

# Briefing

OUTSOURCING

ISSUE 14 | SEPTEMBER 2011

## Who works for tomorrow's firm?

### Interview

#### Outsourcing in the top 100: Farrers' story

Sue Shale, Farrer & Co's CFO, on the savings and efficiency gains the firm has made using outsourcing, and the lessons it's learned

### Feature

#### Welcome to the disappearing law firm

What does the rise of outsourcing mean to the legal leaders who manage it? And what do you need to know if you're the one running the outsourcing show?

www.

legalsupportnetwork

.co.uk



# Has outsourcing's time finally arrived?



Many law firms are either looking at outsourcing or actively doing it in an attempt to cut costs, find efficiencies and meet pressures on pricing. The challenges of outsourcing are so pressing that we've dedicated this issue to the subject – both its benefits and its challenges.

Getting law firms to talk about outsourcing, especially legal process outsourcing, is very difficult. It shouldn't

be – after all, it saves money, delivers work in a more efficient way, and it shows a firm is thinking like a business about its business. But hard it truly is – this was the hardest **Briefing** to secure interviews for, ever.

Which makes it all the sweeter that the people who spoke to us – Farrers' CFO Sue Shale and CEOs, COOs and operations heads of other top-100 law firms – confirmed what we at LSN

believe: that outsourcing will play a significant role in the near future in law firms.

Because we believe this, we're running a one-day conference for operational leaders in law firms in London on 9 November. [Find out more about this event on page 3.](#)

Thanks once again for downloading **Briefing** – I hope you find it useful.

**Rupert White, head of content and community**



04



## Interview: Sue Shale, CFO, Farrer & Co

Farrer & Co's finance chief talks to Rupert White about how top-100 law firms are turning to outsourcing to deliver strategic efficiency, significant cost savings and a better service

08

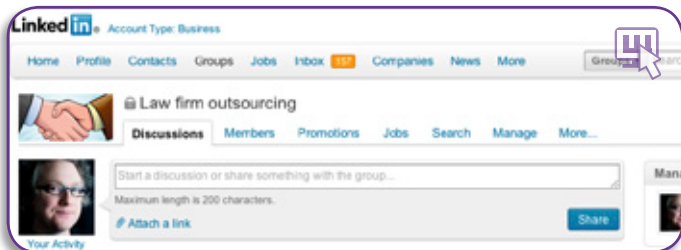


## Feature: Welcome to the disappearing law firm

Philip Hoult investigates the world of law firm outsourcing: where the value is, what the fears are and what firms of the future might look like – and finds good and bad on both sides of the story

## Share your outsourcing experiences

On our **Law firm outsourcing group** on LinkedIn



## Become a Briefing sponsor

Want to get involved in **Briefing**? Just click here – yes, right here – to find out more, or just call one of the LSN team on 0870 112 5058



Our interview with Sue Shale was transcribed by:



“If clients are doing it and realising the benefits, we would be ostriches [if we didn't look at it as well]. We are all under pricing pressure, and every firm has to consider the options.”



Sally King, COO, SNR Denton



## ONE-DAY CONFERENCE

WEDNESDAY 9 NOVEMBER 2011, LONDON

**The only event for chief operating officers  
and operational leaders in law firms**

**Featuring an exceptional panel of COOs, directors of administration  
and general managers from:**

Norton Rose • Hogan Lovells • Salans • Clifford Chance •  
Addleshaw Goddard • Linklaters • Berwin Leighton Paisner •  
Allen & Overy • Bird & Bird • CMS Cameron McKenna •  
Bevan Brittan • Latham & Watkins • New Street Solutions •  
Pannone • CB Richard Ellis • PricewaterhouseCoopers •  
McGrigors • Morrison & Foerster • Irwin Mitchell • Kinstellar •  
Freshfields Bruckhaus Deringer • on...

