INTRODUCTION

7.1 LSA 2007 permits the biggest ever change in the structure and ownership of the English legal profession. This chapter considers how the legal profession has developed over the last 30 or so years into a legal industry and how it is likely to develop in the wake of the full impact of the LSA 2007. Many of the trends in the profession that have applied over the last generation will continue to apply, but change will be accelerated by four factors: the LSA 2007; the current economic downturn; changing demographics and aspirations in law firms; and the changing needs and demands of the client. In this context, the LSA 2007 is only one, but a major, accelerant of change.

It is often suggested that the law is a conservative profession that has seen very little change in the past generation. In some respects this is true, but in others it is wholly inaccurate. This chapter will review what has and has not changed and the likely changes that lie ahead.

THE CHANGING LAW FIRM

7.2 Until the 1970s law firms were generally small, clubby, male-dominated institutions (the limit to 20 partners for professional firms was only abolished in the Companies Act 1967) often dominated by the members of one or two families. From the mid-1970s a number of factors started to change the traditional firm. First, the post-war baby boomer generation started to aspire for partnership. This was generally a less conservative, more aggressive and less deferential group than the existing partnership. They were prepared to work hard but also wanted a fair share of the fruit of their toils. Once in the partnership they were not prepared to accept the old paternalistic approach to profit distribution and management. Although their progress through the partnership hierarchy was slow and steady, it was to have a profound effect on their firms.

It should also be appreciated how relatively small even the leading firms were in the 1970s. In late 2008, David Morley, the senior partner of Allen & Overy,
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recalled at a seminar that he recently attended a retirement party for a partner who had joined the firm as a trainee (then an articled clerk) in 1970. At that time Allen & Overy had 18 partners, an annual fee income of £1.2 million and profit per equity partner of £23,000. In the year to 30 April 2008, Allen & Overy had 362 equity partners, fee income of £1,016 million and profit per equity partner of £1,122,000.

A second trend in the 1970s was the UK’s accession to the European Economic Community (now European Union) in January 1973. This caused many in business to start to look at Europe rather than the Commonwealth as our major market. Some English firms already had small historic offices in Paris or elsewhere in continental Europe, but these were the exception. From the mid-1970s firms started their first tentative steps abroad and this trend increased dramatically in the 1980s, not just in Europe but to Asia (especially Hong Kong and Singapore) and in the early 1990s to Russia and Central and Eastern Europe following the collapse of the Iron Curtain. The growth of British firms internationally has often been contrasted by the reluctance (until relatively recently) of the major US firms to stray away from home. Unfortunately it is probably inappropriate to put this internationalisation down to great foresight by the British firms, although there clearly were some visionaries in them. It is more down to the fact that the UK was and is a relatively small economy. If firms wanted to expand – and with the baby boomers pushing for partnership they had to – they needed to follow their clients (and in some cases anticipate their clients) as they spread their activities outside the UK. Given the size of the US economy, the US firms, then, faced no such pressure.

Two further major changes occurred with the election of Margaret Thatcher’s government in 1979. First, the UK abolished exchange control. Before then investments abroad needed Bank of England approval. This was one of the foundation stones of London’s emergence 25 years later as the world’s dominant international financial centre. Second, were the successive reductions in income tax rates from a top rate of 83% in 1979, first to 60% and then to 40%. Partners now had an incentive to develop their business and to generate more income. The UK has until now maintained a 20-year political consensus that the top rate of income tax should not exceed 40%. This consensus may be broken by the need to fund the effects of the credit crunch.

