



GLOBAL IT AND OUTSOURCING FOR THE LEGAL SECTOR

WHITE PAPER

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Paul Abfalter was appointed as General Counsel of Telstra

International Group (TIG) in April 2010. He manages a legal and regulatory team worldwide and is responsible for advising on Telstra's investments in over 15 countries which include HK mobile carrier CSL, a number of new media businesses, Telstra's international managed services/ connectivity business and Telstra's global infrastructure assets.

Before joining TIG, Paul was the General Counsel of CSL, Hong Kong's leading mobile operator. He has also held a number of other senior leadership positions within the Telstra Legal Group, including responsibility for managing the legal team supporting Corporate Strategy and Mergers and Acquisitions for Telstra.

Paul holds Bachelor degrees in Economics and Law from the University of Adelaide.



Neil Cameron
Managing Director
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Neil Cameron is a Barrister who moved from legal practice into

the field of legal IT in a series of jobs with LexisNexis, Allen & Overy and KPMG Management Consulting before setting up his own specialist legal consultancy in 1994. He and his team have assisted over 300 law firms, large and small, in every continent to exploit IT innovations to help transform their businesses.

His advisory work ranges from IT strategy and related high-level work, the review of technology-related working practices to establishing requirements and evaluating and selecting systems such as document management, office systems, practice management, CRM, Intranet/Extranet and client collaboration.

He is a frequent speaker at legal IT conferences and regularly writes articles for a variety of legal journals.

