Global Strategies in the Legal Services Market: Institutional Impacts on Value Chain Dynamics

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Outline

• Why legal services?
  – Impact of institutions on global value chain dynamics

• Demand for legal services
  – Corporations vs law firms

• Supply of legal (support) services
  – LPO providers’ strategies in India
Research Methods for this Study

• Inductive theorizing via company visits and interviews
  – Global Value Chain framework incorporating TCE & RBV
  – Impact of institutions (cultural-cognitive, normative, regulatory) on the evolution of industry structure

• Interviews to date with:-
  – 4 US or English law firms
  – 20 LPO providers and law firms in India
  – Other informants (e.g. law professors, advisers)

• Other data and information sources:-
  – Industry and professional associations (Nasscom, ABA, Law Society)
  – Advisory and research firms (e.g. ValueNotes in India)
  – Law journals and magazines
Demand for Legal Services

Drivers of value chain disintegration
Make-or-buy decisions at corporations vs law firms
Enablers of global value chain disintegration

- **Information technology** (Susskind 1996, 2000, 2008)
  - Automation and self-service lower transaction and coordination costs
  - Decoupling locations of consumption and production
- **Standardization and modularization of legal tasks**
  - Lean Six Sigma
  - Commoditization of legal services!
- **Labour cost arbitrage**
  - Availability of talent in low cost locations (India has >3million graduates per year, including ~60,000 in law)
  - Hourly rates: $250-$300 for associates in the US vs $30 in India
- **In-house legal departments rather than law firms are driving offshoring: WHY?**
Corporation’s Value Chain: Legal services are support activities

- Design & Development
- Processing & Assembly
- Distribution

- IT
- Finance and Accounting
- Legal Affairs

- **Legal Affairs**
  - Compliance
  - Patent filing
  - Contract review
  - Litigation
  - Corporate governance

- **Finance & Accounting**
  - Accounts receivable / payable
  - General ledger accounting
  - Fixed asset accounting
  - Cash management
  - Client trust accounts

- **Technology Services**
  - Software application development & mgt
  - Hosting & maintenance
  - Infrastructure (technology) deployment / management

Primary activities
Corporations’ Make-or-buy Decisions: Focus on Cost Control

• Corporate legal departments face cost pressures from CEO/CFO
  – Attack on the ‘billable hour’ culture

• Controlling costs via:
  – Bringing work back in-house since the 1990s
  – Applying Lean Six Sigma in-house (e.g. Dupont, GE)
  – Convergence (i.e. use fewer law firms) (e.g. Tyco)
  – Greater use of contract lawyers
  – Captive offshoring to India (GE in 2001)
  – Offshore outsourcing to India (Rio Tinto using CPA Global in 2009)

• Research question: who lead the make-or-buy decision for corporate legal departments?
Possible routes to offshore outsourcing

**Onshore**
- Corporations
  - Law firms
    - Contract lawyers

**Offshore**
- Captive
- LPO providers
- Captive
- Indian law firms
Law Firms’ Value Chain:
Disintegration is mediated by the profession and partnership model

Knowledge / Information Management
- E-discovery
- Legal research
- Case development/documentation
- Library services
- Training & research

Consultative Advice & Representation
- Litigation
- Corporate transactions
- IP management
- Others

Client Relationship Management
- Managing client relationships
- Soliciting new clients
- Preparing collateral
- Organizing seminars
- Responding to RFPs
- Branding & marketing activities

Knowledge / Information Management (KIM)
Consultative Advice & Representation (CAR)
Client Relationship Management (CRM)
Profiting from the Value Chain: Evidence from India
Legal Process Outsourcing (LPO) in India

- Projected to be $4-6 billion with 40,000 workers by 2010
- Five types of entrants
  - Captive operations of MNCs (e.g. GE, Microsoft) and foreign law firms (e.g. Clifford Chance)
  - IT-BPO providers moving into KPO (e.g. Infosys, Wipro)
  - KPO providers (e.g. Evalueserve)
  - Pure play LPO providers (e.g. Mindcrest, Pangea3)
  - Indian law firms (e.g. FoxMandalLittle, AZB)
Three Alternative Strategies pursued by LPO Providers in India

1. Compete on scale and process efficiency
   - Infosys, Integreon, CPA Global, UnitedLex
   - TASKS: contract review, document discovery (e-discovery), compliance
   - Employees without legal training

2. Compete on climbing up the value chain
   - Bodhi Global, Legasis, QuisLex
   - TASKS: deposition summaries, case summaries in litigation support
   - Relational contracting at a distance: ‘room down the hall’ for clients
   - Hire lawyers and law graduates only

3. Compete on offering multi-disciplinary professional services
   - Evalueserve
   - TASKS: legal, accounting, and business research services for M&A deals
   - Hire a mix of professionals with qualifications (MBAs, accounting, law, etc.)
The Double Helix

Industry Structure from Vertical to Horizontal and Back? Can legal services learn from experience of other sectors?

Source: Charles Fine (1998) *Clockspeed*, p. 49
Tentative Conclusions

• Legal services value chains are disintegrating and becoming more global because of ICT, process engineering, and availability of low-cost talent

• Corporate legal departments (rather than law firms) are leading the drive to offshore
  – Legal profession and partnership model mediate make-or-buy decisions

• There are three distinctive strategies for LPO providers to profit from the legal services value chain
  – With different positioning/disintermediation in the value chain

• Generic research questions
  – Who make outsourcing decisions?
  – How do professions and partnerships mediate make-or-buy decisions?
  – What is the impact of outsourcing/offshoring on professions?