

# Towards 2012

The new legal landscape

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A White Paper  
From Spada

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# Foreword >> Towards 2012: The new legal landscape

So many references are made daily to the Legal Services Act (LSA), which passed into law in October 2007, that it is sometimes hard for the individual to retain a robust picture of the sweeping reform package instigated by Sir David Clementi.

High time, we thought, for a fresh set of perspectives of the new structures and the likely development trends for the legal industry in the eyes of some of its leading players and commentators.

In the first part of this White Paper, our guest author, highly experienced legal journalist, Neil Rose, considers the new legal landscape in the run up to 2012; in the second, Spada's research consultant, Ana Catalano, analyses a snapshot survey of the views of senior players within large and mid-tier London firms.

In some important respects, of course, a brave new world of sorts has already arrived: at the 'retail' end it has long been possible to source will or divorce documentation online, many legal claims can be made without intervention by any of the eight types of legally qualified professional, and large non-legal service providers, such as insurers, have entered the fray for customers' legal spend.

High street law firms, already grappling with competitive challenges such as these, are busy evaluating the potential opportunities and challenges of Legal Disciplinary Partnerships (LDPs) and Alternative Business Structures (ABSs). Yet the English legal industry is so much more than its domestic retail consumer base. It comprises one of the great governance systems of the world and, in the case of London, forms a vital component of the City's eco-system. English law is an industry worth in excess of £20 billion.

So, what happens to the UK's leading and mid-tier firms matters greatly to business and governments everywhere. What happens to the funding of English and Welsh barristers has implications for our entire court system and access to justice.

While larger law firms appear to be comfortable with incremental change such as having non-lawyer partners or even taking on external investment, it may be more difficult to predict the longer-term effects of fundamental, aggregating market forces. Yet, broadly speaking, the firms we talked to foresee no changes to their working culture as a result of the changes brought about by the LSA. Time will tell.

In the meantime we hope you find these pages a thought-provoking portrait of a legal industry in transition.



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# Part one >> Towards 2012

## The law has been a protected **green belt zone** but is now nominated for development.

**“It is ABSs that have excited the most interest, as well as the most wariness, among lawyers”**

‘Change is going to happen. Those firms that provide a high-quality service effectively and efficiently will survive, and those that don’t, won’t.’ So says Jeremy Hand, managing partner of Lyceum Capital and chairman of the British Private Equity and Venture Capital Association, of ABSs.

Of the many new acronyms that the Legal Services Act 2007 has introduced into legal conversation, it is ABSs – alternative business structures, representing the radical liberalisation of ownership and investment restrictions on law firms – that have excited the most interest, as well as the most wariness, among lawyers. And yet there remains a large number who are so busy filling in their daily timesheets that they have not raised their heads to see the twin juggernauts of competition and opportunity speeding towards them.

### Where it all began

Until the turn of the decade, regulation was a relatively low-profile issue. The various branches of the profession in the main regulated themselves, with piecemeal oversight from a wide variety of bodies. But two issues combined to raise that profile: the determination of the Office of Fair Trading to investigate anti-competitive practices in the professions (not just legal), and public dissatisfaction with the way that the Law Society was handling complaints against solicitors. Subsequent consultation papers, the Clementi review, a green paper, a white paper and a draft bill, culminated in the Legal Services Act 2007, which received Royal Assent on 30 October.

The reforms have three main strands:

> **The creation of a Legal Services Board to act as the sole oversight regulator for the frontline regulators of the profession**

> **The establishment of an independent Office for Legal Complaints, which will take over the handling of all complaints against lawyers**

> **The introduction of ABSs**

The Act will take some time to bring on stream, but certain interim reforms are likely to be in place in early 2009. These will see the introduction of partnerships between the different kinds of lawyer (called legal disciplinary practices – LDPs), which can also have up to 25% of non-lawyer partners.

### LDPs – the next step

LDPs are not ABSs and so need not wait for the ABS licensing regime to be created. The Solicitors Regulation Authority (SRA) aims to introduce LDPs on 1 March 2009, but the possible fly in the ointment is the Legal Services Consultative Panel, which advises the Lord Chancellor and whose consideration of the rules could delay matters.

LDPs will allow for partnership between the eight types of lawyer – solicitor, barrister, legal executive, licensed conveyancer, patent agent, trade mark attorney, notary and costs lawyer (law costs draftsmen with certain new rights). They need only have one solicitor partner.

An LDP can only offer legal services, so the non-lawyers who can make up 25% of an LDP partnership must offer services ancillary to that, such as an accountant offering tax advice but not auditing. Partnership could also be extended

**“LDPs are not ABSs and so need not wait for the ABS licensing regime to be created”**

## “LDPs will undoubtedly be a helpful development and our survey found strong support for the concept”

to existing non-lawyer members of staff, like the head of finance, and it seems likely that this will initially be where most of the LDP action is, at least in the City, as our survey of legal and other related professionals indicates (Part two: Views from the top). 60.7% of solicitors surveyed believed that their firm would look to bring heads of support departments into partnership (Q5). A non-lawyer partner must be an individual and part of the LDP's delivery of legal services, meaning they cannot be a passive investor.

LDPs will be folded into the ABS regime once it is established. But ABSs with fewer than 10% of non-lawyer partners will be deemed 'low-risk' bodies, allowing the regulator to apply a lighter touch.

### The status quo

LDPs will undoubtedly be a helpful development and our survey found strong support for the concept. 70% of respondents believe that solicitors are ready to go into partnership with non-solicitors (Q2), and 46% believe that their firm will take advantage of LDPs (Q4). However, given that 86% of the 10,114 law firms in England and Wales have four partners or fewer, the 25% rule means most will be unable to take advantage of the non-lawyer aspect. '[LDPs] are very good news for firms like ours,' says Stephen Denyer, international development partner at Allen & Overy. 'Of course we are going to remain exclusively a law firm – we have no plans to branch out into other services. However, the added flexibility we will get from being able to make some senior non-lawyers partners could well be of value to us, depending on how the new regime is implemented. After all, I already treat our most

senior support staff – in finance, HR, BD, IT etc – as though they were partners, so really being in partnership with them would be a logical next step.'

Many of the larger national and regional firms already give non-solicitor fee-earners partner-equivalent status under various guises and will undoubtedly become LDPs. Some chambers will too, ending the tradition of self-employment at the bar as fusion moves a major step closer – although most believe that at least a senior referral bar will always be in demand, even if the junior end qualify at law firms before striking out. But certain benefits of barristers remaining self-employed – such as the absence of conflict of interest problems arising from the activities of other members of the same chambers – also weigh in favour of the bar.

LDPs will bring a new dynamic to retention and recruitment of both non-solicitor lawyers and non-lawyers. Our survey found that 47% of non-solicitors surveyed would be willing to join a partnership, and an additional 35% would be willing to consider it (Q6). Tony Williams, the former managing partner of Clifford Chance and founder of law firm consultancy Jomati, points out that firms which are sniffy about bringing non-solicitors into their partnership – because some undoubtedly will be – are under no obligation to become LDPs. 'But don't be surprised if that [non-solicitor] goes and leaves for somewhere that is,' he says.

Arguably LDPs could be of particular benefit on the high street, where firms could start working towards the 'professional supermarket' that has the potential to be very appealing to consumers and could be taken further under ABSs, of which full multi-disciplinary practices (MDPs) will

## “LDPs will bring a new dynamic to retention and recruitment of both non-solicitor lawyers and non-lawyers”

**“Despite their name, ABSs are less about structure and more about opening up ownership”**

be a subset. This is a market where the convenience of having a range of professional advisers in one place will be a major selling point.

### **Alternative to what?**

The timetable for the introduction of ABSs is uncertain. Before it happens, the Legal Services Board needs to be created – currently scheduled for the spring of 2010 – and it will establish an ABS licensing regime. The frontline regulators will then have to apply for licences to regulate ABSs, and finally potential ABSs will have to apply to an approved regulator for a licence of their own. The SRA reckons this means ABSs will probably start operating in 2012. However, David Edmonds, recently appointed chairman of the Legal Services Board, says he will look to see if it could open for business earlier, meaning the whole timetable could be brought forward.

