

New York, London and Hong Kong may vie for the title of world's financial capital. But the debate isn't so straightforward in the law, with centers like Gurgaon, Belfast, and Dayton, Ohio competing for a growing share of legal work that needn't be performed in law firms' urban headquarters. Here's a preview of what might yet turn out to be tomorrow's "capitals of law."

By Chris Bull and Jordan Furlong



# The emerging new capitals of law

**W**e often hear that the legal market, like so much of the business world, is in the process of an eastward shift. Hong Kong, Shanghai, Mumbai and Singapore will become more significant "capitals," in terms of both hosting new powerhouse law firms and wielding legislative influence, as their economies overhaul the western dominance of the past century.

However, we may need to reconsider our definition(s) of "capitals of law." New York, London, Chicago — the western world's biggest business centres — and the emerging contenders listed above will surely be the source of, and marketplace for, the majority of the legal sector's earnings. The same cities will probably dominate the legislative agenda globally.

But the work generated will often not be performed in these locations. The geographies of the legal marketplace and the legal world's productive capability are already diverging, creating a new map of legal production — and some new capitals along with it. At Edge, we are digging deeper into the

new geography of legal production and delivery, examining the often surprising locations where "new capitals of law" are emerging.

## PHASE 1: THE EARLY LEADERS

**O**ver the last five years or so, a number of cities worldwide have become home to new-model lower-cost law offices or legal outsourcing facilities. In many cases, a city's claim to be a new legal capital is restricted to just one or two fast-growth businesses choosing to locate there. But in others, we can begin to discern a broader swell of law-related business, creating an embryonic legal services community in a new location.

These law firms and companies are choosing these locations not just because of lower costs, but also because of high-quality graduate and legal talent in the area. Proximity to transportation hubs often plays a part. In a number of cases, these cities have been made substantially more attractive by concerted local government support, including use of financial incentives

for inward investors. In other cases, time zone is critical — for example, South Africa is popular with many U.K. businesses that operate in the same time zone, while Indian locations such as Gurgaon and Mumbai have leveraged their ability to work while their customers sleep.

In most business sectors, the headquarters or original base of a business is not where production takes place. The law — personal, bespoke, slow to embrace technology, and bound by regulation — has produced a series of factors that bind the location of the people delivering the service to the location of their clients. Those factors are now breaking down one by one.

In many ways, what we are seeing here is the legal sector feeling the (rather

delayed) effect of the ten “flatteners” (from the fall of the Berlin Wall to the rise of Google to the advent of truly mobile computing devices) that Thomas Friedmann influentially outlined in *The World is Flat*.

The sidebar below should dispel any glib assumption that performing legal work in new locations is synonymous with “outsourced” or “offshore” locations. All these “new” centers are much lower-cost than New York or London, to be certain. But most are not so far from their customers’ (often law firms’) headquarters — “onshore” as opposed to “offshore.” Skeptical lawyers who complain they’ve never heard of Carrollton or Overland Park should remember that no one once knew where Bentonville or Redmond were, either.

## The capital contenders

This list of “first movers” is not exhaustive, but it demonstrates that the shift of work to some new locations is well underway.

- **Wheeling, West Virginia**, started the whole trend in 2005 when Orrick relocated its back-office functions to its Global Operations Center there.

- **Gurgaon, India** is now the well-established global service center for Clifford Chance and a key location for many of the leading LPOs.

- **Fargo, North Dakota** has been the US document and service hub for LPO provider Integreon for several years now (in the UK, Bristol plays a similar role).

- **Overland Park, Kansas** is currently consolidating its status as worldwide headquarters for LPO firm UnitedLex.

- **Cape Town, South Africa** hosts a number of thriving legal transcription and LPO businesses, including Exigent, Global Secretarial and Underwoods.

- **Carrollton, Texas** is a Dallas suburb recently announced for the first stateside Pangea3 office to open under Thomson Reuters management.

- **Dayton, Ohio** was chosen by WilmerHale as its onshore headquarters for middle- and back-office support.

- **Belfast, Northern Ireland** became home to “captive” centers for major U.K. firms Allen & Overy and Herbert Smith this year.

- **Hamilton, Ontario** hosts high-efficiency mortgage foreclosure and collections services for Canadian firm Gowlings.

- **Cardiff, Wales** is a proving ground for a cluster of fast-growing volume law firms operating new business models.

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While this approach is influenced by both political and public relations considerations, as well as by the law's inherent conservatism, there are other, deeper factors at play as well. A high-profile backlash against offshore voice-based services, especially prominent in the U.K., has led to a harder search for onshore alternatives.

At the same time, early experiments have raised some questions about LPOs' ability to handle some distinctly non-linear legal processing work offshore, just as wages rise in outsourcing hotspots and the cost gap against economically depressed U.S. and U.K. locations narrows.

