

Legal Outsourcing to India Is Growing, but Still Confronts Fundamental Issues

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Outsourcing legal work to India is no longer a novelty. It's a reality.

At least that is the message of legal process outsourcing (LPO) companies participating in their first major industry summit, held last week in New York. Buoyed by Forrester Research projections that \$4 billion in legal work may head to India by 2015, a growing number of companies are angling for a piece of the action.

But despite the hoopla, industry leaders acknowledge legal outsourcing remains very much in its infancy, with fundamental choices still being made about how to market the services of Indian lawyers. Is it just about cost? Or can Indian lawyers actually do many things better than their American counterparts? Should outsourcing firms seek to wholly supplant other service providers or cooperate with them?

Cost certainly first sparks customers' interest in the Indian option, said David Perla, co-founder of New York-based Pangea3, probably the largest LPO company with 240 lawyers in three Mumbai offices. Perla, the former general counsel of job search Web site Monster, noted that legal departments in companies already outsourcing other functions to India face particular pressure to look at similar cost-saving measures.

The good experiences that some clients have had with legal outsourcing has led to many other companies being receptive to the idea, said Perla. He declined to name any clients but said they included some of the 10 largest companies in the Fortune 500.

"The resistance level has gone way down," he said.

Legal process outsourcing vendors target the more mundane but nonetheless time-intensive tasks associated with legal practice, reviewing mountains of documents for discovery rather than drafting appellate briefs. Once the province of junior associates, such work is now more commonly handled by domestic staffing agencies fielding large teams of temporary attorneys.

LPO salaries for Indian lawyers are generally well below \$10,000 a year. By comparison, a U.S. contract lawyer usually earns around \$30 an hour while associate base salaries at major firms in New York start at \$160,000 a year.

But the math is not that simple. Maintaining a group of lawyers in India imposes significant infrastructure costs on the outsourcing companies. Aside from office space and computers, the leading companies also have U.S.-trained lawyers working in both

India and the United States to supervise the work of Indian staff. They also maintain client development teams to market services to U.S. companies.

Such costs explain why outsourcing companies usually charge clients around \$30 an hour, lower than what a U.S. staffing agency would generally charge but not by the magnitude simple labor-cost arbitrage would suggest.

Price is not ultimately where Pangea3 wants to compete though. Perla is forthright in stating his belief that Pangea3 does better work.

The only lawyers who work for staffing agencies, said Perla, "are the ones who couldn't make it as real lawyers."

In his view, the temporary lawyers typically hired to perform document review on major litigation have minimal skills and zero motivation. In contrast, Pangea3 can attract the best and the brightest young lawyers in India, fluent in English and trained in English common law. Perla said clients have held "bake-offs" in which the Pangea3's Indian lawyers were asked to perform the same tasks as U.S. contract lawyers. He said the Indians soundly trounced the Americans.

Pangea3 has attracted significant backing for its ambitious vision. Two years after its 2004 founding, the company garnered a \$4.4 million investment by GlenRock Capital, the fund headed by former top private equity lawyer Lawrence G. Graev, who now serves as Pangea3's nonexecutive chairman. Last year, the company scored a \$7 million investment by venture capital firm Sequoia Capital, which also helped shepherd Yahoo, PayPal and YouTube.

ONSHORE OPTION

New York-based QuisLex, another leading LPO company, with around 130 lawyers in the southern Indian city of Hyderabad, has taken a slightly different tack. The largely self-funded company last year entered a joint venture with Strategic Legal Solutions, a leading domestic contract attorney agency. The venture, called SQ Global Solutions, markets offshore and onshore outsourcing options together.

Ram Vasudevan, the chief executive officer of Quislex and a onetime Skadden, Arps, Slate, Meagher & Flom associate, said there are some tasks for which Indian outsourcing may be appropriate but other tasks for which U.S. contract lawyers may be better suited.

"There can be parallel teams working in the U.S. and India," said Vasudevan. "There are no hard-and-fast rules."

He said U.S. clients may favor domestic contract lawyers for work involving highly restricted data, for which proximity may be important, as well as upper-level tasks like drafting documents. But he thinks Indian lawyers may appeal to clients that are seeking

stable, long-term teams to work on their matters. Compared with U.S. staffing agencies, turnover at legal outsourcing firms is quite low, he said.

Leading LPOs do offer many attractions to Indian lawyers. The top law firms in India tend to be family affairs, with few chances for advancement for those lacking the proper connections. On the other hand, LPOs offer a technology startup-like environment. At Pangea3, that even includes stock options.

The opening of the Indian legal market to foreign competition would no doubt affect the ability of outsourcing firms to recruit top candidates. Foreign firms would likely be able to pay even higher salaries and would put more direct pressure on Indian law firms to open up their top ranks as well.

Perla said a market liberalization in India would clearly affect the LPO business but he expressed confidence that Pangea3 would be in a strong position by the time that happened, if it ever did.

"They've been talking about that for years," he said.

COMPETITION FOR TALENT

A more pressing concern is that the increasing number of legal outsourcing firms is spinning up the competition for talent. As a result, many companies have turned away from the big cities like Mumbai, where real estate costs can be as high as in U.S. cities. British firm New Galaxy Partners opened an office in the smaller Indian city of Pune for that reason.

Robert Glennie, the managing director of NewGalaxy and former chief executive officer of KPMG legal arm KLegal, said opening in a smaller market was the only way to meet U.S. and European clients' expectation on costs and service.

"You can't do that in a major Indian city anymore," he said. "The labor supply is finite."

Glennie also thinks the competition has grown too great in the document review area. He said NewGalaxy is focusing more now on routine commercial law tasks, such as performing due diligence or customizing boilerplate purchase contracts.

LPO companies say that they have largely addressed clients concerns about work quality and maintaining confidentiality. Vasudevan noted that, because Quislex knew it would face questions on those issues, it had developed particularly robust processes and technology. Perla said Pangea3 has not had any complaints from dissatisfied customers.

Because of the newness of the field, Gregg Kirchhoefer, an outsourcing lawyer with Kirkland & Ellis who spoke at last week's LPO summit, said there were still no industry standards for how a mishap or mistake would be handled.

"With U.S. lawyers, you always have the rules of ethics," he said. "Going to a service provider offshore, you have to replace that gap-filler with contract."

He said some outsourcing contracts go so far as to specify that Indian lawyers' computers could only have limited access to the Internet to prevent the inadvertent disclosure of documents.

Glennie said LPO firms increasingly hold professional liability insurance policies similar to those of law firms. Moreover, many are based in the United States or Europe, so clients would not find them beyond reach in the event of a dispute.

But Lawrence Schultis, an outsourcing lawyer at Pillsbury Winthrop Shaw Pittman who also spoke at the summit, said such safeguards needed to be considered as part of the "hidden costs" of outsourcing legal work to India.

He also said he thought the cost advantages of outsourcing firms may soon be complicated by software advances that make sifting through discovery documents more like using an e-mail spam filter.

"Where we've seen successful outsourcing is not where you just do labor arbitrage," he said. "We feel a better way is to improve technology so a process works better and more efficiently."