Despite their name, ABSs are less about structure and more about opening up ownership. There will be no 25% cap, non-lawyer partners will be able to offer services unrelated to legal advice (proper MDPs), non-lawyers will be able to invest in and own law firms, and law firms will be able to float.

Given that ABSs are a minimum of three years away, it is unsurprising that few either within or without the profession have made their intentions public. Those who have are the AA and Co-op, which will effectively set up their own law firms by extending the legal services they already provide to their members to non-members, and legal expenses insurance company DAS, which has even gone so far as to

name the small personal injury practice it is likely to purchase to form the basis of its own law firm.

This reflects current thinking that the prime candidate for investment is so-called commoditised work, mainly on the retail side of legal services provision. A commoditised service is essentially process-driven work not typically requiring high-level legal input throughout a matter, such as conveyancing and personal injury. Though traditionally the bread and butter of high street practices, volume or factory firms have made large inroads into these fields, operating with large numbers of paralegals under the supervision of qualified lawyers, and driven by sophisticated case management systems.

### **Heavy investment**

MTA Solicitors is just such a firm. Set up six years ago by one solicitor and two non-lawyers, it has, very quietly, grown to 300 people in Bromley and Manchester, of whom around 50 are solicitors and legal executives, 150 paralegals and the rest support staff, handling mainly personal injury work, but also conveyancing and wills, while it is also moving into other areas, such as commercial. The solicitor-founder remains the sole principal of the practice. And it is starting to talk to private equity houses.

Co-founder and chief executive David Green, who comes from an insurance background, explains that the company was set up with a view to providing a quality product within a cost-efficient model. It invested heavily in developing its own IT system, which Green reckons is five years ahead of the competition.

**“The prime candidate for investment is so-called commoditised work, mainly on the retail side”**

## “Volume firms are different in their approach and structure to other law firms”

‘Our focus now is using the models which exist to get ourselves closer to the consumer,’ he says, a strategy which comes down to the prevalence of referral fees in the personal injury market, which can cost law firms up to £700 per case. ‘If we can get to the consumer before the claims management companies and the insurance companies, then we don’t have to pay referral fees.’

Green explains that the drain of referral fees also make it difficult for the firm to fund further expansion in the traditional way. He continues: ‘Private equity investors for us would be for no other reason than expansion... [It] would help us bring in the right people to take us into places where we currently aren’t and [increase] marketing.’

Volume firms are different in their approach and structure to other law firms. Enact was once the volume conveyancing arm of Addleshaw Booth & Co (now Addleshaw Goddard), but was bought out by the management in 2003, with the solicitors becoming licensed conveyancers to take advantage of a more liberal regulatory regime that already allowed external investment. A year later it was bought by First Title, part of US title insurance company First American Corporation.

Richard Dinning, Enact’s chairman and one-time Addleshaw partner, says this kind of business is not suited to the partnership environment, with the latter’s emphasis on hierarchy and partners making decisions. Businesses like this need separate branding, separate systems and a different way to motivate management, he explains.

## Playing the equity card

There is plenty of private equity interest in ABSs. Our survey finds that 43.2% of respondents believe that their firm would benefit from external investment, and 40% believe that their firm will take advantage of this option when ABSs come into play (Q9 and Q10). Jeremy Hand has led the private equity charge, to the point where Lyceum Capital has recruited an advisory panel to help identify and evaluate opportunities in the legal sector. He says private equity offers law firms investment in upgrading infrastructure and IT, capital for acquisitions and the purchase of partnership equity interests, as well as business expertise in accelerating growth and value.

‘The legal services market is large, fragmented and the winners enjoy great margins. But customers don’t often feel as if they are getting great value and we see opportunities to improve service standards, efficiency and profitability.’

### Four key factors make the legal market attractive to external investors, says Hand:

- > **It’s big (exceeding £20 billion)**
- > **The margins are ‘mouthwatering’, sometimes 20% or more before partner salary; far more than similar non-regulated industries**
- > **Customers do not perceive value for money**
- > **Significant scope exists for improvement in operational effectiveness and efficiency**

## “Customers don’t often feel as if they are getting great value and we see opportunities to improve service standards, efficiency and profitability”

Jeremy Hand, Lyceum Capital

The winners, in his view, will be those with scale, that offer fantastic service, that have the right infrastructure and IT, and – echoing David Green’s analysis – that have direct access to the client and so do not pay referral fees.

## Keep your decomposure

One stage firms may have to go through, according to the likes of leading commentators Professor Richard Susskind and Stephen Allen, the co-founder of consultancy Clarity Legal Services, is radically reengineering their processes.

‘If Tesco, or indeed any other big-brand retailer, does enter the market – and there will be those that will – they will view the legal market in the same way they view any other mass-market offering,’ says Allen. ‘How many will we sell? What are the raw materials that will be required to service this demand and how much will that cost us? Therefore what will each ‘service’ cost us? How much profit can we make per sale? As lawyers, we look at each matter on a case-by-case basis and so have been traditionally unable to provide any clarity as to what the end price will be.’

The answer is commoditisation and breaking down a piece of work into its constituent parts, what Susskind, who is also a member of Lyceum’s advisory board, describes as ‘decomposing’ a matter so that it becomes effectively a legal services assembly line, with the different pieces handled by different people in different locations as appropriate. He adds that this approach, which is essentially one of project management at the top, would favour the bar because ‘it is hard to see how else their service can be provided’.

The wider lesson to be drawn from this debate is that lawyers of all kinds will in future have to justify when the client should pay for them rather than Peter the paralegal with a PC – or even just an automated document production system. What value, exactly, do they add? It is a pressure many large law firms are already seeing from corporate clients, especially as dissatisfaction with the hourly rate continues to rise.

## The investor’s demands

Any investor will be looking for evidence of a good strategy, such as:

- > **Expansion – whether in scale, geographically or into new practice areas;**
- > **Mergers and acquisitions; or**
- > **A need for new systems that will reengineer processes.**

In addition, says William Arthur, the former director of professional practices at Barclays Bank who now runs Fremont Consulting, investment would enable partners to recognise the value of their goodwill rather than adhere to ‘the unwritten mantra’ that they enter partnership with nothing and leave with nothing. It will facilitate exit for partners heading towards retirement, and solve succession issues by funding their departures and also their replacements. Other benefits include funding pension deficits, delivering incentive schemes for staff (if they can have shares, for example) and helping to build the firm’s brand and profile – particularly important if well-known high street names are entering your market.

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Stephen Allen, Clarity Legal Services

**“[External investors] are looking for a strategy that demonstrates how united the business is, a real sense of purpose and how you are going to lock in your talent”**

**William Arthur, Fremont Consulting**

But he, like others, warns against lawyers looking upon external investment, and especially flotation, as simply a way to cash out. ‘The value of these businesses is in the brains. Why would an investor put money into a business to allow people to leave? When the prospectus comes in front of them, they’re looking for a strategy that demonstrates how united the business is, a real sense of purpose and how you are going to lock in your talent.’

### **Eye of the storm**

The state of a firm’s management will be under the microscope. The stereotype, of course, is that lawyers do not make good managers. Well-known law firm adviser George Bull, head of the professional practices group at accountants Baker Tilly, says: ‘I don’t think accountants are automatically any better at managing their businesses than lawyers are, but because it’s impossible for lawyers to seek managing partners who are not themselves lawyers, they get stuck in the old technocracy trap. You have to assume that your best technocrat is going to be your best manager and all the usual difficulties follow from that.’ At least under LDPs non-lawyer chief executives can be partners.

Arthur adds that investors will also want to see diversity of revenue streams, counter-cyclical opportunities and long-term contracts, such as panel arrangements. ‘They are not queuing up,’ he says. ‘But there is interest. Decent firms that make a good proposition will get investors.’

