\$2800	\$342	\$183
(3) Fully Qualified Lawyer	\$160	\$2000	\$530	\$248

While many LPO providers can provide daily rates for these skillsets, a number of LPO providers do not normally bill by time spent, but instead create teams with blended rates or price based on output to be delivered. One provider explained the use of blended rates, *“We do not typically charge fees based on resource type or level. Rather, we provide a blended fee for a specific service to include management time, project management, quality management and reporting, etc. The exact composition of resources will depend upon the exact nature of the services required and will be identified during a detailed scoping exercise that is undertaken at the early stage of any engagement.”* Another LPO provider describes their output-based pricing, *“We rarely use resource-based pricing (hourly, daily, weekly or otherwise). Instead, we*

prefer to use output-based pricing because it better aligns incentives between [LPO provider] and its clients. Billing on a time and materials basis penalizes the provider for investing in efficiency and productivity, which would reduce the amount of billable time. As we view our ability to deliver efficiency and productivity gains as a core strength, we prefer to bill on an output based model that rewards us for productivity gains while passing on most of the gains to clients in the form of lower cost per unit of work.”

LPO Revenues

Data on LPO revenues is difficult to capture because (1) some LPO providers cannot isolate LPO revenues from their overall BPO revenues, (2) some LPO providers are private companies and have policies against disclosure, and (3) some LPO providers are just starting up. We were able to analyze LPO revenues for 14 LPO providers based on data held by Orbys. The 2010 average revenue for 14 LPO providers was \$36.5 million (see Table 2). The 2011 average revenue is lower than the 2010 average by \$1.3 million, perhaps because the data was collected in 4th quarter 2011 and not all revenues were reported or perhaps because the market indeed dipped.

Table 2: LPO Provider Annual Revenues from LPO Services (n = 14)				
	2008	2009	2010	2011
Average Revenues	\$10,392,500	\$28,403,529	\$36,535,196	\$35,187,454

LPO Provider Size: Headcount

Based on headcount data held by Orbys, we were able to analyze the total number of employees devoted to LPO services for 27 providers. As a group, the 27 LPO providers employ a total of 10,858¹ LPO workers. The smallest firm in the sample employed 25 people and the largest firm employed 2000 people in 2011. The average number of LPO employees was 402.

The data also captured LPO employee headcount across the nine LPO service towers (see Figure 3). Among the nine service towers, litigation represents the highest percentage of LPO

¹ These figures only include LPO employees, not employees devoted to other service areas such as ITO or BPO.

employee headcount, representing 26% of the 10,858 employees in the sample. Intellectual property is the second largest populated service tower at 14%. LPO consulting is the smallest populated service tower, representing 1% of the sample. We note that many LPO providers cross-train staff so that an employee can perform work in several service towers.

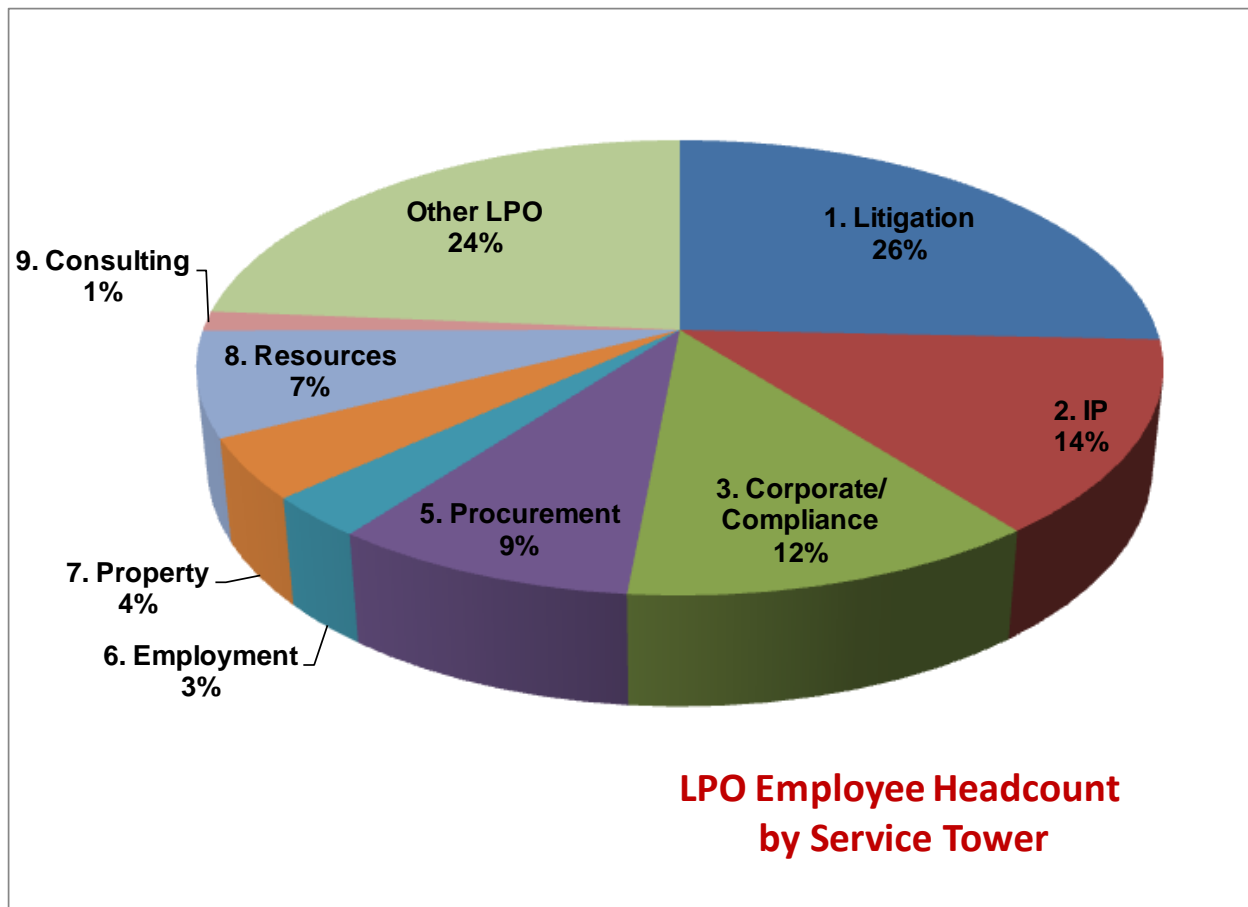


Figure 3

LPO Staff Turnover

High staff turnover in low cost countries has been a major problem for ITO and BPO providers and clients. Turnover rates for ITO and BPO in India have been as high as 60%, with an industry average of 20% to 30% per year²¹. High provider staff turnover delays the clients' projects, reduces quality, and increases costs.²² Do LPO providers suffer from similarly high turnover rates?

