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## **Research on alternative business structures (ABSs)**

Findings from surveys with ABSs and applicants that  
withdrew from the licensing process

May 2014

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## Summary

Based on a rationale of increasing competition and diversifying the supply of legal services to better meet the needs of consumers, the Legal Services Act 2007 opened the legal services sector to alternative business structures (ABSs). We started accepting applications from prospective ABSs in January 2012 and licensed our first ABSs in March 2012.

To become an ABS requires the submission of a successful licensing application to an approved regulator, including provision of background information as to the structure of the firm and the details of the non-legal managers and investors. As an approved regulator, we established a formal application process for all potential ABSs, whether the application was from an organisation previously regulated by us or not.

This research collates and analyses applicant perceptions of the effectiveness of the licensing process, together with their views on how organisations are using the flexibility offered by ABS status. The research was open to all firms who had made an application since we started this work in January 2012. The application process has been modified significantly over this period and so the research captures applicants with a range of different views.

The information and data presented in this report was collected via two online surveys, one completed by successful applicants that have subsequently become an ABS, and a second from a survey of firms that withdrew from the process. A total of 46 firms completed the questionnaires. These included a wide range of different types of organisation from small locally-focused practices to large international firms.

### How firms have used the flexibility of an ABS model

ABSs encompass a very wide range of different types of organisation, making it very difficult to draw generalisations about them as a distinct subset of the legal services sector. Some ABSs are very small firms, while others contain hundreds of partners and have turnovers in excess of £100 million.

Although there were under 250 ABSs at the time of this research<sup>1</sup>, headline statistics show that they have achieved a significant share of the overall market in certain areas of legal work:

- ABSs accounted for a third of all turnover in the personal injury market<sup>2</sup>
- ABSs have captured a significant percentage of turnover in mental health, non-litigation other (e.g. mergers and acquisitions and probate), consumer and social welfare
- Other than these areas, ABSs are spread relatively evenly across a range of different legal work types.

The most significant changes that ABSs have made, as a result of their new business model, relate to how the business is financed and the attraction of new investment.

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<sup>1</sup> 190 at the time of the survey launch and 239 at the time of the data download for market analysis

<sup>2</sup> Based on an analysis of declared turnover in the 2013 Practising Certificate renewals exercise

- Just over one quarter of respondents made changes to the way their business is financed and just over one in five now offer different and/or additional services to their clients
- Two thirds stated they had provided or attracted new investment into the firm, with the most common areas of investment being technology, marketing and changes to the way legal services are delivered.

It is possible that these areas of investment in ABSs are indicative of a trend that may improve the accessibility of legal services to consumers. However, further research and monitoring will be required to investigate this.

The main legal and regulatory factors that influenced respondent decisions to become an ABS were:

- Conversion to an ABS as a mandatory requirement for all legal disciplinary practices (LDPs)
- Appointment or promotion of non-legal staff to managerial posts
- Attraction of investment from non-legal individuals and organisations.

### Views on the application process

Prior to submitting an application for licensing, organisations are provided with various avenues to obtain information, advice and guidance. Over three quarters of respondents had accessed this information via online guidance from our website and over two thirds had chosen to discuss their application with a member of our staff.

More than three quarters of respondents rated the pre-submission information sources available as 'very useful' or 'useful', with 77 percent considering discussions with our staff to be of particular benefit. Suggestions for possible improvements were put forward and related to the provision of more detailed explanations of the process, timeframes and evidence required.

When asked to consider the application process, respondents were questioned about their engagement with our staff, our handling and processing of submissions, and whether engagement had led to changes to their application or business plan.

- Respondent perceptions of their interactions with our staff were broadly positive, with over 90percent 'strongly agreeing' or 'agreeing' that those handling their application were professional to deal with
- Over half felt that we had communicated effectively with them, however, one in five 'disagreed' or 'strongly disagreed' with the same statement. 51 percent indicated that they felt staff were bureaucratic to deal with
- 54 percent considered that their application had not been handled in a timely manner, and two in five stated that reasons for delay had not been adequately explained

- There was an even split between respondents that had made changes to their applications or business plans and those that had not. There were also mixed opinions about how reasonable these requirements had been
- A third of respondents stated that the application process had resulted in an increased understanding of risk management. In particular, the process had encouraged firms to identify possible risks, prepare themselves for regulation under OFR and to consider how we expect them to approach the management of risk.

Applicants were asked to reflect on the resource and monetary costs incurred through the preparation and submission of their applications. The majority of respondents found that the application process took longer than they had expected. Just under half spent 'significantly more' or 'more' than they were expecting on other monetary costs.

- The most significant costs were incurred through management and partner involvement and our fees
- Other costs related to other staff time, including financial managers, COLPs, COFAs and administration.

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# 1. Introduction

This report sets out the findings of research on alternative business structures (ABSs) undertaken approximately two years after we first started to licence this new form of legal entity.

The report includes two main sections:

- **Part 1** - provides an overview of licensed ABSs and reviews information to help us understand whether they are delivering legal services differently to other existing law firms. It is still too early to expect to see significant market level change across the legal services sector. By looking at how existing ABSs are using the flexibility offered by their business models, we hope to shed light on how ABSs may contribute to future change in the legal services market. This could be via a combination of a direct impact, by a large number of ABSs taking up certain new practices, and by indirect impacts, by facilitating wider market changes as non-ABSs adapt to remain competitive.
- **Part 2** - sets out the experiences and opinions of the licensing process from organisations that have been through it, including those that withdrew their application.

## Background

The Legal Services Act 2007 allowed for the introduction of ABSs<sup>3</sup>, a form of business structure that enables non-lawyers to have an interest in a legal services business which provides reserved activities. It differs from a traditional law firm, in that:

- Lawyers and non-lawyers can share in the management and control of these businesses
- ABSs can have non-lawyer investment.

To become licensed as an ABS by us, applicants must meet the standards and requirements set out in the SRA Handbook<sup>4</sup> and go through our licensing process. We first started accepting applications for ABS licences in January 2012 and licensed the first organisations in March that year<sup>5</sup>.

In the Clementi Review of legal services<sup>6</sup> the Government expressed its support for the principle of enabling legal services to be offered through ABSs, facilitating the entry of new investment and non-legal management into the market. Before this, in a 2003 report<sup>7</sup> it was stated that:

*'The Government supports in principle enabling legal services to be provided through alternative business structures. Such new structures would provide an opportunity for*

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<sup>3</sup> [Legal Services Act 2007](#)

<sup>4</sup> The Council for Licensed Conveyancers (CLC) also regulate ABSs, but in their case, conveyancing is the only reserved legal service that these ABS can offer.

<sup>5</sup> [SRA authorises first ABSs](#). March 2012

<sup>6</sup> Clementi D, 'Report of the Review of the Regulatory Framework for Legal Services in England and Wales', December 2004

<sup>7</sup> 'Competition and regulation in the legal services market', CP(R2), DCA, July 2003

*increased investment and therefore enhanced development and innovation, for improved efficiency and lower costs'.*

The proposed introduction of ABSs into the market led to a number of debates, of which one, in 2010, asked *'If ABSs are the answer, what's the question'*<sup>8</sup>. Delivered by Stephen Mayson, this paper highlighted a number of policy imperatives that the introduction of ABSs could deliver:

- Competition
- Greater ease of use of legal services
- Fewer restrictions on the forms business structures may take
- More cost-effective legal services
- Different forms of access to legal services

It is still too early to assess the extent to which the above impacts are being seen in the market and among consumers, but it is possible to examine the approach taken by ABSs. This will help us to better understand whether ABSs have a different approach to the provision of legal services, and whether this may lead to a trend across the wider legal services market.

In exploring the impact of ABSs on the legal services market, it is important to note the diversity of the ABSs licensed so far. These firms range from previously SRA regulated law firms that have formally included an existing non-solicitor in their ownership structure, to large conglomerates providing legal services alongside other professional services.

In many cases, the one common characteristic shared by these businesses is their legal status as an ABS. Attempting to treat them as a homogenous group is, therefore, often unhelpful. Genuine comparative analysis of different 'subgroups' of ABSs will become more viable as the population of these firms increases.

## Survey sample

The majority of the findings in this paper are based on responses from two web-based surveys, undertaken between October 2013 and January 2014. The questionnaires for these surveys were designed by our in-house research team and the survey was administered via our web team. Respondents were assured that their responses would be treated anonymously and identifying details were removed before the data was provided to our research team for analysis.

The details of the surveys are as follows:

- **Survey of licensed ABSs:** This survey took place between October and December 2013. At the time of the surveys' launch, 190 ABSs had been licensed and all but four were invited to participate<sup>9</sup>. A total of 41 firms responded to the survey, which equates to

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<sup>8</sup> Mayson, S. *'If ABSs are the answer, what's the question: Edited version of the keynote speech at the Society's conference on ABS, which poses challenges to those on both sides of the debate'*, 14th June 2010.

<sup>9</sup> These four firms were excluded from the survey as a result of live complaints or investigations. This meant it was not appropriate to contact these firms for the purpose of a market research survey.

a response rate of 21 percent of the available sample. Of these respondents, six were firms that had previously been a legal disciplinary practice (LDP)<sup>10</sup>.

- **Survey of firms that withdrew from the licensing process:** This survey was carried out in January 2014. At this time, 62 organisations had applied for ABS status and had subsequently withdrawn from the process<sup>11</sup>. Only five of these organisations responded to the survey. This is a response rate of less than ten per cent, but a low number of responses were expected given that this was a cohort that had not achieved the outcome they had wanted when they made their original application.

The report also draws on the data we hold on the characteristics of ABSs. All tables and charts in the report are based on this data or from findings of the survey of licensed ABSs. Due to the low response rate from the second survey, descriptive analysis has been provided on the firms that withdrew from the licensing process.

In addition to analysing headline survey findings, we ran a number of cross-tabulations in an attempt to identify other notable trends and significant variations in the data. However, the sample sizes were too small to establish a suitable level of significance and to draw meaningful conclusions.

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<sup>10</sup> LDPs are a type of solicitors' firm which includes one or more lawyers who are not solicitors (barristers, notaries, legal executives, licensed conveyancers, patent agents, trade mark agents or law costs draftsmen) and/or up to 25 per cent non-lawyers.

<sup>11</sup> At the time of the survey, 62 firms had withdrawn from the process, however the figures quoted did not take into consideration account applications that were still ongoing.



## 2. Profile of ABSs

This section sets out findings on the characteristics of existing ABSs, their market share, and how they are doing things differently as a result of their ABS licence.

### Profile of licensed ABSs

The following charts are based on data from the 2013 practising certificate (PC) renewals exercise<sup>12</sup>. ABSs currently make up just over 2 percent of legal entities regulated by us in England and Wales.

Figure 2.1 presents the size of ABSs by number of fee earners. Note that, compared to the wider market, lower proportions of ABSs employ less than nine fee earners, but higher proportions employ 10 or more.