- **The rise and role of operational leaders in law firms**
- **The challenges operational leaders face in a changing market**
- **How operational leaders should respond**

Sponsored by:



THOMSON REUTERS

INTXAPP



Visit [legalsupportnetwork.co.uk/operationalleaders](http://legalsupportnetwork.co.uk/operationalleaders)

Call Samantha Irvine on 0870 112 5058

Email [sami@legalsupportnetwork.co.uk](mailto:sami@legalsupportnetwork.co.uk)

Or scan this code with your smartphone



## INTERVIEW

# How outsourcing is changing the face of the top 100

**Farrer & Co's chief financial officer, Sue Shale talks to Rupert White about how the top law firms are turning to outsourcing to deliver efficiency gains and cost savings**

**Many law firms are looking at how they can be more efficient and cost-effective as the legal market gets ever more competitive, but how will they do it? Is it time to stop thinking about outsourcing, and time to start doing it?**

Briefing's first interviewees – Susskind, Mayson, Hodgart – all named outsourcing as being a primary of delivering those goals. But they're consultants – how about the people who are actually doing it? How have they made it work? Why did they do it? And what have they learned?

Farrer & Co might have a slightly fusty reputation but, behind the scenes, it's an example of what some law firms of the future might look like. For one thing, it's taken a strategic but careful approach to outsourcing its back office. For another, it's diversified its client base into thirds, which means it's not under as much

pressure as some other top 100 firms that are reliant on corporate clients – clients determined to slash legal costs by painful amounts. For one more, it's going to be an alternative business structure (ABS) in just over a year.

Farrers is famous for being about private client work – it's most often famed for being the law firm of choice of a particular local head of state. But, over the years, the firm has shifted away from pure private client towards a mixed-mode client base. Farrers claims to now be one third private client, one third non-profit/third sector/education and one third corporate and commercial – a good mix to ride out the economic storm.

Running the numbers at Farrers is Sue Shale. She's Farrers' chief financial officer and the person who turned the firm into a legal disciplinary practice (LDP) when she was made partner in April 2009;

LDPs are due to be morphed into ABSs in 2012. Shale has been deeply involved in the outsourcing decisions the firm has made so far with two of the biggest players in UK law firm outsourcing: Intelligent Office and Integreon. These relationships have saved Farrers hundreds of thousands of pounds in various ways (see *box, page 6*) but, Shale says, it's not about the savings, it's about efficiency – savings grow out of that efficiency.

Farrers is operating only a tiny amount of true offshoring: out-of-hours IT helpdesk provision. Most of the firm's outsourcing is either in-house (insourcing) or smaller-scale outsourcing. Back in October 2007, the firm began outsourcing in earnest by farming out security, records/archive, post room, printing/copying, stationery, facilities (including utilities, health and safety, security, office equipment, maintenance, etc), reception,

switchboard and cleaning to Intelligent Office – an intelligent move, with the recession just around the corner. This means that Shale and her colleagues have comparatively long-term experience of outsourcing, and can also put some metrics to it.

But it all started with food...

## Keep everyone together

"One talks about law firms not outsourcing, but many, many years ago, most law firms would outsource their catering. That's where we first got a taste of it," she says. Farrers' catering staff have always remained 'inside' the firm, despite changing outsourcing companies several times, she says, which helps bake the catering operation into the overall business while making efficiencies in running it. Catering is currently provided by Restaurant Associates.

## INTERVIEW SUE SHALE cont.

This 'in-house, but out-sourced' approach helped a lot more than one might think, Shale says. When Farrers decided to outsource a lot more of the firm's back office, management was able to point to the success of the catering operation and how it remained 'inside' the business – so the firm had a positive benchmark it could cite when the difficult questions were asked. Though Shale says the firm didn't pilot any outsourcing before doing it, this toe in the water has acted as a de facto pilot when it comes to selling outsourcing to the staff.

"That did make a big difference," Shale says. "When people realised that [catering] had been there forever and a day – and not only had they been outsourced, but we're now on the third or fourth employer [for them, and] it's the same people who are here."

Internally, Shale says Farrers has tried hard to retain the idea that everyone works 'for' the same firm, regardless of their actual employer. Whether this has really worked is, of course, down to individual experience, but it's what Shale and the management team have aimed at.