Of course, law firms need to make a judgment too. As George Bull says, they have to weigh up losing control (at least to some degree) with realising the firm’s value and

expanding the practice. When it comes to flotation, discussed in detail later, issues such as losing privacy, taking on additional regulation and disclosure requirements, and, for partners, losing their schedule D tax status also need to be thrown into the mix. ‘Astute firms are looking at what’s happened in other professions,’ says Bull. ‘Accountants by and large do without external equity.’ Those that have – generally consolidators – have a chequered history, while there have been winners and losers among the surveyors that have gone public. There are other examples of professional services firms which have floated successfully, such as patent and trade mark attorneys Murgitroyd.

### **Disciplined stand**

But all agree – and the survey results confirm – that law firms are unprepared for the discipline that comes with having an external investor that asks searching questions and expects them to be run in a more businesslike manner. 65% of respondents believe that solicitors currently do not have the management skills necessary to take advantage of ABSs (Q12). Other issues firms have to face up to, says top law firm consultant Alan Hodgart of H4 Partners, include governance (having a proper board with outside directors), IT, strategy and changing partners’ skill base – they need to become proper managers because a firm cannot just keep bringing in outsiders.

This all suggests that one model worth pursuing is to bring in a single large investor initially, with a view to shaking up the firm and preparing it for a float three to five years down

**“Law firms have to weigh up losing control (at least to some degree) with realising the firm’s value and expanding the practice”**

**George Bull, Baker Tilly**

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the line. Hodgart says: ‘It could be good for some firms to work with an outside shareholder. It would help them clean themselves up before going to AIM and multiple shareholders.’ And from the results of our survey, it would appear that lawyers are currently more comfortable with the idea of external investment than flotation. Whilst 43% of respondents believe that their firm would benefit from external investment and 40% believe that their firm will take advantage of external investment when ABSs come into play, only 19% believe that their firms would benefit from flotation and 8% believe that their firm will take advantage of this option (Q9 and Q10).

Accountancy firm Smith & Williamson has gone down this route. Chairman Gareth Pearce explains that the decision to seek external capital was taken for various reasons, but it was needed to finance a growing business, to provide regulatory capital and to act as a purchaser of partnership capital (from retiring partners).

Canadian company AGF is the firm’s main investor, with nearly 30% of the firm and two directors on the board. Pearce talks up their relationship. ‘They listen, they’re constructive, they haven’t sought to interfere in the day-to-day management of the business, not that they have the opportunity to do so, and it’s been a very good experience. A lot of that’s down to the fact that we took a lot of trouble before we got into bed with them to ensure we understood them and they understood us, and we were both happy with what each was expecting from the relationship.’ Smith & Williamson intends to float, with the goal of raising the firm’s profile, but delayed it because of market conditions.

## Banking on backing

A downside of dealing with the average private equity investor is that its priorities may be different from the partners, driven in part by its need to see an exit strategy – some are in for the long haul, but others will want to be out after three years. ‘No one has an open-ended view,’ says William Arthur. ‘At some point they’ll want their money back.’

David Furst, chairman of accountants Horwath Clark Whitehill and head of its professional practices group, observes that in a partnership or LLP, the partners can accept that profits may sometimes go down, ‘but an external investor may be more pushy... there could be concerns about professional ethics if too much pressure is put on’.

Furst, president of the Institute of Chartered Accountants in England and Wales, is something of a sceptic when it comes to external investment. ‘I see no great appetite,’ he argues. ‘Why would you want to invest in a law firm when it is so dependent on the people? A profitable, quality firm can go to its bankers and borrow at a very competitive rate [such as 1% over base], and one much lower than the rate of return of an equity investor [such as 20%.]’

This is the line that the largest law firms are taking. Stephen Denyer says he does not expect his firm or its major competitors to seek investment. ‘Allen & Overy does not have a great need for lots of extra capital. We are a successful, global law firm, and therefore able to fund our investment needs with the capital contributed by partners and our retained earnings. We think it’s a good thing that

**“Why would you want to invest in a law firm when it is so dependent on the people?”**

David Furst, Horwath Clark Whitehill

partners who work in the firm also 'own the business', and the fact that it is their own money at stake encourages them to take a cautious view, which is in keeping with the traditions of our profession.'

Tony Williams, another member of Lyceum's panel, notes that in some firms, however, growth or repositioning can place a massive strain on partner earnings if funded through the profit and loss account. Bank borrowing may be available, but many partners will be nervous of a high level of bank debt.

## Bobbing along

One obvious exit route for an investor is flotation, very much the sexy end of external investment, although, as our survey shows (Q9 and Q10), many currently view it very warily, which probably has much to do with how far from current law firm structures the prospect is. There is a great deal of speculation about who might be the first to do it (because somebody will, even if there is no great rush). Current thinking is that it will be a mid-market practice with an aggressive acquisition strategy to propel it into the big leagues that is the most likely candidate.

The managing director of a top legal headhunter, who prefers not to be named, says one of the constraints mid-market firms face is that they cannot recruit quickly enough, in part because they cannot offer better financial packages than their competitors. 'In the banking and corporate world, when people move they make seismic changes in their packages. That doesn't happen in the law. But external funding would allow it.' Share options would

open a new avenue of reward, but Denyer is unconvinced, saying the experience of corporates is that share option schemes can be 'a real burden'.

Gareth Pearce reckons a volume firm or a highly profitable first-generation specialist firm would be the best candidates for listing, as investors could see the return. 'Why would you want to put money into a mid-ranking firm with no particular market-leading characteristics that just wanted to get bigger? That wouldn't appeal to me.'

Either way, certainly for Alan Hodgart, flotation is the end game for external investment. 'Initially people were talking about private equity, but now people are saying: "Why not put 25% on AIM?";' he says.

## On the up Down Under

Australia is the country everyone turns to when discussing flotation since national personal injury practice Slater & Gordon last year became the first law firm to float in its entirety (the residential mortgage processing arm of Sydney firm Noyce Legal was floated in 2004). Shortly after Slater, Integrated Legal Holdings, essentially a consolidator such as those seen in the accountancy profession, also listed.

Slater & Gordon, by contrast, is what William Arthur calls an integrator, in that there is a strong core practice which is seeking to grow by acquisition. Giving a presentation at a recent symposium at Georgetown University in America, Slater's managing director, Andrew Grech, outlined how, back in 2000, the firm developed a five-year strategy with three main aims:

**“Initially people were talking about private equity, but now people are saying: ‘Why not put 25% on AIM?’”**

**Alan Hodgart, H4**

**“One obvious exit route for an investor is flotation, very much the sexy end of external investment”**

- > **To lead consolidation of the claimant personal injury market**
- > **To establish operations throughout Australia**
- > **To expand the range of services it offered**

It is not hard to see certain UK firms having similar priorities.

Slater considered all the options. But possibilities such as additional funding from existing and/or new employee shareholders, using existing cash flows and increasing debt facility were discounted as unable to deliver the strategy. That left flotation and private equity. Grech said listing gave the firm several advantages:

- > **A higher valuation than private equity**
- > **A stronger basis for succession planning**
- > **It allowed the shareholders to crystallise their investment**
- > **It gave easier access to debt and further equity**
- > **It enhanced the firm's ability to offer shares as consideration for future mergers**
- > **It created a viable alternative exit mechanism for the principals of merged firms**

On the downside were a potential new layer of conflicts of interest, the impact on recruitment and retention of clients and staff, the potential for loss of control, the loss of privacy, compliance costs and reporting requirements, and ongoing media and broker scrutiny. However, the time was

right for an initial public offering, Grech said. Around a third of the firm is externally owned.

Concerns over conflicts were addressed by making explicit that the firm's primary obligation is to the courts and clients, rather than shareholders. This included educating investors that this was the best way to achieve sustainable long-term value. An ownership plan was developed to retain staff, with key staff allocated shares which vest and convert when various short and long-term performance indicators are satisfied. Senior shareholders entered into voluntary escrow agreements restricting the sale of shares over a five-year period.

## A strong start

Slater & Gordon's share price started off strongly but has since dipped in line with the market generally. It has been busy acquiring other practices and opening new offices, and its half-year results announced in February 2008 showed a 48% rise in income on the same period 12 months earlier, and the firm is on track to exceed its prospectus forecast. Grech told analysts that resources would continue to be applied to brand marketing and to systems and processes to support growth.