Figure 2.1: Fee earners				
Number of Fee Earners	ABS (Numbers)	ABS (%)	All regulated firms (Numbers)	All regulated firms (%)
Less than 9	114	52.1	7,783	78
10 to 49	67	30.6	1,712	17.1
50 to 99	16	7.3	188	1.9
100 to 499	17	7.8	164	1.6
500+	5	2.3	144	1.4
<b>Total</b>	<b>219</b>	<b>100.0%</b>	<b>9,991</b>	<b>100.0%</b>
<i>Source: SRA Application Form Data, Feb 2014. N=219</i>				

<sup>12</sup> The process carried out each year in November where regulated firms and individuals pay for their PC.

## Status of entity at time of application

Figure 2.2 sets out a high-level analysis of the status of ABSs at the point at which they applied for their ABS licence. We have attempted to categorise new entrants in comparison to entities that were previously regulated by us.

We could not undertake this analysis without making some subjective judgements. Each ABS has its own set of circumstances and may be intending to do something different as a result of the flexibility offered by an ABS licence. For example, many ABSs involve an SRA regulated entity coming together with a non-regulated business. These firms are difficult to definitively categorise as 'new entrants' or as 'existing firms' making some form of 'conversion'.

The following table is based on data obtained from the application forms of ABSs which have been granted a licence. Due to the complexities of categorisation, the groupings shown in Figure 2.2 are quite broad. It shows that:

- Almost 16 percent of ABSs are former LDPs
- About a third of ABSs are 'new' entities (with no previous SRA ID stated on their application form)
- Firms that were previously regulated by the SRA but are making significant changes are classed as 'existing firms with a significant change', these accounted for about 40 percent of licensed ABSs
- A small proportion of firms (11 percent) did not state a previous SRA ID, but their application form showed they were linked to an existing firm in some way. For instance, in the form of a merger resulting in a new firm or changes to an existing sole practice.

<b>Figure 2.2: Status of entity</b>		
<b>Status of entity at application stage</b>	<b>ABS (Numbers)</b>	<b>ABS (%)</b>
Existing LDP firm	38	15.9
Linked to existing SRA-regulated firm (no existing SRA ID)	27	11.3
Existing firm with a significant change (existing SRA ID)	96	40.2
New Entity - no previous SRA ID	78	32.6
<b>Total</b>	<b>239</b>	<b>100.0%</b>
<i>Source: SRA Application Form Data, Feb 2014. N=239</i>		

When analysing the size of ABSs by number of partners, the breakdown is broadly reflective of the wider regulated community. The main difference is the lower proportion of ABSs with between 10 and 49 partners.

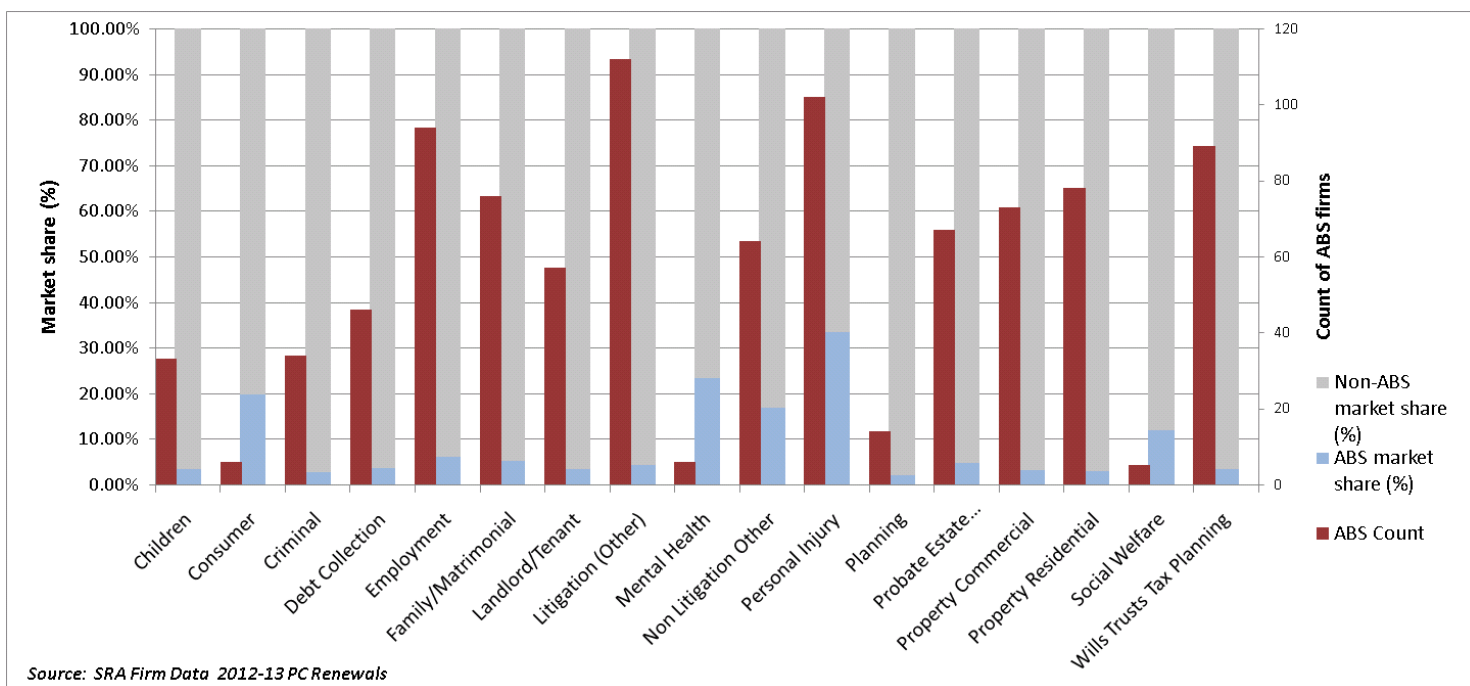
<b>Figure 2.3 Numbers of partners</b>				
<b>Number of Partners</b>	<b>ABS (Numbers)</b>	<b>ABS (%)</b>	<b>All regulated firms (Numbers)</b>	<b>All regulated firms (%)</b>
1 to 9	187	85.4	8,339	83.7
10 to 49	24	11.0	1,374	13.8
50 to 99	4	1.8	138	1.4
100+	3	1.4	117	1.2
<b>Total</b>	<b>218</b>	<b>100.0%</b>	<b>9,968</b>	<b>100.0%</b>
<i>Source: SRA Application Form Data, Feb 2014. N=218</i>				

Figure 2.4 illustrates that firms of all turnover sizes are becoming ABSs, with a relatively even spread among the various categories between £20,000 and £10m. There are 942 firms listed as having no turnover. This relates to the constitution of the entity, where a recognised body can be established as part of a larger corporate structure and not have a turnover associated with it.

<b>Figure 2.4: Turnover</b>				
<b>Turnover</b>	<b>ABS (Numbers)</b>	<b>ABS (%)</b>	<b>All regulated firms (Numbers)</b>	<b>All regulated firms (%)</b>
£0	20	9.1	942	9.4
£1 - £19,999	8	3.7	278	2.8
£20,000 - £149,999	28	12.8	2,535	25.4
£150,000 - £499,999	38	17.4	2,767	27.7
£500,000 - £999,999	25	11.4	1,381	13.8
£1m - £2,999,999	35	16.0	1,276	12.8
£3m - £9,999,999	36	16.4	544	5.4
£10m - £29,999,999	17	7.8	145	1.5
£30m - £69,999,999	6	2.7	48	0.5
£70m - £149,999,999	5	2.3	37	0.4
£150m +	1	0.5	32	0.3
<b>Total</b>	<b>219</b>	<b>100.0%</b>	<b>9,984</b>	<b>100.0%</b>
<i>Source: SRA Application Form Data, Feb 2014. N=219</i>				

As well as being highly diverse in terms of size and turnover, ABSs have become active in the delivery of a wide range of different legal services. Figure 2.5 shows data from the 2013 PC renewals exercise, which requires firms to give a breakdown of their turnover by legal activity. From this it can be seen how active ABSs are in different areas of legal work. The chart shows the proportion of revenue from each work area that is generated by an ABS (grey bar). The chart also shows the number of ABS active in each area of legal work.

**Figure 2.5: ABS market share by legal service**



From Figure 2.5 it can be seen that:

- ABSs accounted for a third of all turnover in the personal injury market
- ABSs have captured a significant percentage of turnover in mental health, non-litigation other (e.g. mergers and acquisitions and probate), consumer and social welfare<sup>13</sup>
- Other than these areas, ABSs are spread relatively evenly across a range of different legal work areas.

Although more evidence is needed to prove this hypothesis, the work areas that ABSs appear to be most active in, may point to increased interaction between ABSs and lower income client groups. This could suggest possible increased competition in areas of law where there may be barriers to access to justice for lower income groups. More research would be needed to demonstrate whether the findings in Figure 2.5 can be interpreted in this way.

<sup>13</sup> Care needs to be taken when interpreting findings of smaller work types as an individual firm has more potential to skew the figures in these areas.

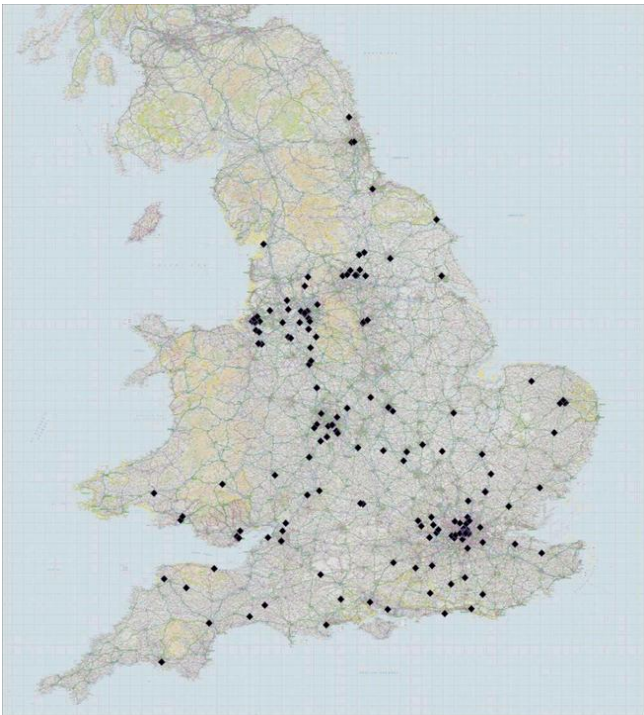
## Location

It is very difficult to draw significant conclusions from an analysis of the geographic distribution of ABSs. Figure 2.6<sup>14</sup> simply plots the location of ABSs across England and Wales, with clusters visible in large cities. On its own, this does not show us anything unexpected.