"That's one of the things that I think for us was very important, [keeping] the cultural ethos of the firm. They come to all the social functions, the Christmas parties,

they play alongside our guys in the football and the rugby team – they are indistinguishable in that sense. Some firms might perhaps prefer them to be seen to be a different outfit, providing a service, but that's not how we've done it."

Shale says Farrers chooses to see the outsourced staff

reluctance not to be employed by that brand".

Just because Farrers didn't technically pilot its outsourcing doesn't mean the move wasn't thoroughly researched. Shale says getting a look at the coalface of outsourcing in other law firms is vital when looking at doing it yourself.

too and had a look, and we wrote feasibility studies [and so on]. It took quite a while; it was over a year in embryo before the TUPE transfer."

Shale says that getting the TUPE and service level agreements (SLAs) right are the most important things in outsourcing, by far. Law firms

can now add to that tick list meeting the requirements under Outcome 7.10 in the new SRA handbook.



Sue Shale, chief financial officer, Farrer & Co

**"Our firm has a well-known brand, and what we hadn't anticipated was the reluctance not to be employed by that brand."**

this way because it recognised the morale impact of not doing it. The firm took this 'one firm' position "consciously – not to be different, but our firm has a well-known brand, and people have been with us for a long time. What we hadn't anticipated [perhaps, when we started outsourcing,] was the

"We did a very in-depth review and assessment [including] seeing other firms that, in our case, Intelligent Office was working with. Intelligent Office had a number of [clients] in Scotland, and I went up to Scotland with the head of facilities and the head receptionist. Others went up

was taking a disproportionate amount of time and it was a distraction [from the business of delivering legal services].

"Our objective was to streamline the services provided; to bring them in line with our professional services, where quality is what we are after. We're very good at

### Efficiency comes first

The big question around outsourcing always seems to be 'who', when it should really be 'why'. If it's looked at as a strategic move, it can deliver potentially game-changing cost savings and a better service. Of course, it can also go wrong and deliver neither of those goals. But the need to do it and the possible benefits were staring Farrers in the face.

"There was an inordinate amount of time being spent on photocopiers, on HR issues in the post room or suchlike. It



## INTERVIEW SUE SHALE cont.

recruiting quality fee-earners and secretaries; we're just not in the field [of supporting a vast range of back office services]."

A good example of this, Shale says, is in how much better a law firm 'gets' career progression for fee-earners compared to the careers of some back office people. "The rest of us all have career development frameworks, and they didn't. We're not qualified to do that. The initial thing was to bring that area of the firm to the same level of quality [for the employees]."

Nearly four years after this tranche of outsourcing, Farrers took another step and outsourced its research and library services to Integreon. Unlike the Intelligent Office move, which didn't cut labour costs directly in the firm (it saved money in not hiring as the firm grew), the Integreon deal has delivered labour cost savings and efficiency gains. But Shale maintains that the bottom line benefits are gained from farming out work the law firm used to do that other businesses can do better.

**Scale without staff growth**

It's not been the norm for firms to see the world this way. For years, law firms have run as 'black box' environments – the firm does everything, internally. But that world is changing, fast. Shale doesn't rule out further outsourcing at Farrers, and says the firm just saw that other businesses could deliver some of the back office functions better – and cheaper –

than the firm could itself.

This was a strategic move, she says, rather than a cost-cutting one, because the savings the firm has made have occurred, in large part, over the years since the outsourcing deal was struck. Moreover, the main savings appear to have occurred through the ability to grow the firm without scaling up every part of the back office – the areas outsourced to Intelligent Office still employ the same number of staff they did in 2007 (around 20-30 people), while the firm has grown in headcount from 240 to 370 in the same period.

"Had those people not moved to Intelligent Office, we would have had 40-plus [people] in that area by now. [And now] the admin around them is being done by an outside company, which is expert in that field." That's a significant saving in labour alone. On top of that, this 10% of the workforce, Shale says, was costing proportionately far more to operate than were fee-earners, for example – "it most certainly took much more than a tenth of the time of the HR department".