Based on turnover data for 17 LPO providers, the overall average turnover rate is 15% (see Table 3). The range of turnover rates varies considerably across LPO providers, spanning 3% to 34%. The LPO provider reporting a 3% turnover rate employs 450 people, which is quite an astonishingly low turnover rate. The provider indicates, *"The current retention rate for employees in India is 96.8%. We do not include associates who leave or are dismissed prior to their confirmation in this calculation. The majority of our employees have been with us for more than three years. All our managers based in India have been with us for 4+ years. Our management team is characterized by longevity and continuity that is not typically seen in this industry. Our annual attrition rate is historically in the single digits."* The highest reported turnover rate was 60% for Level 3 resources. However, this rate is explained by the LPO provider's business model: *"Turnover rate for Level 3 is due to the contractual nature of the projects. Specific attorneys are contracted for specialized matters and may be used infrequently."*

LPO providers have lower turnover rates compared to ITO and BPO providers in India, but higher turnover rates compared to ITO and BPO providers in Eastern Europe, which have an average turnover rate of 10%, and in the United States, for which the average IT turnover rate is only 5.5%²³. LPO providers have turnover rates comparable to China's turnover rates, which average between 7.5% and 15%.

Table 3: LPO Annual Staff Turnover Rates

	Level 1 Skills (n=5)	Level 2 Skills (n=6)	Level 3 Skills (n=7)	Overall (n = 17)
Range	7%-20%	0% to 30%	0%-60%	3%-34%
Average	11%	11%	12%	15%

LPO Provider Geographic Reach

We analyzed LPO headcount by geographic location. Among the 10,858² LPO workers employed by the 27 LPO providers in the sample, India is the most common location of LPO staff, representing 59% of the sample (see Figure 4). The United States is the second most common location, with 22% of the LPO provider headcount. In the “Other” category, LPO providers have employees based in China, Hong Kong, Latin America, Singapore, South Africa, and Sri Lanka.

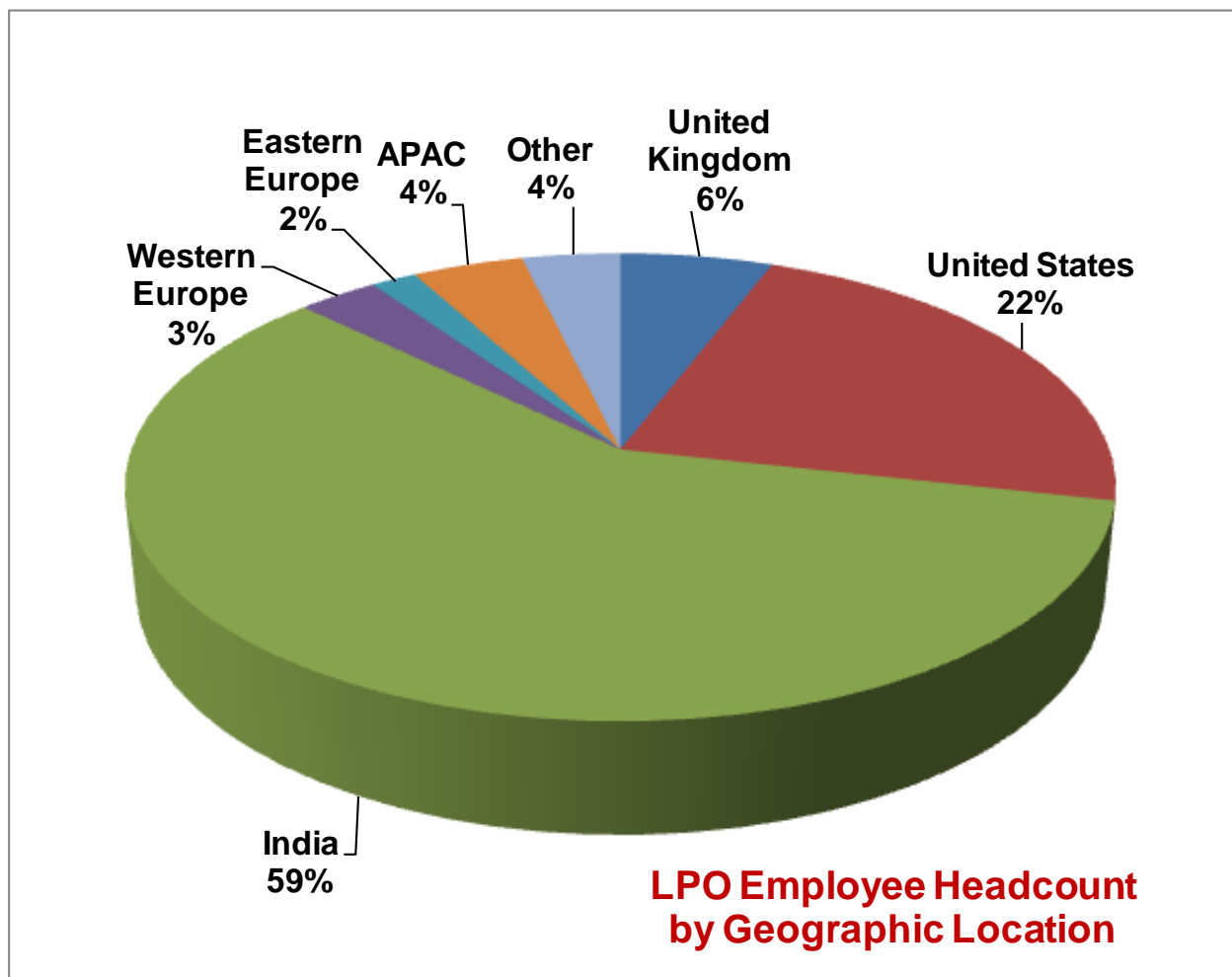


Figure 4

² These figures only include LPO employees, not employees devoted to other service areas such as ITO or BPO.

