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India's legal outsourcing industry keeps growing—although

not as fast as its boosters hoped or its detractors feared.

Who the ultimate winners will be remains unclear.

There's no single formula for success in this evolving market.

Inside the *Revolution*

By ANTHONY LIN

WHEN IT COMES TO THE RISE of India's legal process outsourcing (LPO) companies, there are few neutral observers.

To consultants and academics who regularly rail against the inefficient and hidebound legal professions in the United States and the United Kingdom, Indian LPOs are the vanguard of a long-awaited and much-needed revolution. In a new introduction to his book *The End of Lawyers?*, legal technology guru Richard Susskind calls the LPO trend "irreversible" and highlights the June 2009 decision by Anglo-Australian mining giant Rio Tinto group to outsource a large amount of work to India. Rio Tinto's actions made it "clear that there was no lofty type of legal job whose complexity and value elevated it entirely beyond market forces," Susskind writes.

The growth of Indian LPOs has also fed apocalyptic visions of a hollowed-out U.S. legal profession in which fresh law school graduates find themselves competing for scarce jobs with young Indian lawyers willing to work for less than a tenth of what an American first-year associate makes. Legal gossip blog Above the Law has been illustrating its posts on legal outsourcing with an image from the 1998 asteroid disaster movie *Deep Impact* that shows a massive tidal wave crashing down on Manhattan.

But are LPOs really poised to transform the profession? The reality, as usual, is a bit more complicated. Even many of the industry's biggest boosters these days shy away from outside projections of industry growth, acknowledging that—even several years after the idea of outsourcing legal work offshore first gained currency—LPOs still only account for a tiny fraction of global corporations' legal spending. The clamor surrounding big outsourcing deals in the legal profession frequently obscures the fact that they more often cover back-office functions like accounting, document management, and human resources than actual legal work. (The biggest outsourcing deal of

Pangea3's Sanjay Kamrani: Very few LPOs are "pure-play," focusing on work that would otherwise be done by U.S. lawyers.



PHOTOGRAPH BY ASHAY KSHIRSAGAR



the year, Integreon Managed Solutions Private Limited's contract with the U.K.'s CMS Cameron McKenna, doesn't involve billable work at all.)

Of course, such confusion highlights the fact that what is commonly seen as a unified LPO industry actually takes in a wide range of business models. The one most familiar to American lawyers—the use of cheaper Indian lawyers to handle document review and other rote litigation tasks—is not necessarily the most widespread or fastest-growing. Some big industry names regard themselves as “pure-plays” committed to that model, but others embrace a more comprehensive model, blurring the lines between LPOs and other business service providers. And while many LPOs remain focused on work from the U.S., a growing number—often backed by major Indian law firms—are looking at their own home market, raising prospects that the industry's growth is transforming India's legal profession far more than America's.

ALMOST FROM ITS 2004 FOUNDING, Pangea3 LLC has been the public face in Ameri-

ca of the LPO industry, thanks in part to the tireless promotional efforts of its co-CEOs, David Perla in New York and Sanjay Kamrani in Mumbai. Those efforts have paid off not just in publicity but in steady growth. Strolling through the company's characteristically ultramodern main office in the Andheri section of Mumbai, Kamrani gestures toward the ceiling. “We're now acquiring the floor above us,” he says, “so we'll have another 180 seats upstairs, taking us to over 400 seats in Mumbai.” With a simultaneous expansion in Delhi, Pangea3 has gone from 350 lawyers at the beginning of the year to 450 lawyers at press time, and hopes to double that number within the next year.

Like most companies in the industry, Pangea3 is privately held and does not disclose its financial results. The lack of such numbers has always made it difficult to gauge the industry's true scale and test the accuracy of billion-dollar projections. But Kamrani asserts that his company, at least, has been profitable for years and that business is booming.

Pangea3 sees itself as a pure-play LPO, focusing on the sort of work that, if not outsourced, would be handled by real lawyers—junior law firm associates or in-house staff attorneys. Such tasks include document review for litigation and due diligence for corporate

transactions. Of the scores of companies that tout themselves as LPOs, Kamrani says that only a small handful, mainly Quislex, Mindcrest, Inc., and UnitedLex Corporation, take a similar approach.

Ram Vasudevan, the founder and CEO of Quislex, whose Indian operation in Hyderabad employs 320 lawyers, likewise sees the emergence of an elite group of LPOs focused on the top end of outsourced legal work. Though that top end is still the grunt work of the U.S. profession, Vasudevan points out that any legal assignment still requires a higher service level than most other outsourced work. Lower cost, he says, is a given; top LPOs must sell themselves to still-skeptical customers on efficiency, security, technology, and, above all, quality.

