



White Paper:

The Impact Of The Legal Services Act On HR Departments

A report by ESP

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Introduction

The Legal Services Act 2007 was introduced to promote more competition, innovation and transparency in the legal services market, and to encourage law firms to become more customer-centric.

Until the Act came into effect, the market was a fairly closed shop.

The legal profession had remained unchanged for hundreds of years, with law firms often criticised for not being particularly consumer-focused or commercially-minded. As such, the government sought to **reform the way legal services were regulated** in England and Wales and **drive new competition into the market**, while placing consumer interest at the heart of any market change.

Marking the introduction of the Act in 2007, the Legal Services Minister at the time, Bridget Prentice, said that the reforms were all about fairness to consumers.

“The Act will mean consumers get legal services that are fit for purpose, increasing confidence in the system as a whole,” she remarked.

A series of measures were introduced as part of the Act, including the formation of a single, independent regulator – the Legal Service Board – and the creation of Alternative Business Structures (ABSs).

What is an Alternative Business Structure?

Previously, only solicitors have been allowed to own and run law firms.

With the introduction of ABSs this all changed.

ABSs remove existing restrictions on legal firms, allowing both solicitors and non-solicitors to share management and ownership of the business and offer regulated legal services in England and Wales. This means that organisations, such as banks, insurers or supermarkets, can now offer legal services to consumers, as well as traditional law firms. The aim of the ABS business model is to ensure the legal sector better meets customers' needs, by giving them **new, more cost-effective ways of accessing legal services from a wider range of providers**. This, in turn, encourages more competition in the sector and forces traditional law firms to become more innovative and customer-focused. That's the theory.

ABSs are regulated by a number of approved licensing authorities, including the Solicitors Regulation Authority (SRA) and the Council for Licensed Conveyancers, who assess each application and issue licences where appropriate. At present, the Legal Services Board estimates there are **almost 600 ABS-type firms**, varying in size from small, one-man bands to top 200 firms, all offering very different services.

The first ABS licence was granted in March 2012.

The then Justice Minister, Jonathan Djanogly, claimed it was a "huge milestone" for UK legal services.

"ABSs introduce more competition in the market place, delivering competitive pricing, higher standards of product and more choice for the consumer," he said.

"Our UK legal services are unrivalled around the world and these changes will allow them to reach new heights, as solicitors' firms develop new markets, seek external investment and join up with other businesses to offer different products to consumers and provide opportunities for growth."

However, the ABS model was met with much fear and pessimism by small traditional law firms when the idea was first introduced. A report by LawyerLocator in 2010 revealed that 87% of sole practitioners believed that ABSs would put the future of their firm in jeopardy, while a fifth felt their business had already suffered as a result of the Legal Services Act.

Meeting changing customer behaviours'

In a speech in 2012, the chief of corporate affairs at The Law Society, Dr Patricia Greer, stressed that there was no need for law firms to be as afraid or cynical of ABSs as many appeared to be, because they are just part of the evolution of legal services.

“Consumer and business expectations are changing and the way that services are provided has been evolving,” she said. “I don't believe that goals or regulations can make something happen that consumers and markets are not demanding. Governments and regulation can, however, remove barriers and enable things that the market is already seeking to happen.”

She added that ABSs enable innovation through the “vigorous cross-fertilization of ideas that comes from different professions sitting down and providing client services under one ABS roof”.

Most of the ABS licences have been issued to existing traditional law firms that wanted to branch out or reposition themselves, but some big names have followed suit, including BT, the AA, Saga, the Co-operative Group and global accountancy firms KPMG and PwC.

Many ABSs are concentrated in the personal injury sector, but other areas, including employment law, are also being explored.

Research last year by the SRA found that **employment law is the third most common area that ABSs are looking to work in**, after litigation and personal injury.

One of the first employment law and HR consultancy businesses to be granted ABS status was **ESP Law Ltd**. One of its key provisions is a legal advisory service designed to support HR professionals by providing unlimited, subscription-based specialist employment law advice.

Like Dr Greer, ESP Law Managing Director Peter Byrne believes that law firms have to adapt and react to the new legislation because customer behaviour is changing across the board, including in the HR profession.