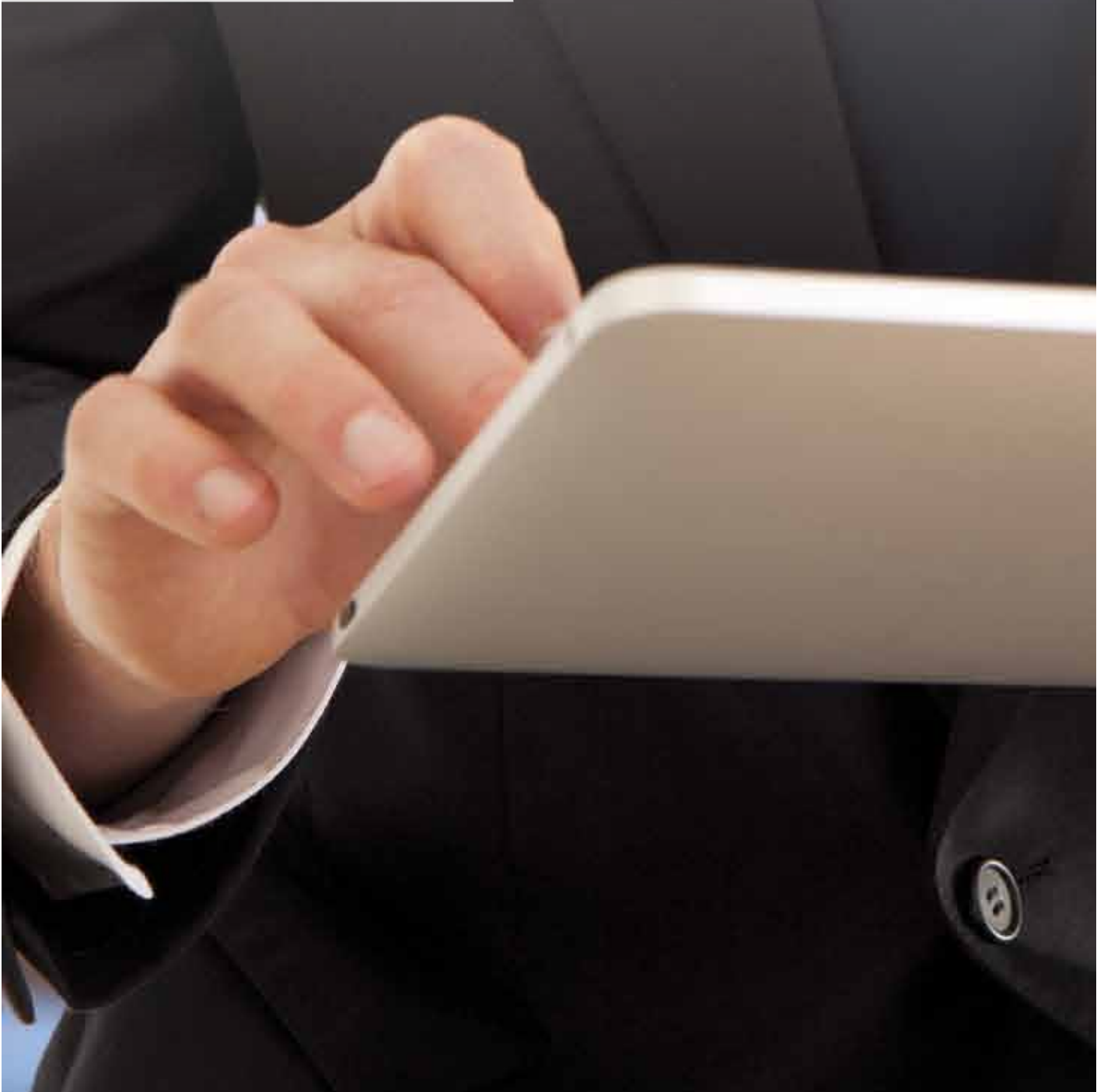


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EXECUTIVE SUMMARY



1. EXECUTIVE SUMMARY

The legal sector is experiencing a period of rapid change, bringing both risk and opportunity to the market. In the past few years, a combination of factors has placed pressure on many law firms to look for ways to reduce costs whilst at the same time expand and broaden business horizons. From new regulation, competition and business models which open up markets, to the subsequent pressure on fees, compounded by slow growth in the global economy, law firms are facing a broad range of strategic and operational issues.

Outsourcing is growing in importance as a means of meeting many of these demands. Whether it is the use of near or off-shoring to enable a greater range of service levels for clients, shifting business units to external suppliers or centralising IT resources, new business models can support more cost-effective application of resources.

The CIO plays a critical role in helping organisations meet these objectives and the decisions they make will shape the organisation's future. Enabling new ways of working through the application of IT and technology resources lies at the heart of the CIO's priorities.

Here, we look at a number of challenges which many CIOs are currently facing in helping their companies transition to a more flexible and agile business structure, both locally and internationally, and how new IT opportunities, such as outsourcing, are being brought to bear to provide new solutions.

These challenges include the need to grow and broaden geographic coverage at the same time as meeting the pressures of ensuring the following key business requirements are met:

- Seamless communications
- Business continuity
- Legislation and compliance.

At the same time there is another challenge to meet in the shape of the need to drive for greater efficiencies in the process of delivering legal services.

Furthermore, we have recently seen the development of social networking and consumer technologies that have been making inevitable inroads to businesses, including law firms, and which bring their own unique management issues.

Cloud computing, another recent development, thankfully offers today's law firms more solutions than problems. It promises to have a profound impact on the legal industry's ability to reduce and control costs and to deliver a more flexible computing environment to support evolving business models – as long as the firm has an industrial-strength international communications network.

Emerging strategies such as IT outsourcing and legal process outsourcing can assist in the further drive for increased efficiencies and economies of scale and again place even more dependence on the firm's communications systems.

The future will see an increasing demand for global reach through mergers, increased efficiency and more competition. Mergers on this scale involve massive global IT and HR projects but will offer significant opportunities for more centralisation and outsourcing.

Increasing competitive pressure will come from other large law firms, as well as from totally new entrants tempted to the market by deregulation and the opportunities to drive out traditional inefficiencies. These new entrants will be current international service providers with a high level of IT investment, and existing well-honed global coverage and communications networks.

Such potential competition cannot be underestimated and all large law firms must consider how they will address these threats. They can either join them or beat them. Either way, they will need to up their game and ensure that they are well equipped to maintain their supremacy as deliverers of *choice* in global legal services.

A low-angle photograph of the Statue of Lady Justice, a symbol of the legal system. She is depicted as a woman with curly hair, wearing a classical-style dress with intricate details. She holds a pair of scales of justice in her right hand, which is raised. The background is a dramatic sky with soft, colorful clouds, suggesting a sunset or sunrise. The overall tone is professional and evokes a sense of justice and law.

CURRENT CHALLENGES FOR THE LEGAL INDUSTRY

The legal sector is experiencing increasing competition on a global scale, as law firms continue to expand internationally.