Speaking at the same event at Georgetown, Steve Mark, the Legal Services Commissioner for New South Wales, said the perceived clash between duty to the client and shareholder had yet to give rise to problems. 'In fact, it seems to me that the commercial pressure brought to bear upon practitioners in a traditionally structured firm by large corporate clients to provide potentially ethically bankrupt

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**Steve Mark, Legal Services Commissioner for New South Wales**

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advice in fact exceeds the pressure exerted by shareholders in search of the almighty dollar upon solicitor directors.’

Research undertaken by Paul Grout, a professor of political economy at Bristol University for the UK government in the wake of the Clementi report, said the view that non-lawyer owners would put pressure on lawyers to act unprofessionally so as to maximise profit overlooks the fact that there would be little personal gain for the lawyer in doing so. By contrast, where the lawyer has a larger ownership of the business, there would be far more incentive to take the risk.

### **Name that price**

There are various other issues surrounding flotation, but one of them – the loss of partnership culture – is a complete red herring, according to Alan Hodgart. ‘Some partnerships don’t have a partnership culture anyway,’ he says. ‘I know corporations that have a better partnership culture than partnerships.’ Survey results indicate that 74% of respondents believe that the LSA will not change their firm’s working culture (Q14).

George Bull warns that listed firms will need to be prepared to see their share price tossed around with the rest of the market, irrespective of performance. Then there is the issue of holding onto key staff. As with Slater & Gordon, key staff will be locked in for a time if they want to realise their equity, but they cannot be tied in forever. ‘Once the handcuffs come off, you’ve got to make sure the business model is good enough to keep your stars,’ he says.

Perhaps the most interesting issue is how to value a law

firm, given that traditionally a figure is not put on goodwill. For David Haigh, chief executive of valuation consultancy Brand Finance, ‘law firms are no different from any other service businesses’. The only wrinkle, he says, is that partner draws are a mix of reward for their work and also recognising the risk they have taken in putting money into the firm. By contrast, in a share-based limited company, there is a clear separation between the money directors and staff are paid for their functions as executives and the amount shareholders receive for the risk of investing in the business. ‘To value a partnership on the same basis as a shareholder based company it is necessary to determine the “fair market salaries” of the partners and take this from revenues to arrive at the true profit attributable to the shareholders.’

William Arthur adds that the dominant model remains the price/earnings ratio. He suggests a starting point for the multiple may be ten times post-tax profits.

### **MDP or not MDP**

Somewhat lost among the hype about flotation has been MDPs, which were heavily debated in the late 90s before seemingly being put to bed by the Enron scandal. Our survey found that 30% of respondents believe that their firm would benefit from MDPs, and 32% believe that their firm is likely to take advantage of this option when ABSs come into play (Q9 and Q10). In any case, the consensus is that we will not see the likes of KPMG Linklaters. The largest practices operate in a market where clients ultimately pay for quality of advice, and are less bothered by the convenience of having all their advisers under the same roof.

**“Perhaps the most interesting issue is how to value a law firm, given that traditionally a figure is not put on goodwill”**

**“It would be hard enough for the likes of KPMG and Linklaters to merge in the first place, but it would also be an ongoing issue”**

Then there is the concern over conflicts. It would be hard enough for the likes of KPMG and Linklaters, to take a random example, to merge in the first place because of conflicts, but it would also be an ongoing issue, reckons David Furst. ‘You lose some of the independence,’ he says. ‘If you have a solicitor, accountant and corporate financier advising and they don’t agree with what one of the others is saying, they will say so [for various reasons, including protecting themselves]. It becomes much more difficult if they’re all from the same stable, particularly if they are not at the same level of seniority.’

But back in Australia, MDPs are firmly established, and in February PricewaterhouseCoopers brought its associated law firm into the fold to create the country’s largest MDP, citing the benefits of an ‘end-to-end service’.

South Africa saw the experiment of a bank buying leading corporate law firm Edwards Nathan in 1999. It ended with the lawyers buying themselves back out six years later, citing as one of the reasons the damage to their brand in the post-Enron era of being part of a bank and a one-stop shop for financial and legal advice.

### **High and mighty?**

The high street is seen as the most fertile market for MDPs, as consumers are more driven by price and convenience. The professional supermarket looks like a good idea in that context. ‘As a service offering to the local community, I think that’s very powerful,’ says Furst.

More generally, it is high street firms that face the biggest challenges from these reforms as most of the action will

initially be in their territory – whether coming from well-known brand names entering the market or the volume operators ratcheting up their businesses. The fear is that new entrants will seek to cherry pick the easiest and most profitable work, leaving the already shaky finances of many firms on or over the precipice. Various surveys, such as one conducted by Capita, have indicated a degree of dissatisfaction with solicitors and a willingness to consider buying legal services from well-known retail names.

Professor Stephen Mayson, a leading commentator on the reforms and director of the Legal Services Policy Institute, has predicted that 3,000 high street firms could close as a result of these reforms, and with that would come concerns about access to justice. Nobody knows whether a new entrant to the market would be interested in legal aid – although there is a school of thought that it would take a Tesco, used to working on wafer-thin margins, to make legal aid workable within current rates. It does seem unlikely that they would touch contested work for fear of having an unhappy opponent who will say ‘I’ll never shop at Tesco again’.

Commentators agree that consolidation on the high street is inevitable, particularly as the ongoing legal aid reforms are pushing firms in that direction anyway. Our survey finds that 76% of respondents believe that ABSs will lead to greater consolidation amongst law firms (Q13). Larger practices may then start looking for investment. People will be able to enjoy more and better access to justice through technology, argues Jeremy Hand, and external capital can help this process.

**“3,000 high street firms could close as a result of these reforms”**

## “There will always be room for high-quality legal services”

Nick Jervis, Samson Consulting

### Quality street

Law firm consultant Nick Jervis, of Samson Consulting, believes that those high street firms which take the time to improve their service, package it well and sell the quality aspect will be fine. ‘There will always be room for high-quality legal services. The public will realise that you get a very different service from Bank Law than you would from a firm of solicitors. If it is just down to price, I think Bank Law will win, but enough people will still be prepared to pay for quality.’

Speaking at a Russell Jones & Walker roundtable on the reforms recently, Mayson observed that while the reforms could be good for consumers, ‘I’m not alone in sitting on the end of the telephone waiting for a response from a mass provider about something that was offered cheap but nevertheless high quality’. He said there is a danger that these new providers will ‘reinvent’ the consumer experience – but not necessarily for the better. That does not mean they will fail, however. ‘The problem is that consumers are perverse,’ he said. ‘Many of them don’t like what supermarkets do to their suppliers, but they still go and shop, in their billions of pounds every year, in a supermarket. There is that danger in all of this and it would be remiss of us not to be concerned.’

### The future is already here

The reality is that, on the high street, non-lawyers are already moving into the vast swathes of legal work that are unreserved activities – the fact that ABSs do not yet exist is not greatly inhibiting them.