Figure 2.7 provides a different way of viewing the distribution of ABSs. A 'location quotient' has been calculated for each region. This compares the actual number of ABSs to the overall number of law firms located in this region. This analysis shows that, in comparison to the overall number of law firms located there, there is a high concentration of ABSs in the North West region. The concentration of ABSs in the North West is likely to be connected to the large number of firms that specialise in personal injury work located in this region. In comparison, London has a low concentration of ABSs due to the large numbers of law firms located in this region.

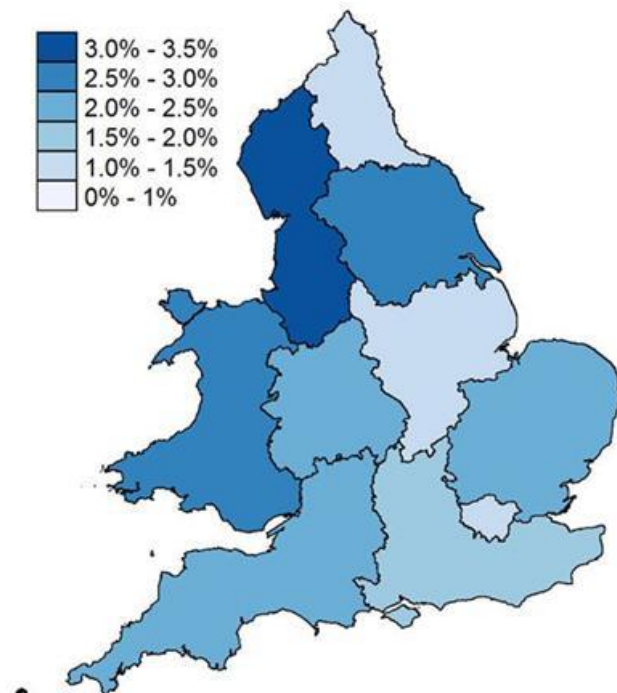
**Figure 2.6: Location of ABS**

(scatter plot of actual location of ABSs)



**Figure 2.7: ABS concentration**

(location quotient of ABSs compared to all SRA regulated firms)



<sup>14</sup> Contains National Statistics data © Crown copyright and database right 2013

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Contains Ordnance Survey data © Crown copyright and database right 2013

## Profile of survey respondents

The following figures present demographic characteristics of the firms that participated in the survey. The overall sample size of 41 firms is small and should not be viewed as a representative sample. However, the findings from the survey provide useful insights into the activities that ABSs are conducting and their experience of the licensing process.

Figure 2.8 shows that as many as 36 percent of respondents had only 2 to 9 employees, and only 10 percent had more than 100. The employee count includes partners, solicitors, paralegals and non-legal staff.

<b>Figure 2.8: How many employees does your legal firm have?<sup>15</sup></b>		
	<b>No of Respondents</b>	<b>% of Respondents</b>
Sole Practitioner	3	8%
2 to 9	14	36%
10 to 49	11	28%
50 to 99	7	18%
100 to 199	0	0%
200+	4	10%
<b>Total</b>	<b>39</b>	<b>100%</b>
<i>Source: ABS Firm Survey, Nov 2013. N=39</i>		

In assessing the gender profile of respondent firms, Figure 2.9 shows that 50 percent identified themselves as having a male majority and 13 percent as having a higher proportion of female partners and directors.

<b>Figure 2.9: Gender profile of partners and directors</b>		
	<b>No of Respondents</b>	<b>% of Respondents</b>
The majority are female	5	13%
The majority are male	20	50%
There are equal numbers of male and female partners or directors	14	35%
Prefer not to say	1	3%
<i>Source: ABS Firm Survey, Nov 2013. N=40</i>		

Respondent firms were asked to consider the relative importance and contribution of legal services to their overall business activities. 90 percent of all successful ABS respondents considered the provision of legal services to represent their core business, with only seven per cent apportioning an equal rating to other non-legal services. Other services offered by

<sup>15</sup> These employee numbers cannot be directly compared with employee data on the wider ABS population since SRA data for this population excludes non-legal staff who are not partners or managers.

licensed ABSs included claims management, financial services, mediation and training/consultancy.

**Figure 2.10: Which of the following best describes the geographical distribution of your clients?**

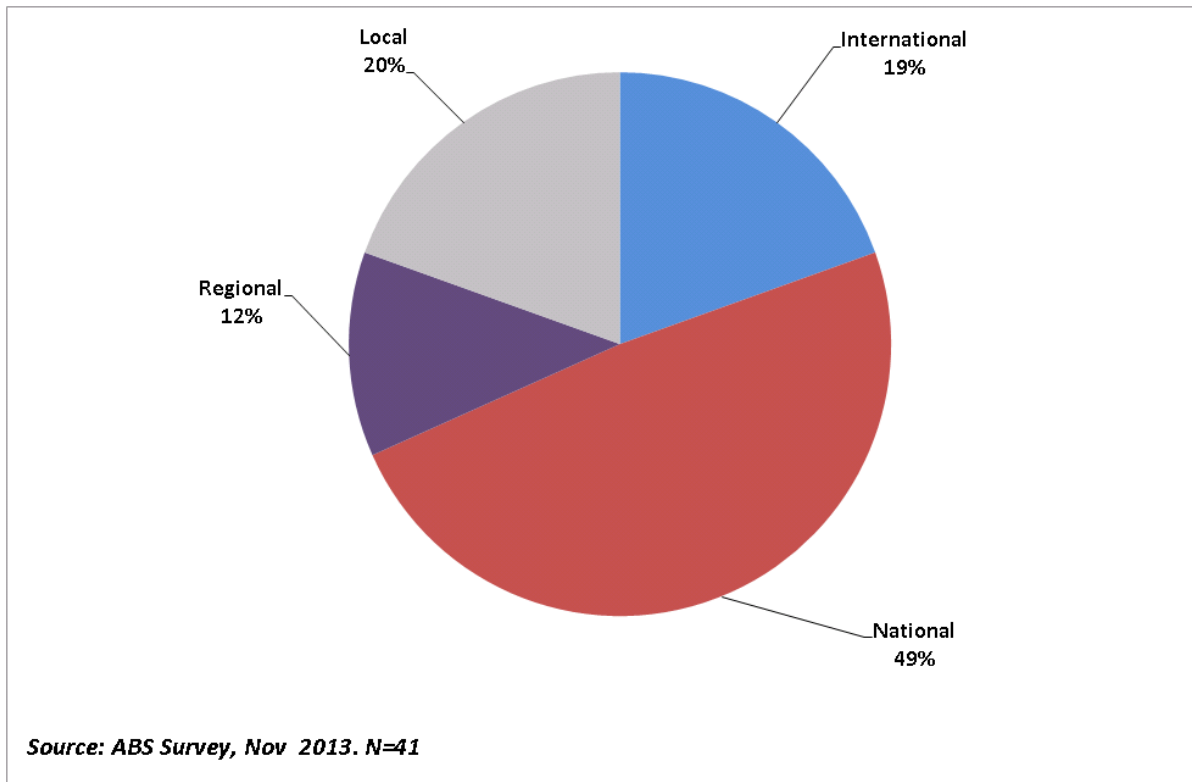
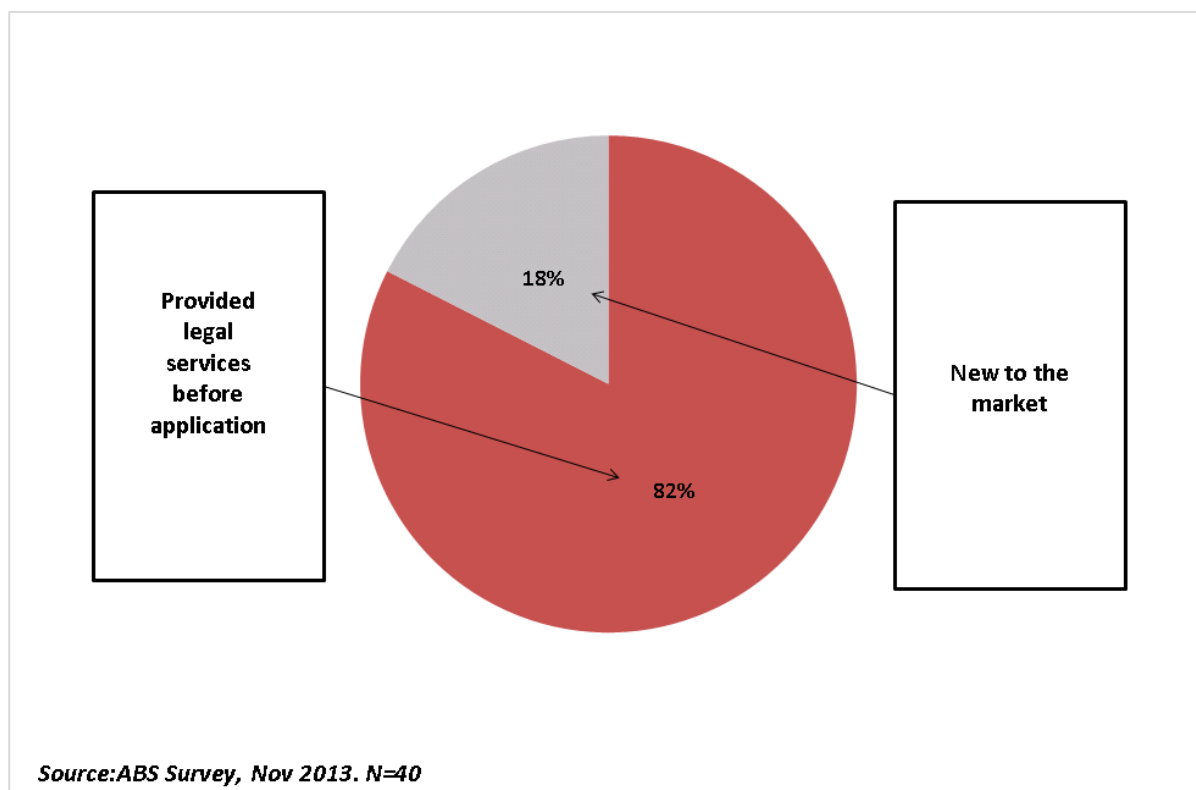


Figure 2.10 illustrates that almost half of all respondents (49 percent) offer legal services to clients across the UK, with 19 percent working with international clients. 20 percent of respondents focus on their local market.

Respondents were asked whether or not their organisation had provided legal services prior to the ABS application. As presented in Figure 2.11, we found that 82 percent had provided legal services in the past, with the rest having obtained an ABS license to enter this market. All five of the firms that had withdrawn their application had previously provided legal services.

**Figure 2.11: Before applying to become an ABS, did your firm provide any legal services?**



Of those firms that had previously provided legal services, almost all (94 percent) had offered reserved legal services, while 39 percent had offered non-reserved legal activities. Of the five withdrawn firms, four had offered reserved services in the past.

### Survey findings on activities of ABSs

The survey of licensed ABSs included questions about their approach to delivering legal services<sup>16</sup>.