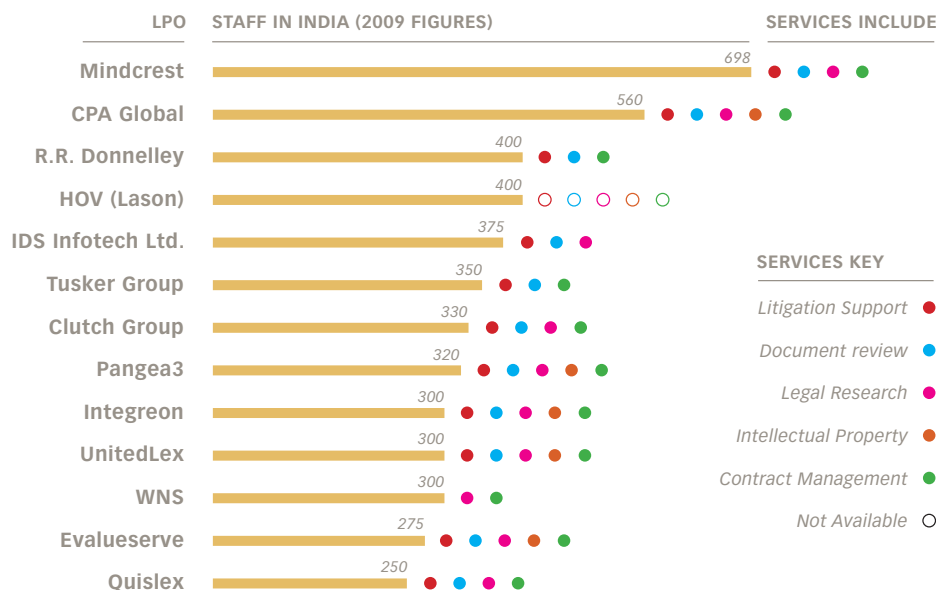
For that reason, he says, the industry's growth rates, while steady, have been more restrained than the hype would suggest. “The curve has been slower than, say, in [information technology outsourcing],” says Vasudevan. “We are looking more at a professional services model of growth.” Over the past few years, he points out, the largest LPOs have grown to count hundreds of lawyers on their staff, but the staffs of the biggest IT and back-office business process outsourcing operators number in the tens of thousands. Now that they are entering the LPO business, India's BPO giants are confronting that lower growth rate too.

Growth projections for the Indian LPO industry have shifted in the face of reality. Two years ago, Forrester Research, Inc., estimated that the amount of legal work outsourced to India would reach \$4 billion by 2015. But the most widely touted figure now is from Indian consultancy ValueNotes Database Private Limited, which predicts \$1.1 billion in LPO revenue by 2014. ValueNotes pegs 2010 LPO revenue at \$440 million. In comparison, according to Harvard Law School's Program on the Legal Profession, U.S. private law practice, not including in-house lawyers, likely had over \$230 billion in revenue in 2007; The Am Law 200 alone grossed \$81.9 billion in 2009.

Pangea3's Kamrani, former general counsel for back-office outsourcing giant Office-Tiger LLC, says that legal work remains very different from other outsourced functions:

CRITICAL MASS

In late 2009 Indian consulting firm ValueNotes Database Private Limited surveyed more than 100 Indian companies offering legal outsourcing services about their capabilities and size. The study found that most LPOs remain fairly small: Two-thirds of the businesses surveyed had fewer than 50 legal process outsourcing employees. The largest 12 LPOs are listed here.



CLOSE TO HOME

Some legal process outsourcing companies with Indian operations have made modest inroads in the United States, serving U.S. companies who aren't willing to send their legal work offshore. Integreon Managed Solutions, Inc., for example, has approximately 300 lawyers and paralegals in five U.S. cities handling work for U.S. clients or foreign companies with U.S. matters. Pangea3 LLC has 20 attorneys in the U.S.; Novus Law says its American lawyers can review an average of 1.1 million pages per month of work product, although it declined to give a head count.

But what distinguishes the American arms of these LPOs from the U.S. contract or temp attorney agencies that also provide lawyers for document review, e-discovery, and due diligence for corporations or law firms? The Indian LPOs insist that there is a difference, pointing to their more formal organization and longer-serving lawyers, sometimes—as at Novus Law—with equity in the company.

“With an LPO you get more managed and structured service, with team leaders and subject managers to oversee the process,” says Matthew Banks, Integreon’s senior vice president of legal services. “It goes to the heart of what an LPO is.” —VICTOR LI

“Large BPOs are used to selling a hundred [full-time equivalents] at a time. I don’t know that you could sell a hundred FTEs to an in-house legal department for lawyer work.”

