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# Make-or-Buy Decisions in Legal Services: A Strategic Perspective

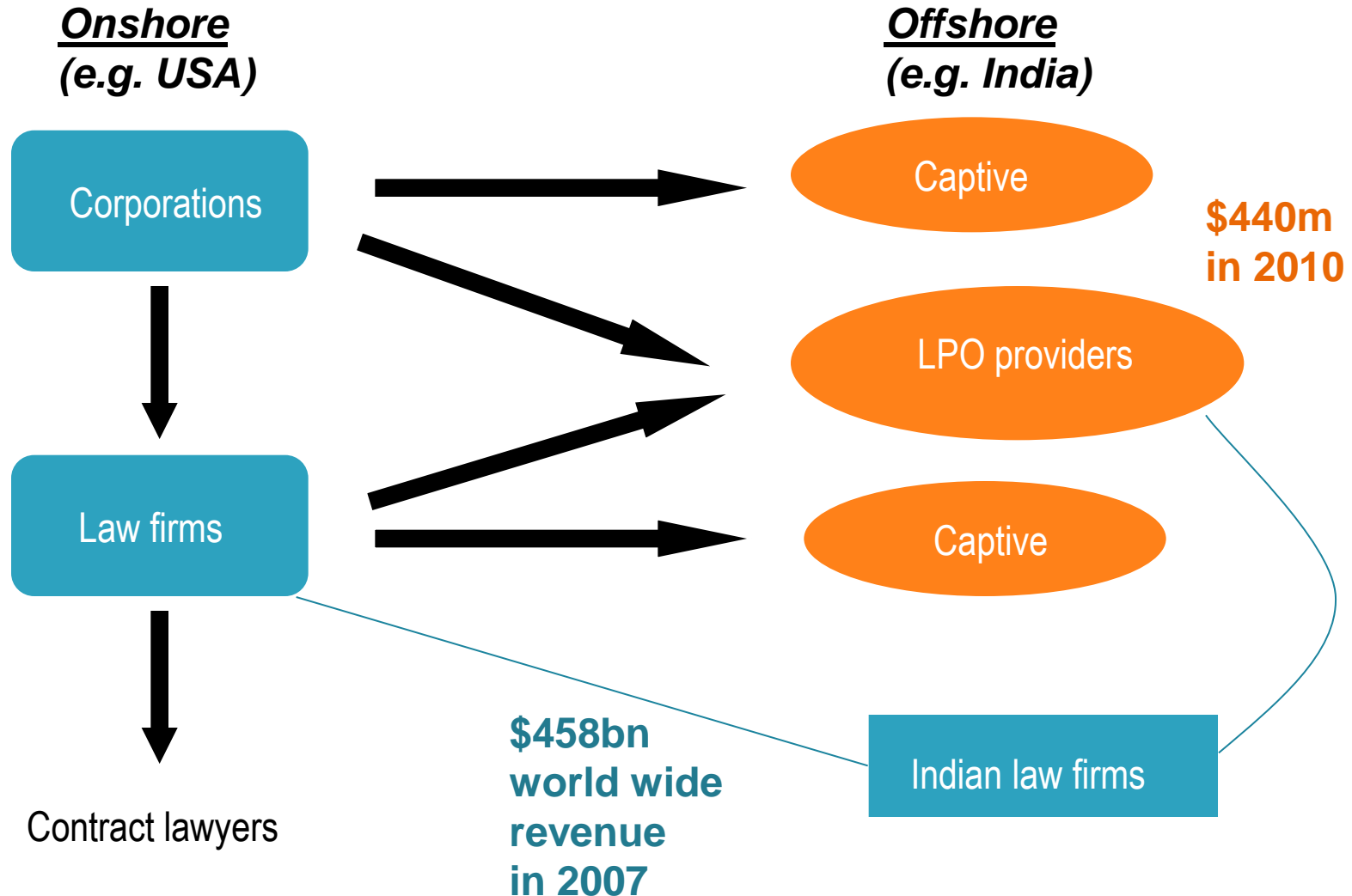
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**Law Firm Evolution conference**  
**Georgetown Law Center**  
**21-23 March 2010**

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- ▶ Focus to date: law firm - corporate client relationships
- ▶ Rise of in-house counsel → evidence of move towards ‘make’ rather than ‘buy’
  - USA (ACC & Serengeti): buy/make ratio declined from 2.0 in 2004 to 1.6 in 2008
  - UK (Legal Week): outsourcing by FTSE companies fell from 51% in 2004 to 42% in 2008
- ▶ Unanswered questions
  - What legal work is brought back in-house?
  - What make-or-buy ‘strategies’ are pursued by decision-makers in corporations and law firms?