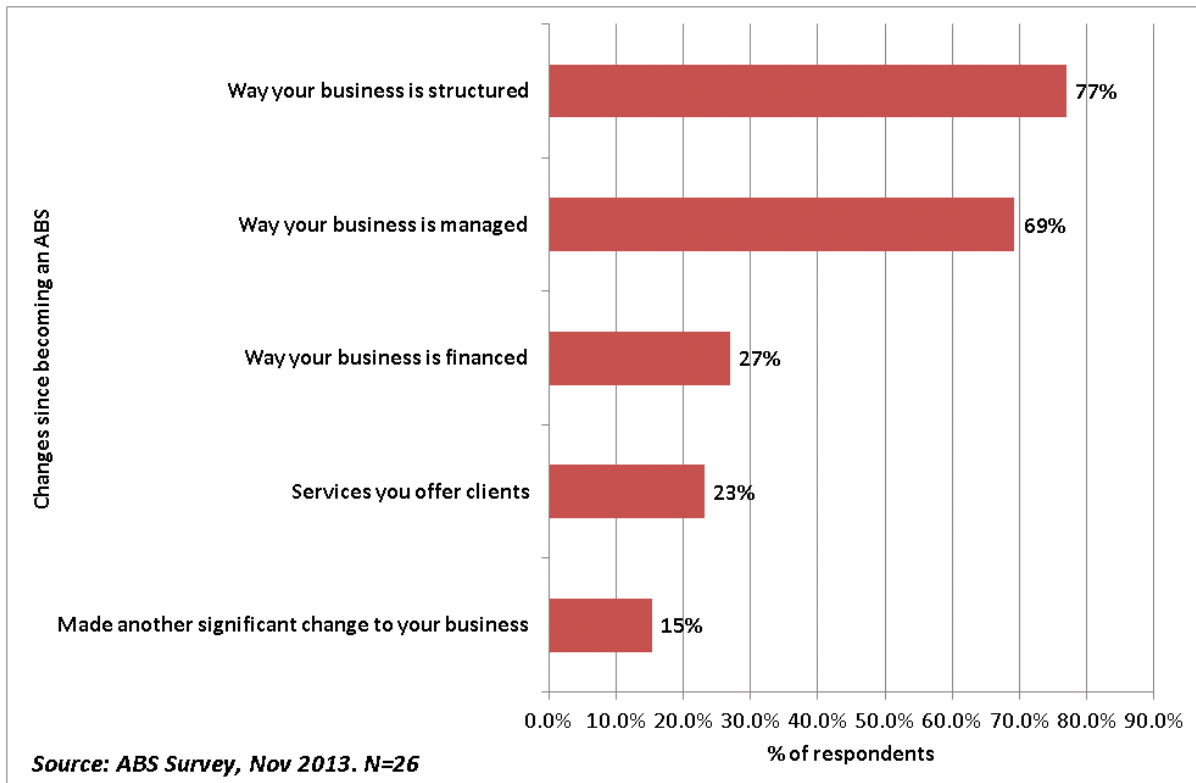
Respondents were asked to identify the main ways in which their business had changed since becoming an ABS. The majority of respondents had implemented significant changes in two main areas:

- The way their business is structured (77 percent)
- The way their business is managed (70 percent).

<sup>16</sup> Similar questions were asked to firms that withdrew, but these questions were asked about their proposed business model



**Figure 2.12: Changes since becoming an ABS**



The survey of firms that withdrew from the application process showed that they had proposed to make similar changes.

These findings are consistent with a recent survey of 100 commercial law firms, conducted by Fox Williams<sup>17</sup>. This found that almost four out of ten respondents had already made changes to their management strategy as a result of the Legal Services Act and 14 percent had changed their partnership structure. In the same survey, it was found that one third of respondents were looking to broaden their service offering or access external investment. Figure 2.12 shows that changes in investment and service offering are also taking place with the firms that responded to this survey.

Figure 2.13 shows how ABSs have used the investment obtained. The main uses are:

- Technology (62 percent)
- Changes to the way legal services are delivered (62 percent)
- Marketing (62 percent).

A recent report by the Legal Services Board<sup>18</sup> pointed to similar trends, including increased use of technology to deliver services. This research found that 91 percent of ABSs are using their websites to provide information, marketing materials and other services to consumers, compared to just 52 percent of other solicitors' firms.

<sup>17</sup> ABSolutely Fabulous, Fox Williams, June 2012.

<sup>18</sup> [Changes in competition in market segments](#), Legal Services Board, October 2013

Three of the five withdrawn firms stated that they expected to attract new investment, which would have been used to recruit staff and to develop new ways to deliver existing services.

**Figure 2.13: How has new investment been used?**

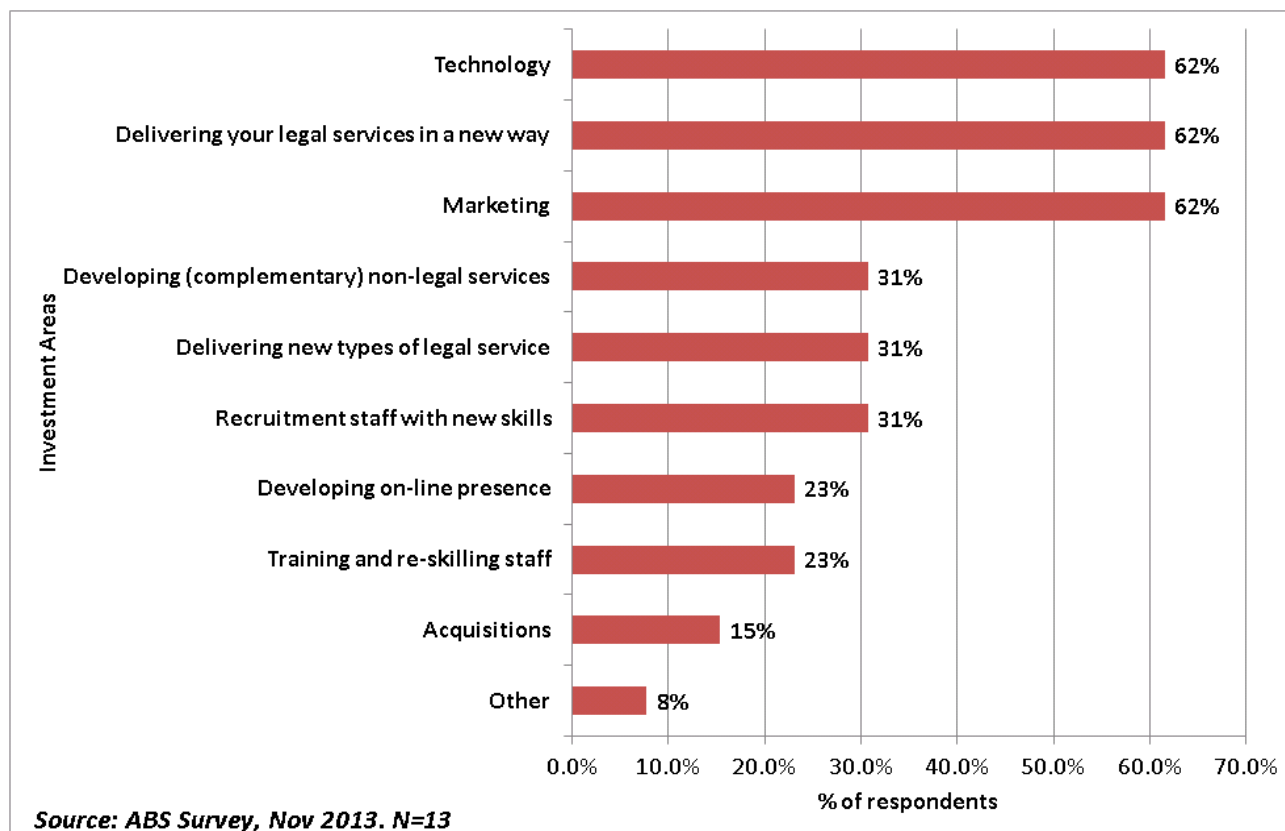


Figure 2.14 shows responses regarding the main changes that firms had made, or were planning, as a result of the flexibility offered by their ABS licence. This question was asked as a multiple choice, with respondents able to select as many options as were relevant to their business. The findings show that the most common adaptations and changes that had already been implemented by new ABSs are:

- Promotion of non-lawyers to managerial positions (27 percent)
- Recruitment of non-lawyers into managerial positions (16 percent)
- Entry into the legal services market (14 percent).

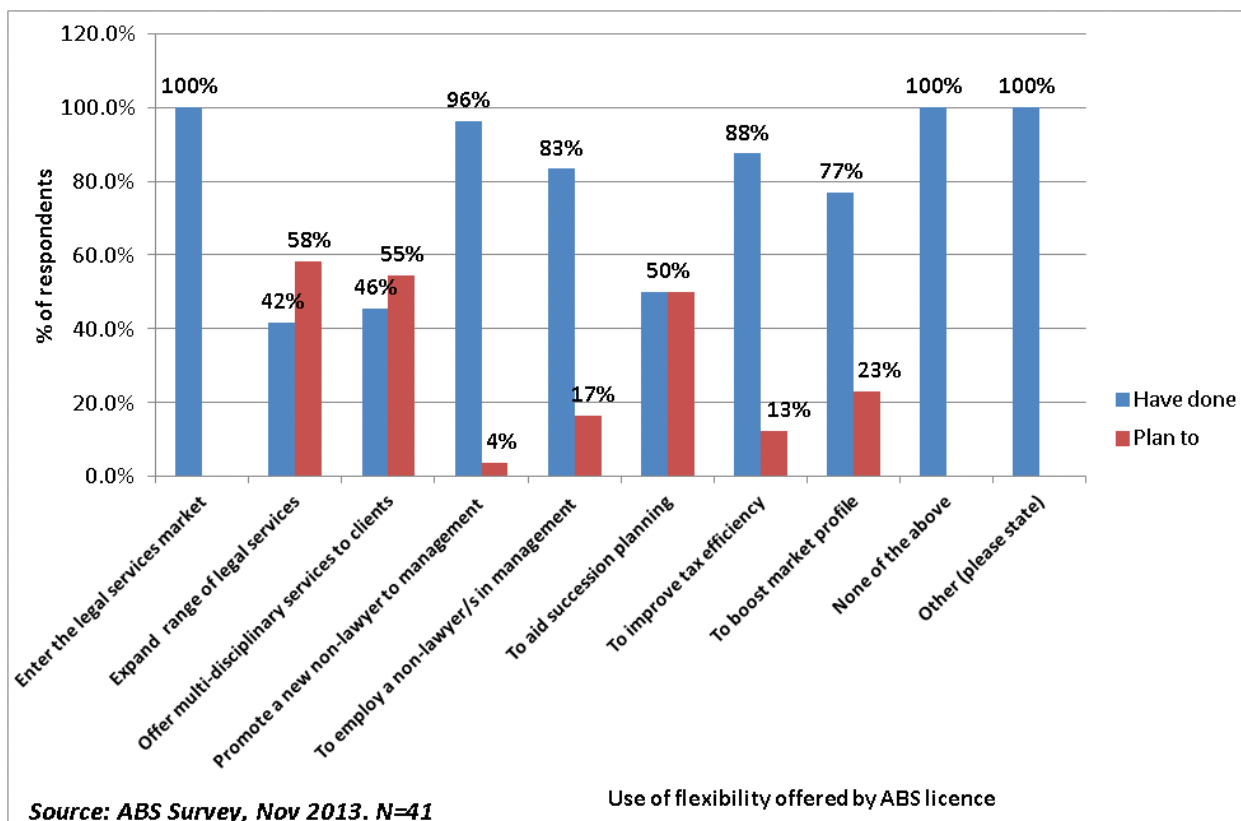
Changes that firms plan to make in the future, identified by a smaller number of respondents, included:

- Development of succession plans (28 percent)
- Expanding the range of legal services offered (25 percent)
- Allowing the firm to offer multi-disciplinary services to clients (21 percent).

