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Alternative Legal Service Providers and the Path to Operational Excellence

Introduction:

The rapidly growing field of legal operations is creating fundamental changes to how legal services are delivered in our industry. Alternative Legal Service Providers (ALSPs) run the gamut from providing simple outsourcing to harnessing artificial intelligence to quickly summarize vast stores of information and craft unique legal strategies. Law firm leaders are fostering cultures of innovation and driving positive change from within their organizations by embracing Legal Process Outsourcing (LPOs). As a result, attorneys are realizing greater ability to focus on higher value work while elevating the delivery of legal services above the norm. Law firms and consumers of legal services are engaging ALSPs to respond to the escalating demand for rigorous litigation oversight and effective cost containment. It is critical to delivering high quality legal services that we explore the rapidly growing field of legal operations and explain how the utilization of ALSPs can help enable attorneys and law firms to be more efficient and showcase their expertise and value to their clients. This narrative will explore industry trends, the driving forces behind them and the business imperative for utilizing Alternative Legal Services.

1. Industry Overview

It wasn't that long ago that Alternative Legal Service Providers (ALSPs) were just beginning to enter the legal marketplace. Today however, ALSPs are recognized by the legal industry as valuable business partners who are expertly staffed to perform many of the tasks that were historically done by law firms.

Alternative Legal Service Providers Defined

Alternative Legal Service Providers aren't just alternative anymore. They represent an entire class of highly trained professionals who are aptly equipped to develop and apply new methodologies to getting legal work done. The legal operations industry has grown rapidly in the last two years. Many law firms and corporate legal departments are seeing the value of placing straight-forward to complex tasks in the hands of these skilled legal operations experts. Some of the key functions offered by Alternative Legal Service Providers go well beyond merely managing low level, high volume legal work and include strategic planning, financial management, leveraging data and technology, customer and client engagement, systems training, cross functional resource allocation and knowledge management. In the litigation area, common uses include legal support functions, research, regulatory compliance, document review and creation, e-discovery, and temporary staffing.

Alternative Legal Service Providers (ALSPs) are typically categorized in five segments: The Big Four accounting firms, Captive Legal Process Outsourcing (LPOs), Independent Legal Process Outsourcing, Managed Services and Contract and Staffing Services. The Big Four accounting firms generate enormous amounts of revenue from legal services. Captive LPOs are home grown by law firms seeking to build customized in-house operations to serve the specific needs of important clients. Independent Legal Process Outsourcing represents one of the largest segments of the industry and includes those providers that focus on partnering with law firms or corporate legal departments on direct projects or matter based assignments. Unlike Independent Legal Process Outsourcing, Managed Service providers typically strive to support the broader functions of law firms and corporate legal departments. Finally, Contract and Staffing Services offer a broad range of temporary legal assistance from handling simple court appearances to consulting on complex matters. *(See Alternative Legal Service Providers 2019: Fast Growth, Expanding Use and Increasing Opportunity, Thomson Reuters Legal Executive Institute).*

The Expanding Market for Alternative Legal Service Providers

Corporate legal departments have been earlier adopters of introducing legal operations providers into their organizations. Law firms are also increasing their focus on developing legal operations into their business models as a competitive differentiator with their clients.

According to the 2019 Bloomberg Law Legal Operations & Technology Survey, 95% of corporate law departments have a legal operations function. Quickly increasing are law firms at 87% of those firm surveyed that have introduced a legal operations expertise. *(See Bloomberg Law, Staying Competitive in a Crowded Legal Services Market, September 2019)* As the legal industry's appetite for Legal Process Outsourcing grows, law firms that have actively engaged Alternative Legal Service Providers are recognizing their inherent value and, in many instances, look to expand their relationships to other facets of their organizations.

