The College of Law of England and Wales

Legal Services Policy Institute

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LEGAL SERVICES REFORMS:
CATALYST, CATACLYSM OR CATASTROPHE?

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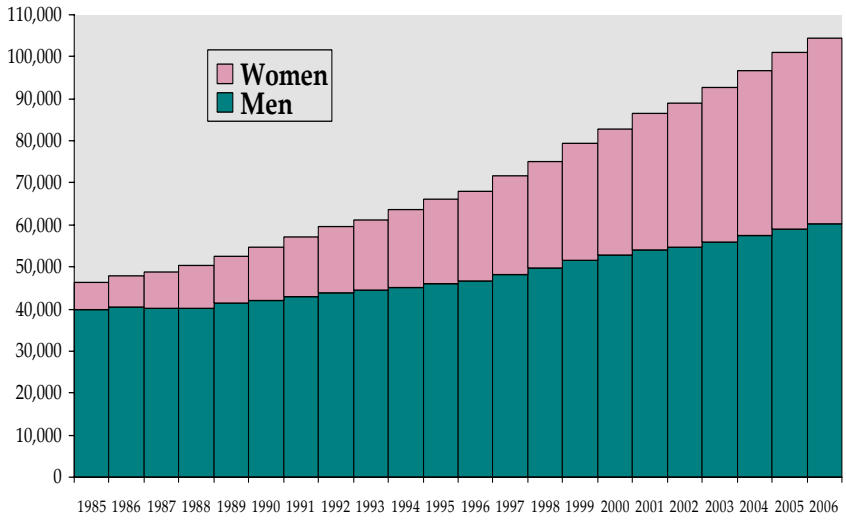
1. Why is the market ripe for reform?

The marketplace for legal services is large, valuable and growing. It is worth around £20 billion a year (about 2% of GDP), of which about 10% is exported and a further 10% is legal aid. There is no reason to believe that its value will not continue to rise. This in itself is perhaps remarkable, given that lawyers do not generate wealth for clients. They preserve and protect client wealth, and often are required explicitly or effectively to underwrite the risk in clients' transactions. But they don't generate client wealth. This, in turn, presents a challenge when lawyers are required to 'add value' in the delivery of their services.

At the same time, the number of lawyers has increased. As Figure 1 shows, the number of solicitors in practice in England & Wales has more than doubled in the past 20 years, in part driven by the admission of increasing numbers of women. In total, the ratio of lawyers per head of population has increased from around 1:1,000 twenty years ago to about 1:400 today. This gives rise to a related problem. If the volume of 'qualified lawyer' work has not doubled (and given the accelerating trends towards standardisation and commoditisation, I don't believe that it has), then we now have too many qualified lawyers for the work available. So, paradoxically, (measured by reference to the number of people available) we have too much quality on the one hand, but then (measured by reference to the number of complaints against solicitors) on the other, we seem to have too little. Both conclusions give cause for concern, and are not the outcome of an effective market for legal services.

