

Legal Process Outsourcing in the IP industry – food for thought

Tim Wright and **Craig Wolff**, partners in Pillsbury's Global Sourcing practice and **Rafi Azim-Khan** and **Jack Barufka**, both partners in the IP practice, explain Legal Process Outsourcing

Whatever your viewpoint, there's no denying that Legal Process Outsourcing (LPO) is undergoing a boom, with regular reports in the legal press of its use by law firms and corporate clients alike.

Companies, as well as law firms themselves are now looking to outsource legal processes for many of the same reasons that saw them already outsource an increasingly wide array of other corporate functions previously performed in-house – to achieve compelling cost reductions and faster turnaround times, to free up scarce in-house resources to focus on more strategic and higher value activities, and to refocus the company's energies on its core business activities.

As a result of this phenomenon, a rapidly growing cadre of LPO service providers has sprung up in countries that are able to offer the right mix of a suitably educated workforce with good English language skills, modern telecommunications capabilities, a substantially lower wage structure than Western industrialised countries, and a reasonably well developed legal system which is typically based on English law. Favoured LPO destinations currently include India, the Philippines, Sri Lanka, South Africa, Singapore and Canada.

To date, the kinds of legal processes that are being regularly outsourced are primarily legal support services at the lower end of the legal service value chain – services that are often performed by paralegals and other non-lawyers, such as due diligence in M&A and capital markets transactions, contract management, document review, e-discovery, legal research and writing, and related administrative functions.

Within the LPO sector generally, the contracting models typically employed are (a) a direct contract between the company and the LPO provider; (b) a managed service model, where the company retains a law firm who in turn contacts with the LPO provider, coordinates the LPO provider's activities and has responsibility for the performance and quality of the provider's services; and (c) multi-sourcing, where the outsourced work is divided up and passed out to a number of different LPO providers (either directly or as a managed service), taking advantage of each provider's different strengths and reducing the concentration risk (ie having 'all your eggs in one basket').

A growing sub-discipline within LPO is the outsourcing by companies of their intellectual property work – everything from routine maintenance and management of their existing copyright and trademark portfolios to preparing and filing new patent applications and handling adversarial proceedings, including IP litigation. Not surprisingly, the traditional LPO service providers are ill-equipped (at least at present) to take on the responsibility for performing IP or other legal functions that require highly specialised legal skills, training and qualifications. Hence, the outsourcing of higher-end IP legal processes has thus far tended to be to law firms with established IP practices, good skill set matches and the geographic reach to adequately service the client company's needs, either within the law firm itself or through its network of foreign law firms.

This, however, is under challenge as LPO providers are themselves increasingly utilising licensed attorneys as part of their offerings. Law firms are also responding and adapting with the deployment of new service delivery models, building out both captive and outsourced 'LPO-style' offerings capable of delivering lower value simple, repeatable and standardised activities alongside their 'traditional-style' legal practices.

Special issues and challenges presented by the outsourcing of IP legal work

Once a company has made the decision to outsource its IP legal functions, it faces several interesting threshold questions including the following:

- Should the work be bid out competitively or awarded to a law firm or LPO provider which the company already uses, knows and trusts?
- Is there work which by its nature falls within a regulator's ambit as a "reserved legal activity" or similar, and thus must be handled, or at least supervised, by a licensed attorney in the relevant jurisdiction?
- If the company has operations in multiple countries, which country should be the location of the LPO service provider's lead office, and what role and responsibility (technically, operationally, financially and legally) should the LPO service provider have for work that needs to be performed in countries in which its lawyers are not admitted to practice.
- What should become of the company's in-house staff whose positions will be displaced by the outsourcing, taking into consideration that the answer to this question will be driven to a large extent in EU countries by the Acquired Rights Directive and national legislation implementing it?
- Considering the degree to which the conduct of law firms and lawyers is already regulated by national codes of professional conduct, should the contracting model for such an engagement be a traditional form of legal engagement letter, a full-blown outsourcing contract with its attendant annexes governing everything from employee background screening to privacy, data protection and service levels, or some hybrid form of contract developed specifically for legal process outsourcing?
- If something other than a traditional form of legal engagement agreement is used to document the terms of the LPO arrangement, how should conflicts between the contract's terms and applicable codes of professional conduct be mediated and resolved?
- How shall conflicts of interest be handled in the event that the law firm cannot handle a particular matter for the client because the matter is adverse to another client of the firm?

It is not difficult to understand why a company that has decided to outsource its IP legal work might decide to conduct the transaction in much the same way it would go about outsourcing any other company function. After all, the company probably has a supply chain organisation that has substantial experience and expertise in how to

conduct an efficient and effective outsourcing process. However, the company may discover some of the challenges that following a traditional outsourcing process will pose for an IP LPO transaction, ultimately leading the company to conclude that specialised processes and contracting models must be developed that are purpose-built for the outsourcing of functions performed by lawyers.