So, perhaps surprisingly, most of these first-mover "new capitals" are onshore, and at least half of these innovative ventures are also owned and managed by the law firm, not "outsourced" to a third party. A range of criteria go into the "make

or buy" decision to operate legal or business support functions in-house or contract them out to third parties and a number of firms have concluded that retaining control is the right route for them.

Firms such as Orrick, WilmerHale, Clifford Chance and Allen & Overy have concluded they should continue to operate their own functions, but still leverage the benefits of a lower-cost location. Others have determined that a slew of non-core functions are better managed and operated by specialist third-party outsourcing firms. The move to new centers is thus being driven by a mix of both captive and outsourced models and, sometimes (as in the case of Clifford Chance/Integreon in Gurgaon and Orrick/Williams Lea in Wheeling) a combination of models working in parallel in a single city.

## PHASE 2: THE UNBUNDLING OF LEGAL SERVICES

What we are seeing here is the unbundling of law firms: the disassembly of individual law firm talent blocks, historically situated in a single large (expensive) city, into discrete groups of lawyers and paraprofessionals based in various locations better aligned with the value of the work they do. Law firms and in-house departments both are shifting towards a hub-and-spoke model.

Belfast, Northern Ireland, has attracted a great deal of interest in the last year — principally from U.K. firms, but also from the U.S. — as a potential location for exactly these types of functions.

In 2010, CitiBank announced the creation of a Belfast hub for its Legal and Compliance Department. The bank had been operating centralized support functions in Belfast for five years, but this was a major move into legal and paralegal jobs. The shift of jobs from London and elsewhere, led by Citi's Belfast GC Anna Moss, is regarded as a great success. The availability of a suitable talent pool — and a marker for future transfers of jobs from traditional legal centers to smaller cities — was underlined when local recruiters secured 35 experienced lawyers for Citi within two days. The function is likely to reach 100 people in Belfast very soon.

During 2011, two of the world's largest London-based firms have also invested in Belfast operations. Allen & Overy (A&O) has started with a major relocation of many support functions from London to Belfast, creating a 250-person "captive" center in the city that echoes the moves of Wilmer to Dayton and Clifford Chance to Gurgaon. A&O intends to follow up with a legal process team of more than 50 lawyers and paralegals. There is a strong sense that Northern Ireland's "onshore" location, with its alignment of language and legal experience, was crucial to Belfast winning out over other "offshore" competitors.

Herbert Smith is the other global firm to relocate certain functions to Northern Ireland's capital. When we visited Belfast recently, we met with Libby Jackson, the senior litigator Herbert Smith appointed to oversee the construction and operation of its Litigation Document Review Center. Libby and her team of 26 are providing the primary document review support to Herbert Smith offices in Europe and Asia, particularly London and Hong Kong. Libby is delighted with the positive response from the rest of the firm, and particularly with the quality of her Belfast team. The firm received more than 700 applications for these posts, evidence of the high proportion of

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law graduates and lawyers in Northern Ireland and, more broadly, of the massive potential appetite for high-quality mid-value legal work outside the traditional centers.

### PHASE 3: THE FIRST ESTABLISHED “NEW CAPITALS”

These trends are at such an early stage of evolution that predicting with certainty the first cities to establish themselves firmly as new capitals of legal work is a fool’s errand. That said, we believe we can already discern a set of factors that will determine the result. In particular, we highlight five fundamentals that will mark the winners in this race.

**1. *A deep and renewable talent pool.*** In most cases, the talent pool must produce smart, flexible and affordable graduates capable of developing the required skills and knowledge, rather than large numbers of experienced or qualified lawyers.

**2. *Home-grown innovation and leadership.*** We anticipate that locations where individuals and businesses are actively engaged in the development of new models and processes (Cardiff is an excellent early example) will outpace

those where legal work has merely been “lifted and shifted” in.

**3. *Excellent IT and facilities:*** Legal customers will demand exacting levels of connectivity and responsiveness and feel they should have a stake in how “their” operations function. Low-rent premises and infrastructure will not suffice.

**4. *Government and community support.*** To create a new legal “center of excellence,” government and business community assistance is required to encourage inward investment and home-grown business and to underwrite the location’s stability and sustainability.

**5. *Sustainable value for money.*** Emphatically not the lowest-cost location, but the location

best able to deliver services required by the legal sector at a consistently attractive cost.

Over the next year, we at Edge will be taking a much closer look at many of the emerging capitals individually, assessing their development against these criteria. While the established capitals of law are certainly generating innovative change of their own and there is a discernible alternative model of truly “virtual” firms emerging, the establishment of these new capitals is underway, and we will track this exciting sea change step by step. •

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## Architecting the new model firm

**Chris Bull** consults with a range of legal service businesses — from established law firm partnerships to large corporate legal departments and brand new entrants — exploring alternatives to the traditional legal model and the opportunities these models present. Chris draws on more than 15 years as a leading practitioner and pioneer in law firm management and developing best practices in technology, process management, and legal outsourcing.

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