Figure 1: Number and gender profile of practising solicitors

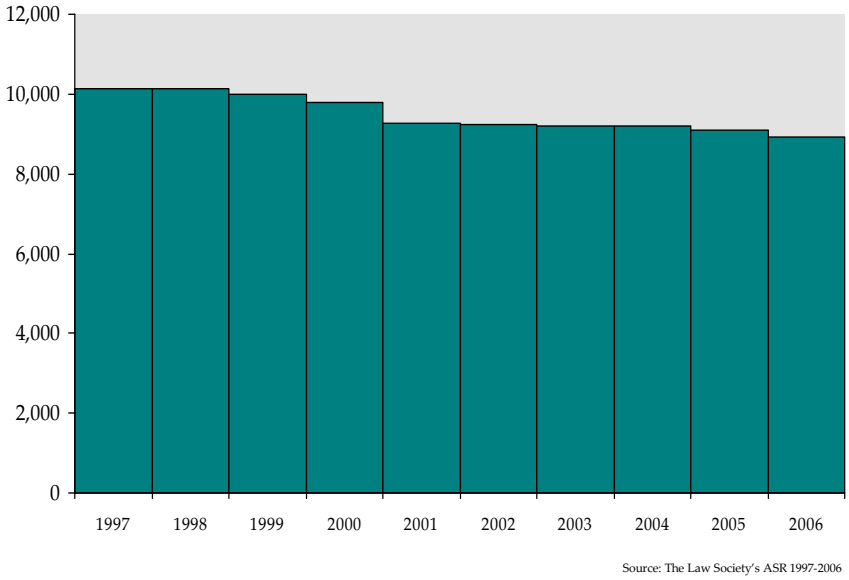


Source: The Law Society's ASR 1993-2006

The consequences of an over-supply of qualified people are, first, that the cost base of legal services becomes too high (and we know that the price to clients is often more than they are willing to pay) and, second, that competition for work drives down fees (and we have seen only too clearly the effects of price competition, for example, on residential conveyancing work). Rising costs and declining fee levels result in a squeeze on profitability. That, quite rightly, then turns the spotlight on the people who are responsible for generating the profit and are entitled to share in it – in the traditional firm, the equity partners. Not surprisingly, some of them (but not yet enough, in my view) have been found wanting, and there have been bouts of 'de-equitisation' of partners as well as fewer opportunities for the admission of new owners.

The challenge of managing costs, responding to pressure on fees, and investing in new approaches to the delivery of legal services has slowly but surely driven mergers and the consolidation of law firms. As Figure 2 shows, the number of law firms in England & Wales has declined by around a tenth in the past ten years. But there are still almost 9,000 private practice firms, and this represents a substantially fragmented supplier base. Every one of those firms has an unavoidable level of establishment costs just to be in business. Viewing the market as a whole, therefore, there are inevitably duplicated costs which are ultimately either borne by clients in higher fees or by partners as lower profits than might prevail in a less fragmented market.

Figure 2: Number of law firms



Source: The Law Society's ASR 1997-2006

A number of managing partners say to me: "It's all very well you saying that we have too many qualified people, but where are these quality people? We certainly can't find them or recruit them! From where I sit, there aren't enough." My answer is that, because of fragmentation, the quality people are distributed across the market: any one firm may not be able to recruit and retain enough, but over the market as a whole, there are still too many.

How, then, has it been possible for a market so apparently inefficient to sustain itself for so long without more fundamental change? For me, the answer lies in the 'traditional' business model adopted by the profession. Every aspect of that model is now under threat, and arguably unsustainable. There are four key elements to it:

1. *A protected, self-regulated knowledge base* that prevents the entry of alternative providers. We know that the Legal Services Act will be the final dismantling of these barriers to entry.

2. *A focus on technical quality*, and viewing practice as a craft rather than a process. I do not wish to undermine the need for lawyers to deliver technically correct legal advice. But it's a mistake to believe that that is the only aspect of quality that matters to clients. We now have evidence stretching back for decades that clients expect a total 'quality experience' that is just as dependent on availability and accessibility, sensitivity, jargon-free communication, and avoidance of arrogant and patronising treatment. It can be summed up as providing a service that is relevant, user-friendly and value for money. Not only is it a mistake to believe that technical quality is all that matters. It's also a mistake to believe that only qualified lawyers can deliver every aspect of the service. Many process-

driven approaches have demonstrated how possible it is to remove qualified lawyer input quite safely and economically from some aspects of legal services.

3. *A belief that the practice of law is a profession and not a business*. There are good and bad aspects to this. It is good, for instance, that lawyers value independence, ethical standards and integrity, and that they put clients' interests and their duty to the court ahead of self-interest. But it's bad when that is used as a defence for being ineffective, inefficient, and more expensive than the market can afford. There is no obligation on clients to support lawyers and law firms in their chosen or preferred methods of organisation and delivery if alternatives could provide better value for money.

4. *A business model that assumes the recruitment and dominance of qualified lawyers* and their potential for equity ownership. We now know that an over-supply of qualified lawyers can be destabilising both internally (when there are insufficient opportunities to meet their expectations of promotion to partnership because the economics of their performance in a crowded market do not justify it) and externally (when over-supply reinforces competition that keeps costs at a higher level than necessary). Much of the 'legal' work that lawyers undertake is not reserved to them, and others may well be able to supply those services more efficiently and effectively.

I do not believe that any one of these four elements is sustainable in a modern, competitive, and efficient legal services market.

Let me complete this first section by identifying four areas where I think the legal profession has fundamentally allowed itself to be led astray, and why it now finds itself potentially so far removed from its client base.

