

## Alternative Business Structures: Fact Sheet 4

### LEARNING FROM ENTITIES ALREADY IN THE MARKET

The Legal Services Act 2007 paved the way for early changes in the way solicitors, in particular, were allowed to work. These changes allowed solicitors, for the first time, to co-own and manage solicitors' firms with other legal professionals and with up to 25% non-lawyer ownership. These new entities are known as Legal Disciplinary Practices (LDPs). These LDPs were similar to the allowable entities regulated by the Council for Licensed Conveyancers (CLC) known as recognised bodies.

The LSB recently undertook research to understand how the provision of legal services has changed through the introduction of LDPs and CLC's recognised bodies which allow, for the first time, some degree of external ownership. We interviewed nearly ten percent of LDPs and recognised bodies to try and understand how the regulation is working in practice for these firms.

We undertook a series of semi-structured qualitative interviews to better understand how the regime had affected LDPs. The Solicitors Regulatory Authority (SRA) and the CLC provided a list of suitable interviewees. We selected a representative sample, ranging in size, structure, location and services provision. Some of the firms we spoke to requested that they were not identified; we have respected that request in the interest of receiving frank and honest feedback.

#### **The following key themes emerged from the interviews:**

##### *The process of becoming a LDP or recognised body*

- All respondents said that the administrative transition to becoming an LDP had been reasonably smooth
- One firm commented that it was a very straightforward process, especially if you were not bringing in external, non-lawyer owners
- One very small conveyance firm drew attention to the 'unnecessary' and 'excessive' bureaucracy of becoming a recognised body

### *Advantages*

- The most common comment was that being an LDP had enabled firms to bring in a wider range of skills and therefore had made them more dynamic entities in the legal market
- Some said that opening up firms to new management structures and skills might help to positively change public perception of firms and legal service provision in general, the LDP structure had made 'more sense' to clients

### *Disadvantages*

- No significant disadvantages were identified other than conveyancing firms saying that they had felt the bureaucracy involved in becoming a recognised body had been burdensome and that the CLC had seemed much more hands on in its regulatory approach than the SRA.

### *Main successes*

- Most said it was too early to assess, but the main success (as highlighted under advantages) was the opening of the profession to a wider range of skills.
- One interviewee commented that it enabled non-solicitors who may be acting as partners to be formally recognised, a change they had been waiting for some time
- Another interviewee said becoming an LDP had meant that an unofficial partner in the firm was now a formal partner

### *Difficulties*

- Most interviewees said they had not experienced any major difficulties, perhaps some isolated obstacles (for example, a CEO of one firm was the only non-lawyer and this caused some issues in terms of professional recognition).

### *On allowing Barristers to join*

- Most did not consider that letting barristers in would present problems or issues
- One expressed concern about the financial model, would there be enough incentive for barristers to leave the sole trader model, however, the point was also made that more barristers (especially new entrants) would begin to be prepared to be employed once the ABS system had become embedded
- A common theme to emerge in most interviews was that the public did not care what status or role individuals were in a firm, as long as they were getting a good level of service – trust was implicit.

### *Key opportunities of ABS*

- One commented that a 'one-stop-shop - Tesco Law' model could only benefit consumers.
- A non-conveyancing firm said that the threat to smaller firms would primarily be to those practising in conveyancing/probate/wills (which they considered were not completely 'legal processes'). Such areas lent themselves more to Tesco Law than more complex civil legal activities.
- Others repeated the benefit that a more diverse workforce ABS would bring
- An interviewee said that their firm had been contacted by a smaller firm regarding the possibility of 'joining up' with them with a view to strengthening their position in the market under a future ABS regime (economies of scale).
- A conveyancing interviewee said they envisaged an ABS future where a conveyancing firm might combine with estate agents and surveyors to provide an all encompassing property service

### *Key challenges of ABS*

- Several challenges were cited by all interviewees. The main ones were:
- Ensuring the licensing regime for ABSs is not too complicated and there are not too many regulators (regulatory overlap)
- Enhancing public understanding of ABS and the regulatory regime to make informed decisions