LPO Provider Team Composition

In order for LPO providers to reduce costs for their clients and still protect service quality, they balance onshore and offshore resources. Onshore resources are more expensive but have the advantages of close customer proximity, deep domain understanding, and high cultural compatibility. Offshore resources are less expensive and may also have the advantage of time zone coverage. The United Kingdom and United States are the largest client markets for LPO services. India is the largest offshore provider market.

We analyzed the typical team composition overall and the typical team composition for each service tower for 27 LPO providers (see Table 4). Across all service towers, the average team composition is 22% onshore and 78% offshore. The towers with the highest percentage of *onshore* resources are consulting and resourcing services. The towers with the highest percentage of *offshore* resources are employment and property services. As far as the range of team composition, one provider indicated that 100% of their headcount is located onshore and four LPO providers indicated that 100% of their headcount is located offshore.

Table 4: Average Team Composition		
	Sample Size	Average % Onshore/Offshore
Litigation	20	21%-79%
Intellectual Property	18	21%-79%
Corporate & Compliance Services	15	20%-80%
Services Procurement	14	23%-77%
Employment Services	15	16%-84%
Property Services	14	18%-82%
Resources	9	33%-67%
Consulting	11	41%-59%
Overall Percentage	23	22%-78%

Some LPO providers find it difficult to identify a "typical" team composition. One LPO provider indicated, *"Currently, there is great variation across the solutions we have in place, always in response to client requirements. We are **location-agnostic**, meaning we have no preferred resource pool from which we draw."*

LPO Provider Competencies

Orbys asked 27 LPO providers to assess their own competency for 186 processes across 22 services within the nine service towers using a scale from 0 to 3 based on the following definitions:

Competency 0 indicates, "Our organization does not provide this service"

Competency 1 indicates "Our organization can provide this service but it is not a core offering"

Competency 2 indicates "Our organization provides this service as a core offering"

Competency 3 indicates "Our organization excels at providing this service"

To assess the maturity of the LPO market, we calculated the average competency score reported by LPO providers for the nine LPO service towers (see Figure 5). We only included LPO providers that choose to provide these services (i.e., providers who indicated a 0 across all processes within a service tower were excluded). Services Procurement had the highest average competency score of 2.11 out of a possible 3.00. Property Services had the lowest average competency score of 1.54. At least one LPO provider within each service tower reported that "our organization excels at providing this service" for all the processes within a service tower. Thus there are providers who consider their services quite mature within a service tower.

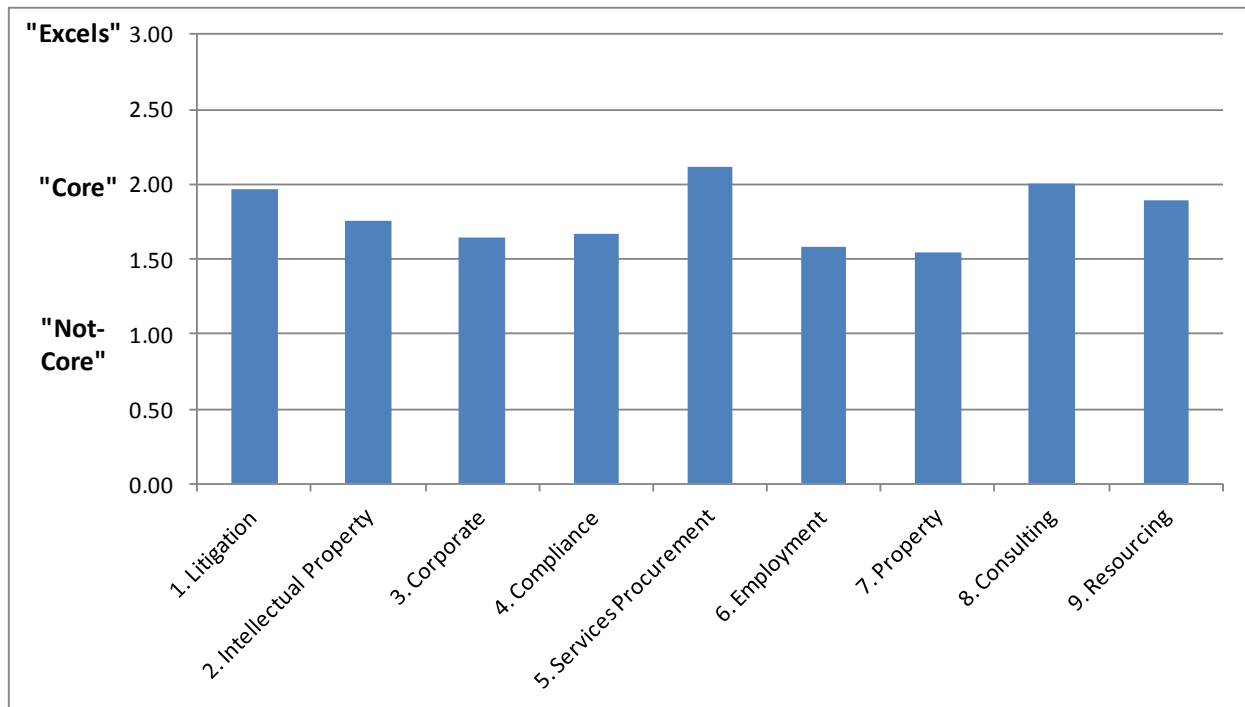


Figure 5: Average LPO Self-Assessment by Service Tower

Figure 6 shows a more detailed analysis, examining the average competency score reported by LPO providers for 22 specific services. We only included LPO providers that choose to provide these services (i.e., providers who indicated a 0 across all processes within a service were excluded). On average, the LPO service areas with the **most mature capabilities** are document management (n=24 out of 27 providers offer services in this space), contract management (n=26), services agreements (n=25), and transformational consulting (n=21). On average, the LPO service areas with the **least mature capabilities** are financing (n=12) and injury (n=16). For 19 of the 22 services, at least one LPO provider reported that they excel at all the processes within the service. Here, again, it becomes clear that clients will find at least some providers with mature capabilities for specific services.