First, we've been led astray by the notion of quality. Focusing on technical quality to the exclusion of other dimensions of a high-quality experience is a delusion. In part it's a delusion because it's just wrong. There are other aspects to service delivery to which I've already referred. In part it's a delusion because the consequential assumption seems to be that, when clients seek greater value for money or lower prices (particularly if they're inclined to turn to non-lawyers), the only response would be to reduce technical quality or compromise professional ethics and that, of course, is not in clients' best interests – if they did but know it. It is an arrogant delusion to believe that lawyers are the only proper arbiters of what represents a quality professional service.

Second, we've been led astray by time-based billing. The arguments against it are probably sufficiently well-rehearsed now that I don't need to dwell on them. Any idea that lawyers sell time is profoundly misjudged. The *cost* of an hour of a

lawyer's time to the firm may be the same (just by the law of averages), but the *value* of a lawyer's time to the client is anything but the same. By disconnecting fees and value we risk removing ourselves so far from the clients' conception of value for money that there is little scope for a meeting of minds. And time-based billing also encourages a supremacy of chargeable time at the expense of investing in developing talent, client relationships, market profile, meaningful strategy and sound management.

Third, we've been led astray by the idea that legal practice is a people business. Now I'm straying on to dangerous territory! How, I hear you cry, can it be anything *other* than a people business? Well, there are two types of people businesses: knowledge-intensive, and labour-intensive. Traditionally, law has been knowledge-intensive, which is why law firms have recruited qualified people. This is sustainable when knowledge is scarce, but we all know that, with the emergence of the knowledge economy, a combination of education, communication and technology moves knowledge towards a commodity.

Then, as the practice of law becomes more process-driven and administrative, it potentially shifts to become labour-intensive – and that labour does not need to be as well-qualified or expensive as the people required for knowledge-intensive services. And that too often has been the mistake. Too many highly qualified people in law firms have been shifted from knowledge-intensive to labour-intensive services; and the effect, again, is that the cost base of those services becomes too high. Worse than this, over time labour-intensive services tend, in turn, to be replaced by technology-intensive solutions, and lawyers have typically been slow to embrace technology as a method of delivery rather than as back-office support. We run a great risk by being caught up in the romance and rhetoric of law firms as people businesses.

Finally, we've been led astray by the ability to create partnerships with more than 20 partners. Law firms and other professional partnerships were exempt from the requirement to incorporate when their partnerships reached the maximum number. Consequently, law firm partnerships have grown in some cases to hundreds of partners and the strains of the partnership model have begun to show. The confusion of ownership and management, the lack in many cases of effective decision-making, and the restricted ability to raise finance are now coming home to roost. Had we been forced to address these shortcomings earlier, we might now have more efficient, client-focused, organisations.

My diagnosis so far, therefore, is that we have too many qualified lawyers, too many law firms, and too many equity partners; but we're in a market that is still growing in value. Opportunities for further growth in a market characterised by over-supply and inefficient business practices certainly exemplify a market that is ripe for reform.

2. Reform has to balance different interests

It is one thing to conclude that a market is ripe for reform. It is another to agree that any reform is better than none. In a marketplace for legal services, there are three principal interests that must be balanced: lawyers, clients, and the public. The 'mood music' of public opinion during the last quarter-century has been supporting Government initiatives to remove restrictive practices and anti-competitive protection from the professions.

We have therefore seen an inexorable shift in the balance of power from the lawyer to the client. While this is understandable for the 'consumer' market with which the Legal Services Bill is largely concerned, I am not convinced that it is a universal good. There are instances where it is not clients who need protecting from lawyers, but arguably lawyers who need protecting from clients. For example, the efficiency of competitive markets can potentially be distorted by the buying power of large institutions such as global companies, banks, insurers, public authorities, and even the State itself. The ability of such large and influential buyers to make short-term changes in their procurement of legal services can seriously disrupt investment cycles, as well as undermining return on investment in specialisation, diversification, consolidation, or technology, and so the medium-term viability of their suppliers. The public interest does not require the balance of power, whether through competition or regulation, to favour either lawyers' interests or clients' interests: what it requires – often in very different circumstances – is a balance of those interests.

So the public interest is not the same thing as the client interest or the consumer interest. Public interest must protect the rule of law and promote the effective and efficient administration of justice. I accept that this gives a legitimate interest in the efficiency of the legal services market and so in the business arrangements of lawyers. But then there might also be a conflict. There is a private market for legal services, and a public one. When the State pays for legal services, it has an interest not just as representative and guardian of the public interest, but also as a buyer. The public interest in keeping a cap on public expenditure gives rise to a different interest in the efficiency of the market for legal services. So we must examine closely the Government's wish to see 'market-based' reforms – particularly in the provision of legally aided services. What sort of 'market' are we talking about?