2. CURRENT CHALLENGES FOR THE LEGAL INDUSTRY

1. MARKET CHALLENGES AND OPPORTUNITIES

a. Tougher competition drives productivity and efficiency initiatives.

The legal sector is experiencing increasing competition on a global scale, as law firms continue to expand internationally through acquisition or entry into new markets. This competition is also coupled with a strategic drive for many law firms to improve efficiency wherever possible.

The UK for instance offers an interesting case in point. The Legal Services Act, passed in 2007, is set to change the way legal services are delivered. It opens the way to non-law firms - whether a supermarket, funeral director or bank – to provide legal services in addition to their core business. The non-law firms that offer these services will create increased choice for the consumer or business, so the UK market will see heightened competition and a downward pressure on legal fees for service categories. Finally, the entry of new providers into the market means that there may well be a change in expectation for the services offered; organisations that are already adept at providing online services and seamless customer experiences supported by technology have the opportunity to create a shift in customer expectations.

While much of the intended impact of this competition may be felt by smaller legal firms, another area of the Act may affect the larger competitors in ways not anticipated by the legislators. For the first time, law firms will be able to raise capital on the stock market, giving firms the opportunity to invest more readily, whether through acquisition or in technology and services. Private equity will also place a focus on the bottom line and put pressure on the business to ensure it is delivering efficiencies in all departments.

To address a more competitive landscape and maintain a viable fee structure, law firms are allocating work in a wider pool of resource. Legal Process Outsourcing (LPO) – the outsourcing of basic legal functions to external providers – is gathering speed across the industry to enable law firms to focus on

There has always been a strong imperative for growth in the legal market; the mantra has been “grow or die”.

more strategic activity and enable major cost savings. CIOs are now regularly tasked with implementing an infrastructure capable of supporting near-shore, lower cost regional suppliers or international suppliers in countries such as South Africa, the Philippines and India. Both require a secure, reliable infrastructure to support these operations and to ensure that security is not compromised.

b. Increasing focus on international growth, in particular in emerging markets.

There has always been a strong imperative for growth in the legal market; the mantra has been “grow or die”. This growth over the last decade has been gathering pace and continues to do so. Despite the massive degree of consolidation over this period through mergers, organic growth is not enough to satisfy law firms’ growth ambitions. In a survey undertaken by the Neil Cameron Consulting Group last year in the UK most respondent firms indicated that they expected to merge with another firm over the next two years.

Large law firm growth is sought partly for its own sake – to keep up with competitor growth – but also for two other key reasons: a) the desire to be truly “global” and b) in order to pursue the potential for economies of scale offered by size.

Many firms, such as Linklaters and Mayer Brown, are aggressively pursuing growth opportunities in emerging markets through acquisition, partnership or establishing wholly-owned satellite offices. Asia has been a particular focus; the importance of Asia to the global economy means client businesses need legal support across a huge range of territories. In addition, some of these countries are opening up to foreign service providers, such as South Korea. The EU-Korea Free Trade Agreement, signed in October 2010, allows foreign law firms to target a relatively underdeveloped legal market. Similar processes have seen law firms develop business across Asia Pacific and the Middle East. Supporting the business in new territories can create significant challenges in delivering consistent quality of service.

Growth alone is not enough. Many US and UK-based law firms have achieved ‘international’ status simply by buying or opening offices in new jurisdictions. But

such expansion does not automatically make a law firm with a large number of international offices truly 'global'. Without single-minded pursuit of a long term plan of truly merging all these offices and their staff in "heart and mind", the firm simply ends up with a large number of disconnected offices, each with its own working practices and local outlook. In this sense 'global' is a state of mind that needs to be entrenched into the firm's lawyers by ensuring that the offices are connected – both physically and intellectually – in such a way that they can operate as one virtual entity and present a single face to their worldwide client-base.

There is no doubt that global clients expect a global, and globally consistent, service from their law firms. They expect to be able to walk into any one of a firm's 35 offices worldwide and have their local needs met by lawyers who already know their business, are aware of the work undertaken for them in other offices and are familiar with their legal requirements. This can only happen if the law firm has excellent client and knowledge sharing systems running over a truly global network, enabling them to deliver information and services any time in a fast and secure manner. Never has this been more important.