The top five reasons that law firms engage Alternative Legal Service Providers are e-discovery, legal research, litigation support, document review and management and fact development / background research. Industry data reflects that law firms of all sizes are becoming more comfortable with ALSPs. Large firms with more than 175 attorneys increased their use of Alternative Legal Service Providers in each of the top five areas noted. Although slower to adopt ALSPs, mid-sized firms (30 – 174 attorneys) are following suit. Recognizing that Alternative Legal Service Providers can help them extend and upscale their offerings to clients, particularly in the areas of legal research, e-discovery and litigation support, small firms (less than 29 attorneys) more than doubled their use of Alternative Legal Service Providers in all of the top categories. *(See Alternative Legal Service Providers 2019: Fast Growth, Expanding Use and Increasing Opportunity, Thomson Reuters Legal Executive Institute).*

Expected Alternative Legal Service Provider Spend Behavior

The Legal Operations field has gained remarkable momentum in terms of revenue. Industry data reflects that Alternative Legal Service Providers generated \$10.7 billion in 2017 representing a 13% increase over the prior two-year period. Despite this increase, many law firms remain skeptical of whether ALSPs can generate enough value to tip the scales in favor of doing the hard work to change their existing processes and implement new ones. In general, 29% of large firms, 40% of mid-size firms and 12% of small firms expect their ALSP spending to increase. Such estimates however, may be low as corporate / insurance clients and others place less reliance upon the traditional legal services delivery model and press for even greater efficiencies. *(See Alternative Legal Service Providers 2019: Fast Growth, Expanding Use and Increasing Opportunity, Thomson Reuters Legal Executive Institute).*

Legal Industry Trends – Alternative Legal Service Providers

Alternative Legal Service Providers are seeking new avenues to further diversify their offerings and to engage technology in leading the way to bring more specialized services to market in the areas of managed legal services, work-flow and process mapping and legal advisory work. ALSPs recognize that investing in state-of-the-art technology can allow them to provide higher value offerings and to manage complex consulting work more effectively and efficiently. In fact, twenty five percent of ALSPs are already using some form of artificial intelligence while another third are evaluating its potential to support more core services. Looking ahead, significant growth across all segments of the industry is anticipated. Yet, such growth is not without challenges for ALSPs. Available talent and human resistance to change in law firms moving to implement new operational models are still hurdles to overcome. Overall, the future is bright for ALSPs. They're experiencing an increase in market exposure and despite growing competition among providers, there is ample space for continued acceptance and financial success. Most significant is the recognition by the legal industry that ALSPs are value add partners and not just simple outsourcing commodities anymore.

2. The Business Case for Alternative Legal Service Providers

As consumers of legal services, corporate / insurance clients look to law firms to deliver value driven, high quality solution oriented legal work while law firms strive for excellent outcomes, high client retention and continuous growth. As business enterprises, corporate / insurance clients and law firms share similar goals: dependable partnerships, customer satisfaction, tangible results, expert risk management and strong financial discipline. Both corporate / insurance clients and law firms continue to progress in the areas of advancing quality and improving basic support services but how can they further advance toward the optimal state of realizing lasting mutual benefits and rewards? One answer may lie in the willingness of law firms to fully embrace the importance of achieving operational excellence through targeted efforts to incorporate ALSPs into their organizations as they pursue meaningful legal results.

The Driving Forces behind Alternative Legal Service Providers

The four most cited factors that drive law firms to adopt Alternative Legal Service Providers are cost savings, access to specialized expertise, client pressure and market advantage. At one time, the decision to use ALSPs was very much about cost, particularly when it came to document review and more routine tasks. Today, client pressure to cut costs remains, yet there

is more demand for specialized expertise from corporate consumers and law firms seeking to partner with ALSPs on litigation related tasks like e-discovery and investigative support. In addition, law firms are softening their perception of ALSPs as competition to timekeeper billable hours. Small firms are quickly recognizing that ALSPs represent opportunities for them to add scale and expand their service offerings while freeing their attorneys to focus on higher value work.