A truly competitive market would encourage independently contracting parties, each with sufficient knowledge of the other and with equality of bargaining power. This would promote supply and demand at a price that satisfied a volume of demand for value for money from clients and an equivalent volume of supply that secured an acceptable return to lawyers. But there is more than one supply at issue in relation to legal aid. It is not simply the provision of legal services by law-firm suppliers paid for out of public funds. The demand from clients for the services of

these firms is also influenced by the 'supply' of legal rights through legislation. Here is another area where supply and demand are out of kilter. The Government is responsible both for the creation of legal rights in respect of which legal aid for enforcement may be required, and for the financial wherewithal for many of those affected to be able to pursue their rights. The supply and cost of publicly funded legal services is not driven entirely by the expectations of a rapacious legal profession; the Government itself has to bear much of the responsibility for supply of need into the system. It is not just the financial tap that needs managing in order to match levels of demand with budgets.

The intended market for legal aid work will be based on a single buyer procuring legal services on the basis of price, quality and preferred suppliers. The very notions of a single 'monopsony' buyer and *preferred* suppliers tell us immediately that we are not, in fact, looking at a true market. A monopsony must, by definition, be an imperfect market. However, being realistic, can it be anything else? Probably not. Nevertheless, even an imperfect market should be distorted as little as possible. The fixed fee approach for civil work envisaged by the Carter reforms represents an 'administered' price system, with the price fixed by the buyer. It is not based on supply and demand in a competitive market. Without adequate knowledge, the price (though I hesitate even to mention it!) may be fixed too high, and result in a loss to the public purse. It may also be fixed too low, and result in too many supplier firms withdrawing from the market. This would do more damage as legal advice becomes scarce, and those with rights are unable to pursue them – not for want of funding but for want of suppliers. This balancing act is delicate, yet crucial, and is presently anything but 'market-based'.

As a taxpayer, I'll confess to understanding and largely supporting the wish to contain legal aid funding. The current situation of a fragmented supplier base inevitably builds in duplicated overheads at some cost to the system as a whole; and it clearly drives up the Legal Services Commission's administration costs in having to deal with so many suppliers. I therefore see the logic of seeking larger-scale providers. But scale does not inevitably lead to economies of scale. Let me return to an earlier theme – the distinction between knowledge-intensive and labour-intensive services. Scale, in terms of sheer size, can be achieved in both types: the largest law firms are, to some degree, an illustration of the ability to scale knowledge-intensive businesses. Economies of scale, on the other hand, cannot be achieved in both types. Knowledge-intensive services will not produce significant economies of scale, while labour-intensive and certainly technology-intensive services can.

Some aspects of legally aided services are highly knowledge-intensive, and require a considerable degree of technical legal input specifically tailored to the client's circumstances. Examples might be aspects of immigration and social welfare advice. Other services may well be scaleable. An approach to legal aid funding that assumes a universal opportunity for scale and scale economies will fail to deliver the services

and quality of service required. But equally, current suppliers refusing or resisting the invitation to consolidate and scale up where that can and should be achieved will result in a loss of work.

We therefore have to accept that consolidation is required in the legal aid market just as much as it is needed in other parts of the legal services market. What will drive that consolidation?

3. Consolidation

If there is one theme that comes through as we contemplate the future of the legal services market, it is consolidation. The need to reduce the number of firms is crystal clear, in the interests of quality, consistency, efficiency and cost. In the market for commercial legal services, that need has been recognised through the natural forces of competition, and has been happening for a number of years. According to Law Society data, for example, the number of firms with more than ten partners fell by 30% from 522 to 366 in the five years to 2006; but those 366 firms (just 4% of the total) accounted for more than half of all solicitors in private practice. Indeed, the largest 100 firms (barely 1% of the total) accounted for just over one-third of solicitors in private practice, but for about half of the £20 billion turnover in legal services.