> For £9.99 a month, Halifax Legal Solutions offers subscribers access to a range of legal services, advice and documents. The bank is just a wrapper for the service, which are sourced from the volume conveyancing arm of a large law firm, a legal expenses insurer and legal IT company Epoq, which made its name with its automated document production system

> Epoq is also developing partnerships with a number of large regional law firms to use its automated document production facility on their websites – allowing new clients to input information themselves and allowing the lawyers to focus on the areas where their advice is needed. Epoq will also market them together both through its own web site – [www.mylawyer.co.uk](http://www.mylawyer.co.uk) – and through arrangements it already has with major financial institutions, such as More Than, NatWest and HBOS

> As well as the AA and Co-op – which are both actively marketing their legal services brands – there are other membership organisations offering legal services. Which? has a legal services arm which provides 60,000 pieces of advice a year to members. It has announced its intention to broaden the scope of the service it offers, and has said it is ‘possible’ it will set up or acquire its own law firm. Research conducted by Which? Legal Service indicated that consumers are looking for advice that is accessible – meaning both convenient and understandable – value for money and credible, and

“Non-lawyers are already moving into the vast swathes of legal work that are unreserved activities”

“Another developing theme is that of end-to-end service”

**that no current provider hits all three criteria. It also found the legal profession held in low esteem**

- > **Legal expenses insurer Arc is agreeing deals with a host of other insurers to offer their customers access to uninsured legal services at discounted rates in addition to those covered under the policy**
- > **Another legal expenses insurer, Abbey Protection, is gearing up to expand the range of legal services it provides to both insured and non-insured clients. In its prospectus to list on AIM late last year, it said that once the ABS reforms kick in, it will be ‘in a position to deliver certain legal services to clients at more attractive rates than those offered in private practice. This is because Abbey Protection believes it can manage its operations and cost base more efficiently than competitors in private practice’. Abbey also does not rule out setting up its own law firm**

Another developing theme is that of end-to-end service. Last year accident management company Helphire Group came to a ‘long-term commercial agreement’ with CS2 Lawyers, a Chesterfield-based practice known for its volume claimant personal injury work, in which it spent £10.7 million buying the CS2 Group of legal services businesses, made up of a vehicle fleet accident manager, legal expenses insurer and medico-legal reporting agency. Helphire said it may well become an ABS once allowed, explaining that the rationale of the deal was to have a tighter control of the supply chain. Similarly, defendant insurance group Parabis has various associated law firms,

as well as a variety of non-legal consulting subsidiaries, again with the aim of offering a complete service.

In the City, things are less upfront. Surveys indicate considerable interest and there is much talk of agreements already being reached, either to work together in the future or to do so now on a contractual basis, and of intentions to float. Solicitors have for some time now been able to share fees with non-lawyers in certain circumstances, although there has been precious little evidence of this provision being used.

## Foreign fields

Another unknown is the impact the reforms will have abroad. Australia may be ahead of the UK – franchising is another interesting development there – but the primacy of the English profession means what happens here has far greater international impact.

According to top US law firm consultant Ward Bower of Altman Weil, ‘reaction to the Act in the US ranges from outright ignorance to thundering indifference. I think its relevance will sear consciousness here when publicly owned UK-based firms use their new capital base to make substantially better offers to lure lawyers from London offices of US firms or to use stock options as part of a remuneration package to do the same. Or they will use those techniques to acquire firms, groups or laterals here in the US.

‘Then the US firms, particularly in New York, will clamour for a level playing field and either regulators here will acquiesce or major firms will challenge the status quo by

“The primacy of the English profession means what happens here has far greater international impact”

## “Continental European lawyers have reacted with great caution to what is happening”

inviting public ownership, armed with war chests to enable them to successfully defend against the underfunded, fragmented state regulatory bodies.’

### Traditional stance

Continental European lawyers have reacted with great caution to what is happening on the other side of the Channel. To generalise, their leaders tend to take a more traditional approach to the law, emphasising the lawyer’s role as an officer of the court and as a conduit for access to justice above the commercial aspect.

During the formulation of the reforms, the Council of Bars and Law Societies of the European Union (CCBE), which speaks for lawyers at an EU level, expressed grave misgivings about non-lawyer ownership of law firms, citing issues such as conflicts, loss of independence and breaches of confidentiality. The German Federal Bar warned that ABSs would have great problems operating in Germany because they are insufficiently independent, fuelling fears that some bars would use this and other concerns over the reforms to stifle the international expansion of City firms.

It does seem likely that potential regulatory problems abroad will make the larger firms hesitant about external investment.

However, top German lawyer Hans-Jürgen Hellwig, a former CCBE president, reckons a ban would be disproportionate. He says the risk could be addressed by having lawyers in the majority of voting rights and management. ‘Under the EC Treaty and applicable

European Court of Justice case law, the risk that indeed exists – that outside investment can negatively affect the independence of the lawyers in the ABS – cannot justify an outright prohibition,’ he says. ‘It can only justify less far-reaching requirements and restrictions.’

### Time to act

ABSs may be at least three years away, but law firms should at least be thinking about the impact of the Legal Services Act. ‘Firms of all sizes should have a strategy,’ says David Furst. ‘These things should be discussed even if they’re dismissed.’

Tony Williams says people are waking up to the reforms on two levels – do they want external capital, and if not, how do they protect themselves if the competition does? ‘It’s not a massive rush, but it’s moved up the agenda,’ he says. ‘Three years disappears if you’re looking to reorganise.’ Slater & Gordon’s float was several years in gestation.

Alan Hodgart advises firms to bring in non-executive directors for their boards – ‘that’s where some of the crazy thinking will come from’. William Arthur agrees, and reckons ultimately it comes down to strong leadership and that should be the number-one priority. ‘If the leadership isn’t there, then you can forget it because all the other good points amount to nothing.’

The law is about to lose its protected status. It is hard for lawyers to accept that selling legal advice is akin to selling a tin of beans – and in some ways they will never be the same – but the two will be much closer in future. Proving why they are not the same will be pivotal.

“ABSs may be at least three years away, but law firms should at least be thinking about the impact of the Legal Services Act”

### “The risk is that, if lawyers fail to take the initiative, someone else will”

The risk is that, if lawyers fail to take the initiative, someone else will, as has happened over the years in relation to countless fields of practice, whether tax, property selling or personal injury. The immediate impact may be on the high street, but the largest firms should not think they are immune. ‘It’s not unreasonable to think that someone like Goldman Sachs would open a boutique corporate finance firm,’ says the headhunter. ‘You do hear the view in the banking world that this Act could unlock the monopoly the magic circle has.’ Now there’s a scary thought.

>>> How – if at all – is the business and legal world coming to grips with the implications of the Legal Services Act 2007?

Spada Research has been investigating the lawyers and other professionals most likely to be affected by the opportunities and challenges which arise from the Act’s reforms. The results provide one picture of the levels of awareness and current opinions surrounding the planned changes to legal structures.

The following results are based on an online survey that was circulated via email to 511 high-level legal and other professionals. The survey was conducted between 11-28 April 2008. The sample was made up of roughly 70% solicitors, 10% barristers and other legal professionals, and 20% non-lawyers (including management consultants, accountants, funders and other professionals). The majority of professionals making up our sample are based in London, the home of 42.1% of practising solicitors in the UK, and 31.7% of private practice firms in England and Wales.

“The findings stand as an insightful ‘view from the top’”

The survey was completed by 47 respondents from over 30 law firms or professional organisations, representing a 9.2% response rate. This response rate is considered to be average for this type of e-survey, and also reflects the high calibre of the sample: 31% of the respondents are Partners, 17% Senior or Managing Partners, and 6% CEOs. The results do not represent the views of all solicitors or professionals with statistical significance. Rather, the findings stand as an insightful ‘view from the top’ of leading legal and related professional communities in the City.

#### Respondents

	Solicitors	58.7%
	Other legal professionals	10.9%
	Non-lawyers	30.4%
<b>By gender</b>	Male	79.1%
	Female	20.9%
<b>By age</b>	30-39	20.5%
	40-49	38.6%
	50-59	27.3%
	60+	13.6%
<b>By size of firm (solicitors)</b>	Under 25 Partners	26.5%
	25-80 Partners	23.5%
	81+	50%

While our survey under-weights small and medium-sized law firms, we believe the poll offers a useful view from the upper echelons of the private profession. 44.7% of respondents work in a law firm with 81 partners or more. By comparison, in 2007 private practice firms with 81 partners or more (0.5% of all firms) provided employment for just 23.7% of all solicitors. Because larger firms are more likely to be affected by and/or take advantage of the changes ushered in by the Legal Services Act, we believe this weighting is not problematic.

The gender and average age of respondents broadly reflect demographics in the senior layers of large firms.

#### Some of the terms we refer to in the survey are:

Legal disciplinary practice (**LDP**). An LDP is a new form of practice permitted by the LSA enabling firms to be owned and managed by a combination of types of lawyers, which may include up to 25% of non-lawyer partners. LDPs will be introduced in 2009.