Whether it is growing the business through acquisition, or accessing cheaper legal resources worldwide, some of the key challenges facing legal CIOs include:

- **Seamless communications** – A combination of globally outsourced operations and international offices means many more law firms need to operate business services 24/7. CIOs and their teams need to deliver a robust communications infrastructure capable of providing the right quality of service across multiple, diverse territories. The network needs to manage the demands of delivering real-time services such as HD-quality video conferencing, with the backup and storage processes and centralised IT resources required for compliance.
- **Business continuity** - Professional services organisations – and their clients - across the globe are placing a higher emphasis on their business continuity and disaster recovery programs, leading to a rising demand for high-density hosting and virtualised environments. As CIOs prioritise

productivity in planning, ensuring there is a comprehensive disaster recovery plan is essential. This includes considerations around managing suppliers and demanding strict SLAs.

- **Legislation and compliance** - Dealing with the complexity of local laws, regulation and legislation is a key challenge. For the legal sector, the issue is frequently made more difficult by the nature of the work; highly sensitive data is subject to some of the most stringent data protection laws in operation. Compliance needs to be achieved 'in-region' while providing the business with secure and swift access to the same data across international borders in order for the work to be completed in a timely and cost effective manner. From an IT perspective, it means security and the appropriate handling of data is of utmost importance, enabling the whole organisation to share and access resources securely.

2. PRODUCTIVITY AND THE CONSUMERISATION OF IT

Legal businesses have always been very profitable – and as such many have not felt the need to engage in driving towards greater efficiencies in working practices. This reluctance to examine the process of legal service delivery is partly a reaction against initiatives that seek to reduce the mysteries of the expert practitioner to that of a process-driven functionary. This is perceived by some senior partners as serving to 'devalue' the high-value nature of their business.

Those days are over. As long ago as 1995, Linklaters demonstrated with the online Blue Flag® service that elements of these arcane mysteries could be deconstructed, commoditised electronically and sold for high fees. Since then, almost all large "blue-chip" firms have also developed similar services and they are gradually creeping up the value scale. For example, there is even an online service for M&A Due Diligence. Apart from delivering commoditised services to clients, re-thinking the nature of legal process has also led to the adoption of "matter management" style productivity tools for the firms' own lawyers. Such initiatives are leading the way to driving out inefficiencies in the legal service business and increasing margins which, in a period of recession, can be used to enable the firm to be more competitive, and in good times, to increase overall profitability.

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The last decade has also seen an explosion in the range of communications tools available to both consumers and businesses. However, the acceptance of these services (such as social networking and video conferencing) and hardware (such as smartphones and tablets) in the business environment is much more recent. Collaborative tools have started to make real inroads into the sector, as the impact on productivity and potential cost savings have been realised across a broad range of industries.

In particular, social or productivity tools offering real-time communications can have a dramatic impact on improving client relationships, making internal expertise more readily available across the business and improving the opportunity for internal innovation.