But the 'retail' legal market largely has not felt these forces … until recently. With greater volume and processing in the conveyancing and personal injury markets, the need to scale up has been recognised; and only last week Irwin Mitchell, with 1,200 fee-earners, announced a Scottish tie-up in its quest to become the market leader in the delivery of volume legal services in the UK. The potential entry of High Street and institutional brands into the consumer market will drive further consolidation. Co-operative Legal Services, Halifax Legal Solutions, the AA, DAS, and Capita, to name some of those who wish to participate in the emerging market for consumer legal services, will be impossible to beat at the current levels of scale and investment that characterise typical law firm presence in this market. 'Consolidate or die' might be a touch extreme – but only a touch.

The Carter Review estimated that 400 legal aid firms might disappear as a result of the proposed reforms. The Law Society commissioned research that suggested that the figure might be twice that. In the context of the market reforms as a whole, however, even 800 might be a significant underestimate. In the 7,500 or so law firms that have fewer than five partners (87% of the total), there is on average just three solicitors in each firm. This is not a sustainable, cost-efficient distribution of capacity. In fact, it intrigues me that in the five years to 2006, the only group of law firms that grew in total number is the group of sole principals. There is a clear need for consolidation, and yet some practitioners are opting for increased fragmentation.

So what scale of consolidation should we project? It's difficult to be sure, of course, but here's my guess for the next five to ten years. First, let us assume that the firms with fewer than 10 partners are most at risk from competition for retail legal services. There are more than 8,500 such firms and 37,500 solicitors in them. Perhaps a proportion could survive as niche specialists or 'lifestyle' firms, so let us be generous and imagine that only half are at risk. If we then project that the remaining firms need to reach the critical mass of the 5-10 partner firms in order to compete and invest effectively, we should expect to see firms with an average of 16 solicitors, which strikes me as a sensible minimum goal in a consolidating market with much larger and better-resourced new entrants. That would mean that the 'at risk' group would lose about 3,000 firms, and would imply about £1.5 billion of turnover on the move. Given the billing practices and financial gearing of smaller firms, that probably represents around £1 billion of borrowings on the move, too. There are clear risks in this degree of redistribution. Please note that I am not forecasting thousands of solicitors losing their jobs: what I envisage is the necessary and inevitable reconfiguration of thousands of solicitors into a smaller number of larger firms.

Even then, ranged against the new brand entrants, the 4,500 firms that remained would still represent a fragmented supplier base that could yet be eaten alive in the core practice areas of conveyancing, wills and probate, personal injury, and employment. These areas of retail consumer legal services will be determined by access to work. Home Information Packs will potentially remove solicitors' customary access to residential conveyancing; legal expenses insurance and affiliation groups (such as trade unions and motoring organisations) could come to dominate access to personal injury and employment work – even if they choose not to set up their own law firms. Without significant institutional relationships (achieved through consolidation), many smaller law firms will find themselves disenfranchised from access to these sources of work. In 20 years' time, I would not be surprised to see even lower numbers of firms.

To some extent, the issue of scale and consolidation in the retail legal market is not dependent on the Legal Services Act. Some of the new entrants are already active in the marketplace, using panel firms and 'white labelling'. The Act will allow them to use the new alternative business structures to create multi-disciplinary businesses. However, if they choose to be the direct drivers of consolidation by acquiring incumbent law firms, the degree of fragmentation described earlier may pose some challenges initially in reaching the required scale. So too will the need to integrate technology across a number of formerly independent law firms. It's not an easy process – but these new entrants have much more experience of consolidation than lawyers.

In towns and cities, law firms tend to be less concentrated than in rural areas. This may initially make the rural law firms more vulnerable to new entrants, on the basis

that they are easier to 'pick off'. Their current competitive advantage of relationship and community provision may be lost over time (and profitability with it) to the scale, standard pricing, efficiency and technology of new entrants. These forms of consolidation have already changed the retail world of corner shops, pharmacies and optometrists. Consumers might bemoan the loss of local facilities, but they buy based on convenience and price.

I have heard all the counter-arguments about threats to access to justice and the erosion of the supplier base that consolidation could imply. In my view, such arguments dangerously confuse access with *physical* proximity. In the emerging age of technological convergence, proximity to legal advice could mean proximity to a PC or even a TV screen in one's home. A large, fragmented lawyer base cannot hope to invest in the technology to supply and compete in that market.