These events resulted in firms growing significantly through the second half of the 1970s and the 1980s. International offices were opened and expanded, practice groups were established, management structures were developed and time recording was introduced. All of this was achieved organically until, in 1987, Coward Chance and Clifford Turner merged to create Clifford Chance. This was followed later by other mergers such as Durrant Piesz and Lovell White and King. Even at this stage it was not clear that a genuine Magic Circle had arrived. This did not really become apparent until after the recession in the early 1990s when the five current Magic Circle firms – Allen & Overy, Clifford Chance, Freshfields, Linklaters and Slaughter & May – emerged as significantly stronger in terms of depth and breadth in the key practices of corporate and finance. This dominance was enhanced by a series of German
mergers in the late 1990s and into 2000: Linklaters with Oppenhoff; Freshfields first with Deringer and then with Bruckhaus; and Clifford Chance with Punder. Since then, these firms have established major operations in the business and financial capitals of the world. The one market where the firms have only had limited impact is the US. Generally, the firms have been limited to relatively small operations in New York and Washington DC. Clifford Chance tried a merger with Rogers & Wells in 2000 with, at best, mixed results and compounded its woes with a disastrous move into California. Whether the current downturn will present opportunities for these firms to expand in the US by lateral hiring or merger remains to be seen.

It is quite staggering to realise how the larger London-based law firms have changed in one working generation. They now have dedicated management, top-level professional support (who, under the LSA 2007, can now be granted partnership status), strong IT infrastructure, effective marketing and business development teams (in the 1970s such marketing would have been considered unprofessional conduct and a breach of the relevant professional conduct rules). But, as firms have changed so to has the role and status of the individual partners.

THE CHANGING PARTNERSHIP

7.3 Partnership in the early 1970s resembled a gentlemen’s club (and it was almost solely men). For those who accepted it, in some cases due to a family connection, partnership pretty much guaranteed a job for life. It was unheard of for a partner to leave, and to leave to join another firm was totally impossible. Indeed, until the 1990s there was a ‘gentlemen’s agreement’ in place between the larger UK firms not to try to poach each other’s partners and staff. By the late 1980s there were isolated cases of partners being asked to leave law firms, but this situation changed quite dramatically in the early 1990s’ recession. This bit particularly deep in the legal sector and forced many firms to address a range of partner issues that they had been ignoring in the good times. This fundamentally changed the nature of the individual’s relationship with the firm. In reality, the partnership for life was gone and replaced by a partnership at will, on both sides. The firm kept the partner if he was developing and managing a good and profitable business, behaved acceptably in relation to other partners and staff, and met the performance criteria that firms increasingly began to deploy. The partner stayed with the firm if he liked the work he was doing, enjoyed the clients, had the support he needed, got on with partners and others, felt fairly rewarded and was content with the direction of his practice group, office and the firm. It was no longer beyond the pale for a partner to leave to join another law firm. Indeed, although partner moves are now far less common than one might assume from reading the legal press, for a partner to move once or twice as a partner in his career is not surprising, although more than two such moves will at least raise an eyebrow.

We have also seen increasing numbers of women become partners in law firms. Given that for over 20 years at least 50% of new trainees have been
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women, we are still not seeing the appropriate share achieve partnership. In many major firms still less than 20% of their equity partners are women. This situation is improving but at a glacial rate. The increasing role that women have played in law firm partnerships has inevitably helped to break down the male-dominated club culture (although frustratingly few women have senior management roles in leading law firms). It has also encouraged firms to consider more flexible working arrangements for partners and other staff including part-time working, working from home, job sharing and sabbaticals.

Partners are increasingly assessed as to their time-recording, billing, developing of associates, winning new clients and developing existing ones, contributing to know-how and performing leadership roles. Feedback is sought from clients, partners, associates and other staff. After a faltering start in the 1990s, systems of appraisal and goal setting are now much more established and accepted.

As firms have grown, partners have become less involved in the day-to-day management of the business. In many firms the key strategic direction of the firm may be approved by a partnership vote and decisions on equity partner admission, and mergers require a vote, but most other matters will be the responsibility of the leadership group. This has been a difficult transition for some partners, who often lament that they are not partners but highly paid employees. However, the financial rewards have been significant with, in the year to 30 April 2008, many hundreds of partners earning over £1 million a year and thousands over £500,000 a year.

