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Globalized Legal Delivery: The Convergence of Global Delivery of Legal Services

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This publication also includes the survey findings from Fronterion's *2010 Global Sourcing: A Globalized Profession and Multi-Shore Delivery of Legal Services Study*. The study analyses the globalization of delivery of outsourced legal services. The survey was conducted from 22nd February through 12th March 2010. Respondents include the most influential decision-makers at ten of the top 20 UK law firms and 17 top global legal outsourcing vendors.

The legal profession is undergoing profound and rapid change. This change is driven by a transforming business and economic environment as well as by an evolving regulatory landscape caused, most notably, by the forthcoming implementation of the Legal Services Act.

One of the most visible changes in the legal profession is the globalization of legal services delivery. As firms seek to provide more cost-effective legal services, proactively manage risk and serve a broader client base, they are expanding their global footprint. Technology and innovative new ways of working have allowed legal professionals to tap into vibrant and emerging talent pools around the world.

The nature of legal services entails unique considerations in determining the optimal location for sourcing legal and legal support functions. As globalization of legal services increases, the most often overlooked economical resources are those nearest to home. Within the United Kingdom, regions such as Northern Ireland provide a cost competitive yet high quality location strongly suited for providing legal services.

Globalized Legal Delivery: The Convergence of Global Delivery of Legal Services Study outlines critical factors and geographic considerations impacting the global delivery of legal services and features the findings of Fronterion's *2010 Global Sourcing Study*.

Setting the Stage

A changing business and legal environment sets the stage for the globalization of legal services. Heightened pressure for increased value has prompted law firms and general counsel to adopt alternative legal service delivery models such as outsourcing and offshoring.

Legal outsourcing is the transfer of in-house legal services to third-party vendors outside of the traditional legal model. Outsourcing vendors often employ innovative approaches in delivering legal services, which include increased process management and advanced technology applications. Offshoring is the outsourcing of legal and legal support services to vendors with delivery capabilities in remote, typically low-cost, jurisdictions.

Perhaps the most visible difference between legal outsourcing and traditional legal service delivery is the ability to leverage labour arbitrage, both domestically and abroad, by offshoring those services to low-wage destinations. Legal outsourcing vendors achieve labour arbitrage domestically by locating delivery centres outside of major metropolitan areas – in places such as Northern Ireland. Vendors also locate delivery centres in economically advantageous geographies abroad such as India, South Africa and the Philippines.

With the maturing of the legal outsourcing industry, law firms and general counsel are now seeking further strategic objectives in their sourcing decisions that reflect the recognised value of access to untapped talent pools, shared service centres, focused vendor expertise and outside management, both onshore and offshore.

Furthermore, law firms and general counsel have developed better capabilities to disaggregate legal services to ensure allocation of discrete tasks to outside parties which can ultimately be reintegrated into the final deliverable.

With the maturity of the market, buyers of legal outsourcing no longer make decisions based only the lowest cost location of delivery. Instead, sophisticated organisations study vendor

engagement structures and choose those which best fit their firm or organisational philosophy. Then, the most economical allocation of delivery resources across an array of geographies domestically and abroad can be taken into account.

Given the changing legal landscape and increased competitive pressures, how can law firms and general counsel identify and utilize the most talented legal people around the globe? How can the leaders of firms judge the attractiveness of the increasing number of locations available for outsourced legal services? What factors impact these decisions and what unique considerations come into play when outsourcing legal and legal support services?

Geographic Considerations

Law firm and corporate leaders have demonstrated an increased interest in outsourcing legal services, both domestically and abroad. Through offshoring, organisations leverage the capabilities and best practices of outside vendors as well as the vendors' access to scalable, low-cost legal talent. As such, outsourcing legal work requires careful consideration of prospective geographies. Core areas of consideration when outsourcing domestically or offshoring include:

- Personnel availability and their skill sets
- Financial attractiveness
- Business environment

Perhaps the most critical consideration when outsourcing professional services is the availability and skills of the local talent pool. Does the prospective destination have a deep enough talent pool to effectively and economically scale the project? Do education levels, skill sets and sector experience meet or exceed the required skills and internal expectations? Is the talent pool large

enough to ensure a steady stream of workers in the event of attrition? While talent and personnel development often require the investment of resources, excessive spending to train local staff can significantly erode the value proposition of outsourcing.

The financial attractiveness of a destination is impacted not only by local wage rates, but also by the ancillary costs of doing business in the location. Such ancillary costs include real estate, infrastructure, currency exchange rates, taxes, government initiatives and general business operating costs. In addition to the current financial viability of a particular geography, the sustainability of the financial attractiveness should also be considered when investing in a long-term relationship with a vendor.