Of course, lawyers won't necessarily welcome these developments; and they will argue that they're not in clients' best interests. The fact that lawyers don't like it doesn't mean that it isn't right or that it won't happen. And we'd better start crediting clients with enough intelligence to decide for themselves what they want and how they want it. The message has been coming through loud and clear for too long now: lawyers generally are not perceived to understand their clients and consumers welcome affordable alternatives. When is that message going to be heard and acted on, rather than denied or ignored? Doing nothing simply gives the new competition time and scope to offer an alternative. Doing something requires a different approach to legal practice – to composition, structure, methods of delivery, ownership, and financing.

4. The policy issues

So is it all too difficult? Should we give up? Is the magnitude of the change required beyond us? Have we already wasted 20 or more years by not responding to the writing on the wall? I understand the frustration of the market (as represented by consumer groups, institutional clients and Government), and why they may finally have run out of patience with lawyers' apparent unwillingness or inability to be more responsive. But those larger forces must be careful not to push too far, too quickly. It's not yet too late for lawyers to make a proper, commercial response that is nevertheless consistent with professional obligations.

There are, therefore, a number of serious policy issues that the reforms raise, and which we at the Legal Services Policy Institute want to explore with a variety of interested parties. We seek a more efficient and competitive marketplace for legal services – but one that nevertheless still properly balances the interests of clients, providers, and the public.

1. If the process of reform began with a legitimate concern about the imbalance of power between lawyer and client that favoured the lawyer, do we now recognise and should we be concerned about an imbalance that favours clients?

2. As lawyers are driven further down the road towards open competition and lose the hallmarks of a profession, should we be concerned that (except in their dealings with the courts) they might then feel absolved from a sense of duty to the wider public or a duty to act against their own self-interest? When there is no perceived value to being 'a professional', when they are no longer proud to say "I am a lawyer", what residual value is there in integrity at the expense of survival? This erosion of professional standards is not, in fact, inevitable: ethical behaviour is a state of mind, not a state of regulation or of structure. But standards might be severely tested by the pursuit of efficiency to win publicly funded work, or by the arrival of external ownership and investment.

3. Will the pace of consolidation match the market's ability to cope? Will support through the transition be available? Will the lending banks take fright and (wittingly or unwittingly) destabilise the financial underpinnings of too many firms?

4. Will the 'mid-market' of legal services disappear as law firms – as they see it – choose between trading down and trading up? Or will the mid-market become an overcrowded middle ground as smaller firms flee the retail consumer market in search of higher net-worth clients? Out of a competitive frying pan and into a fire?

5. Are law firms yet attuned to meeting the expectations of Generation Y as both clients and workers? This group born, roughly speaking, in the 1980s and 1990s, is defined by growing up in the media and computer age. This group will change the buying patterns and methods of law firm clients (both as private clients and as representative buyers on behalf of corporate, public sector and intermediary organisations). This generation will expect a more technological, remote and virtual experience than the face-to-face, ear-to-ear, present and physical encounter that lawyers have been used to providing. And Generation Y's influence on the workplace may be profound as working hours and methods, career prospects and reward systems, are changed to meet a new set of expectations. We are already seeing generational differences in the responses to the post-Clementi world, as the older generation look for shorter-term routes to exit than the younger generations may wish to contemplate. How many providers of legal services are ready for these generational shifts and differences – and are more of them currently outside the legal profession than within it?

6. Will we see a better matching of the creation of new legal rights for the vulnerable in society with the availability of public funding to pursue those rights? Will the Legal Services Commission fully appreciate the distinction between scale and economies of scale, and not force scale in the hope of economies when it is not appropriate to do so? Will the limits of monopsony power be recognised and respected?

7. How many qualified lawyers will we need in the emerging marketplace for legal services? Who do we train for the future market, how many, and in what? What will happen to the current over-supply: will it exit, or accept lower earnings? The Legal Services Act will remove barriers to entry; but it does not address barriers to exit faced by incumbent lawyers and law firms. Can we, and should we, facilitate their exit?

Have we identified the right issues, and what should our priorities be? How best can we help the market address and resolve them?

5. Catalyst, cataclysm or catastrophe?

And so to my subtitle: catalyst, cataclysm or catastrophe – or, to put it another way, accelerator of change, radical upheaval, or disaster? The Legal Services Act will address regulation, complaints, barriers to entry and alternative business structures. These will certainly prove catalytic. The competitive forces unleashed will have consequences for all providers in the legal services marketplace – sometimes incrementally, sometimes radically. In this sense, the reforms will certainly be an accelerator and enabler of change. Law firms will need to restructure and possibly refinance, to consolidate, to recruit, train and promote sensibly, and to engage in even more sophisticated strategy and management. Organic acceleration would be one thing; but the rate of acceleration that we are likely to see will probably propel us towards the cataclysmic.