We are now approaching another transition point for the individual partners. Many of the baby boomers that did so much to develop their firms are looking to retire. Many will have held major roles in their firms either with client relationships, practice group management or the firm’s leadership over the last 20 years. The transition to the next generation in some firms will be challenging. Some smaller firms may not have a range of younger partners to take over these roles and will face a leadership vacuum. For the baby boomer partner looking to retire there are also challenges. He will have become used to a certain level of income and lifestyle. Given the combination of poor equity market returns over the last ten years, Gordon Brown’s raid on the tax exempt nature of pension funds, longer life expectancy and lower interest rates, it is likely that many partners, in the absence of a firm-funded pension, will face a significant drop in their living standards after retirement. This may cause the baby boomer transition to be less smooth than is desirable. Partners who ten years ago may have planned to retire in their mid-50s may now look to stay longer and be prepared to play the age discrimination card to protect their position. Indeed the LSA 2007 makes this even more likely if partners perceive the possibility of a windfall gain arising on the sale or flotation of their firm following the full implementation of the Act.

Over the last 15 years the option of joining a US firm has also arisen, primarily in London. The US firms, from tentative beginnings in London, are now a significant presence in the market and are likely to grow further over
the next few years. The working pressures in those firms may be significant, but the remuneration system generally has a strong merit-based element and US firms are much more comfortable with partners staying well into their 60s provided that they can still perform. This has therefore added an extra option to a partner considering his career choices.

THE CHANGING LAWYER

7.4 Over the years much has been written on the attributes or otherwise of Generation X and Generation Y. Much of the commentary is far too simplistic and general to be usefully applied to the legal environment. From my discussions in recent years with trainees a few issues have become apparent. Those entering the profession are now far more diverse in terms of ethnic, educational and social background – perhaps still not diverse enough, but progress is being made, albeit gradually. Those entering the profession have a greater range of commitment to and expectation of the law. Some see it as a well paid job which will enable them to pay off their student debts quickly but not as a long-term career. Others are as determined, hungry and focused as any lawyer in previous generations and are determined to get equity partnership in a well regarded and profitable firm. If their current firm will not offer partnership, or they think they can do better, they will move firms. What is clear is that we have a more diverse workforce with a range of different motivations for joining and staying in the legal profession. It is also apparent that lawyers are increasingly looking at their career path over certain finite periods rather than looking to stay with one firm their entire career. Whether these periods are three, five or ten years, lawyers will commit to their role for that period and then may wish to pursue other interests such as business management, private equity, in-house roles, charities or take a career break to travel, raise a family or care for older family members. These lawyers will be prepared to work differently at certain stages of their careers. Firms will need to accommodate these changes if they want to recruit, keep, motivate and even re-employ the best talent in the market.

The fact that significant numbers of lawyers, and not only women lawyers, look at their current firms and do not aspire to be equity partners in those firms should give considerable food for thought for those firms. Partnership was the goal that many young lawyers were prepared to work hard to attain. It will still attract many, but if others see the path as too long and arduous and the goal, even if reached, too demanding, despite the perceived financial rewards, then firms will be spending large amounts on recruiting and training young lawyers who will not stay with the firm. If partnership is no longer the ultimate career goal for young lawyers the LSA 2007 could have important implications for this group. Employers that offer long-term bonus or share incentive plans, which vest over a three- or five-year period, may find themselves attractive for at least one stage of a lawyer’s career, especially if that bonus or incentive is sufficient to pay off the student debt or provide a deposit for a flat. Flexible working hours, home working and first rate training and IT systems may tempt back into the profession those that do not wish to work in a traditional law firm.
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In a period of downturn it may be tempting to downplay recruitment and retention issues. But the most successful organisations are not judged by the number of professionals they contain but by their quality and aptitude. If they can be attracted to new business models the likelihood of these models being successful is greatly enhanced in a conservative profession. It can be surprising how open to new ideas young lawyers can be. In 2000, I joined Andersen Legal, the legal services arm of Arthur Andersen, as its worldwide managing partner. In 2001 it was in the top ten global law firms in terms of fee income. I was surprised and impressed by the calibre of law graduates that we were able to attract. They were excited by something new and wanted to give it a try. Many had offers from major UK firms, including the Magic Circle, but chose to join us. When, in the wake of the Enron debacle, Arthur Andersen collapsed, Garretts, the English law firm, was dissolved and we had to place all of our trainee pipeline elsewhere. The vast majority were employed by major London or national firms. Indeed a Magic Circle partner said that the trainee he took from Garretts was the best trainee he had ever worked with. It would be dangerous for existing law firms to assume that no new entrant can generate that level of excitement and attraction in the recruitment market.