Technology is also leading the way. It is what innovative law firms do differently to continuously assess their current service areas that strategically positions them to actively pursue the array of operational enhancements offered by Alternative Legal Service Providers. Innovative law firm leaders recognize the need to not only embrace change but to become an integral part of it. Such law firms understand the need to build cultures of innovation from within that will create critical alignment between client expectations and the firm's ability to exceed them. They're not only acutely aware of the benefits of technology, they also embrace the fact that ideas can come from anywhere. They recognize the difference makers within and deploy cross functional groups of technology experts to explore the market place, test new platforms and work to customize applications to fit their business needs. Innovative law firms also strive to think more like their clients and even adopt some of their best practices. Finally, they empower leadership to change quickly, improve processes and deploy interfaces that allow clients to manage their own business processes and better integrate with their legal services.

Achieving operational excellence is paramount for law firms as they strive to function in the highly technical and often complex world of well-defined performance expectations and strict accountability. And while corporate / insurance clients and law firms agree that a mutual understanding of expectations is fundamental to a successful business relationship, disruption in the form of uncertainty and misalignment can derail their efforts to achieve desired efficiencies. As such, it's imperative that law firms ask probing questions and actively assess their capabilities to attain highly functional frameworks that foster operational excellence through the utilization of Alternative Legal Service providers.

Operational Transformation

How do law firms make Alternative Legal Service Providers a common denominator in their portfolio of legal client services and begin the transformation toward operational excellence? The most difficult part of any change is first accepting that change is necessary. Change such as that being driven by the need to innovatively assess operational capabilities requires both a mindset and philosophy change, a disassembling of prior notions of success which will enable effective reconstruction of former processes and operational norms. Attempting to build new methodologies on an existing framework can obstruct critical thinking, detract from mapping essential processes and cloud vision of what change can truly look like. Disassembling existing operational norms also forces a fresh approach, thinking outside the box and engaging creativity. Developing a mission statement as a touchstone to guide efforts will prove critical during such times. When planning to partner with any alternative legal service providers it is essential to think ahead and identify what problems need solving, obtain client consent to outsource any work and ensure the security and confidentiality of any shared client information. If the ALSP is working for other law firms, conflict checks are also essential. Creating cross functional development teams are a best practice to advance the utilization of alternative ways to perform necessary work. Engaging those within the law firm that have been trained in the areas of innovation or thought leadership can also be critical to success. If necessary, law firms should also consider engaging a consultant in the areas of project planning and continuous improvement to help guide their transformation. A highly functioning and agile infrastructure is also critical to ensure the capture of key data points to inform strategies, measure performance, evaluate resource allocation and ultimately impact positive change. Overall, continuous improvement and adaptability to change should be the cultural norm that is encouraged and embraced by those within every organization seeking to partner with ALSPs.

3. Actual Use Cases

Law Firm Perspectives on ALSPs

Large consumers of legal services including corporate / insurance clients are continually monitoring major trends impacting the industry. The impact of Alternative Legal Service Providers is no exception and obtaining the perspectives of law firm partners regarding opportunities for improvement in the oversight, management and delivery of legal expertise is high on their list. So, what are law firms saying? Most law firms no longer subscribe to the

notion that simply practicing law is enough to meet the needs of their corporate / insurance clients. When it comes to ALSPs, law firms generally view them as market differentiators that offer a broad range of options to advance continuous process improvement methodologies regarding their operational governance over people, systems and costs. In fact, approximately 50% of all firms feel that ALSPs can help them expand and upscale their businesses. Large law firms are feeling the biggest impact as more work traditionally handled by entry level associates is outsourced. Some firms are concerned about the risk of falling behind as ALSPs have greater ability to fund advances in technology and move into more complex areas that require higher levels of legal analysis. However, law firms that are heavily utilizing ALSPs are finding increased acceptance among their employees who are motivated by their changing work environments and innovatively servicing their clients while showcasing their full potential and talent. In the short term, although some firms are struggling to see how their attorneys will benefit from partnering with ALSPs they admittedly understand that doing so will drive better long-term results for them and their clients.