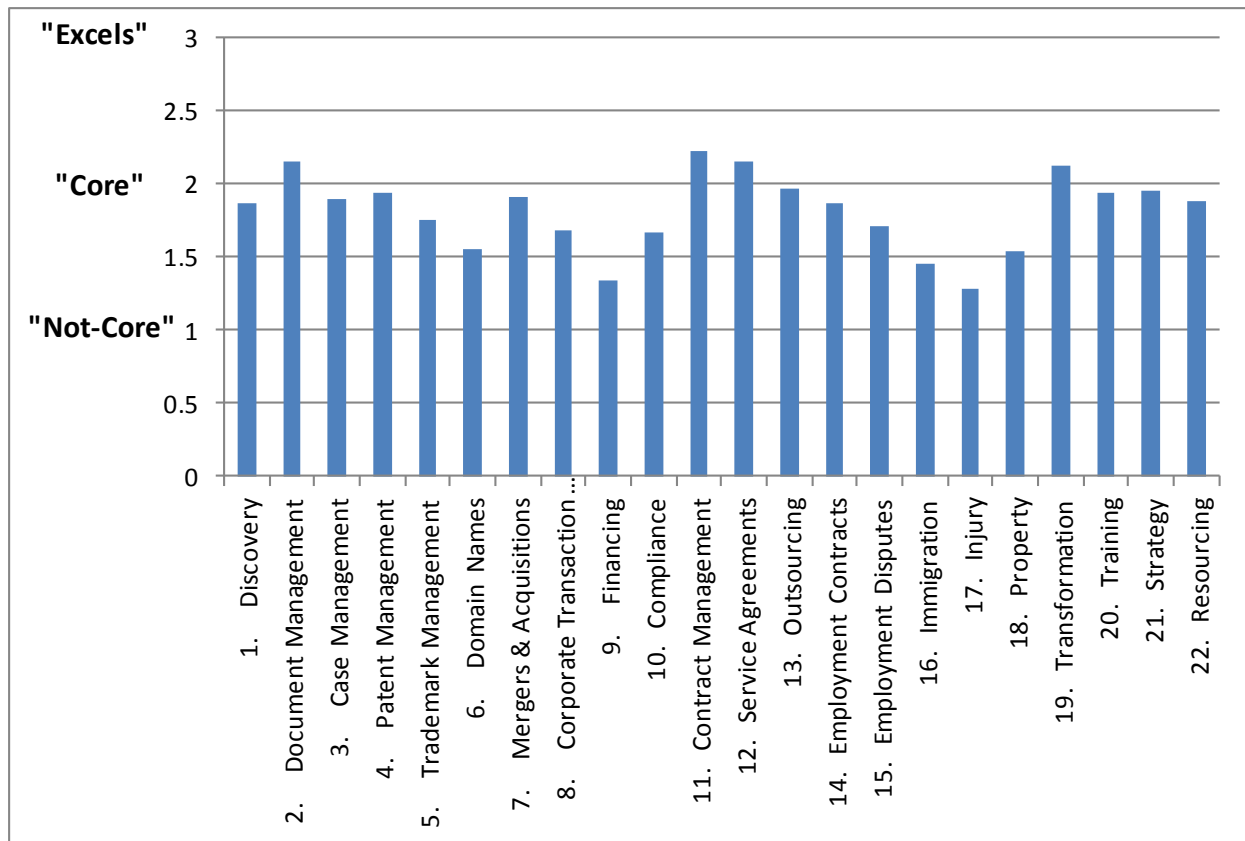


Figure 6: Average LPO Self-Assessment by Service

Does size matter? We analyzed whether a provider's competency for a service tower is related to the number of employees in that service tower. An Analysis of Variance indicates that a linear relationship is statistically significant ($p = .0002$) between headcount and competency (see Table 5). Size does matter: LPO providers with more employees, on average, report higher competencies than LPO providers with fewer employees.

Table 5: Headcount and Competency			
Competency:	Bottom Quartile (Least Competent)	Middle Quartiles (Avg Competency)	Upper Quartile (Most Competent)
Average Headcount	11	45	104

III. LPO Market Predictions

We have been studying ITO since 1989 and BPO since 2000. Before these markets matured, potential clients voiced similar concerns with ITO and BPO that we now hear pertaining to LPO. These concerns include “This work is core to my business; it’s too strategic to outsource.” “How can I trust a provider with my data and intellectual property?” “Our work is specialized--how can providers possibly do what we do?” “Isn’t it a pain to work with offshore providers?” As the markets for ITO and BPO matured, clients learned how to engage outsourcing providers in ways that delivered business results and addressed these concerns. The paths to maturity for the ITO and BPO markets were surprisingly similar, and based on our deep understanding of those markets, we foresee LPO following a similar path to maturity. We predict:

- LPO providers will move up the value chain
- New engagement models will emerge
- The shape of enterprise legal functions will increasingly move from “pyramids” to “diamonds”
- Enterprise legal functions will reduce the number of law firm partners and increase bundled legal services
- Significant M&A and strategic alliance activity will fuel provider growth and capabilities