These findings correlate strongly with those of the LSB's recent survey of ABSs, which identified the main motivations as boosting market profile (36 percent), accessing external

investment (34 percent), succession planning (28 percent), and promoting non-lawyers to management positions (23 percent).

**Figure 2.14: How are you using, or plan to use, the flexibility available to your business as a result of having an ABS licence?**



### Other factors influencing decisions to apply for an ABS licence

Respondents were asked about the extent to which the ban on referral fees and changes to Legal Aid funding had influenced their decision to apply for ABS status. Almost all respondents stated that these two legislative changes had had no real influence on their decision to apply.

Another legal factor that respondents indicated as a key consideration was the mandatory requirement for LDPs to convert to ABS status, although a deadline for doing so has yet to be finalised.

Other reasons were cited, but these generally related to obtaining external investment, and the future establishment of a joint venture with a non-legal business.

### Impacts on legal education and training

The introduction of ABSs may, in the longer-term have an impact on the types of employee recruited and the skills requirements of these firms. Respondents were asked whether becoming an ABS had led to changes in the numbers of employees with particular skills. The only significant change, cited by one in five respondents, was an increase in the

number of non-legal staff. These respondents indicated that the proportion of their workforce that is made up of non-legal staff has increased by less than 10 percent.

Finally, respondents were asked to outline their future plans in relation to providing training contracts. Figure 2.15 illustrates that 18 percent of respondents are planning to introduce or increase the number of training contracts in the future, with 43 percent stating that their current arrangements would remain unchanged.

<b>Figure 2.15: Training contracts</b>	
<b>Change in training contracts offered</b>	<b>%</b>
Introduce or increase the number of training contracts your provide	18%
Make no change to the number of training contracts your provide	43%
Reduce number of training contracts your provide	5%
Don't know or n/a	35%
<i>Source: ABS Firm Survey, Nov 2013. N=41</i>	

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### 3. Views on licensing process

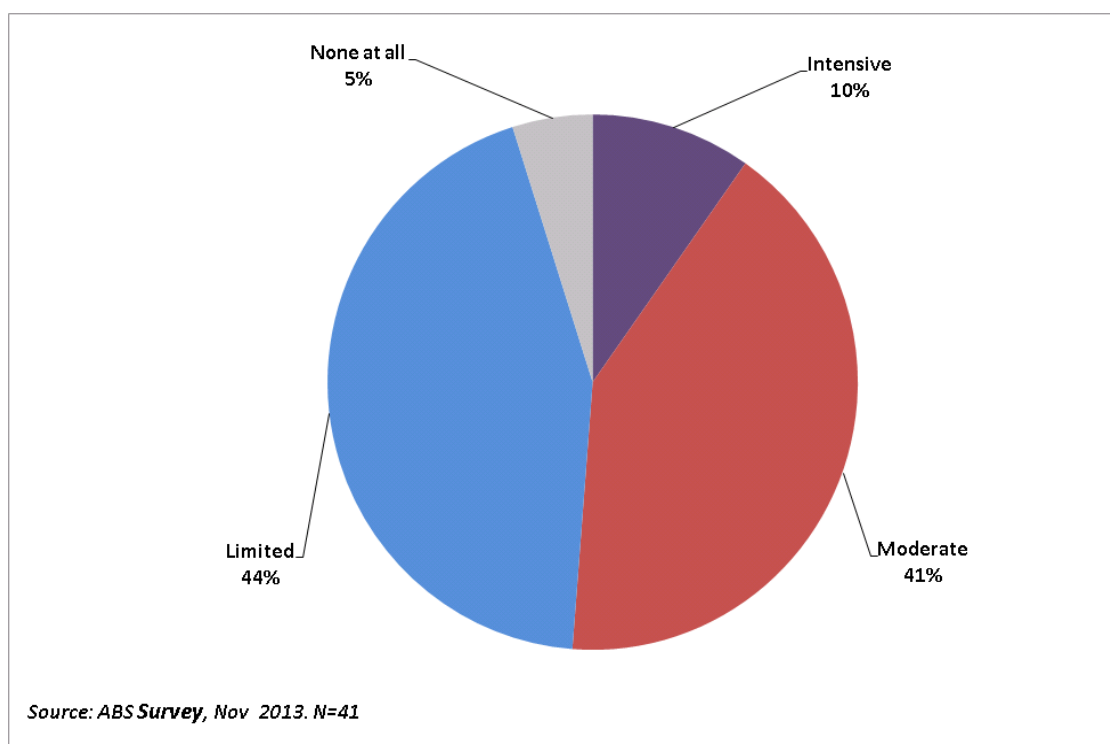
This section details respondents' experiences of the licensing process.

#### Activities and preparation undertaken before submitting an application

Respondents were questioned on the nature of their engagement with us prior to submitting a formal ABS application.

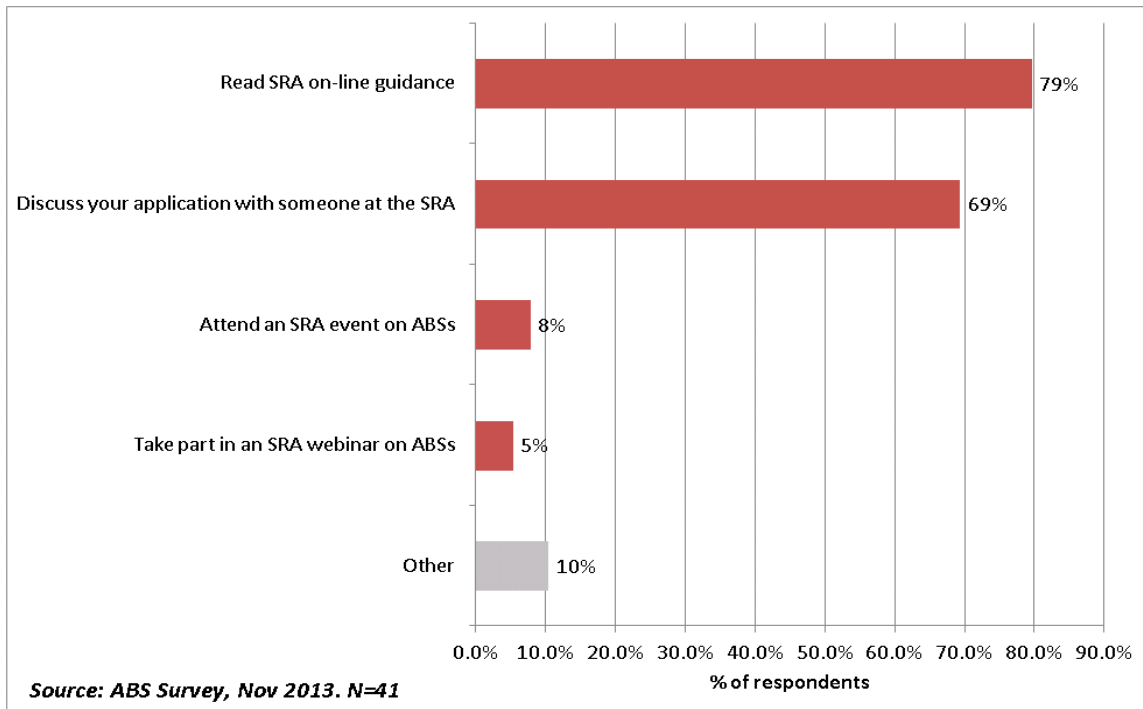
Figure 3.1 displays a similar split between firms receiving moderate and limited engagement, with 10 percent engaging intensively during their application process.

**Figure 3.1: How would you describe your engagement with the SRA?**



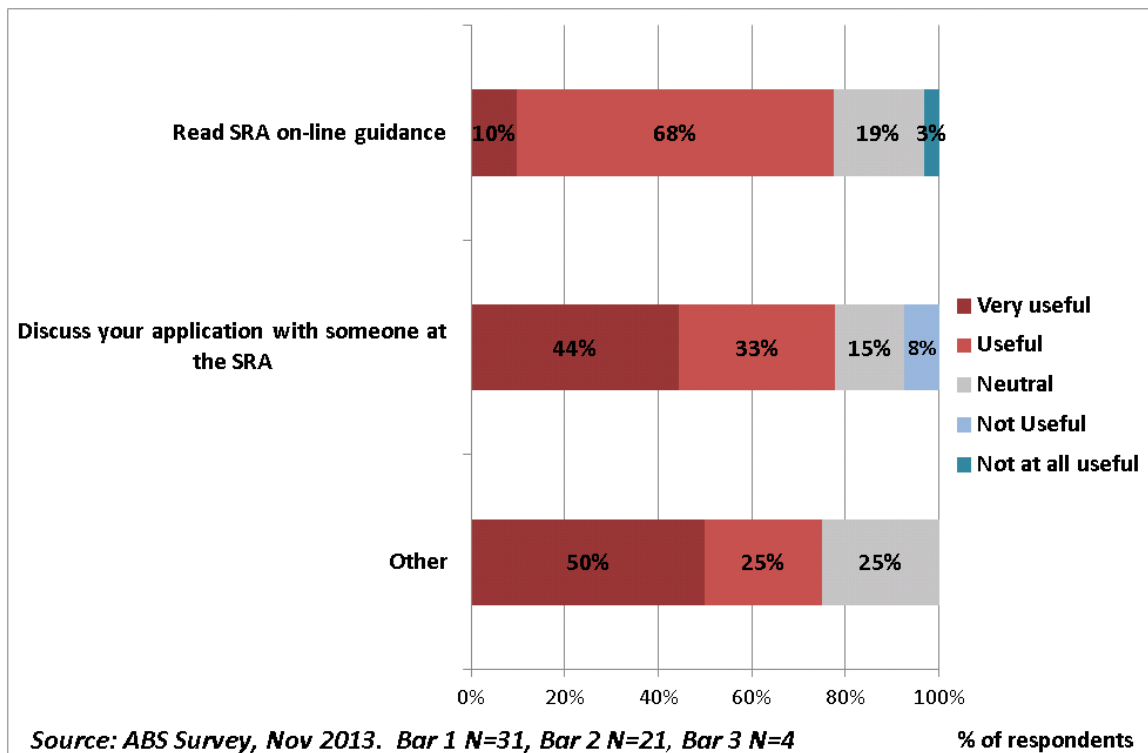
Information, advice and guidance were accessed via two main sources. Over three quarters of successful applicants engaging with us, did so via online guidance. Over two thirds discussed their application with a member of staff. A small proportion of respondents attended conferences and events relating to ABSs, and 5 percent took part in online webinar discussions.