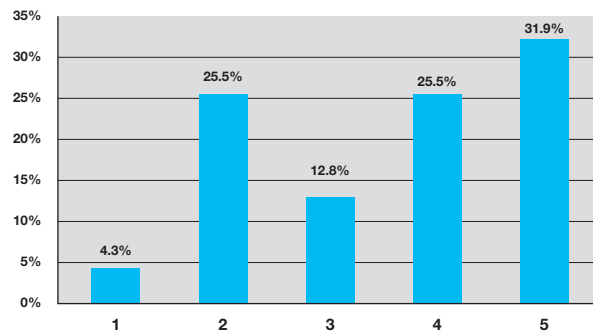
Alternative business structure (**ABS**). Alternative business structures will allow lawyers to form multidisciplinary practices (**MDPs**) with other kinds of professionals – eg accountants. ABSs will also allow non-lawyers to invest in and own firms that provide legal services. ABSs will be introduced in 2011 or 2012.

## Survey findings

Responses to fourteen questions on the implications of the Legal Services Act are reported here.

**Q1 On a scale of 1 to 5, how would you describe your level of awareness and understanding of the Clementi report and the Legal Services Act, where 1 represents no awareness and 5 is a high level of understanding?**

<b>Level of awareness</b>	<b>1</b>	4.3%
	<b>2</b>	25.5%
	<b>3</b>	12.8%
	<b>4</b>	25.5%
	<b>5</b>	31.9%



Most respondents are well informed about the LSA, with over 95% reporting some awareness and a plurality of 31.9% reporting expert levels of awareness. This reflects a probable self-selection in responding to the survey: those with low levels of understanding may not have felt competent or knowledgeable enough to complete the

survey. It also reflects the status of respondents, as senior professionals will be the decision-makers who grapple with the implications of the LSA.

**Q2 Do you believe that solicitors are now ready to go into partnership with non-solicitors?**

### Total

Yes	70.2%
No	29.8%

### Solicitors

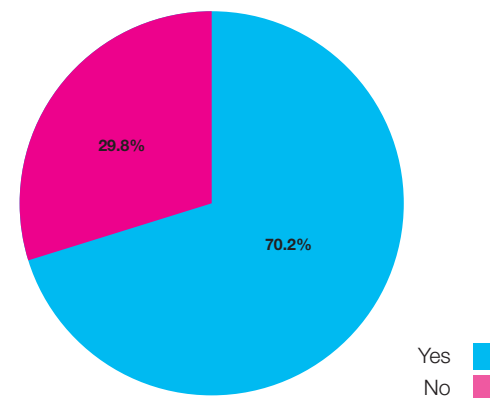
Yes	66.6%
No	33.4%

### Other legal professionals

Yes	80%
No	20%

### Non-lawyers

Yes	71.4%
No	28.6%



Yes ■  
No ■

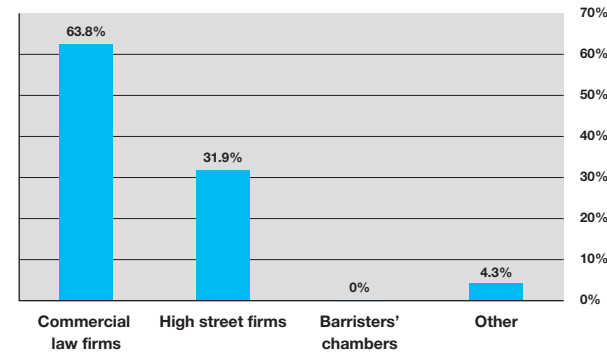
**“We already have barristers who are de facto partners”**

Most legal and other professionals believe that solicitors are now ready to go into partnership with non-solicitors. Solicitors themselves expressed the highest proportion of reservation; yet only 33% of solicitors responded that solicitors are not ready to bring non-solicitors into partnership. The sentiments of the solicitors that chose to explain their answers indicate that most believe that ‘LDPs will reflect the reality’ of current business structures in large firms. That is, solicitors will welcome the chance to make their already integral in-house accountants, barristers and finance directors partners. One respondent explains, ‘we already have barristers who are de facto partners’.

However, this opportunity will not be taken up by all firms equally. Small and medium-sized firms may not have the desire or need to make non-solicitors partners. In addition, some respondents brought up potential conflicts which may emerge due to conflicting professional codes: ‘non lawyers do not understand the professional obligations when acting for a client or the concept of legal privilege ... this is information which cannot be shared with someone who is not bound by the same rules and professional ethics. I think these issues will cause a great deal of friction.’

**Q3 What type of legal practice do you think is most likely to take advantage of legal disciplinary practices (LDPs) in 2009?**

<b>Commercial law firms</b>	63.8%
<b>High street firms</b>	31.9%
<b>Barristers’ chambers</b>	0%
<b>Other</b>	4.3%



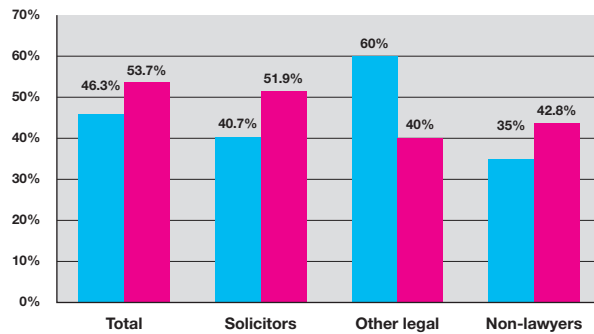
Confirming the widespread intuition, most respondents believe that commercial law firms will be the most likely to take advantage of LDPs in the first place. Two respondents specified that mid-market or lower mid-tier firms would be the most likely candidates. Many respondents also believe that high street firms are poised for LDPs in 2009. Again confirming conventional wisdom, no one believes that barristers’ chambers are likely to take advantage of LDPs in the near future.

**“Commercial law firms will be the most likely to take advantage of LDPs in the first place”**

**Q4 Do you believe that your firm will take advantage of LDPs?**

<b>Total</b>	Yes	46.3%
	No	53.7%
<b>Solicitors</b>	Yes	40.7%
	No	51.9%
	No response	7.4%

<b>Other legal professionals</b>	Yes	60%
	No	40%
<b>Non-lawyers</b>	Yes	35%
	No	42.8%
	No response	22.2%



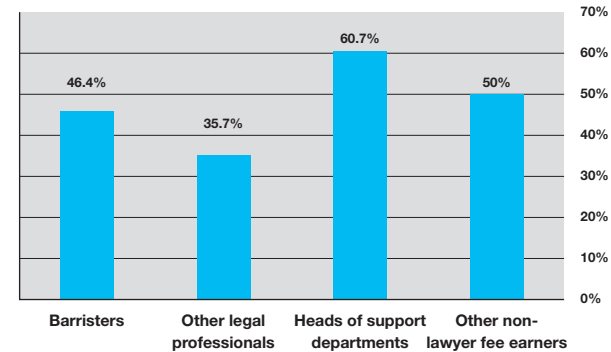
**“Most solicitor respondents believe that their firm will not take advantage of LDPs”**

Legal and other professionals are fairly equally divided about whether their firms or organisations will take advantage of LDPs. Most solicitor respondents believe that their firm will not take advantage of LDPs (though by a small margin, 51.9%). Additional comments indicate that most legal professionals believe that their firm will take advantage of LDPs eventually, but ‘not as a first mover’ and ‘not for some time’. Change will likely occur gradually, as firms wait for when ‘the time is ripe’.