To determine the sustainability of financial attractiveness, firms should ask themselves what are the most cost sensitive points when outsourcing? What macro-level trends are impacting the financial attractiveness of the geography? Which costs can be controlled or hedged, and which cost variations must be accepted?

In addition, the overall business environment of an outsourcing destination should receive ample consideration. How supportive of outside industry are local and national authorities? Does the business environment adequately protect foreign investors and intellectual capital? Are special economic zones, government incentives and tax provisions available? Is the location a stable and safe place to conduct business? How developed and reliable is the local infrastructure and connectivity? And what is the potential for any of these factors to change over the course of the engagement?

Geographic Considerations Unique to Outsourced Legal Services

Outsourcing legal services is fundamentally different than outsourcing other professional services. In addition to the aforementioned considerations when outsourcing, legal professionals should also consider the following unique considerations:

- Legal and ethical obligations
- Legal system congruence
- Client perception
- Access to specialised skill sets

Numerous legal and ethical obligations are inherent in outsourcing legal and legal support services. Therefore, law firms and general counsel must determine whether a given geography can satisfy those obligations, including demonstrated competence, adequate supervision, preservation of confidence and strong ethical standing.

Balancing On and Offshore Outsourcing Opportunities

While there is certainly a demand and capacity for onshore legal service delivery, firms must take a balanced approach to weighing geographic considerations.

Pros of Onshore Legal Service Delivery

- Legal and cultural congruence
- Stable currency, infrastructure and geopolitical environment
- Real-time collaboration
- Effective language capabilities
- Mitigation of legal ethical issues and discrepancies
- A highly-skilled workforce ensuring access to niche expertise

Pros of Offshore Legal Service Delivery

- Increased financial attractiveness
- Increased depth of available talent pools
- Extended hours of serviceability resulting from inverted time zones
- Access to emerging markets

Legal system congruence is another vital consideration in legal outsourcing. Are local professionals experienced or highly familiar with underlying legal issues required to perform the outsourced service? Will candidates approach legal issues in the same manner with the same level of thoroughness?

In addition, congruent systems result in a stronger, more compatible sense of ethical obligations that include the corresponding implied ethical responsibility for personnel delivering the legal and legal support services. Ensuring legal system congruence of a prospective geography significantly diminishes, but does not eliminate, training requirements of delivery personnel.

Geographies with strongly aligned legal education and training rigour, such as Northern Ireland, often significantly reduce the required training costs when outsourcing to an outside vendor due to a more rapid scaling of the learning curve.

Client perception is another important outsourcing consideration, since a firm's outsourcing arrangements are often transparent or part of integrated service offerings to end-clients. The geographic and cultural congruency of the outsourced destination will assist in the buy-in of users internally and outside the firm. Do clients perceive a given geography as a viable source of outsourced legal services? Will the outsourcing of

legal services domestically or abroad pass client muster?

Legal outsourcing is significantly more dependant on specialised skill sets than other outsourced professional services. Therefore, firms should carefully review the talent base for critical legal skills when making outsourcing decisions. Does the geography offer deep and sustainable talent pools that will allow the engagement to scale to requisite volumes? What is the quality of the local law schools? What types of sector-experienced personnel are available in the local labour market?

Onshore

Onshore legal outsourcing represents a significant opportunity for law firms and general counsel, as well as legal outsourcing vendors. Opportunities are particularly prevalent in the UK, where a transforming business and economic environment is set to be further impacted by a changing regulatory environment with the forthcoming Legal Services Act.

Given this backdrop, increasing client interest in the onshore delivery of outsourced legal services is not surprising. As discovered in the *Global Sourcing Study 2010*, 80 per cent of UK law firm respondents felt that they would be more confident in outsourced legal services delivered domestically. The primary challenge of domestic delivery cited by law firms' respondents was the possible erosion of cost savings from performing certain services onshore.

In response to increased client interest, global legal outsourcing vendors are seeking to augment their existing offshore operations with onshore delivery centres in both the UK and the United States. According to the *Global Sourcing Study 2010* findings, currently 8 per cent of outsourced

legal services are delivered domestically in the UK with a only slightly higher delivery rate in the US markets at 10 per cent.

These figures appear likely to grow, according to the *Global Sourcing Study 2010*, as 88 per cent of offshore vendors are expanding their onshore UK or US delivery capabilities over the next year or exploring ways to do so.