The people at Farrers realised that this was throwing energy at an area of the business so 'non-core' that the obvious outcome was outsourcing. Logically extend this line of thinking and you end up at a very interesting end point, perhaps similar to the CMS Cameron McKenna model, wherein a huge amount of outsourcing appears to be taking place. But, Shale says, that doesn't need to happen

## How to save a fortune through **OUTSOURCING**

**Calculating the exact savings that Farrer & Co made through outsourcing is hard to do, but the firm has shaved hundreds of thousands of pounds off its outgoings. Here's how they did it...**

Sue Shale, Farrers' CFO, reckons the firm's research and library deal with Integreon has saved around 10% on labour costs alone, with hopefully a major reduction in informational costs in the future. "What I am looking forward to is the fact that Integreon will be dealing with our online research [contracts such as WestLaw and PLC], and if we're in [the same buying group as] CMS Cameron McKenna and Morgan Cole and Beachcroft, maybe we'll get a better deal."

Saving costs by having an outsourcer negotiate on behalf of multiple firms has paid much larger dividends through the firm's deal with Intelligent Office, which negotiates Farrers' stationery, office equipment, post elements and utilities.

According to numbers from Shale's finance people, the firm is saving far in excess of £100,000 a year in stationery, print, copy, postage, catering and utilities bills. Add to that the 10% labour costs cut in research and library, plus the HR and admin people the firm didn't need to hire as it grew because Intelligent Office carries some of the weight (around £200,000 a year saving), possible future savings in information providers' costs and other hidden costs now passed over and the year-on-year savings gained through outsourcing are potentially huge. What they could be at a firm with three to five times Farrers' revenue should make any CFO's eyes widen.

One other saving Farrers made was in the paperwork around the outsourcing: the TUPE arrangements for staff moving across to the outsourcing company, and the SLAs a law firm wants the outsourcing company to meet.

Farrers had experience in TUPE and SLAs, so it wrote its own. Farrers' senior associate David Copping, one of the people involved in doing them, reckons that advising a Farrers-sized firm on an Intelligent Office-style outsourcing arrangement from end to end would cost very roughly £20-30,000, while the TUPE transfer might cost around £5-7,000. Farrers has found some benefit in doing this beyond just savings: it's now writing SLAs for other law firms using Intelligent Office, so the firm even made a business development gain out of the move.

## INTERVIEW SUE SHALE cont.

at Farrers – at least, not yet.

“We didn’t start off by saying ‘We’ve got to cut our costs in this area’. If we felt the sort of pressure [that big corporate firms are feeling from their clients] then we would need to adapt to that. Obviously we are feeling pressure to offer some sort of innovative pricing, like all firms, but to my knowledge no client has ever [said]: ‘Can’t you do this? Can’t you send this off to someone else?’”

Would Shale outsource elements of her own department, if it came down to it? This question is often the key to determining whether a firm is outsourcing truthfully – if you wouldn’t outsource some of your own work, every mollifying phrase trotted out about how it won’t affect other departments sounds hollow. Yes, Shale says – to an extent.

“There’s no reason why a bigger firm couldn’t outsource fairly significant areas of the finance team. The obvious ones would be the suppliers’ ledger, credit control [and so on],” she says, though she adds that, in a private client-focused firm, credit control is a role so client-facing and sensitive that it might have to be kept fully in-house.

Shale says this ‘rule’ applies to any and all outsourcing, regardless of whether in fee-earning or back office: the nearer the role is to the client, the more careful you need to be with it. Reception, for example, is as important as anyone in the business by that rule. “If [reception] isn’t up to scratch, the client won’t get as far as a lawyer,” she says.

When it comes to outsourcing the fee-earning side of the business, there’s a degree of Farrers’ work that’s just inherently harder to shift to an LPO, but that doesn’t mean the firm won’t look at it, she says. It already has, in a way: Farrers farmed out its trusts admin business to an accountancy firm five years ago. The work is billed to

process outsourcing before thinking about outsourcing chunks or the whole of the support function, he said, and only once the big, strategic decisions have been made about what work the firm should do, why, and what it will cost and earn should a firm think about, say, outsourcing its IT people or HR.

