

# The Future of Legal Services – Expert Analysis

EDITED BY STEPHANIE RAMASAMY



## The Future of Legal Services – Expert Analysis

is published by Ark Group



### UK/EUROPE OFFICE

Ark Group Ltd  
Paulton House  
8 Shepherdess Walk  
London N1 7LB  
United Kingdom  
Tel +44 (0)20 7490 0049  
Fax +44 (0)20 7324 2373  
info@ark-group.com

### NORTH AMERICA OFFICE

Ark Group USA  
4408 N. Rockwood Drive  
Suite 150  
Peoria IL 61614  
Tel +1 309 495 2853  
Fax +1 309 495 2858  
info@ark-groupusa.com

### ASIA/PACIFIC OFFICE

Ark Group Australia Pty Ltd  
Main Level  
83 Walker Street  
North Sydney NSW  
Australia 2060  
Tel +61 1300 550 662  
Fax +61 1300 550 663  
aga@arkgroupasia.com

---

#### Assistant editor

Stephanie Ramasamy  
sramasamy@ark-group.com

#### Head of production

Danielle Filardi  
dfilardi@ark-group.com

#### Managing director

Jennifer Guy  
jguy@ark-group.com

#### UK/Europe marketing enquiries

Robyn Macé  
rmace@ark-group.com

#### US marketing enquiries

Daniel Smallwood  
dsmallwood@ark-group.com

#### Asia/Pacific marketing enquiries

Steve Oesterreich  
aga@arkgroupasia.com

ISBN: 978-1-906355-74-6

#### Copyright

The copyright of all material appearing within this publication is reserved by Ark Conferences 2009. It may not be reproduced, duplicated or copied by any means without the prior written consent of the publisher.

# Contents

<b>Foreword</b> .....	VII
<i>By Richard Brent, editor, Managing Partner magazine</i>	
<b>Executive summary</b> .....	IX
<b>Acknowledgements</b> .....	XI
<b>Expert analysis 1: The halcyon days are over</b> .....	1
<i>By Tony Williams, principal, Jomati Consultants LLP</i>	
Evolving client attitudes and the impact on law firms .....	2
What might the law firm of 2012 look like? .....	2
<b>Expert analysis 2: Financial management in the challenging legal world of tomorrow</b> .....	5
<i>By Peter Scott, management consultant and solicitor, Peter Scott Consulting, and Mark Feeney, consultant and chartered accountant, Consergo Limited</i>	
The role of financial management in driving performance.....	5
The role of financial management in driving profitability .....	6
The impact of funding shortages .....	7
The impact of regulatory changes .....	7
<b>Expert analysis 3: The new world of legal services</b> .....	11
<i>By Alan Hodgart, managing director, Huron Consulting Group</i>	
LDPs and ABSs – who will benefit? .....	11
Seeking outside capital.....	12
The thorny issue of share allocation .....	13
What will the ‘new world’ look like? .....	14
<b>Expert analysis 4: Managing professional risk in a changed practice</b> .....	15
<i>By Frank Maher, solicitor and partner, Legal Risk LLP</i>	
The shape of the future law firm is not a pyramid .....	15
Factors affecting regulatory compliance and professional risk.....	15
<b>Expert analysis 5: What will the ‘new normal’ mean for legal technology?</b> .....	21
<i>By Charles Christian, publisher of Legal Technology Insider/The Orange Rag</i>	

<b>Expert analysis 6: Law firm remuneration – The new pay structures .....</b>	<b>25</b>
<i>By Dan DiPietro, advisory head and managing director, The Law Firm Group Citi Private Bank</i>	
Performance-based pay.....	25
Performance versus talent .....	26
Rethinking delivery of legal services.....	27
<b>Expert analysis 7: The future role of the Law Society and the challenges which lie ahead..</b>	<b>31</b>
<i>By Robert Heslett, president, the Law Society</i>	
The new regulatory system.....	31
The legal aid challenge.....	32
The future of international legal services.....	32
A taste of the future .....	33
Creating a profession open to all.....	33
<b>Expert analysis 8: The best way forward for a great profession .....</b>	<b>35</b>
<i>By the Right Honourable Lord Hunt of Wirral, MBE, partner and chairman of the financial services division, Beachcroft LLP, and Shadow Minister for Business, Innovation and Skills</i>	
<b>Expert analysis 9: Are there reasons to be cheerful? .....</b>	<b>39</b>
<i>By Joy Kingsley, senior partner, Pannone LLP</i>	
The outlook for small law firms .....	39
Business development .....	39
Will the economic climate benefit women in the future?.....	40
<b>Expert analysis 10: The cost and quality revolution .....</b>	<b>43</b>
<i>By Laurie Young, fellow of the Chartered Institute of Marketing</i>	
Pressure on the professions.....	43
Merger mayhem .....	44
The tools of productivity .....	44
Client closeness.....	45
Questioning quality.....	46
<b>Expert analysis 11: What will the new compliance regime mean for the legal profession?.</b>	<b>47</b>
<i>By Mike Calvert, head of forensic, SRA</i>	
The impact of the LSA .....	47
Anatomy of an SRA investigation.....	48
Ones to watch – Mortgage fraud and probate.....	49
<b>Expert analysis 12: What will happen to the magic-circle firms? .....</b>	<b>51</b>
<i>By Sir Nigel Knowles, joint chief executive and managing partner, DLA Piper</i>	
The era of the bonus has gone .....	51
Trend one – Stripping panels to the bare minimum.....	51
Trend two – Value is the new criteria.....	52
What about the elite?.....	52

