

BRIEFING NOTE

October 2009



Outsourcing & Offshoring – the advantages for UK Firms...

Kesh Sharma, Director of Magellan Consultancy Services outlines the future for maximising profit, service and efficiencies for both large law firms and smaller law firms.

There has been a succession of announcements recently from law firms relating to their outsourcing typing and administrative functions to overseas jurisdictions. For example, it was recently announced that Clifford Chance was moving its back office and secretarial support to its own office in India in order to carry out much of the company's administrative work. The proposal is expected to yield in excess of £9.5m in annualised savings. Similarly, Pinsent Masons recently announced a deal to offshore its bulk typing and transcription services as part of a move to change the role of its secretaries. More recently, Eversheds have announced the outsourcing of secretarial work to a provider in South Africa. However it is not only secretarial and back office services which are being outsourced. In the latest announcement it is reported that Simmons & Simmons have signed a deal to use a team of lawyers in Mumbai to deal with document review, due diligence, document production and research.

However, outsourcing to lower cost jurisdictions need not be the exclusive preserve of the large law firms. The benefits for smaller and mid-sized firms show that the proportional savings for these Firms are similar, if not greater.

It is now a commonly accepted business practice to adopt outsourcing as a means of refocusing organisations on core matters, reducing non-core operational risk, improving quality and staff morale and reducing cost. Although legal firms have been relatively slow on the uptake to date, there is a growing awareness that the legal sector *can* take advantage of outsourcing and offshoring.

A number of UK law firms have in the past tried moving back office secretarial support offshore: some have been successful whilst others have failed and it is useful to examine the reasons for this lack of success in the past to ensure that initiatives to outsource work in the future are successful: the failure of some of these outsourcing ventures shows that outsourcing and offshoring can have its complications. A number of firms have opted for 'per-minute' or 'per-line' dictation from a typing pool in a lower cost location and have under-estimated the time required to make this service work, not only for them, but also for their staff. This demonstrates that, for outsourcing, the cheapest headline cost does not necessarily equate to the cheapest overall cost or the best business model. There is however an alternative model, devised by Magellan, where dedicated offshore resources work exclusively for UK firms – this has the advantage of the offshore team getting to understand the nuances of the UK practice and how to work with the individual fee earners within the practice. Effectively, *'they are your dedicated employee resource but not employed by you'* and work from 4,000 miles away!!

Historically, technology was a significant barrier to outsourcing offshore, as the IT infrastructure required, in terms of digital dictation and bandwidth, was prohibitively expensive. However, nowadays there are a number of options for Firms by using simple remote log-in applications, e.g. 'log-me-in', or for digital dictation, an application, for which Magellan have exclusive distribution rights for the legal sector, called Yodal. Yodal converts a standard Blackberry into a high specification digital dictation machine. This innovative use of technology and new concepts, such as cloud computing, enables fee earners to be more flexible as they no longer need to be based in an office with a tethered digital dictation unit to transfer files. In real time, Yodal streams the voice file to a cloud based server, such that it can be sent instantaneously anywhere in the world for transcription.

The legal industry is a service industry, and therefore the needs and expectations of clients must be met at all times. Client service in the brave new world of legal services will be paramount as never before and it is the only true test of success. Backlogs in documentation production and unanswered phones directly affect the service a law firm provides to its clients and the perception which clients have of the firm. In addition, attracting and retaining the best staff is becoming prohibitively expensive in the UK so ensuring that UK staff are performing the most value-added tasks must be a priority of Management. Many firms resort to using expensive temporary staff to alleviate short-term peaks: however, performing the higher value work onshore and the lower value work offshore alleviates this problem.

So what are the pros and cons of the trend towards the outsourcing of legal secretarial and other back office support services?

In terms of cost savings, a law firm in the City employing ten secretaries will incur a cost to the firm of around £350,000 per annum (including all ancillary benefits, bonuses, sickness and NI, etc.) and this does not even include the cost of the space the secretaries occupy. Typically, and dependent upon the individual department, around half of this work will be copy and audio transcription. A firm can expect to save at least £ 100,000 per annum, if just 5 of these secretaries are based offshore, with the rest remaining within the Firm's offices.

The overhead savings as already mentioned go beyond the salary differential. By moving workload to another location a firm can realise additional benefits in terms of office accommodation, either by closing offices (or downsizing), or by fitting more profit generating fee earners into office-space previously used by secretaries.

Offshoring work that is administrative in nature allows legal firms to focus on higher value work in the UK. The outsourcing of some basic secretarial services, such as copy and audio typing, will allow the UK secretaries to focus on higher-value, client-facing roles, and provides them with an opportunity to fulfil their potential. This drives staff satisfaction and ensures quality staff are able to be retained in-house, and attrition is lowered.

The development and implementation of an outsourcing strategy need not be the cataclysmic, big-bang scenario that some might suggest. Instead, if planned properly it should be an evolutionary process leading to business transformation. By developing an outsourcing relationship that maximises the benefits of an offshoring strategy whilst minimising day-to-day disruption, the positive impact on the firm can be maximised. In addition, in our experience, by focusing on areas within a firm where there may already be high staff attrition, or which make excessive use of temporary resources or have unacceptable backlogs in documentation production is potentially the most effective place to begin implementing an outsourcing strategy in order to increase service delivery and with a reduction in UK headcount.

An outsourcing / offshoring arrangement will however suffer if the set-up and management time involved is ill-directed and excessive. If getting an outsourcing arrangement "right" requires too much effort or time from fee earners, then the direct cost savings will be lost, and it will lead to much in-house frustration and a lack of buy-in from key people. This potential pitfall must be avoided at all costs. Fee earners should be spending their time on their core activities, servicing clients and billing for these services.

Another potential pitfall that must be avoided is the outsourcing offshore of the wrong process. Whilst this Briefing Note has described the offshoring of secretarial services, (and Clifford Chance has

offshored back-office administrative processes), the lessons learned by the financial services sector are crucial. Large financial companies have been castigated for outsourcing offshore customer contact and this is even more crucial for the legal sector where client contact is of paramount importance. Maintaining this contact in-house via your UK based secretaries, who are freed up to do this by outsourcing the more mundane tasks, will enhance customer satisfaction.

If law firms are to undertake outsourcing projects successfully offshore and increase margins, then the planning and implementation must be done correctly from the outset. Focusing on the back-office and business support functions, and increasingly on the more commoditised legal processes, is likely to realise significant financial and intangible benefits for UK law firms in the future.

Understanding the rationale, the benefits, the approach, the timetable, and with open and honest communications within the firm at large, can ensure success. Outsourcing offshore is a realistic and cost-effective opportunity but only if the right type of work is outsourced, to the right partner, in the right location and in the right way.

www.magellancs.com

kesh.sharma@magellancs.com