One big difference between legal and other outsourced business functions is the relative autonomy of the in-house lawyers who make the purchasing decisions, Kamlani notes. “Procurement can mandate that, from now on, you have to buy all your paper from So-and-So, but the GC is not going to demand that his [litigation chief] only use these guys for document review,” he says.

Many in-house lawyers continue to stick with their preferred law firms or a mix of firms and temporary staffing agencies employing U.S.-based contract lawyers. Indeed, despite the rise of LPOs, such American contract lawyers still handle far more document reviews than their counterparts in India. “In terms of size, you really can’t compare that industry to ours,” acknowledges Kamlani. “They’re still much bigger.” Estimates of the U.S. legal temp industry’s size have generally hovered around \$1.5 billion.

But its quality is a very different matter, Kamlani insists. Indeed, contempt for contract lawyers is virtually in the DNA of Pangea3, which recruits from India’s top law schools. Kamlani and other Pangea3 executives can be relied upon to fulminate against the stereotypical “unemployed actors” with law degrees who they imagine work as temp attorneys. “That industry is people who are transient, don’t love their job, and are not really vested in it,” says Kamlani. “There’s nothing good about using a temp staffing agency [in the U.S.], except that they’re there.”

Yet being there still counts for many clients, a fact that has led many other LPOs to

deemphasize India and embrace the U.S. or European contract lawyer business. United Lex is pursuing a more “multishore” strategy than many of its competitors, with only two-thirds of its approximately 550 lawyers in India and most of the rest in the U.S. Chief operating officer Anup Bhasin says that clients—or even the U.S. government, when it comes to the defense and aerospace industries—may deem certain documents or contracts too sensitive to leave American shores. The LPO’s U.S.-based lawyers often work with clients on the data collection process as well as document review.

If LPOs stray from India to the U.S., are they really so different from stateside temp lawyer agencies? Leah Cooper of CPA Global Limited thinks the difference is the level of engagement with clients. American contract lawyers are often hired and supervised by outside law firms. By contrast, Cooper speaks of CPA acting as “an extension of the corporate legal department.” Cooper was the Rio Tinto plc managing attorney in London who guided her company’s selection of CPA for its much-celebrated LPO contract. Her subsequent departure from Rio Tinto in February to lead CPA’s LPO group herself drew more attention still.

Cooper believes that well-managed LPOs will be uniquely placed to develop close relations with corporate clients, offering them “bespoke solutions,” based on a deep understanding of that particular client’s needs. For instance, handling all of a client’s contracts or legal research—as CPA does for Rio Tinto—would give an LPO a big enough picture to suggest models and effective practices on a global scale, she says.

Of course, such relationships might come

at the expense of the providers to whom clients more typically look for “bespoke solutions”—law firms.

“A client could have 25 different law firms working for them while we handle all of their document review,” says Cooper, “so we’re the hub of the wheel. If we’re managing more cases than your outside counsel, we’ll have access to more information, and we can aggregate that and share that knowledge on.”

LPOs have long seen themselves in opposition to firms and their high hourly rates. But not everyone in the business is optimistic about the prospects of displacing law firms. Vasudevan thinks the future of the industry lies in cooperating, not competing, with firms. “We’re starting to get a lot of work from firms,” he says. (He declined to name them, citing confidentiality agreements.) “For the more substantive work, the corporations really rely on the firms, and the law firms tend to go with the best-of-breed. For litigation support, you really need to win the respect of firms.”

While they’re waiting for that respect, some LPOs are winning other kinds of business from law firms. In May, Integreon announced that it had signed what it claimed was the largest legal outsourcing deal ever, with a value of \$852 million over the next ten years. The client was the U.K.’s CMS Cameron McKenna. The deal illustrates the somewhat different approach taken by Integreon. Like Pangea3 and Quislex, it can handle document review and other litigation support tasks. But its deal with CMS Cameron McKenna does not involve any work traditionally handled by lawyers or paralegals. Instead, Integreon will take on many of the law firm’s nonbillable support functions, including accounting, marketing, human resources, and information technology.

Integreon has previously signed similar agreements for nonlegal work with other law firms, including Clifford Chance and DLA Piper. Matthew Banks, the company’s senior vice president of legal services, says that Integreon targets the legal industry more broadly. “We call it the ‘middle office,’ ” says





Banks, distinguishing his company's work for firms from back-office functions targeted by larger BPOs. Competitors like Vasudevan say that such an approach would distract from his company's focus on refining its legal service processes and recruiting and training top-quality lawyers. "The BPO market is already [doing that work]," he says.

