



The Law Society

Legal breakfast summary

Building successful legal businesses in the post-Legal Services
Act world

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supporting
solicitors

This is a summary of the discussions at the first in a series of Law Society Legal Breakfasts: *'Building successful legal businesses in the post-Legal Services Act world'*. Speakers were Lord Falconer of Thoroton and Alan Hodgart. Their remarks were followed by a discussion with business leaders from city firms, potential investors and business partners, and policy makers.

Chairing the breakfast, Andrew Holroyd, President of the Law Society, opened the event by highlighting three key dynamics of change that the Law Society is taking a particularly close interest in: first, the internationalisation of legal services and the importance of 'Chindia' and other emerging markets; second, the potential for outside capital to transform the market; and third, the governance of firms, posing the question: is the partnership model past its sell by date?

Reflecting on the Legal Services Act, Lord Falconer stated that he believed the new legislation would be a facilitator, not a creator of change. In particular he pointed to the changes on restrictions on solicitors and barristers, the introduction of Legal Disciplinary Partnerships in 2009 and external capital in 2012, the potential for which was demonstrated by the \$35 million raised by Slater & Gordon in Australia. All these individual reforms were part of a wider process of change towards the Government's goal of a truly consumer driven market.

Lord Falconer attributed the very strong brand of the UK legal profession to the maintenance of high ethical standards and quality standards, together with the benefits English Law brings. He therefore stressed his desire for regulation to ensure these standards of quality and propriety are preserved.

Looking to the future, Lord Falconer reminded the audience that 2012 is closer than the profession might think. He therefore stressed that now is the time for the legal profession to fully consider issues such as raising capital from external sources, a consolidation in various sectors of capital markets and the added opportunity to compete abroad e.g. in New York. Those not advanced in their planning will find it will not be them doing things to the market, but the market doing things to them.

Alan Hodgart began by saying that the new legislation is in fact a continuation of an existing process of change in the legal services market. The legal profession had, he explained, undergone change faster in the last 10 to 15 years than any other profession. Citing the massive increase in the number of solicitors in the top 25 law firms from a mere 3,500 in 1987 to 25,000 today, he said this change had been accompanied by a shift in business models.

Alan believed the Act will lead to greater specialisation and the development of more specific types of practice and therefore change on two levels. First, at the lower value commodity end of the market, he argued massive inefficiencies exist, and that technology would lead to more amalgamations. This had attracted the attention of outside investors who are already very interested observers in the development of the legal services market. Second, at the more commercial 'upper end' of the market, he believed that the ability to grow a business is currently underrated by many people and that consolidation is also set to increase.

The rationale for firms to examine their business models was therefore, he believed, compelling. He posed the question: imagine your firm raises 25 percent of its capital value – how would that change your business? Yet while all firms should be asking themselves this question, not all are. Alan also emphasised that the profession should not only focus on business models, and that there is not necessarily a connection between the business entity and the culture.

Finally, returning to Andrew Holroyd's theme of the profession in England and Wales leading the world, Alan was of the opinion that the Magic Circle is ahead of their American counterparts strategically. The Legal Services Act will allow the UK profession to become the dominant profession in the world as the access to capital and the ability to consolidate could give it extra power on the global stage.

The issues surrounding new business models led to discussions among participants about whether international law firms could be prevented from practicing in some jurisdictions if they raise outside capital. Would investment in law firms therefore be restricted to smaller, nationally focused firms outside the Magic Circle and chasing pack? Alan explained how the Swiss Verein model has been used for years by accountants. It allows you to raise money in the UK which can be transferred to other countries through the Verein. Each member firm of the Verein remains a separate legal entity and can not therefore be prevented from practicing.

Asked what evidence they had that law firms were preparing for the new legal landscape, Alan Hodgart said he knew of several non-law businesses that are already examining the commodity end of the market and that change is inevitable. Lord Falconer concurred, and added that markets anticipate what is going to happen.

In the event of a law firm floating, could it suffer from rivals buying shares? What protections could exist? In this respect it was noted that the legal services market would not be unique. Banks in the City of London are already quoted on both the London stock market and on other stock markets too. The profession could therefore anticipate these strict conflict rules to be replicated in the legal services market. On a separate point it was noted that partners will find themselves locked in on the vesting of shares over a period of time. This has happened elsewhere and no investor would invest in such a human capital based business without such reassurances locked-in.

Concerns about the future regulatory framework were raised by a number of participants. First, was whether regulation would invariably become more complex and complicated. Alan Hodgart reminded everyone that just as the reforms to the market were nothing new, nor was the prospect of concomitant change to the regulatory framework. While quite strict regulations were instituted when the Big Bang occurred in 1987, they were also quite light-touch. These regulations preserved propriety without being so oppressive so as to drive out innovation.

Second, was the issue of whether solicitors are operating on a level playing field given that they have to wait four years for external investment. In terms of business strategy the simple answer was that this was a business reality and should be an added incentive for lawyers to be ready, and to plan, for 2012.

On a broader point about the regulatory framework Alan Hodgart argued that there is no such thing as a single legal market any more. It is broken down into different segments, and each segment has different regulatory requirements, so it may not be the case of one size fits all. It was noted that this highlighted the importance of the Law Society in representing every strand of the profession, and that the Law Society would be discussing the way the Solicitors' Regulation Authority regulates ABSs with them in 2009.