

How Centers of Excellence Are Accelerating Efficiencies Across the Legal Landscape



Introduction

Across today's legal ecosystem, a set of complex forces has pushed law firms to strategically reexamine and transform operational support in a way that places a greater emphasis and value on corporate client-facing activities. Cost pressures, new competitors and emerging technology, and evolving workforce dynamics are influencing an industry that is now embracing change in different ways.

As the pace of change accelerates, organizations need to acutely define their core competencies and align business strategies, talent and resources to truly differentiate in a hypercompetitive market. For instance, general counsel (GCs) are finding great success in hiring legal operations leaders to implement and manage strategic initiatives to drive change and efficiency across structures, practice areas, technology and staffing. By transitioning work that had previously fallen on the shoulders of the GC to [legal operations professionals](#), GCs are able to focus on core competencies, act as business advisors to the corporate board and provide even greater counsel to their organizations.

Similarly, law firms are increasingly using business professionals to lead and sponsor initiatives and provide diversity of perspective. By acknowledging that there are benefits to bringing in accomplished business professionals from other industries to transform processes and implement technologies, firms are able to free up attorneys to focus more on clients.¹ Furthermore, given the rise in alternatives to outside counsel, law firms must demonstrate differentiation and provide **centers of excellence (CoEs)** beyond what corporate law departments can deliver in-house. Shifting corporate client demands are challenging law firms to further define their core competency – the business of law – and leverage operational experts and CoEs to deliver their services in the most efficient and cost-effective way possible.

Forward-thinking law firms and law departments are now looking beyond internal staffing and cost-reduction strategies and are pursuing strategic opportunities utilizing outside experts to manage those services that fall outside of their core capabilities. This enables organizations to focus on what matters most: their clients.

CENTERS OF EXCELLENCE

Centers of excellence are teams of experts that provide leadership, research, insight and best practices for a business focus area. A CoE delivers enhanced service at lower costs than traditional business models, and offers a scalable and nimble approach to changing market and business conditions.

Operational Efficiency is a Top Priority

Across the legal vertical, these are the forces that have and will continue to instigate a long-term drive towards change:

- **Pricing + cost pressures.** As law departments face mounting pressure to trim costs and mitigate risk, work previously assigned to law firms is transitioning back in house. This has resulted in law departments' outside counsel spending decreasing, while inside spending has gone up. In fact, 52% of in-house teams added law department staff in 2018, compared to 44% in the prior year, according to our latest [HBR Law Department Survey](#).² For in-house teams, this presents a new challenge: to ensure in-house attorneys make the most efficient use of their time on higher value-add and complex work rather than lower value administrative tasks. For law firms, the pressure is on to provide more competitive or alternative fee arrangements to demonstrate and justify the value of their services to corporate clients. In pursuit of efficiency, leading firms are now evolving their service delivery models to capture the complexity of a matter and identify lower-tiered work. This allows firms to ensure staffing strategies align with the value of matters.
- **Emerging competitors.** Law firms face a radically different competitive landscape than they did even three years ago. With law departments taking steps to minimize outside counsel spending, one of law firms' most consistent revenue sources is now fraught with uncertainty. At the same time, the New Law era has given rise to a host of third-party legal service providers, technology and software vendors. Major players from the likes of Axiom to Watson are infiltrating law firm territory, offering specialized expertise in areas like discovery, M&A and contracts — not to mention more flexible and appealing work arrangements for practicing attorneys.³ Another potential threat to law firms is the Big Four — the world's largest public accounting and auditing firms, which *The American Lawyer* described in a November 2018 feature story as an “existential threat” to law firms, and questioned whether they may be planning “an invasion” of the U.S. legal market.⁴ And as corporate law departments continue to embrace and adopt alternative service providers and technology, pressure will continue to increase for outside counsel.
- **The war for talent.** Acute competition across the legal vertical is also responsible for upending many organizations' compensation and recruitment traditions. Although law school enrollment finally rose in 2018,⁵ the decade of flat enrollment has created increased competition for talent. In addition, more law firm partners are nearing retirement. The result is that organizations face multiple questions about how to recruit, develop, compensate, retain and succession plan for their top performers, and competition for talent will likely increase in the future. Gone are the days where law firms are strictly competing with corporate law departments for talent pools. The new reality includes law firms, law departments, legal process outsourcing (LPO) providers, the “Big Four” and technology companies all competing for legal talent. Taking a page from Silicon Valley, many organizations are pursuing lawyers with niche expertise and established client relationships to elevate their reputation and revenue with the hopes of simultaneously increasing talent retention.⁶