THE CHANGING CLIENT

7.5 It is tempting to think that all of the changes within law firms have taken place naturally without any outside influence. This would be entirely wrong. Law firms have had to anticipate and respond to the needs of their clients in order to stay in business. This is as true in the high street as in the major city firms.

At a retail level, we live in a consumer society. We are used to being able to shop around, to compare products, have clear pricing and recourse to effective customer service teams to deal with any problems that arise. The LSA 2007 is built on the principle of putting the consumer first. It follows a vigorous campaign by the Consumers’ Association, which has on many occasions produced surveys showing the lamentable performance by law firms and their regulators on such issues as communication, price transparency, competence and complaints handling. This was followed by a Competition Commission report in 2001 which held that many of the then existing restrictions on the practice of law were anti-competitive and acted against the interest of the consumer.

Accordingly, as buyers of legal services, we want our suppliers to be approachable, responsive, intelligible and to apply predictable and transparent pricing. More consumers now routinely use the internet and email and expect their lawyers to do so.

Case study

In 2007 I sold my house in Hampshire. I usually keep my private matters and my client work separate, so I asked my estate agent to recommend some good lawyers in the area. He gave me three names. I also had the details of the local firm that had acted for me eleven years before on the purchase of the property.
I prepared an email (note: not a letter or phone call) to the firms giving details of my proposed sale and purchase, asked them about the service they could provide and what it would cost. My PA could not find the website of the firm that acted for me on the purchase, so rang them for details of a property partner to email. She was told ‘we don’t do that, send it to enquiries@… and we will deal with it.’ Quite simply, I do not send confidential information to enquiries@anywhere so they were taken off the list. The email went out to the other three firms. One responded in 40 minutes with a detailed review of their service, a full breakdown of costs and disbursements, a schedule of what they would do for free if the matter aborted, a guide to the conveyancing process and a screenshot of an extranet page in case I wanted to deal with them online. Another firm replied about an hour later with a basic quote that was cheaper than the first firm. The third firm responded the next day with a curt letter that it was impossible to give an indication of the price of their services.

Hardly surprisingly, I instructed the first firm to reply and asked if I could drop off my papers one Friday on my way back from London as I was travelling a lot over the forthcoming weeks. The immediate reply was, ‘that’s fine but as you are very busy and I only live about 20 miles away from you, I can meet at your home on Saturday if that helps.’ He did an excellent job, has since bought a London flat and a Hampshire house for me, his firm has prepared my will and he has bought a house for a colleague of mine.

I may not be a representative client, but I do believe that clients are capable of applying the price-versus-quality of service equation to legal services just as they do when buying groceries or the family car. Firms that can position themselves appropriately and maintain their positioning as client expectations change will still do well. However, this is a far change from the deferential meeting in a lawyer’s book-lined office 30 years ago when subsequently chasing a lawyer for the promised action or challenging a bill would elicit a response familiar in a Bateman cartoon.

In the corporate world the change in the client has been even more dramatic. Until the 1980s client relationships were pretty static. Clients used one major firm for most of their ‘head office’ work. There was no direct competition between firms, and advertising and marketing were considered unprofessional. Indeed, at the time one senior partner of a major city firm commented to a young lawyer: ‘remember two things; lawyers are professionals so will never compete against each other and clients will never buy on the basis of price.’ In the banking world some relationships went back generations: Coward Chance (now Clifford Chance) had acted for Midland Bank (now part of HSBC) since its incorporation in the 1800s, Durrant Piesse (now Lovells) acted for Barclays, Cameron Markby (now CMS Cameron McKenna) acted for Lloyds (now Lloyds TSB) and Wilde Sapte (now Denton Wilde Sapte) acted for National Westminster (now RBS).