But Hodgart was talking in

haul. Obviously, when you first contract together you’re going to give yourself some break clauses, in case it’s a disaster. But you go into it intending it to be for the long haul, and you set up service level agreements [accordingly].”

Part of the SLA argument is measuring success and service delivery, but in many areas of outsourcing that’s not that simple. “You have to have objectives against which they can be measured,” she explains. In specific areas such as print room or post, an outsourcer can monitor areas such as turnaround time, delivery, satisfaction and so on. But on the macro level, you need to measure how well the business is ‘getting on’ with the outsourced elements – how well the relationship as a whole is doing. Shale says Farrers runs satisfaction surveys within the firm on how well Intelligent Office is doing, and the company does the same – “because, for them, we’re the client”.

That last phrase could almost be written on a tablet of stone and planted in the middle of London’s EC postcode, so central is it to the new world of legal business. Law firms are opening up their supply chain, whether they recognise it as that or not, when they outsource. And when you see yourself as the client, you might start to understand your own clients in a new way. ●

*Interview transcribed by Voicepath – fast, secure, onshore legal transcription for over 200 clients nationwide*



## SHALE’S WAY

Outsourcing is a strategic partnership in which “you have to be very proactive. This is not a ‘pick it up one month and drop it the next’ thing – you’ve got to be in there for the long haul”.

clients as a disbursement.

“We very carefully found somebody to take that work, because it was work we didn’t want to be doing,” Shale says. “So where we can see that need, we wouldn’t baulk at [outsourcing].”

At many law firms there’s an intrinsic reluctance to outsource fee-earning work – instead they turn instinctively to the back office to cut costs and shed staffing ownership. This is a practice [Alan Hodgart frowned on when he was interviewed](#) for **Briefing** in the July 2010 issue: firms should generally turn to legal

large part about corporate commercial firms trying to be full service, while Shale’s position is that Farrers saw back office inefficiencies it could solve with outsourcing.

### Long-term commitment

In the end, whatever outsourcing relationships a firm builds, Shale says they have to be seen as long-term strategic partnerships. “You have to be very proactive. This is not a ‘pick it up one month and drop it the next’ thing – you’ve got to be in there for the long

FEATURE



# Welcome to the disappearing law firm

**Philip Hoult investigates the world of law firm outsourcing – where the value is, what the fears are and what firms of the future might look like.**

**Clue: lots of people working for law firms who don't, actually, work for law firms...**

There have been many predictions over the last decade that law firms would finally ditch their 'black box' business models, where all work is carried out inside the practice, and that a wave of outsourcing would take place, bringing law in line with other business sectors. But it was never going to be that simple.

The majority of the top 150 firms have had some form of outsourcing in place, to lesser or greater extents – typically in areas such as facilities, office cleaning or catering – for years. But outsourcing hasn't had the wide take-up predicted, nor has adoption been uniform across firm size groups.

One man who understands why this is better than most is Edge International consultant Chris Bull who, until July, was global head of business solutions at outsourcing company Integreon. "As with almost everything in the legal sector, it is a little slower than the hype suggests," he says.

When he was Osborne Clarke's chief operating officer, Bull oversaw its seven-year, £50m deal with Integreon in 2009. But, he says, a lot of the activity in legal right now is only exploratory. "People are examining options and that's not necessarily translating into lots of deals," he says. "I didn't think it was going to result in an overnight shift and it hasn't. However, it



## The disappearing law firm cont.

has resulted in an acceptance that these might be legitimate techniques to use.”

Bevan Brittan chief executive Andrew Manning, who ran a range of outsourcing businesses prior to moving into legal five years ago, is convinced about the need for outsourcing in legal – the key question, he says, is not if one should outsource as a law firm, but what you outsource and what you don't.

What is happening in the legal market is that many firms are actively considering using outsourcing far more extensively than before, and in areas of their business that would have been seen as off limits in the past.