In 2018, more U.S.-based partners left the partnerships of the nation's top 100 law firms than in any year since 2013,⁷ despite historically being deemed taboo. Faced with budget constraints and hiring freezes, law departments are shaking up their talent strategies, creating new roles for legal operations professionals and expanding their management responsibilities.⁸ Law departments are also increasingly focused on diversity – both in terms of internal staffing and outside counsel staffing requirements. This is a trend that is anticipated to greatly influence law firm staffing models, and firms that are not focusing on diversity now will be at risk of losing client business in the future.

No law firm or law department is immune to the market's evolution. Even the most elite firms, whose profitability has isolated them from certain competitive pressures in the past, are now exploring alternative approaches to established business functions. Leaders — even those at organizations that have been insulated from the impact of market change — acknowledge that if they do not pursue operational efficiencies now, they run the risk of losing market share in the future.

Opportunities in Centralizing, Offshoring + Outsourcing

For law firms, back-office centralization, which has been proven to optimize costs by 5-15%, has become a common practice for organizations looking to streamline operations and cut costs. Centralization often comes down to two options: offshoring or establishing roots in new, low-cost domestic markets.⁹ Large global law firms have fully embraced offshoring, particularly in Europe. Organizations including Baker McKenzie, Latham & Watkins and Linklaters have opened shared services hubs abroad to manage everything from IT, marketing and HR to finance and business development.

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In 2016, United Kingdom and Washington, D.C.-based Hogan Lovells announced plans to establish a global business center in Louisville, Kentucky. The service center includes traditional service occupations, such as finance and accounting personnel, human resources and information technology professionals, along with staff attorneys and paralegals. The center is being integrated with another low-cost center that the firm has in Johannesburg, South Africa, enabling around-the-clock coverage for many of its services. Scott Green, Hogan Lovells' Global Chief Operating and Financial Officer stated that "...this approach to how we deliver our business services is innovative, pragmatic and strategically sensible in light of market and client expectations."¹⁰ Many of Hogan Lovells' peers have

followed similar paths, including WilmerHale, Littler and White & Case, saving up to 30% on labor and 40% on real estate expenses as a result.⁹

In 2018, Baker McKenzie announced plans to add a legal services center in Tampa, “complementing existing back-office operations in Northern Ireland and the Philippines,” according to *The American Lawyer*.¹¹ The firm expects to have 300 employees on-site by the time the center is fully operational in 2020.

For corporate law departments, outsourcing has long been viewed as a viable way to free up attorneys’ time and minimize costs. As law departments mature and bring on legal operations professionals, many realize they no longer need to handle every aspect of contract review, research or document management in house. HBR’s 2018 Law Department Survey indicates a shrinking portion of work going to law firms and an increasing amount being brought in-house or to non-law firm providers. Between 2015 and 2018, law firms’ share of law departments’ spend went from 55% to 49%, while the in-house share increased from 43% to 44% and the non-law firm share from 2% to 6% in the same period.¹²

Over the last decade, shared services models and process outsourcing have become standards in many other industries for streamlining operational activities and augmenting employee productivity. In healthcare, for instance, in the face of tight margins, higher expectations for patient care and complex regulatory compliance, healthcare organizations have outsourced functions ranging from complex claims processing and research to IT management.

