

Law Firm Administration A Special Report

The (Way) Back Office

Moving select administrative jobs to a cheaper locale can save firms big money.

By J. MARK SANTIAGO

For years, law firms have turned to outside vendors for services that fall under the broad category of “things we can count”—such as reprographics, mail, messenger, and food services.

But now, firms looking to boost profit margins are grappling with ways to outsource more integral or core functions, including IT support or help desks, human resources, payroll, word processing, and accounting functions. This change—outsourcing not just things that can be counted, but functions that involve direct attorney contact—is a significant development in law firm administration.

Still, it’s not an easy sell. Despite the economic and administrative advantages, lawyers are typically reluctant to give non-firm personnel access to sensitive client and firm information.

One solution is to move the firm’s back office functions to a different—and less expensive—geographic area, netting many of the advantages of outsourcing while still keeping the work inside.

In recent years, firms have had more incentives to explore such money-saving arrangements, given the escalating costs of their basic raw materials—that is, associates.

In the last four years, the \$125,000 first-year associate base salary has gone from unheard of to commonplace to below market. This increase has rippled through the entire profession, not just the firms that pay top dollar. While law firms located in smaller cities generally do not pay their first-year associates \$125,000 (plus a bonus of around \$17,500), they have still seen their associate salary costs escalate by 40 percent or more in recent years.

At the same time, firms are facing increased demand for new, complex, and expensive hardware and software to support the practice of law. Office and firm-wide computer networks, attorney laptops, knowledge management systems, litigation support systems, client portals, e-document rooms, and practice support software are all expensive to purchase, implement, and maintain.

Recent surveys of law firm expenditures by Huron Consulting indicate that the average AmLaw 100 firm spends more than \$20,000 per attorney annually on its IT infrastructure.

Further complicating matters, competition for highly skilled IT and administrative support staff in major American cities continues to escalate. The demand for “knowledge” workers among employers has led to increased turnover rates and higher pay.

Most law firms can offer only limited promotional opportunities to nonlawyer employees and in many instances lack the ability to properly evaluate individual performance by technical employees. What criteria, for example, would an attorney use to evaluate the efficiency and cost-effectiveness of a computer network?

Overall, law firm leaders are finding that the effort required to manage many small administrative functions that are not the core competency of the firm (i.e., the practice of law) can be time-consuming and difficult.

OUT OF SIGHT

Outsourcing more administrative functions presents a possible solution. And for good reasons, outsourcing can deliver numerous financial and administrative benefits to firms that commit to it.

In general, outsourcers can provide their services at a lower cost.

Three major factors contribute to their ability to do this. First, outsourcers are usually located in secondary business markets where their operating costs (occupancy, utilities, and services) are substantially less than in the major urban centers where law firms are to be found. Occupancy costs in these markets might be on the order of \$3 to \$5 per square foot. When compared with the \$40 or more per square foot that most law firms pay, the advantage becomes apparent.

Second, in the smaller markets where the outsourcers are located, highly skilled administrative staff (college graduates

usually) take clerical positions for \$22,000 to \$25,000 a year—substantially less than the average clerical salary in a major urban center.

Finally, outsourcers can take advantage of government subsidies for job creation or training programs in secondary markets, supported by state or local job-development agencies

Also, outsourcers typically have contracts with the major software and hardware providers that allow them to lease software and hardware to their clients for much less than most law firms could purchase or lease the material themselves (even when the outsourcers' markup is included). The outsourcers' ability to buy in bulk and sell at a discount provides substantial benefits.

Outsourcing also offers law firm managers relief from administrative staff recruitment, training, and retention issues. Outsourcing the IT, accounting, payroll, and benefits functions removes this concern. The outsourcer assumes the responsibility for finding, training, and retaining the appropriate staff. Because the outsourcer also provides similar services to other firms, its staff is larger and can be shifted to meet peak demand or fill in for absent employees.

Additionally, because the outsourcer is usually a larger organization than the law firms it serves, the company can offer better career advancement opportunities to its employees.

Yet despite the seemingly overwhelming economic and administrative advantages that outsourcers have, they have made few real inroads into law firms. The question is, why?

Perhaps the biggest factor is the cultural and liability-related concerns that lawyers feel about having nonfirm personnel serving their clients.

A potential solution to these concerns lies in a shared service center environment. An SSC is a concept whereby a law firm relocates certain administrative service functions to a different geographic area to take advantage of the noted reduced occupancy, operating, and staff costs, as well as leveraging any available governmental job-creation and training assistance. The only real difference is that the staff remains the employees of the law firm.

One example is San Francisco's Orrick, Herrington & Sutcliffe, which moved its financial and technology support jobs to Wheeling, W.Va., in 2002.

SHARED HISTORY

By retaining the staff as firm employees, a number of benefits accrue to the firm that would be lost in a straight outsourcing arrangement. One of the most important considerations is morale. Opting for a shared service center means the firm can avoid mass layoffs by offering existing employees jobs in the new locale.

Another benefit to a firm is the retention of historical operating and processing knowledge that no outsourcer can ever replicate. This wealth of "why you did what you did" information can prove essential when least expected.

The decision to retain your own employees to staff the SSC will result in a reduction in the total cost savings, but the amount will still be substantial.

The major difference is in the cost of benefits provided to the employees. Because the employees in the SSC will remain

employees of the law firm, their benefits (and the cost of those benefits) will remain the same.

Yet all of the other savings, such as reduced compensation, occupancy, and operating expenses, as well as any job-creation incentives, will be realized.

But if an SSC solution is the answer for your firm, how do you go about determining which administrative functions should be moved to the center, where the center should be located, and what steps are involved in transitioning to the new environment?

The first step is identifying which functions to move. This will enable you not only to determine how large a facility you will need, but also the most suitable geographic areas (in terms of labor pool, transportation, and governmental incentives) to situate the SSC.

Firms should also use this as an opportunity to identify current service levels, opportunities for service enhancement, and ways to streamline the existing processes and procedures. An analysis is also required of the costs associated with the move and the anticipated benefits to be achieved. This will enable the firm's management to make an informed decision about moving to an SSC.

Once a firm's management has committed to an SSC, the next step is a detailed effort to document those processes to be moved. This effort includes re-engineering each process to take maximum advantage of software features and functionality.

The planning effort must consider construction timetables for the new facility, installation and testing of new hardware and software at the SSC site, sequencing the functions to be transferred, parallel operations for transferred functions, and how long the old functions staff will remain intact at its current location.

Additionally, the transition plans should address relocation assistance, severance bonuses, and "stay" bonuses for those employees who have elected not to move to the new SSC but whose assistance will be critical to any successful transition effort.

But by far the most challenging phase of the SSC move effort is the actual implementation. These efforts are long and hard. They will require dedicated staff from the law firm including a full-time project manager, multiple implementation teams (usually one for every function to be moved), many status meetings, and numerous midcourse corrections to the original implementation plan.

While the implementation effort will require a great deal of hard work on the part of everyone involved and challenge even the most seasoned of law firm administrators, it is some of the most rewarding work you will ever undertake. At the conclusion of the effort, your firm will have positioned itself to better serve your clients and partners at a substantial reduction in the cost.

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