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Outsourcing the Back Office: Panacea or Pain?

The decision begins with a **BUSINESS CASE**, which may **PROVIDE** the **ANSWER** as to whether a shared service center is the **BETTER OPTION**.

BY J. MARK SANTIAGO

The times they are a changin'." Or at least that's how the old song goes and in the back offices of many law firms it is true. In the last 10 years the outsourcing tidal wave that dramatically changed the way corporate America was organized has washed into the administrative areas of law firms from San Francisco to London. Pick up a magazine or trade publication aimed at the legal community and it's hard not to find a story that details how outsourcing is the wave of the future that will fundamentally change the way firms provide services to their clients and/or partners.

But, is this so? Will law firms really

change the way they do business? What types of functions can be successfully outsourced and what are the critical processes a firm must go through to validate that outsourcing is indeed the solution to its problems? And, while we are in analysis mode, is there an alternative to outsourcing that provides many of outsourcing's benefits but in an environment that more closely aligns with a law firm's culture?

This article will explore these and other critical questions and analyses that a law firm's management should consider before committing to any outsourcing effort.

Everything Old is New

Outsourcing, no matter what some vendors and consultants say, is not new. Law firms have been outsourcing certain functions for years if not decades. It

started with the external messengers that most firms employed in the 1970s.

A few forward thinking outside messenger services that handled overflow from law firms began to place their employees on the premises. By doing so, these messenger firms provided improved service to their law firm customers and gave themselves a leg up on their competition.

By the beginning of the 1980s, law firms were not only outsourcing their external messengers but their internal ones as well. Food service workers and reprographic employees were soon outsourced to vendors who specialized in those fields.

Today, few of the Am Law 100 firms have these types of employees on their direct payrolls. Instead, most of these categories of employees are supplied to law firms by a few national vendors. These

vendors provide the law firms with qualified employees, management expertise, promotional opportunities (to the outsourced workers) and replacement workers for sick or vacationing staff at a cost that law firms generally cannot match.

What is new in law firm outsourcing is that functions that used to be considered core services have been successfully outsourced. Accounting and financial management, IT (information technology) support and development, word processing and library research have all been successfully outsourced in the last four years by Akin Gump and Orrick Herrington, among others.

Initially, cost reduction and quality improvement were the principal reasons that law firms considered outsourcing. After Sept. 11, data security and business continuity became important considerations as well.

Today, with the exception of the Managing Attorney function, there are few administrative activities that cannot be outsourced to independent vendors. All the other functions can be (and have been) outsourced. It is interesting to note that in any firm with branch offices, for all the attorneys in those branch offices, most (if not all) the administrative services are already "outsourced." The attorneys and staff in those offices already call on an off-site individual to help them with their billing, straighten out a benefits problem or correct a computer glitch.

In order to determine which functions stay and which can be outsourced, a firm needs a thorough and complete understanding of its internal processes and procedures, its technology platform and its cost structure.

Determining Factors

There are many factors that motivate a law firm to consider outsourcing. Some of

the most frequently cited include a desire on the part of management to:

- improve client and/or attorney service levels;
- reduce clerical errors within "mission critical" systems and processes;
- deploy new technology;
- improve quality/frequency of management information; and
- reduce the overall cost of providing administrative services.

Whatever the reason, an outsourcing decision begins with the preparation of the "business case." Typically, the business case will identify the function(s) to be outsourced, the current, all inclusive, cost of performing those functions, detailed process flows of how the current "as is" state functions, and the cost that a vendor has bid to outsource the functions under consideration and their proposed "to be" processes.

The first step in the development of a business case is to identify those administrative functions that are to be evaluated for outsourcing. While the list varies for most firms, they can be identified by asking the following questions:

- What are the functions within your firm that are a perennial source of complaints for quality and/or service levels?
- What are the functions within your firm that have very high turnover (75 percent or more per year) for which you are constantly recruiting staff?
- What are the functions within your firm for which, despite repeated improvement efforts, reorganizations and staff change, you still "can't get it right?"
- Are you facing a significant cash outlay associated with a software/hardware upgrade or office relocation?
- Are the salary costs within functions growing faster than the

firm's revenue?

If the same function(s) or department(s) repeatedly comes up in response to the above questions, then you have some good candidates for a business case for outsourcing.

In our experience, large clerical or administrative support areas, such as accounting department transaction processing, technology support, word processing and research functions, are all excellent candidates for outsourcing.