**Figure 3.2: What form did this engagement assume?**



Having identified where firms obtained pre-submission information, advice and guidance, we asked them to rate the usefulness of the above sources. More than three quarters of respondents rated the information sources as 'very useful' or 'useful'. In the case of withdrawn firms, there was an equal split between firms that considered online guidance to be 'useful' or 'not useful'.

**Figure 3.3: How useful was this information source?**



Although respondents were broadly positive regarding the advice and support offered at the pre-submission stage, the majority outlined some views on improvements to the process. Most called for more detailed explanations of the process, evidence required and timescales for completion and submission.

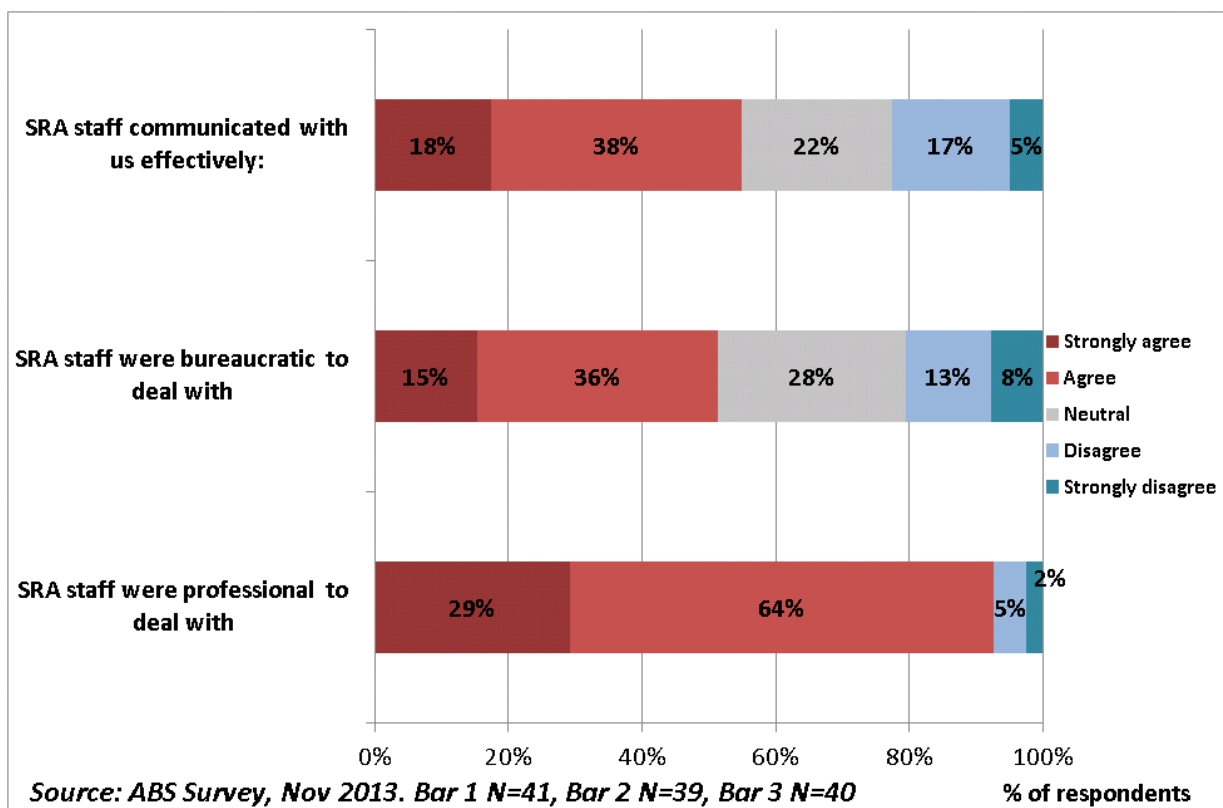
77 percent of respondents had found discussing the application with a member of staff to be of particular use. This viewpoint was supported by a number of respondents requesting more access to face-to-face engagement.

### During the application process

Respondent firms were asked to indicate the extent to which they agreed with a range of statements relating to our staff, our handling of the application and the clarity and usefulness of information and guidance.

- 93 percent of respondents 'strongly agreed' or 'agreed' that our staff were 'professional to deal with'
- Over half of respondents 'strongly agreed' or 'agreed' that our staff communicated effectively with them
- 51 percent of successful applicants indicated that our staff were bureaucratic to deal with.

**Figure 3.4: To what extent do you agree with the following statements?**



Perceptions of the application process and information sources are more mixed, with many individuals choosing to remain neutral in their level of agreement with particular statements.

With regard to application handling, just over half (54 percent) of successful applicants 'disagreed' or 'strongly disagreed' with the view that their application was handled in a timely manner. Where delays were encountered, 42 percent of successful applicants, and two thirds of withdrawn firms, felt that reasons for the delays were not adequately explained or remedied.

**Figure 3.5: To what extent do you agree with the following statements?**

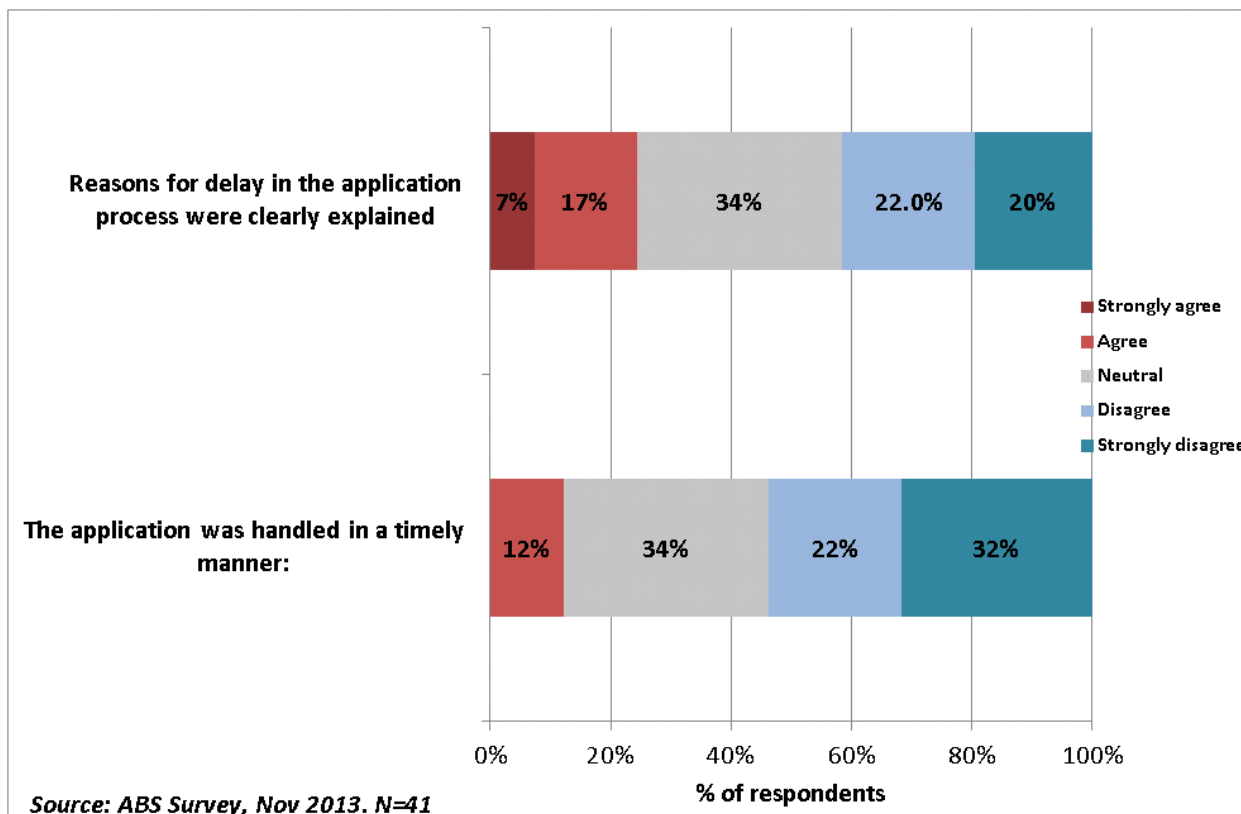
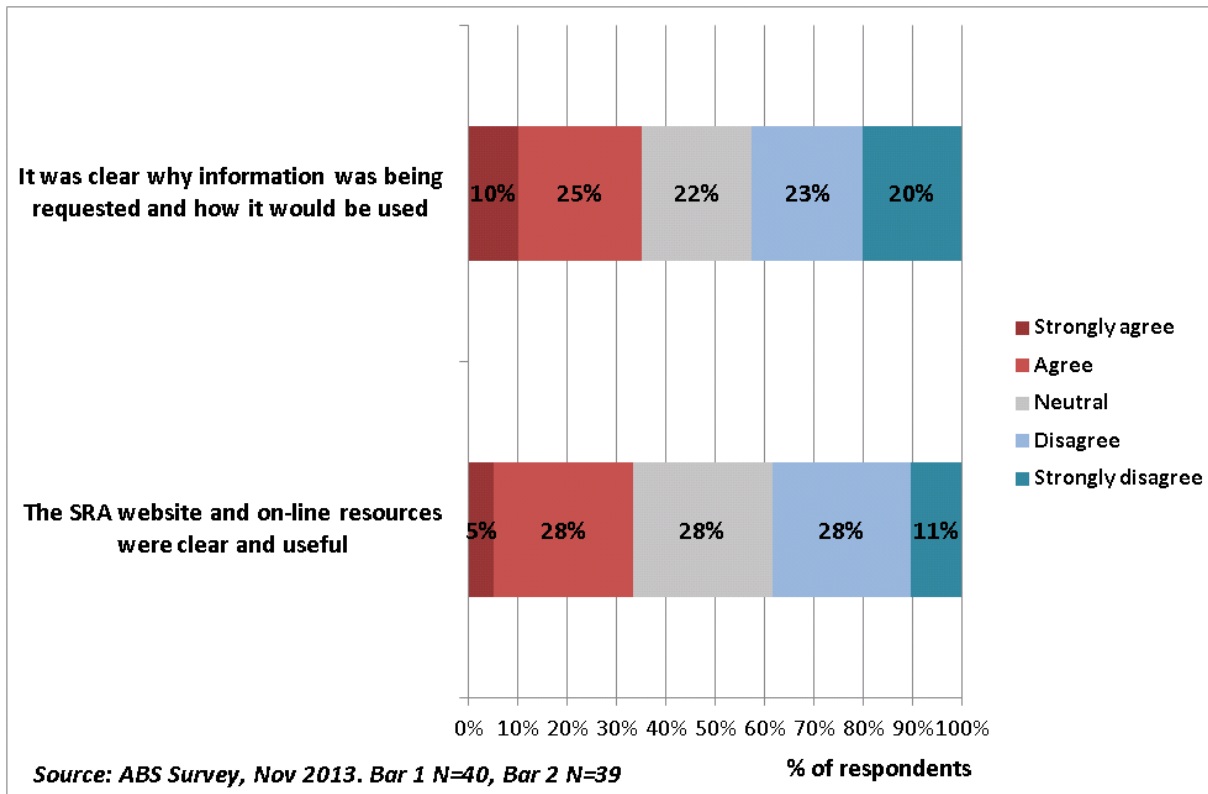


Figure 3.6 presents the responses to questions regarding information sharing and the usage of online resources and guidance. 39 percent of respondents 'disagreed' or 'strongly disagreed' that our website and online resources were clear and useful. 43 percent 'disagreed' or 'strongly disagreed' that adequate reasons were provided for the request of particular information and evidence. Four of the five withdrawn firms held similar views.