There are lots of reasons why outsourcing has moved higher up the law firm management agenda – but the sharpest is pressure on fees. In the past, the key client demand may have been value for money, but recently there has been a shift towards a focus on the absolute cost of the legal service.

Clients now want to know what their professional advisers are doing to keep legal bills down. Some major corporate clients have even gone as far as to set up their own legal offshoring arrangements, with Rio Tinto perhaps the most high-profile example. So the pressure on law firms to get into outsourcing ever more is inexorable.

“Given the changing nature of the legal industry, we would be foolish not to take advantage of all the resources that are available to us,” says Sally King, chief operating

officer at SNR Denton.

“Clients are looking for the most cost-effective delivery of legal services. That could mean outsourcing, offshoring, nearshoring, shared services or insourcing, and it could cover anything from document production to legal research and writing.

“If clients are doing it and realising the benefits, we would be ostriches [if we didn't look at it as well]. We

South-east firm Thomas Eggar recently struck a deal with Integreon to outsource its legal library and research activities – the first time it had outsourced something it used to have complete control over.

Thomas Eggar's operations director Sarah Ball says it was accessing greater expertise that was a key factor in the decision. “As a business, we were in a quandary, wanting to invest in an area that is

service, it also never has to worry about holiday cover, and it can expand the service on an ad hoc basis to meet changing demand.

Outsourcing's ability to improve a law firm's service delivery and provide the benefits of economies of scale is likely to be crucial if it is to be used more widely in the top 150. This is mainly because many firms outside the City already have relatively

“If clients are doing it and realising the benefits, we would be ostriches [if we didn't look at it as well]. We are all under pricing pressure, and every firm has to consider the options.”

Sally King, chief operating officer, SNR Denton



are all under pricing pressure, and every firm has to consider the options.”

### Outsourcing's upsides

Another reason for the growth in outsourcing has been the recognition that it could deliver benefits beyond cost savings. A firm may do a given activity pretty well, but could it be done better by someone else? If so, does that mean that outsourcing is helping law firms deliver a better product?

important to our lawyers,” she says, “[but] on our own we couldn't have recruited the expertise that we now have available to us.

“We decided to look at what was available externally to see where we could get best advantage for our spend. From a legal research perspective, this gives us access to people that are among the best-known in their field.”

There were also efficiency advantages to the move, she says: not only does Thomas Eggar get the basic daily

low cost bases, which can make the economics of a deal more marginal and reduce management's keenness to go through the changes outsourcing brings.

“I would never say it is not for us,” says Tim Salmon, chief operating officer at UK firm McGrigors, “but the firms that have done major outsourcing deals or set up shared service offices in places like Northern Ireland, such as Cameron McKenna or Allen & Overy, are cutting a London cost base which is

## The disappearing law firm cont.

something like 30-40% higher than [one] that's primarily located outside London."

For smaller or non-London firms there's another problem: they also have to factor in the margin an outsourcing business needs to make, says Manning at Bevan Brittan. "The outsourcing company needs to make a profit. If an outsourcing business is going to save you 10% of your costs, then, in reality, they are going to have to take 25% of your costs out to make a margin."

### Growing pains

When deciding what to outsource – and what not to – management needs to ask some searching questions, questions that go to the heart of running a modern legal practice. Which parts of the business are so core that they should never be outsourced? What truly differentiates their firm from others?

Bull at Edge International urges law firm leaders to really challenge themselves when considering these two issues. If they do, they could "end up with some quite surprising answers", he says.

The old distinction between the activities of fee-earners and those of support staff – the latter broadly being thought viable for outsourcing and the former not – has been becoming greyer and greyer as the years go by. Firms have started making

'Mexican Wave' arrangements, for example, where a firm discreetly sub-contracts to another law firm either specialist legal work for which it does not have the expertise, or highly commoditised work it cannot handle profitably. And that's just tip of the legal process outsourcing wedge.

Part of this new focus is on how the various steps in the legal process, such as document review, due diligence and the like, can be split out

done by people not employed by the organisation.

"In a couple of years' time there will be a number of legitimate legal services where the question 'what do you keep internally and what do you outsource' is turned on its head," he says.