The Next Steps

Once you have your outsourcing targets, the true cost to your firm needs to be documented. In addition to the obvious (salary, benefits and space), prospective outsourcers should identify ancillary costs that are often overlooked and can be quite considerable.

As an example, if you were to outsource the accounting function, what impact would that have on the size of your IT support group? Your hardware and software maintenance costs? What would be the impact on the size of the HR department that will now have to hire and support fewer employees? There are hidden costs associated with every function in a law firm, and it is critical to the success of your analysis that you identify and quantify as many of them as possible.

A firm contemplating outsourcing must also document how its current processes (to be outsourced) actually work. This is important for two reasons.

First, the documentation will enable the firm to analyze current operations and design the new processing environment. Even within functions that are outsourced, a firm will probably want to keep certain critical activities internal. As an example, clients that have outsourced the accounting function have maintained analytical and billing capabilities in-house.

The second reason to document the processes to be outsourced is that the documentation will equip the firm to be better able to review and analyze a vendor's proposed processing operations to ensure that they meet all of the firm's requirements. During this documentation process, you can also begin to identify those service standards that are critical to your operations and around which future service level agreements (SLAs) will be developed. A firm needs to insure that its process flows, procedure manuals and other sources of documentation are complete and up-to-date.

Once current processing flows have been documented, and activities to be kept in-house as well as critical processing times and quality levels have been identified, you are prepared to meet with vendors and discuss your outsourcing requirements. Most firms solicit bids from one or two vendors that provide outsourcing services, and then compare the vendors' proposals in terms of service levels offered, technology deployed and proposed "to be" costs to the existing "as is" situation that was previously documented.

The resulting analysis will become the firm's business case for outsourcing. It will identify the areas to be outsourced, the costs associated with providing those services and the service to be provided. The business case can then be reviewed by firm management and an informed decision to outsource can be made.

Executing the Plan

Once a decision to outsource is made, the work can really begin.

The firm will be undertaking an enormous project management task with hundreds of critical time-sensitive and interrelated decisions. At a minimum, an outsourcing project will require a task force of in-house staff capable of devoting

a substantial amount of time to the project. In the largest law firm outsourcing example, outside consultants played a critical role in the success of the projects by supplementing the work of the firm's staff.

A final consideration for anyone considering outsourcing is how to treat the staff whose positions are being eliminated. Because outsourcing entails the movement of jobs to another location and the displacement of current employees, provision for keeping those employees (and their knowledge of processes and procedures) through the transition must be made. Consideration of employment bonuses paid both during and at the completion of the transition should also be made.

During the transition process, a firm must also explain why the decision to outsource was made, and reassure those employees who will remain that the staff members whose positions were eliminated were treated fairly and with dignity.

Are There Other Ways?

Outsourcing is a viable way for some firms to achieve their goals of improved service, reduced costs and technology upgrades. But is it the only way?

The answer to that question is, "It depends"—both on the firm and the circumstances. If you want to upgrade your service levels and remove many of the administrative burdens associated with managing large groups of administrative, technical and clerical employees, then outsourcing is the answer.

However, if your firm's objectives are to achieve significant cost savings, improve service levels but maintain control of your data and your staff, there is another way—the Shared Service Center (SSC). The SSC looks and operates much like an outsourcer. The difference is that while the positions are moved to a separate

geographic location, the staff remains employees of the firm.

SSCs (like outsourcing) began in private industry and have spread to the professional services area of the economy. They offer many of the quality and service level improvement benefits that can be provided by outsourcers, but they cannot achieve the same level of cost savings. The reason for the reduced cost savings is the necessity to provide comparable benefits levels to the SSC employees that are provided to the rest of the firm's employees. All of the other cost savings (rent, utilities, labor rates and tax incentives) are usually available through an SSC environment.

A firm does not necessarily have to decide upfront which path (outsourcing or SSC) it will take. Indeed, the development of the business case may provide the critical information about a firm's culture and risk tolerance that will enable it to make a decision. A client that I worked with actually prepared analyses of both scenarios (outsourcing and SSC) and included them in the business case to better enable management to decide.

In the future, I believe that outsourcing (third party vendors or SSC environments) of administrative tasks within law firms will continue to grow. Within five years, I would anticipate that 10 to 20 of the Am Law 100 firms will have outsourced significant portions of their administrative functions. Those firms that succeed in their efforts will have gained a significant competitive advantage. The question is, will your firm be one of them? •

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