Onshore Engagement Structures

The roles of onshore delivery centres may include some or all of the following:

Project management and oversight

- Interfacing with clients and supervising offshore delivery teams

Final quality review

- Overseeing possible ethical and liability concerns

Complex legal matters

- Handling complex legal matters, while exporting routine, process-driven work offshore

Unique considerations

- Managing unique or extenuating circumstances (such as non-exportable intellectual property matters)

Business continuity

- Managing business continuity risk by augmenting offshore delivery operations with onshore capabilities

As a result of a number of innovative approaches, as well as a dynamic business and regulatory environment, the UK has emerged as a critical geography for legal outsourcing. According to vendor firm respondents, nearly 88 per cent of vendors are increasing their focus on the UK legal market this year.

As pay, prestige and opportunities increase, employment with onshore legal outsourcing vendors may emerge as a viable alternative career path for onshore attorneys and other legal experts.

According to the *Global Sourcing Study 2010* findings, a 65 per cent majority of vendors view onshore legal outsourcing as a viable career path for domestic lawyers. Law firms are not as bullish on employment with outsourcing vendors, with responses evenly split on whether onshore outsourcing is a positive career path or not.

Benefits of Northern Ireland

As an increasing number of law firms and corporations, as well as legal outsourcing vendors, seek domestic delivery capabilities for outsourced legal services, one of the strongest emerging outsourcing destinations in the UK is Northern Ireland.

The success of Northern Ireland as an onshore destination for the delivery of legal services is due to a combination of factors. In addition to its domestic location and highly-skilled workforce, Northern Ireland still boasts significant cost savings over major metropolitan locations, such as London, Dublin and Edinburgh. For example, in Northern Ireland, salaries for paralegals start at £13,000 per annum and for newly qualified solicitors, £18,000 per annum. Furthermore, salaries for other positions with comparable skill sets are often 50% less than those in London. The highly-skilled

and domestically educated workforce is well equipped to handle high-end legal functions with cost efficiency.

Further cost attractiveness is due to the reductions in the ancillary costs of doing business. Property costs in Northern Ireland are among the lowest in the UK. For example, prime office space in Belfast costs between £10 to £14 per square foot, with non-city centre office rents ranging from £6 to £10 per square foot.

The depth of talent in Northern Ireland is a strong geographic asset. Northern Ireland has a large untapped pool of legal talent, producing five times more graduates annually than what is required locally. Local legal education institutions include Queen's University Belfast and the University of Ulster, which are both ranked in the top 15 law schools by the 2008 Research Assessment Exercise (RAE). Law and legal related vocations are highly regarded career choices in Northern Ireland and the pipeline of legal talent is therefore secured.

Additional benefits of Northern Ireland include:

- No currency fluctuations
- Real-time collaboration opportunities
- Congruent legal and regulatory systems
- Talent pool with congruent legal skills and ethical obligations
- Positive end-client perception of domestic delivery
- Strong workforce with low attrition rates
- Culturally compatible personnel

Citigroup (Citi) is a pioneer of legal and compliance nearshoring in Northern Ireland. Known as the most globalised financial institution, Citi established its Belfast operation in 2005 with the aim of tapping into a new talent pool and lowering its overall cost base. Since then, Citi Belfast has grown steadily, and currently employs almost 800 people in areas that

support Citi's capital markets and trading businesses. These business operations include trade settlement and reconciliation, trading systems development and support, technology infrastructure design and support, and a broad range of legal and compliance functions supporting both front office and external clients.

Brian McAreavey, director of Citi Belfast said, "Northern Ireland has become a favoured location for Citi for a number of reasons including proximity to London, excellent transport links and telecommunications infrastructure. However, the key factor is the quality of the talent pool available locally."

Outlook

The continued global pressure on the traditional legal service model will prompt an increasing number of law firms and general counsel to seek the most effective and economical counsel for their legal needs.

Those who deliver outsourced legal services from onshore destinations such as Northern Ireland can provide a vital link between purely offshore delivered legal services. In addition to domestic delivery, onshore personnel can also function as project managers to effectively allocate resources to both on and offshore delivery centres. The *Globalized Legal Delivery: The Convergence of Global Delivery of Legal Services Study* confirms the importance of the domestic delivery of legal services to both buyers and sellers alike.

As outlined above, making geographic decisions when sourcing legal services entails unique considerations which should be explored and analyzed appropriately.

The most successful organisations will be those that are able to strike an effective balance of on and offshore delivery of legal services. In doing so, they will be more competitively positioned to deliver cost-effective legal services, to proactively manage risk, and to tap into vibrant and emerging talent pools around the world.