LPO Providers Will Move Up The Value Chain

Like ITO and BPO, the initial driver of LPO has been lower costs available through labor arbitrage. Clients initially feel most comfortable sending discrete work with low complexity and low criticality offshore, the so called “white chip” work. (In poker, tradition has it that white chips are the least valuable, red chips are of medium value, and blue chips are most valuable²⁴.) (see Figure 7). If LPO follows a path similar to ITO and BPO growth, the LPO market will move up the value chain to include more red chip and even blue chip work. Client organizations will increasingly source work that has medium complexity and medium criticality (“red chip” work) to major law firms, to offshore LPO providers via major law firms, or to offshore LPO providers directly. Client organizations will continue to use their own in-house counsel (insourcing) for high-value work that is highly complex and highly critical (“blue chip” work), but some clients will engage in strategic partnerships with major law firms or LPO providers to perform such work. Strategic partnerships are appropriate for “blue chip” work when clients and providers can identify a mutually beneficial engagement that fosters innovation and trust and when the

partners can align incentives and share risks and rewards. And as clients and providers build long-term relationships based on trust, transparency, and collaboration, clients will likely engage providers for more end-to-end solutions.

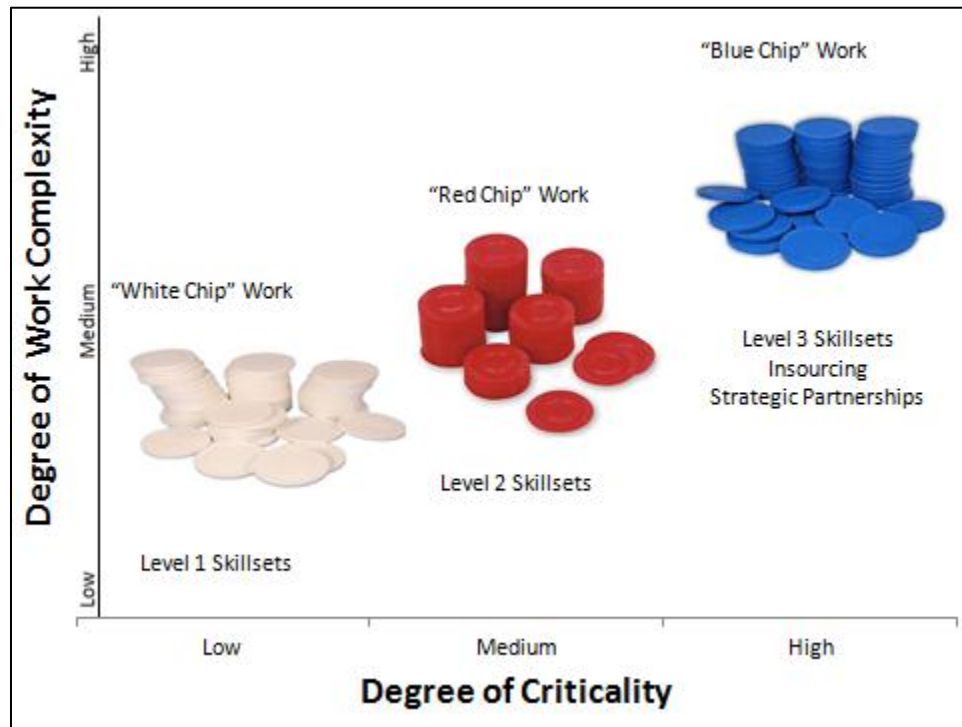


Figure 7²⁵

New Engagement Models will Emerge

Besides moving up the value chain, enterprise legal functions will likely find many new ways to engage LPO providers. Currently, enterprise legal functions engage offshore LPO providers directly, or they access offshore LPO services indirectly from their major law firms. The first engagement model requires more hands-on management, but the benefit is that the enterprise legal function retains all the cost benefits. The second engagement model is a subcontracting model that places management oversight with a major law firm. Presumably major law firms have or will gain soon core capabilities in managing offshore LPO providers since they will replicate the model over many clients. As far as pricing models, initially clients used a supplemental staffing model based on fee per unit of time. As engagements get longer, clients

and providers may move increasingly away from supplemental staffing models to managed services (see Figure 8). For example, Colt Technology Services used to hire local firms in many countries to help with employment law. After working for a year with one LPO provider, Berwin Leighton Partner (BLP) Managed Services, Colt moved to a managed services model. Robin Saphra, Colt's legal chief, said in an interview with *The Lawyer*, that she moved away from multiple firms to managed legal services because BLP grasps the differences between countries and can “give a single, joined up answer.”²⁶