**Q5 If so, what kinds of non-solicitors do you think your law firm would be looking to bring into partnership?**

<b>Barristers</b>	46.4%
<b>Other legal professionals</b>	35.7%
<b>Heads of support departments</b> (eg Head of Finance, HR and Marketing)	60.7%
<b>Other non-lawyer fee earners</b> (eg accountants, surveyors)	50%

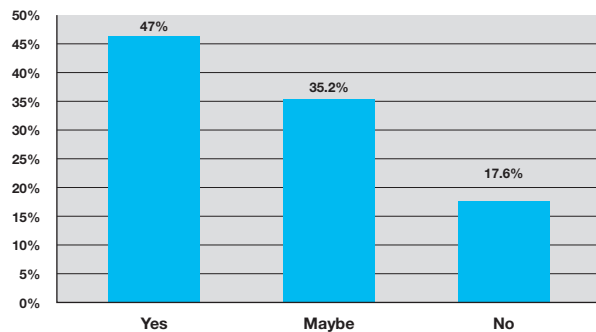
**“Solicitors believe that their law firms would be interested in bringing a range of other professionals into partnership”**



Solicitors believe that their law firms would be interested in bringing a range of other professionals into partnership, with the most popular response being heads of support departments (60.7%). Other non-lawyer fee earners were also thought to be potential partners (50%), with respondents overwhelmingly commenting that their firm would look to bring in accountants. Many solicitors also believe that barristers (46%) and other legal professionals (35.7%) will be targeted for partnership in their firm.

**Q6 If you are a non-solicitor, would you be willing to join a partnership?**

**Yes** 47%  
**Maybe** 35.2%  
**No** 17.6%

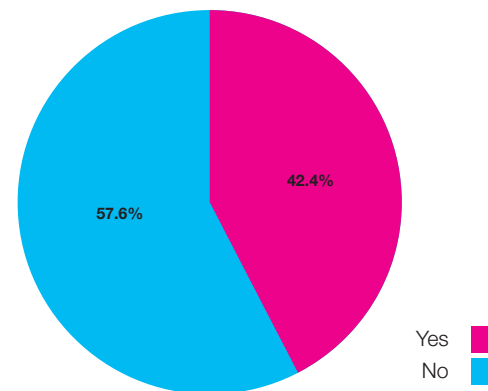


**“I have spent two years in-house with a client law firm, and would have welcomed the opportunity to become a partner.”**

A substantial minority of non-solicitors surveyed would be willing to join a partnership (47%). However, further comment reveals that this will likely depend upon the structure of the firm (‘if an LLP’) and the firm itself (‘not only business outlook, but culture and openness to ideas’). One respondent commented, ‘I have spent two years in-house with a client law firm, and would have welcomed the opportunity to become a partner.’

**Q7 Will LDPs be good for the bar?**

**Yes** 42.4%  
**No** 57.6%



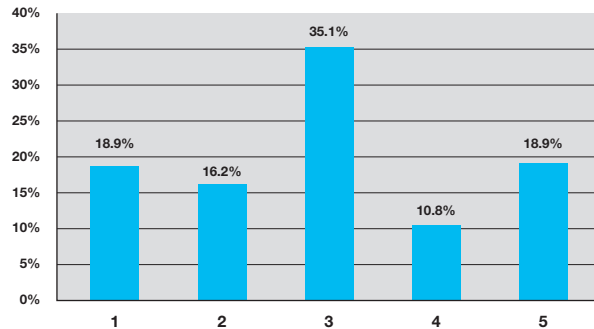
Responses to this question were fairly evenly spread: legal and other professionals are not sure about how LDPs will affect the bar. This ambivalence was reflected in further comments, with many respondents expressing uncertainty (‘I don’t know’, ‘No idea’, ‘Unsure’). Some respondents were of the opinion that LDPs will cause further erosion to the bar: ‘law firms will attract many independent barristers so I think that the independent bar will shrink’, ‘the bar will increasingly be under threat apart from specialists’, and even ‘it is clear to me that the independent bar will now disappear in the next 10 years’. Some believe that the bar could adapt by making structural changes, ‘opening up alternative career prospects for barristers’, and offering barristers alternative career prospects which could compete with the new opportunities of LDPs.

**“Some believe that the Bar could adapt by making structural changes”**

**“Most legal and other professionals believe that their firms or organisations are preparing for the challenge of alternative business structures”**

**Q8** On a scale of 1 to 5, what is your firm's level of preparedness for the challenge of alternative business structures (ABSs), where 1 represents no preparedness at all, and 5 is prepared for fundamental change?

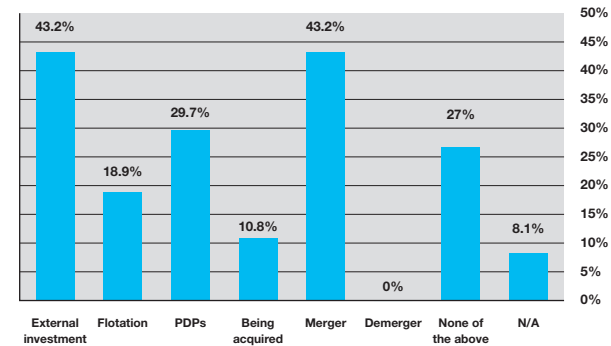
Level of preparation	Percentage
1	18.9%
2	16.2%
3	35.1%
4	10.8%
5	18.9%



Most legal and other professionals believe that their firms or organisations are preparing for the the challenge of alternative business structures, with over 80% reporting some level of preparation. The plurality of respondents believe that their firms have an average level of preparation (35.1%).

**Q9** Looking forward to 2012, please indicate whether you believe your firm would benefit from the following (please select all that apply):

External investment	43.2%
Flotation (full or part)	18.9%
MDPs	29.7%
Being acquired by a non-legal entity	10.8%
Merger	43.2%
Demerger/divestment	0%
None of the above	27%
Not applicable	8.1%

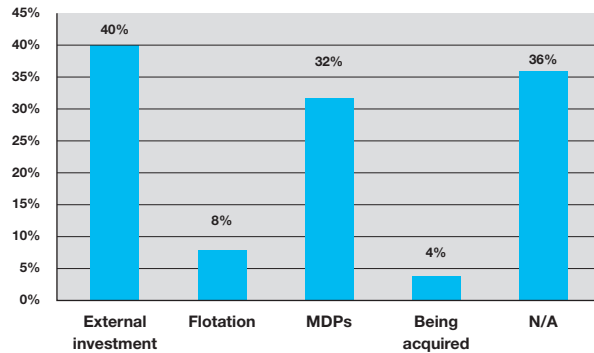


Legal and other professionals believe that their firms would benefit from several types of alternative business structure. The changes thought to have the most potential are external investment and merger, with 43.2% of respondents indicating that their firm would benefit from both of these. Comments suggest that solicitors believe that they should not be tied to traditional structures if better and more attractive options arise: ‘anything is possible if it is in the best interests of the firm’.

**“The changes thought to have the most potential are external investment and merger”**

**Q10 Do you think that your firm will take advantage of any of these new options?**

<b>External investment</b>	40%
<b>Flotation (full or part)</b>	8%
<b>MDPs</b>	32%
<b>Being acquired by a non-legal entity</b>	4%
<b>Not applicable</b>	36%



**“32% of respondents believe that their firm will take advantage of MDPs”**

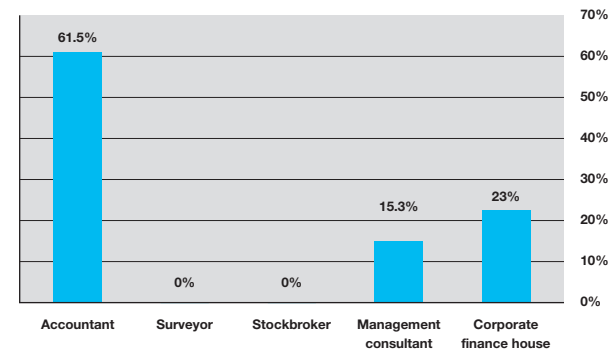
This follow-up question was designed to ascertain whether legal and other professionals feel that their views about ABSs are consistent with the actions they believe their organisations will take. Responses suggest that professionals believe individual and organisational attitudes converge on the value of external investment and MDPs. 40% of respondents believe that their firm will take advantage of external investment, comparing favourably to the 43.2% who believe it will benefit the firm. Similarly, 32% of respondents believe that their firm will take advantage of MDPs, compared to the 29.7% who believe that their firm

would benefit from MDPs. Attitudes toward flotation and being acquired by a non-legal entity bring up greater discrepancies. Fewer respondents believe that their firm will take advantage of flotation (8%) or being acquired by a non-legal entity (4%) than their previous responses indicate would be beneficial (at 18.9% and 10.8% respectively). Further comments reveal that professionals believe that the powers that be are ‘not yet focused on these issues’ and that firms will ‘not yet’ take advantage of certain options ‘but it [my firm] should’.