The General Counsel (often then known as the Group Solicitor, Head of Legal or Company Secretary) in many corporates was often a relatively relaxed individual who may have formerly been a partner at the main relationship law firm. He (and it usually was a he) saw no need dramatically to change the
relationship with the outside law firm. The external legal spend also tended to be relatively small so it did not gain much attention within the organisation.

Three things changed. First, there was a wave of consolidation across a range of industries starting in the mid-1980s and still continuing. Part of this was accelerated by regulatory changes including the abolition of exchange control, privatisation of the utilities industries and Big Bang in 1986, which reformed the stockbroking industry. These much bigger and more diverse businesses owed little to their historical roots and were prepared to look at all of their professional advisors afresh. Second, the rush to globalisation started. British firms actively developed businesses abroad (and particularly as a result of US acquisitions and US litigation discovered the role of the US General Counsel). In addition, foreign organisations established in or around London. Of particular note, the major US investment banks rapidly developed their operations internationally and, in the absence of the US law firms, quickly turned to the major UK firms in London, Continental Europe, Asia and, when it opened up, Central and Eastern Europe. It remains to be seen what impact the credit crunch of 2008 will have long term on these global commercial and investment banks and indeed on the globalisation of business generally. Third, we have seen a change in the nature of the general counsel. Increasingly the general counsel has spent most of his career in-house, possibly with a number of different organisations. They see themselves as an integral part of the executive team with good relationships with the Chairman, Chief Executive and Chief Financial Officer. They owe no allegiance to any particular law firm. These much more focused individuals currently face three main pressures in their organisations: to reduce internal legal headcount; to reduce the external legal spend and make it more predictable; and to ensure that the organisation’s legal and reputational risk is managed more effectively. If they do not perform these three roles effectively their position will be in jeopardy. As a result, these General Counsel are demanding better service, an investment by the law firm in the relationship, assistance to avoid problems rather than to solve them when they arise and transparency and certainty on pricing. In November 2008 Andrew Garard, the General Counsel of ITV, announced the completion of a panel review process. All of the firms on the panel would be required to quote fixed fees for specific projects with no work done on an hourly rate. Although the demise of the hourly rate has been predicted for many years, this sort of arrangement could have a profound effect on the economics and structure of a law firm.

THE CHANGING MARKET

7.6 For most of the 25 years until 2008 the legal profession had enjoyed a great bull market with double digit compound growth in revenue and profits for 20 of these years. The exceptions were the years 1992 to 1994 immediately following the general economic recession (law is usually a lagging indicator so suffers a downturn 12 to 18 months after the main economy as the early stages of a downturn produce work for lawyers) and immediately following the dot-com collapse in 2001 and 2002 where profits stagnated or dipped.
This is a fantastic record by any standards, but it may not be realistic to expect such a dramatic growth picture in the future.

Writing this in either the early phase of what could be the greatest slump since the 1930s or in the late phase of a short, sharp blip makes any measured projection difficult. However, there appear to be a number of matters emerging that will start, fundamentally, to change the legal landscape even before the LSA 2007 is fully implemented.

First, at a retail level, many small firms (or larger conveyancing or remortgaging ‘factories’) will fail to survive. Many such firms are reliant on domestic conveyancing and conveyancing of secondary or tertiary commercial and industrial property. Transactions have virtually ground to a halt, and with funding not available transactions are expected to remain subdued for some time. This will result in many hundreds and possibly thousands of small firms disappearing. Some will merge with others, some sole practitioners will retire, there will be interventions by the SRA and some firms will become insolvent. Many banks already have hundreds of such firms in ‘special measures’. It is a sad fact that many partners in these firms will end their careers facing insolvency.