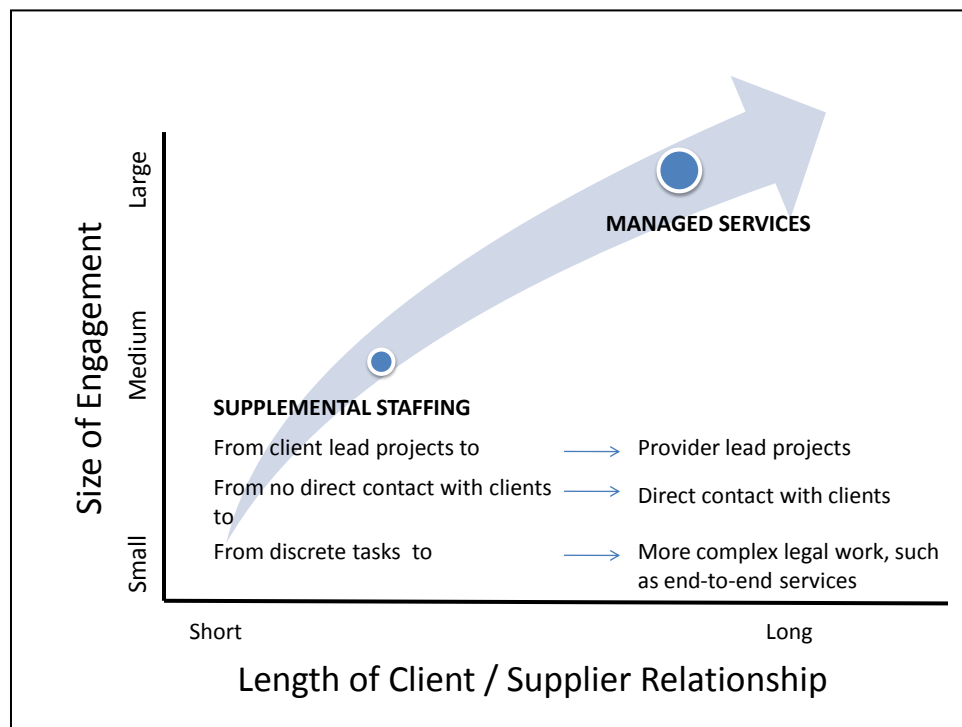


Figure 8²⁷

If LPO follows the path of ITO and BPO, we may see even more strategic engagement models emerge, like gainsharing models that align client-provider objectives and incent innovation²⁸ or like the enterprise partnership model we've studied between Xchanging and BAE Systems and Lloyd's of London.²⁹ The enterprise partnership is an engagement model in which a client and provider create a jointly owned enterprise that both services the client investor as well as seeks external customers. However, this is not a traditional joint venture with equally shared risks and rewards. Rather, the provider bears more risk and the primary purpose of the enterprise is to transform the client investor's back office. The enterprise partnership addresses the lack of alignment in fee-for-service outsourcing while minimizing the client risks of a joint venture.

Transforming the Shape of Enterprise Legal Functions

We've identified the shape-shift of back office functions from “pyramids” to “diamonds” as a major trend in IT, Finance, Accounting, Indirect Procurement, and Human Resources functions³⁰ (see Figure 9). We predict that a similar transformation will occur in enterprise legal functions.

Pyramids are heavily populated with employees, most of who are at the bottom of the pyramid. The benefit of this design is that employees continually build valuable, client-specific experience as they are promoted higher up the pyramid. The pyramid model is strong on retained knowledge, but it is also costly. Back office managers trying to recruit college graduates must compete with providers who can court them with far richer career paths and many more peers. The model also tends to rely on staff augmentation with expensive domestic workers to fill in skills gaps and to scale up resources. The pyramid model is also characterized by a significant class of middle managers who manage both employees and supplemental staff.

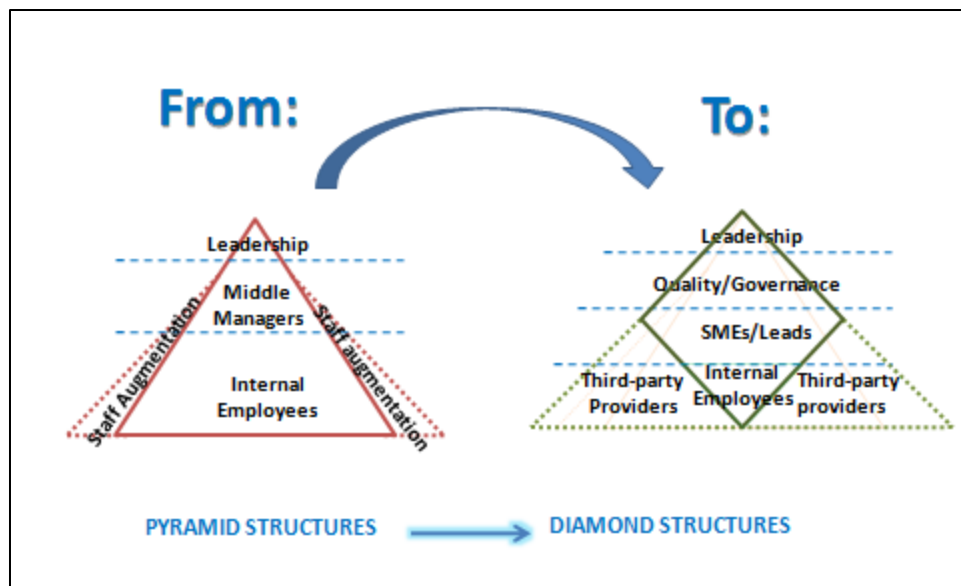


Figure 9: Changing Shape of Back Office Functions³¹

Diamond-shaped retained organizations replace the heavy bottom of the pyramid with providers. Many transactional activities that were once performed by employees are performed now by providers, typically in a lower cost location. There are fewer middle managers, but more Subject Matter Experts (SMEs) and Project Leads. The diamond-shaped organization also

needs more quality assurance and governance skills to coordinate services with providers. The benefits of the diamond-shaped retained organization are lower costs, access to providers with best-of-breed skills, and greater flexibility because providers can more easily adapt to increases or decreases in service volumes. It does not require a stretch of the imagination to see how the diamond model can also transform enterprise legal functions.³²

Fewer Providers, More Bundled Services

In the ITO and BPO markets, many companies initially pursued an ad hoc approach to outsourcing, with decentralized units engaging in piecemeal outsourcing, resulting in a large number of providers. In one Fortune 500 manufacturing firm, for example, the corporate CIO discovered that across business units, the company had engagements with 15 offshore ITO providers. Furthermore, three different units had negotiated different rates with the same Indian provider! Eventually, the corporate CIO took a more strategic, proactive approach to outsourcing, reduced the number of providers, and increased the bundling of services. We saw many other organizations consolidating from many providers to bundled ITO and BPO services.³³ We predict a similar trend will occur in enterprise legal functions.