“The purchasers of employment law services – namely HR and finance professionals in larger businesses - are changing in their thinking,” he remarks. “They want different service innovations; they want online tools and resources as part of a complementary and integrated mix of professional services - and not just a singular advice service.

“They don't always want to pay an hourly rate and if they do, they certainly don't want to be paying the prices top law firms are charging. Yet, in the main, this changing consumer need doesn't fit in with the traditional law firm business model comfortably at all.”

What does the Legal Services Act mean for HR and what are the opportunities?

The introduction of the Legal Services Act has enabled new entrants to enter the market, resulting in wider access to justice and increased competition, which is driving down costs and providing new ways of delivering legal services.

This is beneficial to HR and finance departments, who may have traditionally relied on costly specialist employment law services, yet still perhaps didn't receive the best legal service for their specific needs.

Essentially, the Act gives HR an alternative.

It gives them the opportunity to consider a different kind of law firm, with a different culture and pricing model and enables them to compare costs, service quality and customer experience.

In the past, it was pretty rare for customers to shop around for legal services. In fact, the Legal Services Board's 2009 study on consumers found that 77% of people who sought legal advice from lawyers in the previous five years didn't shop around. With new competition emerging, the Act gives customers the ability to do just that; and with more competition comes lower prices, service innovation and a greater focus on customer needs.

Cost savings

Most law firms have always preferred the pay-as-you-go pricing model, where customers are charged hourly rates, so as soon as they pick up the phone for legal advice, their costs start rising. By opening up the legal services market, HR departments no longer have to put up with solely that type of pricing model. Fairer pricing and more cost-effective solutions are becoming possible because many ABSs are rejecting the pay-as-you-go model in favour of fixed-fee subscription packages for specialist, unlimited legal advice.

This delivers greater value for money for HR departments reliant on legal services, because it gives them access to the same regulated employment law advice they would receive from a city law firm, but for a fixed annual subscription price. It also enables HR to turn variable budget into guaranteed budget, as they know exactly how much they are going to spend on legal costs in any given year, without fear of

escalating costs or unexpected bills. Plus, any budget savings can be diverted into other important and more strategic HR projects.

Enhanced customer service

Another key advantage to opening up the legal services market is a greater focus on customer service and experience.

Bringing commercially-minded business expertise into a law firm enables ABSs to offer the same standard of service and levels of customer care that other service industries, such as retail, have offered customers for years.

Historically, law firms have been criticised for not taking the time to truly understand what makes customers tick and for taking an ivory tower approach to customer service.

Yet research by Peppermint Technology in 2013 revealed that quality of service is becoming increasingly important amongst legal customers, with three quarters of customers favouring law firms that had achieved reputable quality marks.

Byrne warns that law firms have got to change and start thinking about putting the customer first, if they are going to differentiate themselves and keep up with potential, new emerging competition.

“Customers have been voting on their feet on employment law matters for 30 years,” he remarks. “Visionary HR teams have always shopped around and have often chosen employment law business partners in the non-regulated sector. So, this is not something new in terms of consumer behaviour.

“Law firms have therefore got to invest in training their people on the softer skills, especially around customer relationship management. They have got to look at how they are providing their service and what the customer actually requires, over and above the very singular and narrow provision of solely personal legal advice.”

Innovative use of technology and ways of working

ABSs are disrupting the market by embracing technology and innovation in a way that could be considered alien to many traditional law firms.

The Peppermint Technology report found that over half of law firms have no plans to introduce online legal services, despite the fact that there has been a huge increase amongst corporate customers in the desire for online services over the last few years.

ABSs, however, are diversifying their legal services offering and investing in IT systems and modern working practices to provide customers with the same high standards expected in other service-based industries.

According to a 2015 report by the SRA on innovation in legal services, **ABS firms are 13% to 15% more likely to introduce new legal services**, while 40% have put in place business procedures to support innovation and the development of new ideas. The report also found that innovation extends service range, improves quality and attracts new clients.

By placing technology at the heart of what they do, ABSs are better able to meet their customers' needs, streamline their services and pass on any cost savings to their customers, whilst still providing a high quality legal advice service.

Customers have access to interactive, online HR resources, where they can download legally compliant and up-to-date document precedents, such as employment contracts, policies or HR toolkits. Some firms provide legal updates or advice via blogs or social media channels and offer virtual consultations via Skype or Facetime.