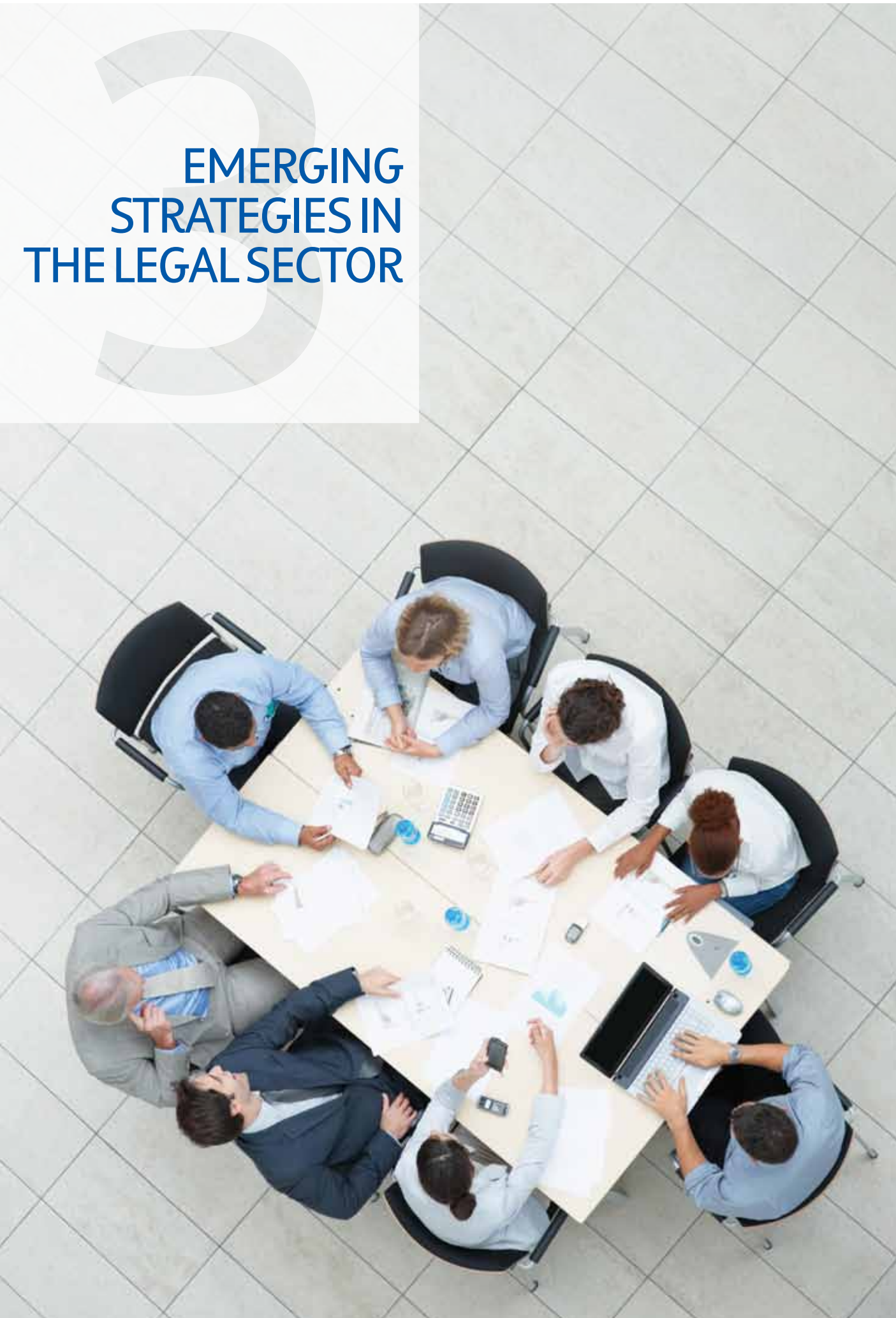
The increased use of real-time communications often demands the right kind of devices to support social interaction. This is in part due to the broader trend of the 'consumerisation' of IT. As more of life is lived online and the difference between work and home life blurs on a smartphone, laptop or tablet, employees expect to be able to carry devices which enable them to access both work and personal data at all times. Adoption of such technologies in the legal sector may have lagged behind other industries, in no small part due to the perceived security risk and additional support load of managing additional proliferating technologies. However, many businesses are demonstrating that consumer mobile devices can be successfully and securely integrated into the corporate environment. The iPad has attracted the eye of many partners, and furthermore the introduction of the BlackBerry® Playbook is expected to add impetus to the much broader introduction of tablet devices.

3. NEW COMPUTING MODELS

Cloud computing in many ways is a continuation of the centralisation of computing resources which many firms have already undertaken, to a greater or lesser degree, to improve the control over IT assets and data. Cloud computing has the potential to have a profound impact on the legal industry's ability to reduce and control costs and to deliver a more flexible computing environment to support evolving business models.

To date, uptake has been slower compared with other industries due to concerns around reliability, governance and risk (eg data protection risk). However, the model is maturing rapidly and hosted 'private cloud' environments offer many firms benefits from cloud computing, in particular a more efficient use of IT resources and associated cost reduction but without the potential security risk associated with the public cloud model. The private cloud ensures the firm retains direct control and accountability over data. Naturally, such a strategy means that a law firm must ensure that its networking is world class.

EMERGING STRATEGIES IN THE LEGAL SECTOR



IT must be able to deliver the competitive edge for which the whole industry is striving.