Many enterprise legal functions engage multiple law firms, each specializing in a different legal area. The transaction costs of managing multiple firms are high, and several large companies are already reducing the number of legal providers. At Colt Technology Services, for example, the Legal Chief told *The Lawyer*, “*I think we probably have too many firms; The name of the game is building stronger relationships with fewer firms.*”³⁴ In June 2010, Microsoft engaged Wipro to provide patent and trademark services. Previously Microsoft used in-house resources, outside law firms and offshore vendors to provide IP services. Moving to Wipro “*ensured not only efficiency but also consistency in the way Microsoft does business.*”³⁵

LPO Mergers, Acquisitions, and Strategic Alliances

As the ITO and BPO markets matured, we saw that growth for larger providers occurred inorganically, that is, by mergers and acquisitions. Inorganic growth has many benefits including rapid market expansion, improved suite of services, elimination of competition, lower operating costs, and access to human and intellectual capital.³⁶ Some of the biggest M&A deals actually in ITO—the most mature outsourcing market for services—occurred within the last four years; Hewlett-Packard (HP) acquired Electronic Data Systems (EDS) in 2008 for about \$14

billion. Xerox acquired Affiliated Computer Services (ACS) in 2009 for about \$6.4 billion. Dell acquired Perot Systems in 2009 for \$3.9 billion.

The LPO space has already seen increased M&A activity, and we predict this trend will continue. Notable acquisitions in the LPO space include Thomson Reuters' acquisition of Pangea3 in 2010 for \$35 to \$40 million, UnitedLex's acquisition of LawScribe in 2010, and several acquisitions by Integreon, including Datum Legal in 2008, ONSIGHT3 in 2009, and an investment of \$50 million from Actis in 2010.³⁷ More recently, UnitedLex bought Crownbridge Group LLC, which is based in Atlanta and has offices in Hyderabad.³⁸ And in the biggest deal announced thus far, UK-based Cinven Partners announced its acquisition of CPA Global for \$1.45 billion in February of 2012.³⁹

The number of strategic alliances will also increase, such as the 2010 alliance between IDS Legal and H3 Consulting that provides corporate law departments and law firms with litigation and regulatory document discovery services.⁴⁰ In June of 2010, Satyam announced a partnership with Direct Channel Holdings, one of Africa's leading BPO companies.⁴¹ LPO services are just one of the many services offered by Satyam.

Conclusion

Although we are bullish on LPO, we also predict that LPO will have its share of failures and disappointments. Even today in the more mature ITO and BPO markets, about 16% of contracts result in failure and about 25% result in no changes in performance as a consequence of outsourcing.⁴² The good news is that research has clearly identified the practices that differentiate ITO and BPO outcomes. Successful ITO and BPO relationships are founded on a sound sourcing strategy, a thorough process for evaluating providers, a realistic business case that includes a balance of cost and quality objectives, strong client retained capabilities, sound contracts that specify outcomes and incent innovation, and strong relational governance. We think that many of these practices naturally apply to LPO. LPO, of course, may have some distinctive challenges. Our aim is to further research the LPO market to assess the extent to which risk mitigation and best practices from ITO and BPO apply to LPO, and to uncover unique best practices for the LPO context.

APPENDIX A: List of LPO Providers

1. Accentia Technologies	http://www.accentiatech.com/acc/	2. Lawwave.com	http://www.lawwave.com/
3. Accenture Legal	www.accenture.com	4. Lawyers Back Office	http://www.lawyersbackoffice.com/
5. Acumen Legal Services	http://www.acumenlpo.com	6. Legal Advantage	http://www.legaladvantage.net/
7. Aeren IT Solutions	www.aerenlpo.com	8. Legal Professionals India	http://www.legalprofessionals-india.com/
9. American Discovery	www.americandiscovery.com	10. Legal Source	http://www.adamsgrayson.com/AGLS.shtml
11. Aphelion	www.aphelionlegal.com	12. Legal Support Global Group	http://www.legalsupportglobal.com/
13. Axiom	www.axiomlaw.com	14. LegalEase	http://www.legaleasesolutions.com/
15. Bodhi Global	www.bodhiglobal.com	16. Legalwise	http://www.legalwise.ca/
17. Brigade	http://www.delhiprofessionals.com/	18. Legasis	http://www.legasis.co.in/
19. Capgemini	www.capgemini.com	20. Lex Global	http://www.lex-global.com/
21. CCS	http://www.ccsgruppindia.com	22. LEX Outsourcing	http://www.lexoutsourcing.com/
23. Clairvolex	www.clairvolex.com	24. Lexadigm	www.lexadigm.com
25. Clearspire	www.clearspire.com	26. Lexecute	http://www.lexecute.com/
27. Clutch	www.clutchgroup.com	28. LexHarbor	http://www.lexharbor.com/index.htm
29. Cobra Legal	www.cobralegalsolutions.com	30. Lexite Solutions	http://lexites.com/
31. Comat Technologies	http://www.comat.com/solutions_and_services/legal.html	32. LexPlosion	http://www.lexplosion.in/
33. CPA Global	www.cpaglobal.com	34. Lexquisite	http://www.lexquisite.com/consultancyhome.htm
35. Dextrasy	http://www.dextrasy.com/home/index.html	36. LexSphere	http://www.lexsphere.com/professional-services.html
37. Doar	http://www.doar.com/discovery-management/index.asp	38. Lotus Legal	http://www.lotuslegal.com/index.htm
39. EED	http://www.eed-dti.com/	40. Manthan Legal	www.manthanlegal.com
41. Evalueserve	www.evalueserve.com	42. Merrill Corporation	http://www.merrillcorp.com/
43. Exactus	http://www.exactuscorp.com	44. Mindcrest	www.mindcrest.com
45. Exigent	www.exigent-global.com	46. NewGalaxy	http://www.newgalaxy.com/overview.html
47. EXLSERVICE	www.exlservice.com	48. Novus Law	www.novuslaw.com
49. Firstsource	www.firstsource.com	50. Offshore Services to Lawyers	http://www.offshoreservicestolawyers.com/
51. Fox Mandal Information Technologies	http://www.fmit.co.in/index.html	52. Outside Counsel	http://www.outsidecounsel.net/
53. Fusion Legal Services	http://www.fusionlegalservices.com/legal_process_outsourcing.html	54. Pangea3	www.pangea3.com
55. Gausa	http://www.gausaindia.com/legal/overview.htm	56. Patni	http://www.igatepatni.com/
57. Genpact	www.genpact.com	58. Power Legal	http://www.power-legal.com/
59. GVK Bio	http://www.gvkbio.com/kpo/index.htm	60. Quattro	http://www.quattro.com/

