



Supporting
Solicitors



Relationship Management Team Strategic Review August 2015

Welcome to the August edition of your strategic review, this month features items on innovation within the legal sector, a review of some of the Law Society's 2020 strategy work as well as the usual content on regulatory issues relevant to your firm. Please feel free to share this report with your colleagues where appropriate.

Best regards
The Relationship Management Team

Growth

Business growth remains an important consideration for owners of law firms. In addition to traditional paths (organic growth, equity partnerships, recruitment, merger), firms can utilize options around ABSs, MDPs, and external ownership via public shareholding.

Mergers: the market has seen significant law firm-to-law firm amalgamation and this is likely to continue. Mergers of course bring their own challenges, not least in managing often different cultures and processes, and research by [The Gazette](#) suggests a declining appetite for them. Possibly this is on the back of an improving economy and corresponding business confidence; to quote The Gazette, mergers decline as 'defensive' consolidation becomes less prevalent.' Factually, in 2014 there were 174 mergers, down from 196 the previous year – and a 30% fall since 2011.

New opportunities: in [July's Strategic Review](#) we commented on SRA's proposals to change the [Separate Business Rule](#), allowing solicitors to own or be connected to separate businesses providing non-reserved legal services. The [Legal Services Board](#) has since approved the proposals and the change will form part of Version 15 of the SRA Handbook in November.

External ownership: Gateley Plc has made recent headlines as the first SRA-approved plc in England. Gateley Plc has raised £30 million through trading its shares on AIM, London Stock Exchange's international market for smaller growing companies. [According to the SRA](#), Gateleys Plc brings light to a new opening up of the market through flexible regulatory practice.

Following the theme, [Russell Cooke Managing Partner Jonathan Thornton](#) has shared his thoughts on the challenge of becoming a publicly listed firm, not least whether the 'corporate world' of English law firm culture suits external shareholder investment.

Innovation in Law firms

Solicitors are becoming more innovative according to a [study of innovation](#) in the legal sector by the SRA and the Legal Services Board:

- ABSs are between 13-15% more likely to introduce new legal services than other types of regulated solicitor firms
 - over a quarter of all providers have introduced a new service in the last three years
 - 80% of legal organisations feel that they have a culture and leadership which is open to new ideas
 - 40% of organisations have put in place organisational procedures to support innovation and the development of new ideas
 - innovation extends service range, improves quality and attracts new clients, and
 - a majority of providers see regulation as broadly neutral to positive for innovation but there are some areas where providers believe regulation has a negative impact on innovation such as client accounts and client complaints.
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Global competitiveness of solicitor brand

The majority of solicitors attach a strong value to the brand of solicitor according to the [Law Society's 2020 Review](#). The solicitor brand, and UK legal system, has a strong international reputation, and a new [global competitiveness report](#) emphasises the importance of the training contract in distinguishing UK solicitors from international competitors. The report goes on to highlight concerns that SRA proposals around changes to the entry route into the profession may damage the brand's global competitiveness.

On a related theme, Legal Futures highlights a [long-term campaign](#) to boost the 'solicitor brand' by the Law Society, which will target big business and in-house lawyers as buyers of legal services.

Should the boss use social media?

Social media is one of those things that gets talked about but is often viewed with some skepticism, particularly, ahem, amongst today's generation of Managing Partners. Skepticism is not universal however and an increasing number of business owners and top-end individuals are venturing into the digitalised world. A [social media feature by the BBC](#) offers an interesting insight into both the pros and cons of bosses using social media. A significant plus is it's a way for CEOs to have direct interaction with the public, and for companies to come across as more human. A major downside for the unwary is the ever present danger of foot-in-mouth disease.

Business and human rights – a heads up

Some background ... In 2013 the [UK Government](#) launched an action plan on business and human rights, becoming the first country to set out guidance to companies on integrating human rights into their operations. [Good Business: Implementing the UN Guiding Principles on Business and Human Rights](#)' outlined the Government's commitment to protect human rights and expectations for UK companies. The plan was a response to the [UN Guiding Principles](#) on business and human rights.