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Leaders that have tested these strategies are quickly realizing the benefit of working with external service providers and experts. Leading organizations are now building upon this approach, examining their operations, and identifying alternative service delivery models to amplify efficiency, increase cost-savings benefits, and align and utilize resources more effectively.

Summary

For the foreseeable future, the only constant in the legal vertical to bet on is change — and all organizations should be prepared.

By empowering leaders to streamline or outsource administrative functions, innovative organizations are benefiting from increased efficiencies and agility and are better equipped to handle rapidly changing business and client environments. By reducing the number of service providers and leveraging technology-enabled solutions, organizations are achieving optimal buying power and reducing third-party risk. With operational roadblocks cleared, organizations are able to focus their talent on creating additional opportunities to engage, develop and retain clients.

As the pace of change accelerates across the industry, leaders are finding that by making their back office someone else's front office, they are able to better align business strategies, talent and resources to achieve a competitive advantage. Those organizations that are taking immediate action are benefiting from transformation and controlling their future destiny by setting a new bar for the industry.

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LAW FIRM OPPORTUNITIES FOR CENTERS OF EXCELLENCE

Opportunity (Implementation)	Rationale	Benefits
Procurement (Easy-Medium)	<p>Managing third-party supplier relationships is complex, requiring a specific skill set that typically does not reside in most law firms.</p> <p>In many firms, procurement is a cost center versus a profit center that is fully aligned with the firm's overall objectives. Leading firms are looking to managed services providers to unlock this untapped value.</p>	<ul style="list-style-type: none"> • Guaranteed ROI and service level monitoring • Agile staffing model and departmental flexibility • Access to competitive market intelligence and subject matter experts • Third-party risk mitigation and operational efficiencies
Research + Information Services (Easy-Medium)	<p>The law firm library presents tremendous opportunities and challenges. Highly targeted information is increasingly required by firms to compete for new business, as well as retain and grow existing clients. Modern library services integrate with competitive intelligence, marketing and business development initiatives, and support specialized practice groups and individual attorneys. Traditional libraries' budgets are under siege and have limited capacity to meet evolving internal and external stakeholder demands.</p>	<ul style="list-style-type: none"> • Holistic and harmonized approach to research services • Coordinated and fully integrated service delivery • Increases efficiencies and utilization of the firm's information resources • Cost reduction and substantial purchasing improvements • Minimizes transactional responsibilities for the library
IT (Medium)	<p>Regardless of size, most firms face the same technology demands, regulatory pressure and client service expectations. As competition intensifies, law firms are challenged to keep pace with the evolution of technology, while addressing end users' and clients' expanding IT needs.</p> <p>In the battle to balance service offerings with budget, staff and skillset, leading firms are partnering with third-party providers to achieve optimal balance around IT cost, risk, security and service levels.</p>	<ul style="list-style-type: none"> • Increases efficiencies and service level while mitigating risk • Reduces and/or eliminates major capital investments • Increases responsiveness, service stability, reliability and recoverability • Provides cost predictability and increased value of spend for higher-quality service • Nimble approach for faster response to changing market and business conditions

LAW FIRM OPPORTUNITIES FOR CENTERS OF EXCELLENCE (CONTINUED)

Opportunity (Implementation)	Rationale	Benefits
<p>Finance (Medium-Hard)</p>	<p>Given corporate clients' increasingly stringent and complex billing arrangement criteria, law firm finance departments struggle to identify and avoid short pays for non-compliant billing.</p> <p>Finance (e.g., accounts payable, billing and collections), and specifically billing, is becoming a growing pain point for firms that have legacy staff that predate e-Billing or AFAs. Turning to a managed service provider with expertly trained staff can provide necessary relief.</p>	<ul style="list-style-type: none"> • Transfers delivery risk associated with billing to third-party provider • Agile staffing model and departmental flexibility • Reduces overall investment and ongoing operating costs • Delivers service to attorneys and law firm's clients in a coordinated and fully integrated fashion from billing through collections
<p>Client Matter Lifecycle (Hard)</p>	<p>Managing departments and processes along all avenues of the client matter lifecycle (e.g., new business intake process through the gathering of client feedback at the end of the matter) requires specialized skill sets in various departments, including legal support, new business intake and conflicts, billing and collections, and records.</p> <p>Due to the difficulty of recruiting skilled candidates to fill these positions, many firms are looking to managed services providers to streamline processes and increase efficiencies in legal support.</p>	<ul style="list-style-type: none"> • Geography-agnostic talent pool to lead and manage teams • Creates a stable team environment • Consistent and efficient processes • Transfers risk associated with legal support to third-party provider