61. HCL	www.hcl.com	62. QuisLex	www.quislex.com
63. IBM (Daksh)	www.daksh.com	64. Reverse Informatics	http://www.reverseinformatics.com/index.html
65. iBridge	http://www.ibridgellc.com/legal_services.php	66. SDD Global Solutions	www.sddglobal.com
67. iDiligence	http://www.idiligence.net/	68. SPi	http://spi-bpo.com/web/spi/home.jsp
69. IDS Legal (unit of IDS Infotech)	http://www.ids-legal.com/	70. Talwar & Talwar Consultants	http://www.ttconsultants.co.in/
71. IndiaLegal.net	http://indialegal.net/	72. TCS	www.tcs.com
73. Infocache	http://www.infocachecorp.com/	74. Technocrats Information Services	http://www.technoinfoserv.com/database.html
75. Information & Analytics	http://www.infolitics.com/	76. The Legal Outsource	http://www.thelegaloutsource.com/
77. Infosys	www.infosys.com	78. Thuriyam BPO & Knowledge Services	www.thuriyam.com
79. Innovar IP Consulting Group	http://www.innovarip.com/index.html	80. Total Attorneys	www.totalattorneys.com
81. Inrea	http://www.inrea.co.in/index.html	82. Tricom	http://www.tricominfo.com/index.asp
83. Integreon	www.integreon.com	84. Tusker Group	www.tuskergroup.com
85. Intercom India	http://www.intercomindia.com/	86. Unilaw	http://www.unilawcorp.com/
87. Intrust Global	http://www.intrustglobal.co.in/poservices.html	88. UnitedLex	www.unitedlex.com
89. Inventurus	http://www.inventurus.com	90. Variante Global	http://www.varianteglobal.com/
91. iRunway	http://www.i-runway.com/index.html	92. Verist Research	http://www.veristresearch.com/
93. Ius Juris	http://iusiuris.com/	94. Williams Lea	www.williamslea.com
95. JuriScout	http://www.juriscout.com/	96. Wipro	www.wipro.com
97. Kaizen Process Outsourcing	http://www.kaizentek.com	98. WiseAssist	http://www.wiseassist.co.in/
99. Kochar LexServe	http://www.klexserve.com/index.html	100. WNS	www.wns.com
101. kserve	http://www.kserve.com/service.htm		

APPENDIX B: GLOSSARY OF TERMS

Bundled Services: As one of ten LPO towers, bundled services refers to providers who offer services beyond LPO, including information technology outsourcing (ITO) and business process outsourcing (BPO) services.

Commercial Analysis: The assessment of risk and economic impact of alternative courses of action.

Compliance Services: As one of ten LPO towers, compliance services comprise research, analysis, advice, legal management, and/or document management services to ensure compliance with regulations and policies.

Consulting Services: As one of the ten LPO service towers, consulting services comprise high-level strategic advice, such as helping to transform the in-house legal department or designing legal policies, processes, and solutions.

Corporate Services: As one of the ten LPO service towers, corporate services comprise research, document drafting, legal analysis, advice, document management, and/or legal management services to support mergers, acquisitions, transaction agreements, or corporate financing.

Document Management: the storing, indexing, retrieving, and sharing of physical and/or electronic documents.

Drafting: the creation of binding, legal text, including enacted law like statutes, rules, and regulations; contracts (private and public); personal legal documents like wills and trusts; and public legal documents like notices and instructions. (Source: Wikipedia).

Employment Services: As one of the ten LPO service towers, employment services comprise research, document drafting, commercial analysis, legal analysis, legal action, advice, document management, and/or legal management services for employment contracts, disputes, immigration or injury.

Intellectual Property Services: As one of the ten LPO service towers, intellectual property services comprise research, commercial analysis, legal analysis, legal action, and/or document management services for patents, trademarks, domain names or other intellectual property.

Legal Action: “the action taken by a person or legal entity against another person, persons or entities with an intention to avail legal repercussions or remedies for any loss occurred or may occur, by moving a lawsuit in the court of the land.” (Source: www.legal-explanations.com).

Legal Advice: In the common law, legal advice is the giving of a formal opinion regarding the substance or procedure of the law by an officer of the court, such as solicitor or barrister. The UK's Legal Services Act 2007 includes the giving of legal advice within the definition of

“unreserved legal activities”, which means that it can be provided by any person not just an officer of the court. (Source: Wikipedia)

Legal Analysis: The examination of legal issues and questions of law, the determination of rules or laws which govern legal issues/questions, the assessment of how the law applies to the legal issues/questions, and the conclusion or summarization of results. (Source: www.essortment.com)

Legal Management: The management of resources and processes associated with a legal service.

Litigation Services: As one of the ten LPO service towers, litigation services comprise research, discovery, legal analysis, document management, and/or case management services associated with legal actions.

Non-legal Services: services that are not directly associated with a legal matter but support legal departments, such as training and office management.

Prepare Matters: The preparation of legal documents that form part of the legal process; “A matter of record is the documented proceeding in a law suit consisting of recordings by the court clerk, testimony, evidence, arguments, and rulings connected with the suit.” (Source: www.legal-explanations.com).

Property Services: As one of the ten LPO service towers, property services comprise research, document drafting, legal analysis, legal action, advice, document management, and legal management services for purchase, lease, rent, or sale of physical property.

Research: The process of identifying and retrieving information necessary to support legal decision-making and includes finding primary sources of law or authority in a given jurisdiction, searching secondary sources such as law reviews, legal dictionaries, legal treatises, and legal encyclopedias, or searching non-legal sources. (Source: Wikipedia)

Resourcing: As one of the ten LPO service towers, resourcing comprises staff augmentation of administrators, paralegals, or lawyers.

Services Procurement: As one of the ten LPO service towers, services procurement comprises research, document drafting, commercial analysis, legal analysis, advice, document management, and/or legal management services for contracts, service agreements, or outsourcing.

APPENDIX C: Authors and Sponsor

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