

The emergence of Legal Outsourcing and its growth in India

This article analyzes the emergence of **LPO in India**, as well as its future growth. The outsourcing originally denoted the practice of sending work to third party companies in the U.S., it gradually expanded to include sending work abroad, a practice that eventually eclipsed domestic outsourcing. Offshore outsourcing is not a new phenomenon. Companies have been referring work to foreign third parties for many years. In the 1990s, as organizations began to focus more on cost-saving measures, they started to outsource those functions necessary to run a company but not related specifically to the core business.

The service industry now known as "Business **Process Outsourcing**" ("BPO in a relatively short period of time, global outsourcing has become a multi-billion dollar industry. Since the turn of the 21st century, growth has snowballed, going from approximately \$119 billion in 2000 to approximately \$234 billion in 2005. By the end of 2008, revenues are projected to rise to around \$310 billion. The United States is one of the biggest consumers of outsourcing services. Approximately 59% of the global trade in outsourced work originates in North America. The next closest consumer is the European Union, which consumes approximately 27% of the market. Love it or hate it, offshoring is here to stay, and the trend appears to be for more offshoring, not less.

Legal Process Offshoring ("LPO") was developed as a KPO service set for the legal industry. LPO can be traced back as far as 1995, when the law firm Bickel and Brewer first opened a satellite office to process administrative. The most modern incarnation of LPO dates back to 2001, when GE created a captive center in Gurgaon, India to absorb in-house legal work.

The usefulness of captive **LPO** centers was initially limited because it was difficult to get workflow to and from the captive centers in a timely fashion. Over the last couple of years, technological advancements have enabled service providers to make LPO more responsive—and potentially more useful—to law firms in primary markets such as the United States and United Kingdom.

Corporate captive centers are established by corporations for the benefit of their in-house legal department, and provide services only to the corporation. Companies with captive centers in India include GE, Cisco, Oracle, and DuPont.

Like corporate captive centers, law firm captive centers are designed to provide services to a single law firm, performing work exclusively for clients of the firm. Firm captives may operate under the firm's name, or may instead be operated by a subsidiary of the firm. For example, Intellevate, which has two centers in India (one in Delhi-Gurgaon and one in Bangalore), is a subsidiary of Minneapolis-based firm Schwegman, Lundberg, Woesser and Kluth.

In August 2005, the National Association of Software and Service Companies ("Nasscom") released a report estimating the market potential for LPO services outsourced from the U.S. to be at \$3–4 billion. Of this potential, the vast majority is still untapped. Indian LPO service providers have captured only 2–3% (\$60–80 million) of the market for outsourceable U.S. legal work. The Legal Process Outsourcing business is a high growth segment and is currently pegged at US\$ 3-4 billion by NASSCOM .

Forrester Research indicates that 79,000 legal jobs are expected to be outsourced to low cost countries such as India by 2015 and this number is expected to increase by 70 percent over time. The Forrester report estimates the global market for legal services to be \$250 billion with the US accounting for more than two-thirds of the market, the vast majority of which comes from U.S. companies and law firms (\$170 billion). In terms of revenue, Forrester predicts that about 65% (\$111 billion) of the U.S. legal service market could potentially be outsourced.

But is it as rosy as all that? A recent Evalueserve report begs to differ. Titled "Legal Process Outsourcing - Hype vs. Reality", the report explains that contrary to figures quoted by Nasscom and Forrester that about 15,000 professionals are employed in the LPO business in India, the LPO industry employs barely 1,300 full time lawyers as employees in India. As for the revenue generated, the report says, "Evalueserve contends that Indian companies providing such services will generate approximately \$56 million in revenue during July 2005-June 2006, \$300 million in 2010-2011, and \$960 million in 2015-2016."

The report goes on to say that the \$960 million by the year 2015 constitutes a 1.2 per cent share of the US legal industry (projected to stand at \$480 billion by then). The Evalueserve report

argues that while the pie is large enough to make it a lucrative business, it is not as rewarding as other IT streams. In fact, the report says, "Where as much as 10-12 per cent of information technology, banking, finance and insurance services may be offshored to India by 2015, the corresponding number in legal services is likely to be 1.2 per cent.

In 2007 ValueNotes predicted revenue generated from the **LPO industry in India** alone to reach \$640m by 2010. These estimates have been revised downwards substantially. Revenue is estimated at \$320m for 2008, \$370m for 2009, and expected to reach \$440m by the end of 2010. The report rightly reminds us that these figures and others quoted in the report pertain solely to the Indian LPO industry. Clearly, although India is the dominant offshore destination, others such as The Philippines and South Africa cannot be discounted, and perhaps more importantly, these figures do not reflect the substantial legal outsourcing engagements to onshore destinations both in the U.S. and U.K.

In addition to slower than originally expected revenue growth, the overall manpower employed by the **LPO** industry (again, only in reference to India) has also witnessed sluggish growth. With the wonderful benefit of hindsight, forecasts a few years ago of 32,000 employees working within the LPO industry by the end of 2010 now appear wildly optimistic. The revised prediction for 2010 stands at 15,400. The LPO and KPO industries have not been immune to the global economic downturn. However, as the global economy continues along the path to recovery, while concurrently **LPO** becomes both an increasingly desirable strategic option for major corporations and law firms, the report anticipates that there will be an upswing from the currently plateaued manpower levels towards a more consistent period of stable growth.