It will take more than extra sandwiches .....	52
Diversifying to survive .....	53
The role of technology .....	53
Investment or readjustment? .....	53
A new reality .....	54
<b>Expert analysis 13: Convergence – Assessing the impacts of today’s changing world.....</b>	<b>55</b>
<i>By Robert Millard, partner, Edge International</i>	
Shifting global economic and socio-political landscapes .....	55
New business models for law practice management .....	56
Exponential advances in technology .....	56
Chinese and other non-western models of jurisprudence.....	57
Emergence of a global market for legal services .....	58
Convergence.....	58
In summary .....	59
<b>Expert analysis 14: The LSA – Friend or foe? .....</b>	<b>61</b>
<i>By Nigel McEwen, partner, SSG Legal</i>	
The LSA timeline .....	61
LDPs – Why the slow take-up? .....	62
Regulation – The new requirements .....	62
SARs – The changes.....	63
ABSs – The transformer .....	63
Forecasts.....	64
<b>Appendix .....</b>	<b>67</b>
<b>Index .....</b>	<b>69</b>



# Foreword

*By Richard Brent, editor,  
Managing Partner magazine*

AS BUSINESSES of many shapes and sectors continued to fear for their futures in the summer of 2009, the Law Society of England and Wales launched an information campaign to “caution” people who might be considering a career in law.

In a press release rather ominously headed: “Law Society warning to students”, the representative body of the legal profession didn’t pull any punches. Students should think “long and hard” about the commitment involved in training to be a lawyer, it said – drawing their attention to the “risks in terms of both time and cost” in the face of increased competition.

Less than a month before, the former Labour minister Alan Milburn had reported back on a study he chaired into progress being made in social mobility. Focusing on professional services in particular, a key call to action was to give young people from less affluent backgrounds more confidence when applying for the university courses and careers they reasonably wanted to pursue. Naturally, the Law Society’s message also stressed the profession’s long-standing commitment to establishing a genuine “level playing field” for all those wanting to forge a career for themselves in the law. Their warning did not mean abandoning valuable diversity in recruitment, and the barrier of financial disadvantage would continue to be tackled. With messages at once both

encouraging and downbeat, however, a certain sense of irony in the successive stories did not go unnoted.

The recent financial turmoil has had an effect on recruitment activity, and management teams have been just as concerned with the less enjoyable processes of organising restructurings and redundancy consultations as with identifying their future partners to be. The Law Society points out that in 2008 alone, over 1,000 students who completed the Legal Practice Course did not secure a training contract at any law firm. The deferral of training contracts already on offer has also been widely reported over the past year. For those already with substantial or promising client followings, on the other hand, the market is already offering new opportunities in the form of partner or practice lateral hires from the larger pool of floating talent.

The future of legal services will be determined by the extent to which such responses to this recession – the worst since the Second World War, according to many experts – are temporary measures, or indeed signal longer-term strategic shifts to new ways of working. Will those lawyers and business-services teams lost to leaner operations in the downturn be replaced in the fullness of time, or can gearing ratios and support structures be made more efficient for good? A number of law firms may have offered new part-time working options or sabbaticals for those in less busy practices, but can a culture of more flexible

and remote working be encouraged on a longer-term, more consistent basis? And perhaps the most burning question – how far can the pressure to offer clients lower fees and more value, really lead?

In the past year we have grown accustomed to hearing politicians of all parties admonish that there can be no returning from this particular brink to boom time business as usual. Lessons need to be learned. Remuneration, leadership roles and risk-management procedures must be adjusted and monitored to ensure they are sustainable. Law firms are a different beast to investment banks certainly, but the partnership mechanism makes things no less complicated for management committees. The various formulae for risk and reward must be just as carefully calculated by law firms: alert both to their many client responsibilities and restrictions and the need to invest adequately in their key talent.

At the same time, and now drawing nearer from lurking in the background of all the cyclical boom, bust and bravura of course, is the influx of new competition anticipated when the Legal Services Act 2007 becomes fully implemented. This day is now expected well within the next three years, and as the new regulatory frameworks are finalised to ensure high standards and consistency, and avoid compromising access to justice, many law firms are giving some serious thought to the difference alternative business structures will really make to their markets.