Second, there will be a wave of law firm consolidation. It is already starting at the very-small-firm level but will increasingly occur through the size chain. Firms are beginning to recognise that size is relevant to fund investment in premises, IT, marketing and training. Size provides higher profile for recruitment and client development. This issue is being considered across the market. Firms of £1 million turnover want to be £2 million, those of £2 million want to be £5 million, those of £5 million want to be £10 million and so on up to firms of £250 million that want to be £500 million. Accordingly, firms may undertake multiple mergers as they grow through the size bands. Given the unconsolidated nature of the market and the number of opportunities that will arise, some firms will be tempted to turn to private equity and other outside investment as a means of enabling them to grow rapidly in the hope of achieving higher and more sustainable profits.

Third, in the short term at least, the internationalisation of the legal market will continue. The US firms are now in London in force (with about 150 claiming to have an office in London) and are looking to expand in the UK, continental Europe and Asia. Much of this growth will be achieved by merger as it is quicker and cheaper than organic growth, if the right merger partner is chosen. These US firms will look to merge with many of the top 100 UK firms. It remains to be seen if the weakness of sterling and the recession will dampen this ardour, but currently some firms clearly see this phase as a bargain opportunity.

UK firms with an international footprint will continue to develop it, primarily organically. The main exceptions are the US where, if suitable merger partners would talk, some transformational deals could be done and, India, where, if the market opens up, it could change quite rapidly. UK firms without an international footprint may be reluctant to incur the cost of establishing one
now so are likely to operate through best friends or alliance structures possibly with a view to eventual merger.

Fourth, profits in the firms that survive are likely to fall significantly in 2009/10 and 2010/11. Law is a lagging indicator. Lawyers make money whether the market is going up or down provided that there is activity. The shortage of credit and general business uncertainty is likely to reduce deal flow significantly. General Counsel are likely to drive a hard bargain for the work that they give out. This will have a profound effect on law firm profitably. If a firm with revenue of £10 million and partner profits of £2.5 million loses £1 million of revenue it is unlikely to be able to reduce its costs quickly enough so its partner profits may decline 40%. A 10% drop in revenue is quite conservative so some dramatic cost-cutting and profit reductions can be expected. This environment will place a sharp focus on the quality of a law firm’s leadership, the effectiveness of its management infrastructure and its cohesiveness and strategic direction. Not only will profits fall, but more cash will be tied up in the business so partner distributions will be deferred or capital calls made. This will place some partners under real personal pressure. This may present great opportunities for well run firms to pick up good quality individuals and teams on competitive terms.

Fifth, the downturn will damage the career prospects of many bright and able lawyers. They will not make equity partnership and may be eased out of their existing firms. Many of these will be able and motivated and anxious to prove their worth. If captured by dynamic firms or by new entrants they are capable of having a significant beneficial impact on their new organisations.

THE CHANGING BUSINESS MODEL

7.7 The legal profession has changed profoundly in one generation but more change is necessary before it can properly be described as the legal industry or legal business.

Much of the success of the legal profession over the last 25 years has been brought about by significantly growing firms’ headcount with bright and motivated lawyers. Equity partner numbers have increased dramatically, a class of non-equity partners has been added to improve gearing and equity partner earnings, more associates have been introduced to move the partner to lawyer ratio from less than 1:1 to nearer 1:4 and support staff ratios per lawyer have fallen to under 1:1. In addition all lawyers have tended to work harder, record more chargeable time and bill and collect somewhat more efficiently. These changes have been introduced into the practice so that many firms now have effective practice management, document production, document assembly, digital dictation and training and know-how systems.
However, many clients would perceive little change in the way in which the lawyer performs the service. Yes, the lawyer may be more responsive, and may use email, but has the lawyer really changed the way he works? Much of the use of technology can be described as automating the quill pen, ie doing existing things quicker and more efficiently rather than questioning whether that action needs to be performed at all and if so by whom.

This is the next way in which the legal business model may be transformed. If law starts to apply the process management and process re-engineering techniques used for many years by our commercial clients these could not only revolutionise the legal market but present great opportunities for new entrants to the market who are unburdened by historical precedents on the way work has always been done, but can instead look at how it could and should be done in a manner which provides a more responsive, certain and cost-effective service to the client.

