



Jones Day, Kirkland Send Work to India to Cut Costs (Update2)

By Cynthia Cotts and Liane Kufchock



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Aug. 21 (Bloomberg) -- Bruce Masterson, chief operating officer of Socrates Media LLC, asked his outside counsel to customize a residential lease for all 50 U.S. states in 2003. The firm's estimate: about \$400,000. He rejected that price tag and hired QuisLex, in Hyderabad, India, which did it for \$45,000.

"It was good quality," said Masterson, whose Chicago-based company publishes legal forms on the Internet. "We've been working together ever since."

Clients are pushing law firms like Jones Day and Kirkland & Ellis to send basic legal tasks to India, where lawyers tag documents and investigate takeover targets for as little as \$20 an hour. The firms are reacting to a

trend that will move about 50,000 U.S. legal jobs overseas by 2015, according to Boston-based Forrester Research Inc.

"The objective is to have only the most valuable people in London or New York, and the others in India, China or Columbus, Ohio," said Robert Profusek, co-head of the mergers and acquisitions practice at Jones Day in New York, who sends low-end work to the cheapest locations and plans to open a document center in India.

"Lawyers are service providers. We are not gods."

Companies with in-house legal departments in India include Wilmington, Delaware-based DuPont Co., San Jose, California-based Cisco Systems Inc., and New York-based Morgan Stanley, according to ValueNotes Database Pvt. The Indian legal services industry will more than quadruple to \$640 million by 2010 from \$146 million in 2006, Maharashtra, India-based ValueNotes said.

General Electric

General Electric Co. sends about \$3 million a year in routine legal work to its Indian affiliate, said Janine Dascenzo, the Fairfield, Connecticut-based company's managing counsel for legal operations.

"India has very talented lawyers," she said. "But it's a misconception that you can just send work there and it gets done. You need proper supervision and security."

Kirkland & Ellis, the seventh-largest U.S. law firm, works with offshore attorneys at the client's request, said Gregg Kirchhoefer, a senior partner in the firm's outsourcing and technology transaction practice.

"I'm not an advocate of offshoring legal services, but having worked in this area for so long, I understand the value of the model," he said. Typically, clients hire a provider and Chicago-based Kirkland helps manage the attorneys, Kirchhoefer said.

Markup Disclosure

U.S. law firms are required under ethics rules to disclose markups on what they pay foreign attorneys who aren't licensed to practice law in the U.S. Such rules don't apply to legal work performed by lawyers admitted to practice in U.S. jurisdictions.

Traditionally, law firms pay U.S. contract attorneys \$50 to \$65 per hour and bill clients up to three times the fee. For work performed by associates at the law firm, firms typically bill clients about \$250 to \$400 an hour.

Armed with the knowledge of how little law firms might pay for offshore work, corporations can use the threat of cutting them out and sending legal tasks overseas on their own to force law firms to reduce fees.

“Law firms can earn more by using labor they can mark up without disclosure,” said Stephen Gillers, professor of legal ethics at New York University School of Law in Manhattan. “But clients are knowledgeable about costs, and they want to negotiate the markup on these charges.”

Trend

Not every law firm has accepted the trend.

“Some firms are spreading fear, uncertainty and doubt,” says David Perla, co-chief executive of Pangea3 LLC, an offshore legal services company based in New York and Mumbai. “They see any competition as bad and they’ll raise any issues as to why you shouldn’t go offshore.”

Of the 10 highest-grossing U.S. law firms, seven declined to comment on outsourcing. Only one, Chicago-based Mayer, Brown, Rowe & Maw, said it doesn’t use the practice.

“I don’t think law firms are ashamed of offshoring,” Perla said. “The firms that are having success with it aren’t talking, because they view it as a competitive advantage.”

Of about 100 third-party legal services providers in India, clients give top marks to Pangea3 and New York-based Integreon Managed Solutions Inc., according to The Black Book of Outsourcing, a survey published in July by Clearwater, Florida-based Brown-Wilson Group Inc.

About 80 percent of Pangea3’s clients are corporations and 20 percent are law firms, Perla said.

‘In-House’

“Some firms are coming to us because in-house clients suggested it or pressured them,” Perla said. “Others want to come to the client first and offer a solution.”

Integreon, which provides legal services in India, the Philippines and Fargo, North Dakota, has long-term contracts with about 45 companies and 15 law firms, said CEO Liam Brown.

Law firms contribute 45 percent to offshore revenue, while corporate law departments contribute 36 percent, ValueNotes said.

Integreon recruits lawyers from second-tier law schools in India and managers from the litigation practices of firms such as New York-based Skadden, Arps, Slate, Meagher & Flom, Brown said. After training in India, managers relocate to New York or Los Angeles.

In India, legal education is based on common law, conducted in English, and requires two or three years of classes. The country produces about 80,000 law school graduates a year, according to ValueNotes, compared with about 44,000 in the U.S.

Offshore companies charge \$10 to \$25 an hour on low-end work and \$25 to \$90 an hour on advanced jobs. Junior Indian lawyers might earn as much as \$8,160 a year, according to ValueNotes, compared with the \$160,000 average salary for associates in major U.S. cities.

Janice D’souza, 26, a lawyer in Pangea3’s litigation and research department in Mumbai, says she makes three times as much as she would at an Indian law firm.

“At an Indian law firm, generally your potential is not recognized at an early stage,” D’souza said. “Here it’s talent-based. In the near future, I think I will be a department manager.”

To contact the reporters on this story: Cynthia Cotts in New York at ccotts@bloomberg.net and; Liane Kufchock in Southfield, Michigan, at lkufchock@bloomberg.net

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