In 2009 the first firms converted to the legal disciplinary practices (LDPs) that permit non-solicitors or non-lawyer partners to own and manage a firm; but it is the multidisciplinary practice (MDP) that most think pose the greatest potential threat. Law firms could be taken over by other businesses, or indeed might accept injections

of private equity to fund future investment or float on the stock exchange. Legal services could be sold alongside non-legal services, suggesting new efficient sales models and channels to market for the most commoditised of legal products.

Inevitably, some in the market will still see this landmark moment as a spectre – conjured up to frighten them in their darker hours, but easily dismissed in the cold, hard light of day. If the past two years have taught the business community nothing else, however, a clear moral should be that complacency is a weakness to be avoided at all costs.

*Richard Brent is editor of Managing Partner magazine. He can be contacted at: [rbrent@ark-group.com](mailto:rbrent@ark-group.com)*

## Executive summary

SPECULATION IS mounting in legal circles on the future of legal services as the industry draws near to the full implementation of the Legal Services Act 2007 (LSA) and anticipates recovery from the recession. Many firms are waiting eagerly, poised to see how current trends are shaping the law firm of the future – post LSA. Some law firm consultants have even taken on the role of the legal clairvoyant as they receive requests to predict the future of law firms. Other firms are simply waiting on the actions of their peers to determine their own course. As one contributor put it: “The new party game... is guessing what the ‘new normal’ will be.”

Without a doubt, the recession has thrown a spanner in the works. It has forced some firms to slash their cost base by ten per cent, and it will be a while yet before law firms start seeing their redundancy programmes paying off. What strategies or approaches – long or short term – should law firms be taking to recover from the harsh effects of the recession? Has this recession set a precedent for change? After intensive restructuring, cost cutting and job cuts, what will the law firm post-recession look like? While one legal management expert predicts that many small law firms will disappear by 2012, the managing partner of the largest law firm in the world by revenue explains why his vision for magic-circle law firms may not be welcomed by some partners.

For the first time, non-lawyers will be allowed to invest in law firms through the alternative business structures (ABSs) enabled

by the LSA. As a new model for law firm ownership, questions regarding how the legal world will look like with non-lawyer owners and managers leading the firm arise, such as what will be the organisational and structural implications of having an outside investor run the firm? Will they demand a different style of management? How involved will they be in operational or strategic decisions? What about partner share – how will this be allocated? Law firms will face intense competition in the years ahead, not only from new entrants coming into the market, but from firms taking the opportunity offered by the LSA of seeking to raise outside capital. Will partners flock to better capitalised businesses with the possibility of an equity share? And what of the new regulatory system which raises compliance responsibilities and standards for law firms proposed by Lord Hunt in his review, who concedes in this report that his proposals may not make all law firms “leap for joy”? There is an irony in the government’s aim to liberalise the legal services sector and the onerous compliance obligations placed upon law firms, which may deter investors to invest in the sector. Detailed information is also provided by the head of forensic at the Solicitors Regulation Authority (SRA) on what might trigger an onsite risk investigation.

These are the concerns, questions and doubts currently circulating amongst law firm management. This report is a compilation of articles written by renowned legal services specialists, presenting their

views on how market trends and regulatory changes are shaping the future of legal services. Not only do they reveal their visions for the future of the law firm and the 'new world' of legal services, but they provide expert advice on how to tackle the foreseeable challenges and opportunities. Contributors include the following:

- Author of the *Hunt review* on the regulation of law firms – Lord Hunt of Wirral;
- Specialists on law firm finances – Dan DiPietro of The Law Firm Group Citi Private Bank and Peter Scott of Peter Scott Consulting;
- Legal consultants – Alan Hodgart of H4 Partners, Tony Williams of Jomati Consultants LLP, Frank Maher of Legal Risk LLP, Robert Millard of Edge International, Nigel McEwen of SSG Legal, Laurie Young, fellow of the Chartered Institute of Marketing and Charles Christian, legal technology writer;
- President of the Law Society – Robert Heslett;
- Head of forensic at the SRA – Mike Calvert; and
- Senior and managing partners – Joy Kingsley of Pannone and Sir Nigel Knowles of DLA Piper.

This report will interest anyone seeking some answers on how the future of legal services will pan out, from the law firm managing partner, to the outside investor looking to take the LSA-offered opportunity of investing in a law firm. The sought-after views and predictions of these experts aim to address some of the questions, concerns and even some of the fears in readers' minds of where the future of legal services lies. While no crystal ball, this report reveals the thoughts and perspectives of the legal world's best-

known experts, on where the legal service industry is heading.

# Acknowledgements

IT IS only by acknowledging each other's views that we can form an understanding of the phenomenal shifts in the legal services industry.

The editor would like to thank all the contributors who have unreservedly shared their thoughts and views in this report.