But Banks insists there are useful linkages. "LPO and middle-office solutions do share a common element," he says. "Both are knowledge-based support systems which rely on a deep understanding of the client, and which enable them to focus on their core business activities."

Though Banks says Integreon draws a sharp line between its LPO and middle-office offerings, no doubt a degree of overlap exists in the LPO industry at large. In December 2009, Indian research firm Evalueserve, Ltd., estimated there were around 5,200 LPO professionals, but that only about half were handling associate-level tasks. The rest were document management workers, with functions like word processing or scanning, or had paralegal functions.

PURE-PLAY COMPANIES and their more diversified rivals no longer have the LPO playing field to themselves. Big companies such as General Electric Company have their own "captive" LPO units, as do law firms like former Integreon client Clifford Chance, which has a facility outside Delhi. But it is the forays into the industry by leading Indian law firms like AZB & Partners and FoxMandal Little that have caused the biggest stir.

AZB & Partners's LPO venture, Bodhi Global Services (Private) Ltd., launched in 2007 with backing from the Patni family, owners of one of India's largest computer companies. (Family member Arihant Patni serves as CEO.) Bodhi is based in Pune, a city about five hours south of AZB's main offices in Mumbai, but its connection to AZB, one of India's top corporate law firms, is proudly touted and eagerly capitalized upon. "There are major multinationals that AZB does work

for in India," says Patni. "We've actually had the opportunity to work for them through AZB's introduction. It's actually a very effective route, a lot better than knocking on doors cold, which we also do here from Pune."

But unlike with, say, Integreon or Pangea3, the work is not strictly foreign in origin. Bodhi provides support to AZB on many major domestic matters. "It depends on what time frame you're looking at," says Patni, "but I'd say it's about fifty-fifty between Indian and non-Indian work, and out of the Indian portion, a substantial amount is coming through AZB."

Patni describes the Indian-law tasks Bodhi handles as "grunt work" that would otherwise be handled by interns or perhaps not at all. The company is careful not to cross the line into work that should be handled by Indian lawyers, he says. Recently, Bodhi worked on a large domestic acquisition in which it was asked to abstract covenants from various license agreements. "We pulled out the factual information, put it in a template, combined all the data, and put it across," says Patni. "We didn't advise on what the red flags were or what covenants they should be looking at. That's something AZB has to do or the in-house counsel has to decide."

But he allows that other LPOs may not follow similar rules. And the advantages LPOs stress to their U.S. customers—large-scale, cutting-edge technology, close supervision, and the ability to attract top-quality Indian law graduates—would seem an even more compelling proposition in the Indian legal market, where most firms are small and the handful of large firms are limited by law to 20 partners each. Pangea3, a U.S. company, would be barred from having anything to do with Indian law, says Kamalani. But he can see the appeal of the Indian market to other LPOs. "It's absolutely something we would consider, if we could," he says.

Not everyone is so sanguine about LPOs operating in the domestic market. "It's a big problem because it's completely unregulated," says Cyril Shroff, the dean of India's corporate lawyers and head of its largest and most well-known firm, Amarchand & Mangaldas & Suresh A. Shroff & Co. And he is convinced

that most LPOs are already regularly crossing lines. "These LPOs are providing legal services without being subject to bar council rules," he says. "Many are keeping a low profile, but it is going to become a big issue as they venture into core legal areas."

Shroff's great rival, AZB senior partner Zia Mody, understandably sees things differently. For one thing, she notes that AZB stands behind the quality of Bodhi's work. "We don't formally sign off on their work, but morally we do," she says. But she also sees possible benefits from LPOs shaking up the lower end of the Indian law firm market. "It won't take away work from AZB," says Mody. "It could take away from the people who churn work out. The dust will settle where the client is most comfortable."

Of course, that is the continuing uncertainty for the LPO industry generally. Though the amount of legal work outsourced abroad has grown, the imagined tsunami has yet to come.

"Law firms and lawyers are just very conservative," says Vasudevan. Kamalani agrees: "People are still saying, 'I'll take these on-site guys and pay more for that,'" he says. CPA's Cooper notes a striking bifurcation in the potential customer base. "There are these really sophisticated users of LPO," she says, "but there are still a lot of people who aren't there at all."

Cooper has absolute faith that this skepticism is ebbing—and that she has made the right career decision. Amid all the noise and debate, she thinks the basic logic of offshore outsourcing will inevitably prevail.

"Once you get a taste of the cost savings, how could anyone go back?" she wonders.

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