# Routes to offshore outsourcing





- ▶ **Company visits and interviews**
  - US and English law firms
  - Lawyers working for corporate legal departments
  - LPO providers and law firms in India
  - Professional and other associations (Nasscom, ABA, Law Society)
  - Other informants (e.g. advisers, academics, consultants)
  
- ▶ **Strategies (for creating and capturing value) in global value chains**
  - Global value chains (Gereffi, Humphreys, Sturgeon 2004)
  - Profiting from innovation (Teece 1986)
  - Thus a focus on private incentives rather than public interest
  
- ▶ **Three level analysis of factors affecting make-or-buy decisions**
  - Task level and organization level (engineering design theory)
  - Firm level (organization economics + business history)
  - Industry level (management studies)

# 1. Nature of Legal Work



- ▶ **Bespoke work for a client → commoditized service due to:**
  - Information and communication technology (ICT)
  - Lean Six Sigma (process and quality management)
- ▶ **Design Structure Matrix (DSM) enables**
  - Decomposition of legal work into tasks
  - Sequencing of tasks to create 'modules' (task clusters)
- ▶ **Two Propositions**
  1. Task modularity facilitates organizational modularity
    - 50 state legal research as a module
  2. Knowledge interdependence between task modules hinders organizational modularity
    - Legal research that depends on precedent and case interpretation
- ▶ **QUESTION: What is an optimal degree of work decomposition?**
  - Maintenance of quality without adding layers of supervision
  - Implication for % of legal work carried out by non-lawyers
- ▶ **Task and organizational modularity may be necessary but not sufficient for outsourcing to an independent third party**