Corporate Client Perspectives on ALSPs

Industry experts report that two of the top reasons corporate clients look to Alternative Legal Service Providers are to increase resource capabilities during times of heavy work volume and to have access to specialized expertise that may not be present in house. While many law firms view ALSPs as a means to control costs and increase margins corporate clients are much more interested in creating greater efficiencies to enhance quality. This is particularly relevant in the insurance industry where the promise to accurately manage policyholder risk is at the core of the business relationship. Corporate clients also continually assess whether they have optimized the allocation of their personnel. ALSPs can provide task specific metrics and process mapping in this area to identify gaps and capture data to inform decision making and add value to internal customers. Such efforts allow corporate clients to free up and re-deploy their internal resources to strategic planning and higher-level project work. Quality and confidentiality have been the two biggest concerns on the part of corporate clients over the use of ALSPs. However, industry reports indicate that such concerns are diminishing and show that there is a greater emphasis on encouraging the law firms they partner with to offer alternative legal services. Looking outward, corporate clients and law firms must endeavor to evolve

together and commit to creating well defined business objectives and collaborative leadership structures that foster solution-oriented plans and high operational excellence.

The Dynamic Role of the Attorney

The evolution of Alternative Legal Service Providers is transforming the role of the attorney and corporate / insurance clients now expect counsel to look for value and opportunities to deliver effective and efficient results rather than just risk mitigation. Accomplished legal practitioners are fully capitalizing on the processes, benchmarking and strategic planning techniques that ALSPs offer to drive results that differentiate themselves in the marketplace. It is incumbent upon law firm leaders to think creatively and foster cultures of innovation to generate new opportunities for themselves and their clients. Law firms are recognizing that their attorneys possess immense in-house talent beyond matter management and are looking to them as subject matter experts in technology, data strategy and even design thinking. Some firms have introduced programs in which associates and staff are invited to develop creative solutions to address operational issues at the firm level and case related applications at the matter management level. Still other firms have added innovation directors to their ranks and some have dedicated teams focused on developing alternative ways of delivering legal services. Attorneys must strive to become vehicles for change by leading efforts to improve processes as well as those critical aspects of case handling that will allow them to focus on strategically removing roadblocks to resolution. Creating efficiencies is key and whether attorneys find themselves in an innovative work environment or elsewhere, developing an operational mindset will pay dividends as the pace of change in the legal industry continues to accelerate.

Overcoming implementation challenges

The Legal Operations field has witnessed great collaboration and a willingness to share information that is shaping the Legal Process Outsourcing (LPO) industry. Various industry associations have developed informative frameworks to guide organizations in implementing operational best practices. The following best practices can be informative in developing and implementing a legal operations function. Once a law firm or corporate client has determined that an Alternative Legal Service Provider has value and obtained buy in from organizational leadership it is essential to prioritize and address the most critical pain points first to establish credibility for future efforts. Communicating the objectives of the ALSP across the organization

is essential to transparency and promoting cross functional collaboration and alignment among key stakeholders. When implementing new technologies, it is critical to carefully map processes, consider onboarding, training and end users' capabilities for early adoption as well as the ability to expand and upgrade in the future. Finally, it is important to see every operational improvement as an opportunity to capture key performance indicators to measure success, refine frameworks and establish best practices to maintain and later enhance any gains in efficiency.

Business impact and the value proposition

The legal industry has experienced a global shift in the delivery model for legal services. Legal Process Outsourcing (LPO) has moved non-core, high frequency, low risk tasks off the desk of attorneys, paralegals and other legal professionals to external Legal Service Providers thereby allowing them to focus on higher level more complex matters, strategic planning and critical substantive legal work. Legal outsourcing, both onshore and offshore, is transforming the practice of law as firms and corporate / insurance clients seek to minimize costs, increase flexibility and expand their reach into areas requiring more specialization. All with the goal of providing high quality legal services at the most effective cost. As corporate / insurance clients gain assurance that law firms are solidly invested in aligning with this key business objective by building positive partnerships with ALSPs such firms will begin to see maximum returns on their client relationships rather than returns on each matter. The integrity of the corporate / insurance client relationship is the key to ensuring that law firms will continue to invest in innovative solutions that benefit both it and the client. Today, the service offerings, culture and corporate structures of ALSPs position them as the ideal cost effective, agile and willing partners to become a cornerstone for firms seeking innovative solutions that will exceed client expectations and drive future profits and sustainability.