Relevance for law firms today ... Law firms will be under pressure (and scrutiny) to recognise human rights, not only due to corporate responsibility obligations, but also the needs of clients. Three key areas are likely to have implications for lawyers and law firms in the UK:

- **Advisory and other legal services provided by lawyers and law firms to clients:** Clients' awareness of their human rights responsibilities may increase requests for legal advice to help manage risk. Lawyers will have a role in raising awareness among clients of such risk exposure.
- **Management of law firms as business enterprises:** As business enterprises, law firms have a responsibility to respect human rights, avoid adversely impacting human rights through their operations and business (including client) relationships.
- **The professional responsibilities of lawyers and law firms:** Lawyers must meet their responsibilities in a manner that complies with their regulatory obligations.

In the Autumn the Law Society's [Business and Human Rights programme](#).

Leading and developing legal teams: seven top tips

Our [new blog](#) includes seven tips to successful leadership of legal teams. Tip 4 is 'Get the team together – but with a purpose.'

Market Conditions

Insights during [2020](#) paint a mostly positive picture of market conditions with some law firms looking to offer wider business-related services outside of the more narrow definition of legal services. In part this is in response to perceived growing competition from accountants. With improved economic conditions however comes pressure for wage increases, and firms are looking at talent retention and recruitment strategies.

Some of these factors are also highlighted in the [Bank of England's July Summary of Business Conditions](#):

- Growth of consumer services turnover had been steady, but retail sales values growth had eased.
 - Housing market transactions had picked up and house prices had risen.
 - Investment intentions pointed to moderate growth in capital expenditure over the next twelve months.
 - Business services turnover growth remained firm overall, with growth in professional services outpacing other business services.
 - Manufacturing output growth remained modest, although growth in manufacturing exports had edged up from a low base.
 - Construction output growth had been steady.
 - Corporate credit conditions had eased further.
 - Employment intentions had continued to increase.
 - Recruitment difficulties had risen to their highest level since 2007, having broadened across sectors.
 - Growth in total labour costs per employee had been little changed, but there were signs of building wage pressures.
 - More ...
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Regulation Update

Separate Business Rule – an update

[July's Strategic Review](#) highlighted proposed changes to the [Separate Business Rule](#) - enabling solicitors to own or be connected to separate businesses providing non-reserved legal services. Since then the Legal Services Board has approved the changes with the consequence that the changes should form part of Version 15 of the Handbook when it goes live on 1 November.

EU ADR Directive

The government has updated the guidance for alternative dispute resolution. Solicitors now have until October 2015 to comply with the [EU ADR Directive](#). See [July's Strategic Review](#) for further information.

New Consumer Credit Proposals (open consultation to 6 August)

SRA has issued new proposals for the regulation of solicitors doing [consumer credit work](#). Under the proposals, the SRA would continue to regulate solicitors undertaking certain consumer credit activities as long as they are central to the legal services they provide.

SRA-authorized firms that mainly carry out consumer credit activities already require FCA regulation. The changes mean firms may now also require authorisation by the FCA if they undertake prohibited activities that are not considered central to their legal services practice.

Reporting Accountants' requirements relaxed

Requirements on the submission of [accountants' reports](#) are set to be relaxed. Accountants will be able to use their professional judgement in future to assess if the reports they prepare for solicitors' practices comply with SRA account rules. Accountants will no longer need to qualify accounts for trivial breaches of the rules, but instead can focus on risks to client money. The changes should improve the value of accountants' reports and reduce the burden on firms, according to the SRA

Practice Notes from the Law Society

[Meeting the Needs of Vulnerable Clients](#)

[Social media](#)

[Outcomes-focused regulation: overview](#)

Events

Upcoming key conferences are highlighted here:

[Small Firms Division](#) Annual Conference (24 September 2014)

[Commercial Litigation](#) Conference (5 October)

[National Property](#) Law Conference (9 October)

[Lexcel Conference](#) (21 October)

[Law Management Section](#) Finance & Business Conference (11 November 2015)

[Anti-Money Laundering](#) and Financial Crime Conference (18 November 2015)

For full details on the above and our full programme of events please visit the [events](#) page.