# 2. Corporate Boundary Decisions



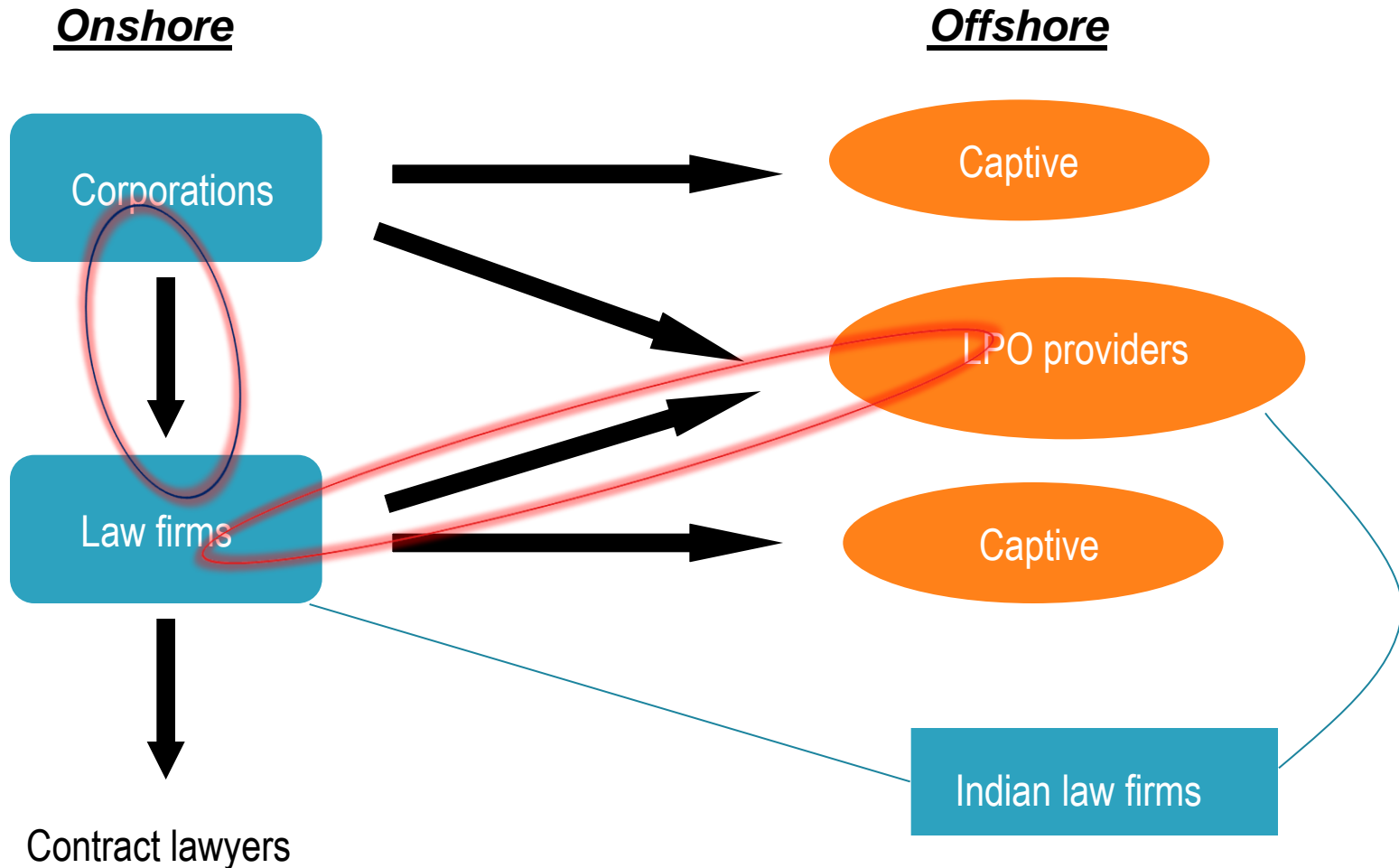
- ▶ **Trend towards 'make' rather than 'buy' due to:**
  - 'financial conception of control'
  - rise of in-house counsel giving blended legal-business advice
- ▶ **Organization economics and management theories**
  1. Firms 'make' rather than 'buy' for:
    - Rent seeking (asset specificity)
    - Property rights (efficient ex ante investment)
    - Incentive alignment (with low powered incentives)
    - Adaptation (via exercise of fiat)
  2. The more centralized the managerial hierarchy, the more likely firms are to move to firm-wide outsourcing
- ▶ **QUESTIONS**
  - Which economic consideration dominates in the 'make' decision?
  - How do inside lawyers exercise their voice in corporate make-or-buy decisions?

# 3. Law Firms' Challenges



- ▶ Professional's distrust of non-professional's competence and ethics
  - hinders work decomposition
- ▶ Professional partnership faces adverse incentives to outsource due to:
  - 'Partners with power' whose power base rests on finding and maintaining important clients
  - Billable hour giving no motivation for improving efficiency
- ▶ QUESTION: Who makes legal work outsourcing decisions at law firms?

# Routes to offshore outsourcing



# LPO strategies and scenarios



## LPOs compete on:



Process efficiency and scale

- e.g. Integreon, CPA Global
- TASKS: contract review, document discovery
- RECRUIT: employees without legal training

## Future of law firms:

Integrators and providers of bespoke legal services

Climbing up the value chain

- e.g. Bodhi Global, QuisLex
- TASKS: deposition summaries in litigation support
- RECRUIT: law graduates and lawyers only

LPO providers become competitors

'We're all consultants now'

- e.g. Evalueserve
- TASKS: legal, accounting, and business research services under one roof
- RECRUIT: mix of qualified professionals

Bundlers of professional services

# Conclusions

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- ▶ **A strategic approach**
  - About creating and capturing value (not just cost reduction)
  - Treats the firm or entrepreneur (not relationship) as unit of analysis
- ▶ **Which player (corporation, law firm, LPO provider) ends up capturing more value depends on:**
  - Each player's make-or-buy decisions, including
  - Attempts at dis-intermediation
  - Bundling or platforming
- ▶ **Further research:**
  - How legal work is decomposed in specific practice areas
  - How in-house counsels exercise voice in make-or-buy decisions
  - Who makes outsourcing decisions at law firms