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STRATEGIES

Shared Service Centers

Sometimes, keeping work inside is the best option.

By J. Mark Santiago

In the next five years, your law firm will face a major decision. Should you continue to provide all of your administrative support services using your own employees, in your own facilities, and with hardware and software that you own? Or should you tap into the outsourcing revolution that is reshaping American business? Or should you consider the latest iteration of this trend: Shared Service Centers.

Throughout corporate America, the multi-billion dollar outsourcing sector is rapidly replacing internal I.T., accounting, payroll and benefits departments with independent service providers (ISPs) that supply services that, until recently, were considered core functions. Why? Factors include:

1. Rapid advances in technology that introduce wave after wave of complex, expensive hardware and software.
2. Intense competition for administrative and I.T. employees in major urban centers has increased the cost of these employees and the difficulty of retaining them.
3. The explosion in the number and complexity of state and federal laws and regulations, and stringent reporting and record-keeping requirements.
4. Dramatic increases in occupancy costs in major urban centers over the last decade. (Although there has been a downward adjustment recently, the upward march is inevitable in the near future.)

These factors drive the outsourcing bandwagon in corporate America — and law firms are immune to none of them. Outsourcing can deliver numerous financial and administrative benefits, including:

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Law firm budgets rarely allow for deep cross-training.

- *Relief from administrative staff recruitment, training and retention issues.*

Law firm budgets rarely allow for deep cross-training or multiple back-ups to key positions. This means that vacations, sickness, or heavy workloads put capacity strains on administrative staffs. Outsourcing I.T., accounting, payroll and benefits functions removes this concern. The ISP is responsible for finding, training and retaining the staff. Because the ISP is also providing similar services to other firms, their staffs are larger and can often be shifted to meet peak demand or to fill in for absent employees. Additionally, because ISPs are larger organizations than the law firms they serve, they can offer a better opportunity of career advancement to prospective employees.

● *Reduced operating costs.* Outsourcers traditionally provide their services for less cost than their clients can provide for similar services. Three major factors make this possible:

1. They are usually located in secondary business markets where operating costs (occupancy, utilities and services) are substantially less than in the major urban centers. Occupancy costs in these markets might be on the order of \$3 to \$5 per square foot. Contrast that to the \$40 or more per square foot of urban areas.

2. In these secondary markets, highly skilled administrative staff (college graduates usually) take clerical positions for \$22,000 to \$25,000.

3. Subsidies for job-creation or training programs in these secondary markets are often supplied by state or local job development agencies.

● *Reduced software and hardware acquisition costs.* Outsourcers have contracts with the major software providers (called Application Service Providers or ASPs) to lease software to their clients for much less than most firms could purchase or lease the identical software for themselves. Outsourcers usually enjoy substantial discounts on their hardware purchases that few but the largest law firms can achieve.

Shared Service Centers

Previously, outsourcing in law firms has been confined to peripheral activities: mail/messengers, reproduction, and food service functions. Outsourcing significant functions such as I.T., accounting and benefits presents major hurdles.

First, the idea that non-firm personnel will have access to confidential client information troubles most managing partners. Overlay that with cultural concerns (How could anyone who has never worked in a law firm truly understand the importance of deadlines, client confidentiality or commitment to client service?) and you see the hesitation.

An effective compromise may be Shared Service Centers (SSC). Under this model, firms retain control of the administrative service functions, but relocate them to a different geographic area to take advantage of reduced occupancy, operating and staff costs — as well as leverage any available governmental assistance. The primary difference is that the staff remain employees of the law firm, under its control and culture.

Perhaps the most important benefit of SSCs over outsourcing is that it prevents mass layoffs, which can damage the morale of remaining administrative employees. Productivity can suffer if the remaining staff distrusts the security of their own positions — or believes that the firm has been unfair to the dismissed staff. This unrest can trigger increased turnover and decreased work quality. (Of course, even relocation can have similar ramifications if it de facto becomes the equivalent of a layoff.) In any case, firms contemplating either outsourcing or establishing SSCs should consider offering existing staff alternative positions with the firm, a relocation option or assistance in finding new positions with other firms.

A secondary benefit of SSCs is the retention within the firm of historical operating and processing knowledge that no outside vendor can ever replicate. This wealth of “why you did what you did” information can prove essential when you least expect it.

If an SSC is a viable choice for your firm, here’s a road map:

Phase I

● *Identify which functions will be moved to the new remote site.* Possibilities include I.T., accounting and the payroll and bene-

fits functions, research, word processing.

● *Determine how large a location you will need* and the most suitable geographic areas (labor pool, transportation and governmental incentives).

● *Perform a diagnostic process review* of your firm’s administrative functions to identify current service levels, opportunities for service enhancement and streamlining existing procedures. Review potential cost savings, economic incentives and other benefits.

● *Develop a “business case”* to bring to firm management. It should include the logic, expected savings and timeframe.

Phase II

● *Prepare a process map.* Document each administrative process that is to be moved. Map detailed flow diagrams of how documents move from initiation to process completion and what processing activities are performed along the way.

● *Analyze critical workflows,* identify process redundancies. Propose controls for weaknesses and suggest more efficient

ways to perform processes. Document revised process flows in procedures manuals, and make them an integral part of the relocation effort — the “go to” reference point at the new SSC.

● *Create construction timetables* for the new facility. Install and test hardware and software at the SSC site. Sequence functions to be transferred. Establish parallel operations for transferred functions.

Decide how long departing or transferring staff will remain at the former location. Address relocation assistance, severance and “stay” bonuses for employees who elect not to move to the new SSC but whose assistance will be critical to the transition.

Phase III

By far the most challenging phase is the actual implementation. It requires a dedicated project manager, multiple implementation teams (usually one for every function to be moved), numerous status report meetings and lots of mid-course corrections to the original plan.

Follow plans closely, and monitor your progress against the original time estimates. Variations should be identified and analyzed to determine if other tasks will be affected by delays. Document variations and delays so adjustments can be made.

Typically, the move can be completed (depending upon the size of the firm) within 12 to 18 months. **LFI**

Consider ‘stay’ bonuses for staff who do not relocate, but are critical to the transition.