**“Attitudes toward flotation and being acquired by a non-legal entity bring up greater discrepancies”**

**Q11 If your firm were to form a multidisciplinary partnership (MDP), which type of partner would be most likely (please select only one option)?**

<b>Accountant</b>	61.5%
<b>Surveyor</b>	0%
<b>Stockbroker</b>	0%
<b>Management/HR Consultant</b>	15.3%
<b>Corporate finance house</b>	23%

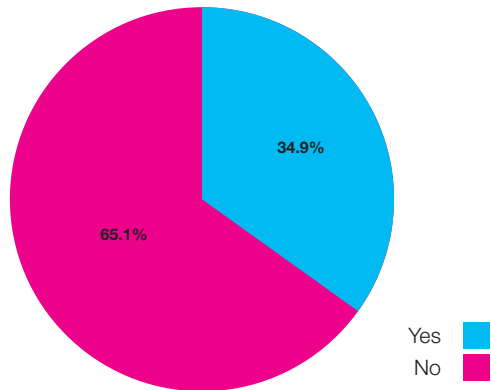


**“By and large professionals believe that management is not a particular strength of law firms”**

Responses to this question indicate that most solicitors believe an accountancy firm would be the most likely partner if their firm were to form an MDP (61.5%), though corporate finance house also returned a significant number of responses (23%). These findings are broadly in line with perceptions (measured earlier in the survey) that firms would look to bring accountants into partnership in LDPs.

**Q12 Do you think solicitors currently have the management skills necessary to take advantage of ABSs?**

**Yes** 34.9%  
**No** 65.1%

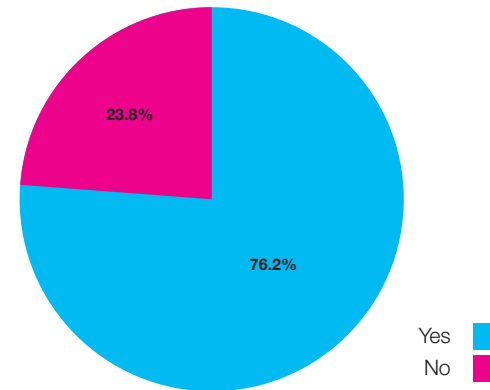


Most legal and other professionals do not believe that solicitors currently have the management skills necessary to take advantage of ABSs. Further comments suggest that whilst respondents believe that this is a complex issue (‘this is probably a some yes/some no answer – firms that

already have a modern business approach do take management skills seriously’), by and large professionals believe that management is not a particular strength of law firms as a whole (excluding those leading City firms with very profitable models). One respondent even quipped, ‘What management skills?’ The majority pointed out that law firms rely on external training, consultants and other financial advisers, who will see them through the new regulatory environment.

**Q13 Will ABSs lead to greater consolidation amongst law firms?**

**Yes** 76.2%  
**No** 23.8%



The majority of legal and other professionals believe that ABSs will lead to greater consolidation amongst law firms (76.2%). Further comments, however, reveal a range of views on ABS’ potential impacts. Some believe that the

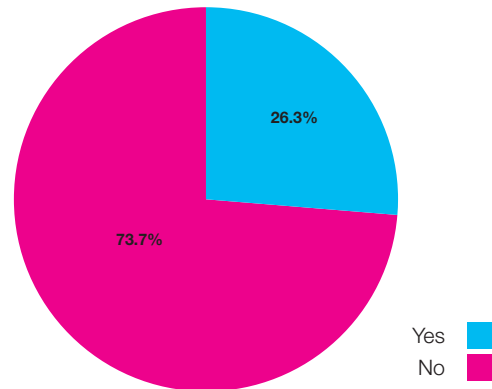
**“The majority of legal and other professionals believe that ABSs will lead to greater consolidation amongst law firms”**

## “With the intro of ABSs we will see more one-stop shops for professional services”

trend to consolidation is already here, ‘this will just change it for certain participants’. One respondent says, ‘There has already been a major increase in merger activity within the medium size sector, the market is already consolidating as many sole practitioners are mopped up, either because they have no succession planning in place or because they realise the need to be part of something bigger. With the intro of ABSs we will see more one-stop shops for professional services’. Still others believe that consolidation will not necessarily be the result, rather ‘the division between the very large and the very small will become greater’.

### Q14 Do you think that implementation of the Legal Services Act will change your firm’s working culture?

Yes 26.3%  
No 73.7%



Most solicitors believe that the LSA will not change their own firm’s working culture. Some responses revealed sharp defence mechanisms: ‘we are already run on very commercial lines’; ‘we have already modernised considerably’. Others express a strong preference to maintaining the current culture: ‘we shouldn’t do anything which might impact on culture’. Still others believe that change is at hand, and should be embraced: ‘The firm has to become even more consumer-focused, market aware and business-like. Relying on traditional methods of getting clients/business won’t be enough’; and, ‘I believe law firms will need to change their culture, more quickly than some would like. Law firms should be run as commercial operations, if they can’t change the culture within, they will not survive’.

## “Most solicitors believe that the LSA will not change their own firm’s working culture”

# Suggested further reading

College of Law's Legal Services Policy Institute – papers:

<http://www.college-of-law.co.uk/about-the-college/Institute-Papers.html>

“In the future supermarkets will write your will while a high street bank sorts your divorce” – 2006 press release on survey by Capita:

<http://www.capitainsuranceservices.co.uk/990.htm>

Integrated Legal Holdings – press releases and presentations:

<http://www.ilh.com.au/MediaCentre.asp>

“Law firm governance: the rise of external investors” – a paper by Stephen Denyer, Allen & Overy:

<http://www.allenoverly.com/AOWEB/Knowledge/Editorial.aspx?contentTypeID=1&itemID=44283&prefLangID=410>

“Law firm of the 21st century” – a report by Eversheds:

[http://www.eversheds.com/uk/home/21st\\_century\\_report\\_reg\\_page/where\\_is\\_the\\_legal\\_profession\\_heading.page?](http://www.eversheds.com/uk/home/21st_century_report_reg_page/where_is_the_legal_profession_heading.page?)

“Law Firms, Ethics, and Equity Capital: A Conversation” – published by Georgetown Law School Center for the Study of the Legal Profession:

<http://www.law.georgetown.edu/legalprofession/documents/firmsethicsequity.pdf>

Ministry of Justice microsite updating implementation of the Legal Services Act:

<http://www.justice.gov.uk/whatwedo/legalservicesreform.htm>

Office of the Legal Services Commissioner of New South Wales – various papers on publicly listed law firms:

[http://www.lawlink.nsw.gov.au/lawlink/olsc/ll\\_olsc.nsf/pages/OLSC\\_speeches](http://www.lawlink.nsw.gov.au/lawlink/olsc/ll_olsc.nsf/pages/OLSC_speeches)

Slater & Gordon – reports and presentations:

[http://www.slatergordon.com.au/pages/reports\\_presentations.aspx](http://www.slatergordon.com.au/pages/reports_presentations.aspx)

Solicitors Regulation Authority microsite on the Act:

<http://www.sra.org.uk/legal-services-act.page>

The future of the global law firm – a symposium hosted by Georgetown Law School Center for the Study of the Legal Profession. For papers and reports:

<http://www.law.georgetown.edu/legalprofession/index.html>

“The investors are coming!” – a presentation by William Arthur, Fremont Consulting Ltd:

<http://www.fremontconsulting.co.uk/news/default.asp?storyID=5>

“The merits of engaging with external investors” – papers from a Managing Partners' Forum seminar:

[http://www.mpfglobal.com/events/previous\\_reports.aspx](http://www.mpfglobal.com/events/previous_reports.aspx)

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