How to take advantage of the ABS opportunity

ABSs are often part-owned and managed by business professionals from a customer service background, yet they employ the same practising solicitors that you would find in a traditional law firm, they are regulated in the same way as other law firms and they favour a fairer pricing model to billable hourly rates.

This all means HR departments get the same high quality advice they would expect from a City law firm, but with the opportunity of higher standards of customer service and lower costs, so it may just pay to take advantage of what an ABS can offer.

“You don't even have to take a big leap of faith,” says Byrne. “You can go through a really careful selection process and try before you buy, to demonstrate to yourself and your team that this is something genuinely different. It can also act as a complementary alternative to existing support programmes in place, as not all of our customers exclusively switch from their traditional law firm to us 100% overnight. You may just use this new type of model for the operational day-to-day advisory needs, because it can save money and is better equipped to deliver that higher-volume requirement – leaving larger and more strategic ‘transactional work’ (such as large scale T&C's changes across different countries, employment due diligence in a business purchase or sale, etc.) to the traditional incumbent law firm. It may also sometimes be true that on a particularly sensitive matter, having a ‘top city name’ undertaking the work is a pre-requisite for keeping the Board (especially overseas Boards) happy – although from a technical perspective a solicitor employed by an ABS may be more experienced and technically/commercially competent than their traditional law firm equivalent.

“Over time, you can compare what you are getting from your traditional law firm with these new providers and make genuinely informed purchase decisions going forward on a matter by matter basis.”

Conclusion

The Legal Services Act opens up the market for HR and finance professionals, enabling them to benefit from greater choice, more convenience, increased capability, enhanced customer service, tighter budgetary control and fairer pricing.

As the legal industry evolves and becomes more transparent and competitive, HR departments finally find themselves in the driving seat and the monopoly held over them by traditional law firms is being broken.

For HR departments looking for a change in the way they access specialist employment law services, now might just be the time to consider a more innovative, cost-effective, customer-centric business model.

How The Legal Services Act Is Already Making An Impact

Case Study: Lawrence Tingey, Head of HR, Coral

Prior to Lawrence Tingey joining betting and gaming business Coral earlier this year, the company had a link with a couple of solicitors' firms, which they used on a case-by-case basis. Yet it wasn't proving to be particularly economical.

"We were using some pretty expensive city lawyers, so we wanted to get one consistent supplier, while being conscious of the cost," explains Tingey.

At this point, they approached ESP to help them meet the specific issues they faced on a daily basis. One of the key benefits to working with ESP is their personal touch, he says.

"Each member of our team has two people who are their point of contact, so whether it is a serious issue or a minor matter, they pick up the phone or email and they receive an efficient personal service. There is always someone there whom they have built up a relationship with and who has taken the time to understand our business," he remarks.

"Even though they are not an in-house Coral team, there is an in-house feel to the relationship, in that they know our business and the issues we have. As we are a gaming business, we have some specific issues and they know and understand that and work with us on those."

One of the other significant advantages has been the ability to fix their budget.

"If we need quick support like reading a letter for us, or making sure we are doing the right thing, if each one of those calls was to a traditional law firm, it would have cost us a lot of money," remarks Tingey. "But now I know each year what that is going to cost me and I know I am covered for that service."

Case Study: Joanne Shaw, HR Manager, Antler Ltd

When Joanne Shaw became HR Manager at luggage business Antler, she had significant experience in employment law, but felt she needed more support in this area to ensure the business wasn't vulnerable, as well as to help with her personal development.

The company had used a traditional law firm in the past for specialist employment law advice, on an ad-hoc basis, but decided they needed something different, so they starting working with ESP.

“I used ESP heavily for the first six months, almost every day,” says Shaw. “It was great to have someone on hand to help with some of the basic HR issues, such as disciplinaries’ and I am totally up to speed on that now. It’s that personal touch, where they have bought into me and have helped in my development, almost like a mentor and a coach, as well as legal advisor.”

It has also been extremely cost-effective for the HR department, she comments. “I may have used them a lot more than I would if I was paying an hourly rate to a law firm, but that was the whole point in paying a fixed subscription like this, so I could use them as much as I wanted and not have to worry that I was incurring and ‘storing up’ huge invoices that would arrive at a later date. In terms of cost and business benefit, it has been invaluable.”

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