**Figure 3.6: To what extent do you agree with the following statements?**



Throughout this section of the survey, there is a recurrent trend relating to knowledge sharing and the provision of informative and accessible advice and guidance.

### Application and business plan changes

The section focuses on what impact, if any, this engagement had on the final application submission and whether or not any significant amendments were made. The majority of questions in this section were answered by a small cohort of only nine firms. As a result, the results and subsequent analysis should be treated with caution and should only be used to provide a broad insight into these issues. Findings from the survey of withdrawn firms have not been included as only one of the five firms made any changes to their application.

**Figure 3.7: Did you make a change to your application or business plan during the licensing process?**

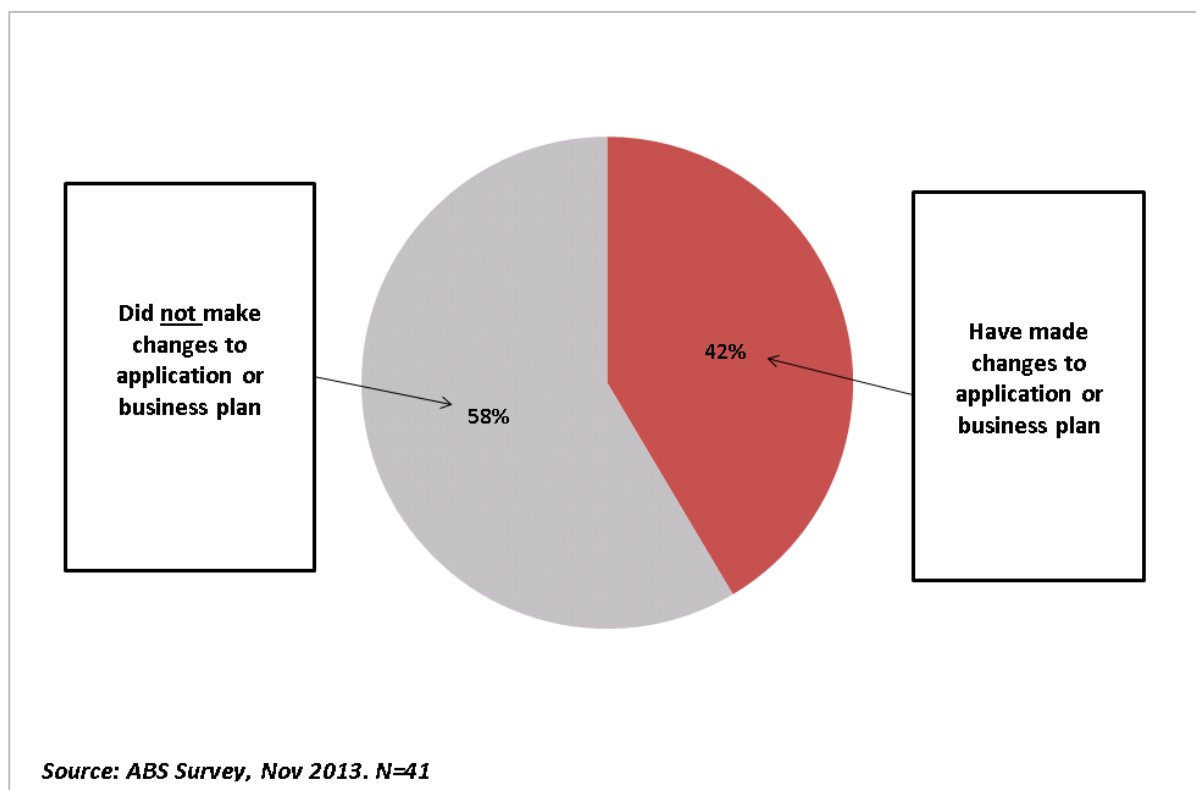


Figure 3.7 depicts the split between respondents who made changes to either their application or business plan and those who did not. Of the 17 firms that stated a change, about half stated that they had made the changes to comply with our licensing requirements. Respondents were then asked to state whether any of the application or business plan changes had resulted in any commercial impacts. Only nine respondents provided an answer to this question, of which two detailed commercial impacts that could be derived from the changes.

Respondents made changes to their business plan and application in two principal areas. Firstly, changes were made to the firms' operating structures and internal management and monitoring procedures. These infrastructural changes often resulted in associated changes to personnel, whether this be adaptations to existing roles and responsibilities or the recruitment of individuals to new roles.

Having discussed both the number and type of changes made, respondents were asked to comment on the scale of change in the following areas:

- Types of legal services provided
- Sources or types of external investment
- Management structure
- Personnel in positions of management, ownership or role holders
- Organisational structure.

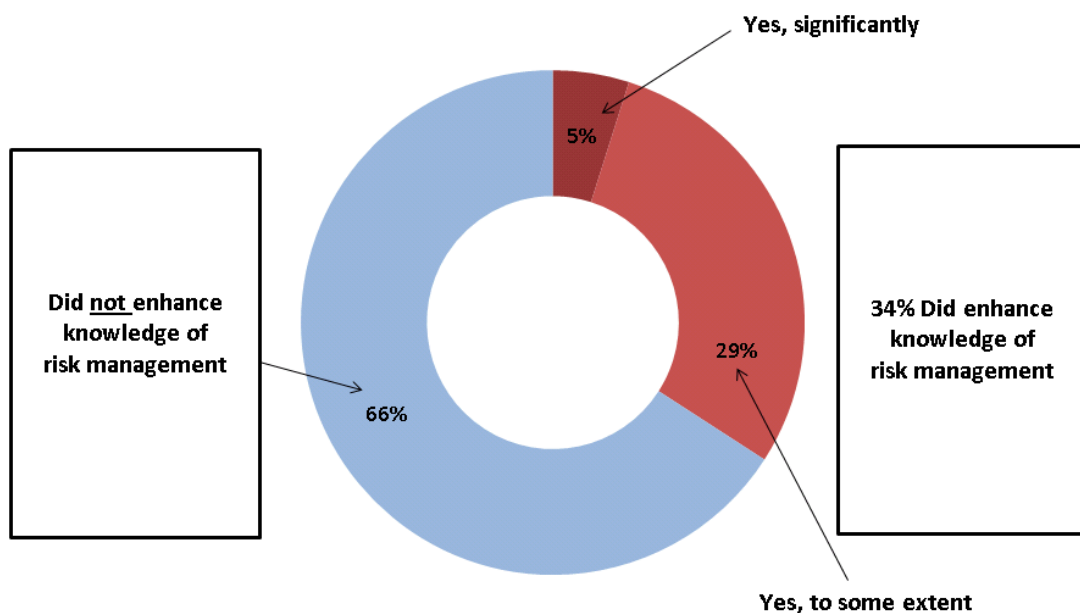
Following on from previous responses, where personnel and organisational structure were identified as the main areas of change, two thirds of those respondents that had implemented these changes, considered them to be moderate in nature.

## Understanding of risk

Our approach to delivering outcomes-focused regulation (OFR) involves encouraging a positive risk culture in the firms we regulate. A benefit that can be achieved via the application process is the opportunity for firms to consider the risks that they need to manage in the new business structures and models they are proposing. It is also an opportunity for firms to develop their understanding of what the SRA expects from them in terms of compliance with OFR.

Respondents were asked whether the licensing process had increased their understanding of how risk could be managed in their firm. Although this is best viewed as an additional benefit, a third of firms answered that the process had increased their knowledge of internal risk management.

### 3.8: Did the licensing process help you to understand more about the way risk could be managed in your ABS?



Source: ABS Survey, Nov 2013. N=41

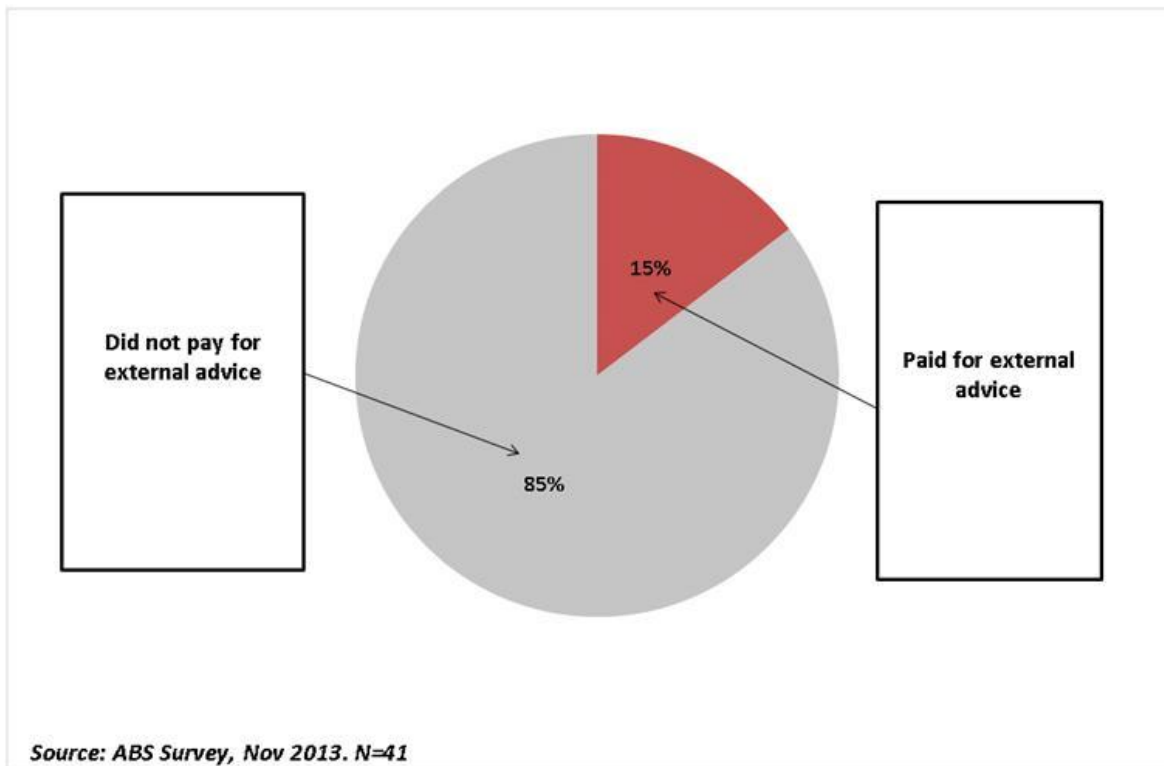
## Time and cost of application

Respondents were asked to outline their views on the time and costs associated with applying to become an ABS. To begin with, respondents were asked whether or not they had paid for an external advisor either before or after submitting their written application.

