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Equity in law

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A looming shake-up of legal regulation is prompting British law firms to rethink their business models. A recent survey shows two-thirds of the top 100 firms plan to admit non-lawyers as partners, one in five intends to seek outside investors and one in 10 aims to list on the stock market. Such innovative thinking is welcome.

The old model of partnership between lawyers alone has its drawbacks for large law firms, which are complex businesses - the biggest are multinationals in their own right. Yet management is often weak. Compared with the best companies, they are often bad at marketing, customer relations, innovation, use of information technology and process management.

Law firms need to compete for the best managers, finance directors, marketing experts, technology officers and human resources professionals. Such people may be unwilling to join firms where they are second-class citizens.

Partnerships work best when they are small enough to share information and manage risks effectively. Leading law firms are now too big for more than token consultation. This slows decision-making, while doing little to minimise risks.

Separating management and ownership would allow faster decision-making. Firms would gain access to lower-cost finance and risk capital. Partners could exchange illiquid partnership equity for more liquid shares.

There would be a one-off opportunity to capitalise goodwill created by previous generations of partners - top law firms could be worth up to £5bn on market multiples of earnings. However, prudent firms would not allow the present generation of partners to get rich quick on incorporation: the law is a cyclical business that needs a cushion of reserves for the bad times.

To many lawyers this is still heresy. They argue that the law is a special case. But so did the old investment banking partnerships, such as Goldman Sachs, before they went public.

Partnership is not the only form of ownership capable of sustaining business ethics or offering incentives. Supervision may be exercised more effectively by a tough regulator than by distant fellow-partners. As for the supposedly dangerous profit motive, law firms have been ruthlessly pursuing profit for years.


Global law firms are subject to restrictions on ownership and business structure in most countries. Non-equity lawyers cannot own US law firms, for example. For this reason, most expect that innovation in ownership in the UK will be led by domestic firms and by companies adding legal advice to the range of services they offer.

But the market beckons for big, global firms too. Foreign regulations will evolve; lawyers will emulate accountants in devising holding company structures to meet different requirements. Meanwhile, top UK firms have the opportunity to try new forms of competition that could prove attractive models for other jurisdictions.

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