Such process re-engineering will examine each aspect of a matter and determine how each part should be performed and by whom. IT will play a major role in managing such workflows and ensuring that quality and cost effectiveness is maintained. This process may lead to increasing parts of a legal project being outsourced or off-shored. The legal off-shoring industry, primarily based in India but also involving South Africa, the Philippines and New Zealand has made great progress on legal process re-engineering US litigation disclosure and is rapidly gaining credibility not only for its cost effectiveness but also for its quality of service.

This re-engineering is likely, fundamentally, to change the structure of law firms. Just as the bulk mortgage conveyancing and personal injury firms adopted different models to meet the needs of their clients and the price point they demanded, then other parts of the legal sector will need to examine the financials of their operations and their real and sustainable profitability. This will impact the number of equity partners, non-equity partners, associates and trainees needed in law firms.

If clients generally and General Counsel in particular push for fixed-price billing this will place further pressure on law firms. Hourly rates are effectively a cost-plus billing mechanism which rewards inefficiency. When cost-plus arrangements were replaced by fixed-price tendering in the construction and defence industries in the 1980s there was a wave of consolidation as players tried to grab market share to compensate for lower margins. Fixed pricing will force firms to look for greater efficiency, as if they fail to do so their profits will erode even faster if fixed prices are driven down further. Many clients may still prefer hourly rates but are likely to be more demanding as to the rates charged, the lawyers allocated to the matter and the tasks that they undertake.

THE CHANGING OWNERSHIP OF LAW FIRMS

7.8 As has been shown, the legal profession is going through a period of profound change as it grapples to come to terms with the new and changing
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demands of its various clients. The current downturn will, in many ways, accelerate the change only to be followed by the full implementation of the LSA 2007 which may not only transform the ownership and management of existing law firms but, more importantly, introduce new and dynamic competitors into the market. Accordingly the legal business could be said to be entering a perfect storm. It will destroy some, damage others and leave others leaner, more focused and more dynamic to take advantage of the eventual economic recovery.

Given the innate conservatism of the profession, many investors will be tempted to create completely new businesses rather than, initially at least, to take over existing firms. This is particularly the case given that in most areas of legal practice no law firms have strong brands, which would justify paying a premium to control.

When investors do invest in existing businesses they will want a quality leadership team, a credible growth strategy and rigorous operational management. From the firm’s perspective, the growth should be sufficient to fund the investor’s return as otherwise the partners are merely selling their future incomes with all the intergenerational and motivational issues that entails. In addition to outside investment, law firms have the possibility of floating on the stock market. Slater and Gorden in Australia is the first example of a listed law firm but it will clearly not be the last.

What is clear is that there will be a variety of legal service models that work and are sustainable and profitable and a range that will fail. There is no-one-size-fits-all approach to the firms that will succeed. The key is that they identify and understand their client base and are able to deliver the range of services that the client wants, in the way the client wants them delivered, at a price that the client is prepared to pay and which provides a reasonable return to the supplier. The LSA 2007 permits an almost limitless combination of models with LDPs involving any of solicitors, barristers, licensed conveyancers, patent agents and notaries and multidisciplinary practices (MDPs) (known as ABSs under the LSA 2007) involving accountants, estate agents, financial advisers, surveyors, investment bankers and others. The fact that corporate brands can then be used will accelerate the change either by the creation of new legal brands (similar to Direct Line when it was initially focused on insurance broking) or the use of consumer brands to cover legal services such as Virgin Legal, Consumer’s Association, AA and Co-op. Given the existing relative absence of branding in the legal space this could have a dramatic effect especially at the retail end of the market.

In one working generation British law firms have moved from annual turnovers of £1.2 million to over £1 billion, and the largest firms are some of the leading firms in the world. An underrated British success story. But the pace of change is accelerating and the LSA 2007 will clearly be an accelerant to that change. What will the trainee who took up her post in September 2009 reflect at her retirement party in 2049? Will the organisation she leaves even be called a legal services business? Will she be part of a £100 billion revenue
business? If so, the growth in her professional lifetime will be less in percentage terms than that of the Allen & Overy partner who retired in 2008!

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