Indeed, my reading of the political intent is that the reforms are meant to be cataclysmic – that they should bring about an upheaval in the structure of the market and its methods of delivery. Given the degree of fragmentation and inefficiency, on the one hand, and, on the other, the extent of the consolidation and investment that are required to bring about the intended results, it is difficult to see how they could not be cataclysmic. Reform on the scale envisaged will be radical, resulting in new structures, new methods, new owners and new capital. But if a cataclysm is sudden and violent, then some would say it is a catastrophe. Is that where we're headed?

These reforms would be catastrophic:

1. If regulation is heavy-handed, expensive, or restrictive. There is much evidence that inappropriate regulation dampens productivity and competition.

2. If consolidation leads, not to the absorption of firms, but to their failure in significant numbers because acquisitions are ill-considered or ineptly handled (and experience of law firm mergers in the past 20 years suggests that this is a distinct possibility).

3. If the pace and implications of consolidation are faster than clients, law firms and their bankers can live with. To the extent that consolidation often results in the diversification of services within a larger business, it may also entail dilution of culture as well as conflicts in economics, staffing, marketing, and management – all of which in fact undermine scale and efficiency.

4. If fixed fees and best value tendering result in too few providers being willing to take on legal aid work. Access, quality and price are dependent on who remains in the market – and not just through the current transition, but into the future. Given the predominant age profile of legal aid practitioners, the relatively small size and geographic distribution of legal aid firms, the perceived lack of returns, and the tendency of some firms to undertake the work on the basis of social conscience or cross-subsidy, there is a very real risk that the supplier base cannot be maintained sufficiently.

5. If third-party investors (whether private equity or others) and the law firms in which they invest fail to understand each other, with both sides expecting more from the other than can realistically be delivered. There are lessons to be learnt from Big Bang 20 years ago, from the acquisition of estate agents, and from the acquisition and flotation of law firms in Australia and South Africa following similar liberalisation. We should learn from these experiences; and yet there is evidence that suggests the contrary. For example, in *The Lawyer* in July last year, there was an article about the valuation of law firms. In my view, the suggestions would over-value firms by about a factor of three. Such misplaced optimism can only lead to disappointment; and disappointment will lead to market distortion.

So, catalyst, cataclysm and catastrophe are all possible outcomes. Cataclysm is the most likely and – honestly – the most desirable outcome in the interests of a strong, effective, independent, competitive, and justifiably profitable market for legal services. We have to lose our current tendency to equate the legal services market with the legal professions. The market will grow and prosper; the legal professions may not.

We face a series of redistributions within the legal services market. It is certainly ripe for reform, but that reform must be balanced and considered. It must not be rushed, for the redistributions needed are probably cataclysmic and, if misjudged or badly managed, potentially catastrophic. We shall see:

- the redistribution of clients and revenues – both within the incumbent legal profession and beyond to new entrants;
- the redistribution of work – from qualified lawyers to paralegals, and from people to technology;
- the redistribution of profit – within existing law firms (as issues of partner performance are resolved), from law firms to new entrants, from short-term income to longer-term capital growth or share options, and indeed from providers to buyers (as clients exercise more bargaining power over the nature of delivery and the price charged); and
- the redistribution of ownership and capital – as law firms restrict equity to fewer partners or, conversely, open ownership up through incorporation and the wider distribution of shares, and as new entrants come in (whether as multidisciplinary professionals and managers, or as external brands and consolidators).

These redistributions are necessary and inevitable in a modern, effective, competitive market. But there is a legitimate concern about the speed and extent of the redistributions. Through the transition, we must ensure that current imbalances of power are not replaced by others.

The current legal services reforms have been described by some as a 'wake-up call' for lawyers. In fact, the alarm went off at least four years ago when David Clementi was appointed to carry out his review. Some didn't hear it, and are still asleep. Most, I think, hit the 'snooze' button and are still in a twilight zone between cognisance and action. Not enough have leapt up and breathed in the new dawn's fresh air. It's not difficult to imagine where we might find 3,000 law firms to lose!

This paper is based on Stephen Mayson's Inaugural Speech as Professor of Strategy and Director of the Legal Services Policy Institute on 21 March 2007.