As can be seen from Figure 3.9 below, 15 percent of respondents had paid for external advice prior to submitting an application, and this figure remains the same once a firm submitted their application. Two of the five withdrawn firms stated they had paid for external advice to help them during the application process.

Respondents were asked to provide information on the cost of this external advice. Only two responded to this, stating costs between several thousand and several hundred pounds.

**Figure 3.9: Before submitting any written application to the SRA for an ABS licence, did you pay for an external advisor or consultant to help you?**

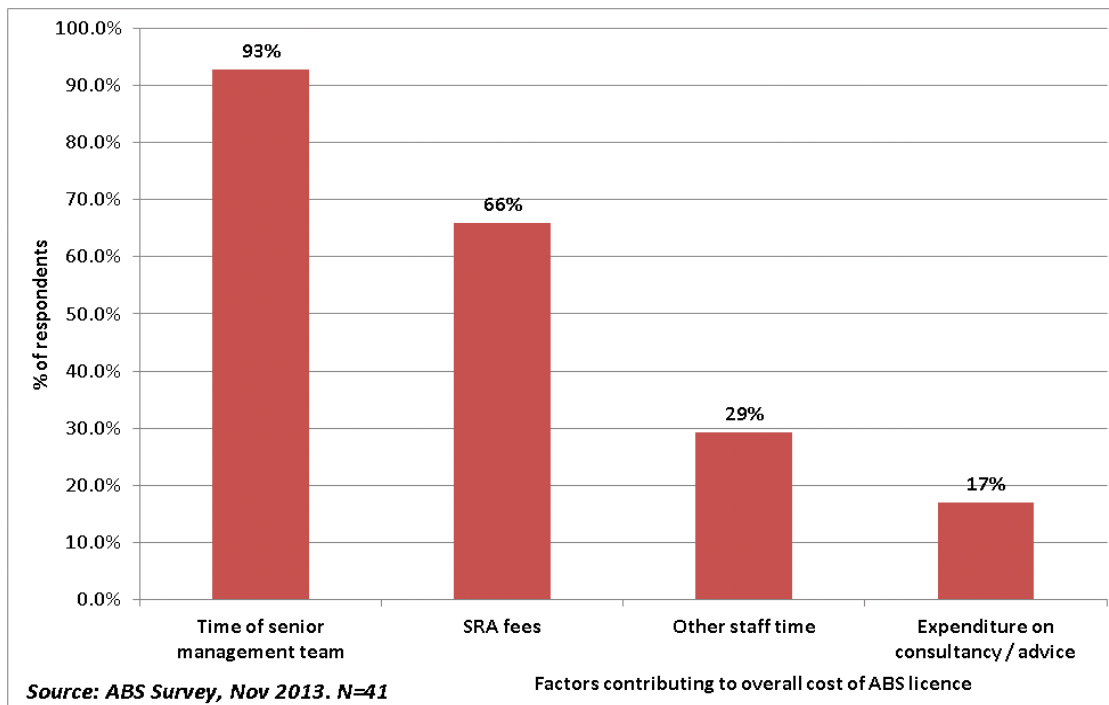


All firms were asked to indicate the factors that contributed to the overall cost of obtaining their ABS licence. As Figure 3.10 illustrates, the attainment of ABS status required the time of senior managers and partners in almost all the respondent firms. Two thirds identified our fees as another significant cost. Based on fees paid by 243 ABS applicants, the average cost for licensing is £3,300<sup>19</sup>.

<sup>19</sup> To end January 2014. The cost of the application varies according to the size of firm, however all applicants are required to pay an application fee of £2,000, plus £150 for each candidate, whether that be a COLP/COFA or material interest owner or manager, who requires approval. We also have the ability to charge £600 per day, in addition to the £2000, for more complex application forms (although it should be noted that such a charge is only used on a very small number of cases). The details of all chargeable fees is made available to all potential applicants via the Fee Policy.

29 percent incurred costs from the involvement of other staff, including financial and business managers, COLPs, COFAs and administrative staff.

**Figure 3.10: What factors contributed to the overall cost of gaining your ABS?**

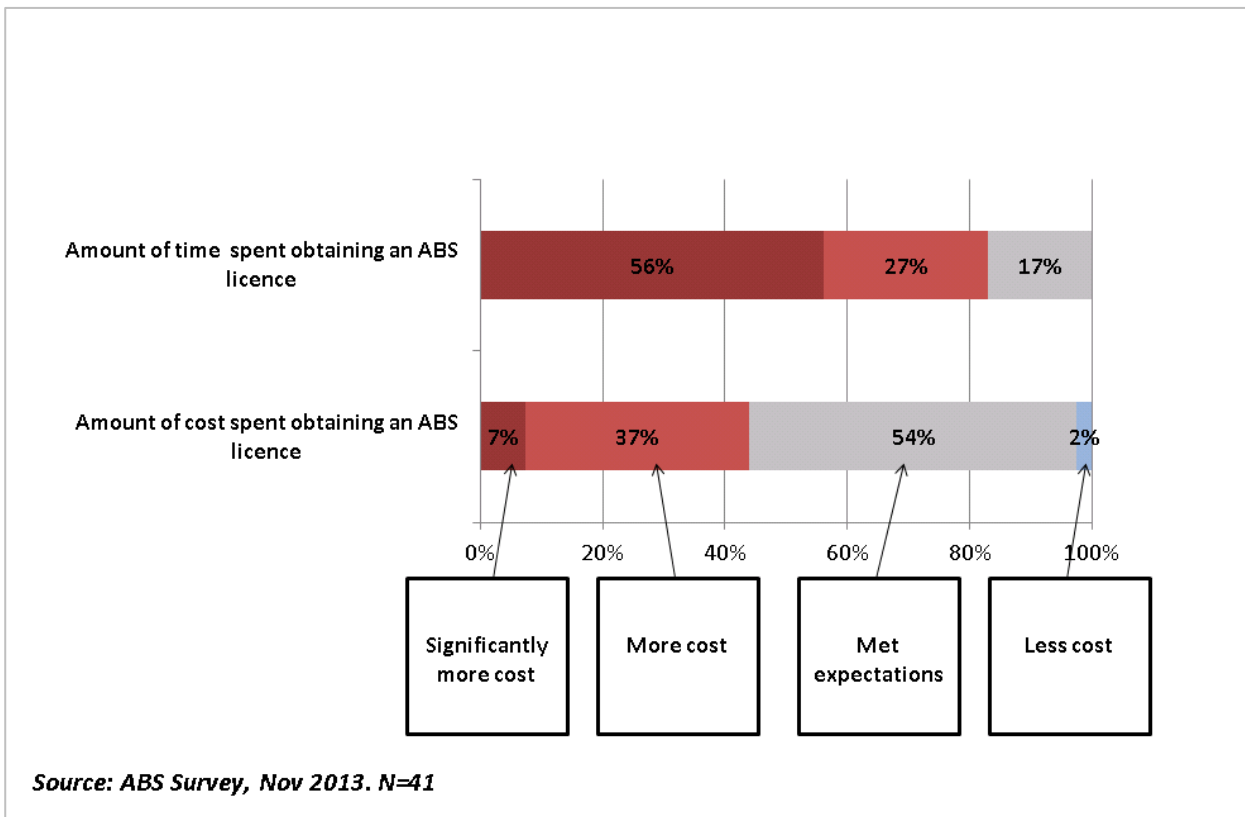


Taking into account the relative scale and complexity of changes made in their firms, respondents were asked to draw comparisons between the expected and actual costs involved in obtaining an ABS licence.

Figure 3.11 illustrates that whilst 83 percent of successful applicants spent 'significantly more' or 'more' time on obtaining an ABS licence, a significantly lower proportion (44 percent) spent 'significantly more' or 'more' money<sup>20</sup> than they expected.

<sup>20</sup> The differentiation between 'time' and 'money' is made to understand the costs to firms in terms of 'out of the door' expenditure' and costs associated with the time of staff and managers.

**Figure 3.11: How did the amount of time and cost spent obtaining an ABS licence compare with your expectations?**



As part of their final submission, applicants had to disclose information about the individuals and organisations with an ownership stake in the ABS. These requirements relate to Schedule 13 of the Legal Services Act 2007<sup>21</sup>.

When asked to consider the additional time and cost of disclosing this information, 32 percent of successful applicants stated that disclosure had resulted in a significant impact on time. 43 percent stated it had had some impact on overall costs.

<sup>21</sup> Schedule 13 of the Legal Services Act 2007 relates to ownership of licensed bodies. It states that a non-authorised person with a material interest in the body (e.g. through shareholding / ability to exercise significant influence over the management of the body) must be approved (e.g. to ensure that the individual is a fit and proper person to hold that interest).

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## Conclusion

The two surveys have provided valuable information on the experiences of firms that have applied to become ABSs. Although the surveys cover early applicants for ABS licenses, there are lessons for us to learn in terms of how we engage with applicants, provide information to them and explain how the licensing process works.

The findings also confirm that the improvements we have made to the licensing process are targeting the right issues. Clear priorities relate to the timeliness of processing applications, and keeping applicants informed of the timeframes they should expect.

The survey has also shown that ABSs are already using the flexibility offered by their licence to do things differently. Only a relatively small number of ABSs have been licensed to date, as compared to the overall size of the legal services sector. However, the emerging trends indicate that, in the longer term, ABSs will contribute to significant change in the delivery of legal services.

In line with the findings of other recent research on ABSs, the key areas where changes are taking place relate to:

- The way legal services are provided
- Access to investment
- Marketing.

The analysis of ABS activity in different types of legal service shows that change will happen at different rates in different parts of the legal services market. For example, in personal injury, where ABSs already account for a third of turnover, their influence is likely to become more significant and over a shorter period of time.

It is important that research is conducted on an ongoing basis to continue to monitor these changes and evaluate the impact on consumers of legal services.