For example, outsourcing contracts used by experienced companies customarily require the service provider to adhere to the company's own policies for background screening of new personnel. This may make perfectly good sense in the context of a traditional form of outsourcing transaction, pursuant to which the service provider will recruit and hire new personnel who will be dedicated to servicing the client company's account.

The problem is that most law firms follow a quite different hiring and staffing model. With limited exceptions, they tend to hire lawyers for their long-term prospects, not with a view to serving any particular client or other short-term need, and they generally expect their lawyers to serve multiple clients at any one time.

There are fairly standardised processes by which law firms screen, recruit and hire new lawyers in most countries, but they do not necessarily match up very well with the processes most companies use to screen, recruit and hire non-lawyers.

Another example is confidentiality.

Outsourcing contracts typically contain several pages of provisions establishing the parties' obligations to each other with respect to the preservation and protection of their confidential information.

At the end of the day, however, what most of them do is require each party to use at least reasonable care to protect the other party's confidential information from any unauthorised use or disclosure.

That may be fine as far as it goes, but most non-lawyers might be surprised to learn that a lawyer's and a law firm's obligations to protect a client's secrets and confidences under applicable rules of professional conduct go much further in certain respects.

Tempting though it might be to attempt contract language that gives the client company the best of both worlds, it is difficult in practice to achieve that result without creating confusing or even conflicting standards.

Perhaps a more interesting and thornier example is contractual limitations of liability. Most (if not all) outsourcing contracts contain contractual limitations on the service provider's liability in damages to the client company for breach of contract. They customarily provide that only direct damages may be recovered, specifically excluding recovery of lost profits and other forms of consequential and indirect damages except in egregious cases, such as wilful misconduct.

Under the codes of legal professional responsibility in the US, for example, it is unethical for a lawyer or law firm to attempt to limit its liability to a client for legal malpractice.

Legal conflicts are another important area of concern specific to the LPO industry that traditional non-LPO outsourcing contracts do not address at all. Consider, for example, an IP LPO transaction in which a company is outsourcing all of its IP legal work to a law firm, including contested proceedings and litigation. Since the company will not be retaining in-house capability to perform the outsourced IP functions, it stands to reason that the company would want a contractual commitment from its law firm to handle and manage any contested proceedings and litigation that may arise within the scope of the outsourcing arrangement.

The problem is that under prevailing rules of legal conduct, the law firm to whom the work is outsourced cannot agree in advance that it will take responsibility for all such matters – the reason being that the law firm might have a conflict of interest that would make it unethical for the law firm to do so, at least absent an informed waiver

of the conflict by both parties. In addition, there are some kinds of legal conflicts that cannot be waived at all.

A different Business model with significant potential benefits

As can be seen above, there are a number of special challenges posed by the outsourcing of IP work, with a further key one being that it requires a different kind of business model and business case than do other forms of outsourcing. The vast majority of current outsourcing transactions utilise some form of labour arbitrage as a primary driver of cost savings – substituting lower cost human capital for higher cost personnel. That opportunity is unlikely to be available in an IP outsourcing transaction and, in fact, the opposite may be true – meaning that lower-cost in-house resources may be displaced by higher-cost law firm resources. If that is so, then other ways must be found to produce required cost savings – for example, by the law firm substituting automated processes for manual processes and by eliminating duplicative activities such as dual docketing and dual record retention of IP matters by both the law firm and the client company.

Given the external service provider must find a way to simultaneously meet its client's cost-savings expectations and still generate a profit it will almost certainly be more disciplined about ferreting out and eliminating unnecessary costs than would the company's in-house IP organisation, for example, by working diligently to ensure that the company's IP portfolio is kept reasonably up to date.

In addition, there are many instances in which in-house IP personnel act as a liaison buffer between the business units and outside counsel, in which case a direct relationship between outside counsel and the business should be faster and more cost-effective.

The selected firm may well also have a deeper and wider bench of skills to draw upon than it is possible to staff up in an in-house function, therefore this factor combined with more direct access should hopefully give the business not just cheaper but possibly higher quality support.

To maximise the chances of these benefits being realised, however, the company and its law firm will need to create mechanisms to keep its outside lawyers well connected with the people inside the company who make the business decisions regarding the company's intellectual property matters.

Finally, creative billing arrangements, such as annual fixed fee arrangements based on total portfolio management, can also be used to bring one further significant benefit – namely, substantially reduce overhead costs associated with the expense of invoice review and management. At the very least, such fixed fee arrangements can provide certainty to a company regarding its overall IP legal spend, while potentially placing some financial risk on the firm.

For the reasons explained above, the outsourcing of IP legal work is a different breed of animal than other traditional types of outsourcing, even outsourcing of other legal processes, and it requires specialised approaches and contracting models. However, it can also bring real benefits if approached and serviced correctly.

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