3. EMERGING STRATEGIES IN THE LEGAL SECTOR

The current changes in the legal sector, from both a local and international perspective, have placed a greater focus on improving intra-firm communications, productivity and operational efficiency than ever before. Technology will play a major role in meeting these business objectives and help deliver a more efficient and cost-effective operation which can act globally and which has a positive impact on the bottom line.

IT and technology outsourcing has a fundamental role in driving business productivity and efficiency. The approach to provisioning must be flexible, efficient and scalable, and the outsourcing strategy must reflect this. Ensuring there are flexible and scalable agreements in place, which meet the exacting demands of international growth and increased competition, is essential. IT must be able to deliver the competitive edge for which the whole industry is striving.

Similarly, legal process outsourcing is proving key in the drive for increased efficiencies and economies of scale for the more routine work that can be more cost-effectively undertaken in jurisdictions with suitable expertise and with a lower cost base.



4 2012 AND BEYOND

4. 2012 AND BEYOND

Bearing in mind all these recent developments, looking forward we can envisage that the next few years can only mean “more of the same” for large law firms: an increasing demand for global reach through mergers, increased efficiency and more competition.

Law firm mergers on this scale imply massive global HR and IT projects. The IT mergers in particular, whilst costly in resources and money, will offer significant opportunities for more centralisation and outsourcing.

Some of this increased competitive pressure will be from totally new entrants to the market, especially in the UK due to the Legal Services Act. These organisations will be attracted towards the global market for legal services either because they wish to invest in the legal market or because they are already global service providers.

Both types of organisation will seek to change the business of the delivery of legal services at fundamental levels. The investors will, as they do, want to increase the share value of their holding in law firms. They will seek to do this by driving out historical inefficiencies in the approach of law firms owned and managed by practitioners, in a way that those practitioners have been reluctant to address. Venture capitalists and other investors will have no such sensitivities and will demand, and drive through, changes to the working practices of law firms designed to drive out inefficiency and waste on a level hitherto undreamt of by law firms.

Those existing global service providers that seek to compete for high-end legal services have a number of advantages over existing law firms, no matter how large. Firstly, they are truly ‘global’ and they know what is required to meet the needs of a global client base. They have no hesitation in enforcing a global culture, global working practices and a global sharing philosophy that ‘international’ law firms find so difficult to inculcate. Secondly, they have always regarded the employment of world-class technologies and networks as a given, or

“investment”, as opposed to many law firms that still regard IT as a cost to be controlled and curtailed. As a result they have a better support infrastructure and “coal-face” tools to help their professionals work as effectively and efficiently as possible, especially in the areas of process automation and knowledge sharing.

Such potential competition cannot be underestimated, and it behoves all large law firms to consider how they will address these threats. They can either join them or beat them. Either way, they will need to “up their game” and ensure that they are well equipped to maintain their supremacy as deliverers of choice in global legal services.

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ABOUT TELSTRA
INTERNATIONAL



Telstra serves over 200 of the world's top 500 companies, spanning Europe, Asia Pacific and the Americas.

5. ABOUT TELSTRA INTERNATIONAL

Telstra International is a leading global supplier of managed network, voice and satellite services. It is a division of the leading Australia-based, tier 1 telecommunications and media services company, Telstra Corporation Limited. Telstra owns one of the most technologically advanced IP backbone networks in the world.

Telstra provides global telecommunications services and solutions and is an expert in bringing the advantages of customer centric managed network solutions to the business community.

Together with its offshore subsidiaries and international investments, Telstra serves over 200 of the world's top 500 companies, spanning Europe, Asia Pacific and the Americas. Telstra International is ideally suited to provide your IT solutions, with its experience and expertise; security and reliability; trust and financial strength.

Telstra operates award-winning networks which are the largest and most diverse in Asia Pacific. We have operating licences and landing rights in most major Asian markets, the US and EMEA, facilitating access to over 1,300 PoPs in 230 countries and territories.

TELSTRA INTERNATIONAL IN THE LEGAL SECTOR

Telstra International is dedicated to helping law firms broaden their business horizons. The legal sector is increasingly expanding into new markets and wherever business operations go, a robust network infrastructure must follow.

Telstra International is already working with some of the world's leading law firms who chose Telstra for its flexibility, responsiveness and understanding of local technologies, culture, economies and regulatory environments; all of which can have an impact on business continuity and operational efficiency.

FOR MORE INFORMATION

www.telstrainternational.com

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