The outsourcing issue is rarely a straightforward one. When analysing their options, firms may come to realise that the benefits of outsourcing are not as easy to secure as they

managing the processes internally want to replicate exactly what we have been doing before, to a third party, and that doesn't always work.

"You need to do it in a more efficient way – the whole purpose of it is to gain efficiencies and make sure it's fit for purpose. And we do tend to 'Rolls-Royce' it a bit. So we have had a few struggles in that area."

Mitchell says the firm's attempt to farm out as much

"In a couple of years there will be legal services in which the question 'what do you keep and what do you outsource' will be turned on its head."

Chris Bull, consultant, Edge International



and outsourced or handled by teams staffed principally by paralegals.

But the coming of alternative business structures – set to be licensed by the Solicitors Regulation Authority from early 2012 – could introduce even more radical changes.

According to Bull, new investors are creating business models wherein very little work is actually 'owned' by the firm. Instead, there may just be a handful of lawyers and an online service engine or a franchise-type operation where most of the work is

had hoped, or that the cost savings come with potential downsides. For some, the answer may well still be to outsource. For others, it may be to avoid it – or at least not go all in one fell swoop.

This last is the approach Linklaters is taking. The City giant previously outsourced its accounts payable and general ledger to India in one go, which chief operating officer Alastair Mitchell describes as "quite an experience".

"It was a huge learning curve. What tends to happen is the people who have been

as possible was, on reflection, too big a move. "It's true what people say – don't outsource a problem," he says. "Wait until you've got the process very efficient and then [consider whether] ultimately to outsource it."

### Prepare to succeed

Linklaters is still looking at outsourcing as an option for support services, he says, but as a result of that early experience it's now focused on creating 'shared service' arrange-

## The disappearing law firm cont.

ments, leveraging its office in Colchester ('backshoring') and streamlining its processes as far as possible.

Of course, a more cautious two-stage approach to outsourcing may mean that you never get to the second stage after you've cleaned house – the objectives may have been realised, rendering outsourcing unnecessary.

But let's assume your firm has concluded that outsourcing offers the greatest advantages. What needs to be done to ensure the benefits of any deal are secured and the risks involved are minimised?

Setting up an outsourcing arrangement can be daunting, particularly if it is the firm's first 'proper' foray into this area. This makes it worth considering hiring a consultant to advise on the technical side and provide 'equality of arms' in negotiations with suppliers. Ball at Thomas Eggar describes the input of consultant Ann Hemming as "invaluable" in setting up its legal research outsourcing deal, for example.

Bringing in external expertise may also be beneficial if the head of the relevant internal unit does not have the experience, skill set or temperament to procure and then manage a major contract. Not all of them will.

But firms then need to be absolutely sure of the services they want to buy and at what price, Bull at Edge International says. "Be precise about how much money you are looking to save. Don't go out there touting around to providers and just wait for them to

come up with numbers. Be clear what you would view as a minimum result at best."

Management also needs to have some idea about how those savings might be achieved. "I've come across firms saying they want to achieve a 30% saving, but they haven't really reckoned with the fact that this would mean relocating functions, losing people who have been there for many years,

Achilles' heel of providers. "The factor that influences me more than any other is that I spent a year running an outsourcing business," he says. "I don't think we delivered a really good service, and I have not yet seen [an outsourcer] that does.

"I also struggle with how, in a highly regulated industry, you ensure compliance with, for example, the Solicitors Accounts Rules. In a sector

very easy to be blinded by spreadsheets, numbers and potential cost savings, and by page after page of service level agreements," he warns.

### Common issues

Everyone agrees that negotiation of the contract is a primary act in the play, and in this respect law firms are in a strong position compared

"The factor that influences me more than any other is that I spent a year running an outsourcing business. I don't think we delivered a really good service, and I have not yet seen [an outsourcer] that does."

Tim Salmon, COO, McGrigors



or having fewer people doing their jobs," he says. "This isn't a result that an outsourcing business can simply produce out of a hat."