LAW DEPARTMENT OPPORTUNITIES FOR CENTERS OF EXCELLENCE

Opportunity (Implementation)	Rationale	Benefits
<p>Invoice Review (Easy)</p>	<p>As law departments grapple with growing legal demand, attorneys must juggle significant competing priorities. By leveraging managed service providers to assist with invoice review, law departments allow attorneys to remain focused on higher value tasks.</p>	<ul style="list-style-type: none"> • Provides a more consistent, comprehensive review process • Leverages dedicated resources to ensure potential savings are captured and non-compliant billing is addressed • Ensures billing guidelines are consistently enforced • Increases the reliability of data analytics and more thorough invoice review procedures
<p>Contracts (Easy-Medium)</p>	<p>Contracts are the lifeblood of any organization and continue to be an area requiring significant legal resources.</p> <p>Many law departments are looking to centralize contracting processes through centers of excellence/shared services, and some have chosen to outsource specific contracts and types of functions to a managed service provider.</p>	<ul style="list-style-type: none"> • Centralizes contract lifecycle management — from request processing/intake and triage, to drafting and escalation, as well as review, approval, execution and obligation management • Improved cycle times, consistency and increased compliance
<p>Legal Operations (Medium)</p>	<p>With the expectation that law departments exercise high levels of financial and operational discipline, more companies recognize the value of investing in a legal operations function.</p> <p>Given law departments' struggle to add new headcount, many are contracting legal operations providers to supplement existing teams.</p>	<ul style="list-style-type: none"> • Provides tools and templates to support departments' needs • Scalability to match demand without the fixed cost of additional headcount • Best practices are applied through all departments • Provides consistent output of key operational deliverables, metrics and reports • Technology can be scaled and refined in real-time

LAW DEPARTMENT OPPORTUNITIES FOR CENTERS OF EXCELLENCE (CONTINUED)

Opportunity (Implementation)	Rationale	Benefits
<p>Discovery (Medium-Hard)</p>	<p>The time and cost associated with e-Discovery continues to grow with the proliferation of email and associated documents.</p> <p>Though law departments once performed the time- and labor-intensive task of document review, service providers are now the norm, offering dedicated review teams in lower cost locations to drive cost savings.</p> <p>Technology has also become a more prevalent part of the process, with machine learning and natural language processing technology maximizing efficiency and minimizing expenses.</p>	<ul style="list-style-type: none"> • Optimized review process • Billing on a cost-per-document/page basis or hourly model • Improved accuracy and speed of review • Increased precision of decisions regarding document responsiveness and privilege • Predictable pricing models with e-Discovery budgeting
<p>Intellectual Property (Hard)</p>	<p>Law departments that manage large intellectual property (IP) portfolios are finding their spend and internal headcount under the microscope. To augment efficiency and cost savings, many IP teams are looking at alternative ways to deliver services.</p> <p>While their initial focus is often on reducing dual/shadow docketing between outside counsel and in-house staff, many law departments have also taken a close look at outsourcing their docketing and IP operations entirely. These departments need scalability and lower costs, while maintaining or increasing quality.</p>	<ul style="list-style-type: none"> • Scalability based on the filing volume driven by the enterprise • Reduces redundant/dual docketing between outside counsel firms and in-house staff • Leverages experts that work across the industry/organizations and are constantly evolving to stay in-line with best practices

Sources

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