Another important item is thorough due diligence on the supplier, particularly in relation to quality and regulatory compliance. One of the problems, some say, is that there aren't that many proven providers in the legal market yet.

According to Salmon at McGrigors, quality can be the

that has regulators breathing down your neck, you have to have confidence in the way you're doing things."

King at SNR Denton agrees that securing the requisite quality level is vital. "As a law firm, we can't afford to not have that quality," she says. "We have to have absolute confidence in the supplier."

Bull suggests that, to get comfort in this area, firms need to dig deep into the references providers give. "It's

to other organisations – most will have lawyers whose bread and butter is to advise on agreements such as these.

Some firms may also have in-house procurement expertise, although this tends to be the province of the very largest practices. This may be another area where bringing in an external consultant could prove beneficial.

One risk worth being aware of is allowing contracts to become over-engineered. With





## The disappearing law firm cont.

too many clauses, service levels and penalties, they can become difficult for the internal team to manage; or they may require so much resource to monitor that some of the hoped-for value is lost.

Another problem law firms can create for themselves is creating contracts that are excessively rigid. Mitchell at Linklaters says flexibility needs to be built in to the agreement to cope with changes to the firm's requirements in the future. He also recommends that the provider be required to improve the service continuously throughout the life of the contract.

It's perhaps understandable if the contractual stage becomes all consuming – this is, after all, a big deal in any firm's book. But it's important to keep an eye on how the talks and any subsequent deal will be received by stakeholders if word gets out – and the more talking there is, the more likely that is to happen.

Firms would therefore be wise to have a communication plan in place from the outset. The right messages will need to be sent to a range of different audiences, both internal and external. Clearly, any such plan would need to cover those employees who may be transferred across to the provider as part of any deal, and those that may lose their jobs as a result.

According to Manning at Bevan Brittan, the case can often be made that outsourcing will provide those transferred with career development opportunities that they would never enjoy

if they stayed within a small team in a law firm. For back office staff in particular, the work they do would also be viewed as core to their new employer and arguably enjoy greater respect. (See the [interview with Sue Shale on page 4 to read about Farrer & Co's recognition of that](#))

"They go from being an in-house support function to working for clients and being the frontline," Manning says. "That brings a whole different motivation. But you need to make sure you're transferring people to an organisation where they'll fit in. If they are unhappy they will start to leave, and you will get poor performance." Any redundancy programme also needs to be seen to be fair, he adds.

But the PR/communications plan also needs to address the needs of the partners, lawyers and others who will be using the new service. The first few months of any outsourcing can be a precarious time – no matter how easy the new service is, it will have a different look and feel and teething problems will crop up. The firm needs to be able to clearly explain why it's setting out on this path and what the advantages are.

In some cases it may even be necessary to consider how the news will go down with clients. For firms with public sector practices, for example, there may be special sensitivities there.

Lastly, outsourcing isn't marriage; law firms have to ensure that, if things go badly wrong – a supplier getting into financial difficulty, or consistently failing

on service delivery – there is a clear exit strategy. This involves considering whether it will be possible to turn to another supplier or bring the activity back in-house.

These are just some of the issues involved in taking on outsourcing and giving it the best chance of working out. In the end, it's the relationship between the firm and the provider that will be key.

"You have to recognise that

the outsourcing provider is a business too," Manning says. "You have to understand that they are trying to make money, so you can't squeeze everything out of it. If you want 'bells and whistles', you may have to pay for it – or they'll end up going bust."

So, developing the relationship as a mutually beneficial partnership really could be the difference between success and failure – for both of you. ●

### What you need to know about: **OUTSOURCING**

- Analyse whether the service is suitable for outsourcing or whether another approach may achieve your objectives
- Establish what you want to achieve before approaching providers
- Consider bringing in expert advice
- Do your due diligence on potential providers, particularly in relation to quality
- Build flexibility into the contract
- Develop communication plans for both internal and external audiences
- Ensure the new service is as easy to use as possible
- Monitor the contract and tackle any emerging issues early, before they are allowed to fester
- Work on the 'partnership' with the provider
- Ensure you have a viable exit strategy if things go horribly wrong