Growth strategies thematic review: Accumulator, Acquisition and Consultant models

December 2025

Introduction

Background

Firms looking to grow by acquiring other firms or adopting flexible resourcing models can be a feature of a vibrant and competitive market, benefiting the sector and the users of legal services. Most such activity is carried out successfully and without causing harm. It is important that our regulation provides a conducive environment for growth, free from unnecessary burdens for firms and barriers to normal market activity. It is also important that we understand what firms are doing in practice and the issues that can arise that may result in failures that do cause harm to consumers and the wider regulatory objectives.

Looking at whether we need to improve our oversight of firms significantly changing their profile, and if so in what circumstances, is a key strand of our Consumer Protection Review. Our proposed approach, which we are looking to consult on in 2026, will be informed by the findings of this thematic review.

This thematic review looked at three models for growth adopted by law firms:

- accumulation (firms which undertake a pattern of acquisitions (planned or opportunistic) within a relatively short period of time)
- acquisitions (acquiring businesses over a longer period of time)
- the recruitment of significant numbers of consultants.

Why did we look at these growth models?

We wanted to understand why firms chose to adopt these different growth strategies.

For firms adopting an accumulation/acquisitional growth model, we wanted to:

- see how they handle this process pre and post-acquisition
- understand what firms consider to be the risks and challenges they face when acquiring firms and learn more about how they addressed them
- better understand how firms prioritise client interests, for example in relation to client files, monies and the storage of documents, and meet their regulatory responsibilities during and after an acquisition

A small number of firms are also achieving significant revenue growth by taking on large numbers of self-employed consultant solicitors. Firms which adopt this model must still comply with our Standards and Regulations, and in particular our Code of Conduct for Firms. We wanted to see how firms have managed the regulatory compliance risks that are specific to this growth model.

Our approach

To better understand the growth strategies adopted by firms, we met firms and individuals involved in the acquisition/sale process and firms adopting a consultant growth model. More information about our sample is provided in Annex 1.

Key Findings

Acquiring a firm

- Acquiring firms gave a variety of reasons why they adopted an acquisitional growth strategy. These included the availability of sound firms looking for an exit strategy, anticipated costs savings, regional growth and opportunities to increase their talent base.
- Acquiring firms took a number of factors into account when deciding whether to enter into an acquisition. These included the target firm's size, expertise, reputation, client base, geographical location, financial position and culture.
- Key challenges firms said they faced when acquiring other businesses fell into broad categories, including financial pressures (such as increased borrowing to fund and integrate an acquisition or business disruption causing a downturn in short term profitability), the nature of the practice areas being taken on (particularly where these were new to the firm), not understanding the business being acquired and integration. Acquiring firms took a variety of steps to mitigate these risks. These included preparing detailed financial forecasts, having a clear strategic direction and criteria for acquisitions, assessing acquired practice areas, undertaking detailed due diligence and taking steps to ensure integration was properly funded and managed.
- The nature of the risks firms said they faced pursuing a rapid series of law firm acquisitions are the same as those faced on other acquisitions. Parallel acquisitions, as well as those in close proximity to each other, require more financial investment, business planning and resources. Acquiring firms, in particular, must be alive to this.
- We heard that acquisitions also place pressures on target firms which they have to manage alongside running the day-to-day business. These can include the cherry picking of practice areas by acquiring firms, which can complicate a sale, as the target firm will be required to identify alternative firms to transfer the remaining files to with informed client consent. Managing staff relations during the sale process can also be challenging.

Due diligence

- The duration and extent of due diligence undertaken by acquiring and target firms varied significantly. However, firms who were involved in successful acquisitions appeared to have a more robust approach. This included prioritising due diligence, adopting a more thorough process, and properly considering the findings before deciding whether to proceed with an acquisition. On occasion, this resulted in firms walking away from an unsuitable acquisition.
- Firms with a successful strategy placed a significant emphasis on culture and ethos in their due diligence, as well as financial information.
- There appeared to be a link between rushed/opportunistic approaches, where minimal due diligence was undertaken and the subsequent failure of the acquisition. In extreme examples, individuals told us that this approach contributed to the ultimate failure of the firm.
- Due diligence was primarily seen as something to be done by the acquiring rather than the target firm (particularly where the target firm was looking to exit the profession) despite their also being regulatory responsibilities on the target firm.

Integration

- Firms involved with successful acquisitions appeared to attribute more importance to prioritising integration and ensuring there was a plan and budget for this.
- People, culture and processes seemed to be key elements to successful integration. Firms involved with successful acquisitions generally looked to retain key staff and engaged with them at the earliest opportunity. This allowed them to manage expectations and ensure that staff were adopting consistent ways of working.
- Firms involved with successful acquisitions prioritised culture. Firms told us that, while you can change everything else, if firms are culturally incompatible, bringing

them together is unlikely to succeed. Although integrating systems/processes was a challenging area, investing resources into this benefited firms. Integrating systems enabled firms to benefit from economies of scale, consistency of approach and better management information.

Consultant model

- Firms believed a consultant model can be successful because it offers an efficient resource model and gives solicitors more flexibility and control, allowing them to work in a different way, with greater control of their working patterns.
- We were told that risks in the consultant model centred around financing a new business model, putting compliance measures in place to address how consultants worked, resources, the integration of consultants to a firm's culture, recruiting the right number and level of consultants and managing a different law firm model. Firms took a variety of steps to mitigate these risks. These included being financially prudent, ensuring systems and processes for compliance were embedded within the firm and followed, investing time and resource into the business, prioritising the integration of consultants and having a clear recruitment strategy.
- Firms had central processes for client onboarding including conflict and money laundering checks.
- All firms had supervision arrangements in place for consultants. Arrangements varied and included file audits, reviews of work by heads of department and the screening of emails and incoming post by a senior lawyer.
- Access to client account was restricted at all firms with no consultants having direct access.

Next steps

The findings of this thematic review will inform our ongoing Consumer Protection Review (CPR) including the development of proposals to improve our oversight of firms significantly changing their profile, which we aim to consult on in 2026.

Acquisitions

Why this is important

Although many acquisitions go on to be successful, there are occasions where they do not. Sometimes failures can result in consumer or other detriments. Where this occurs, understanding why this was the case can help us target our regulation and can help other firms address issues in advance of a proposed acquisition and take steps to prevent detriment.

When firms consider growth and how to achieve it, they must make sure clients' interests are central to those considerations. There are regulatory requirements they must adhere to during and after any acquisition. Firms must ensure an acquisition does not lead to ineffective governance structures, systems or controls which are damaging to clients.

We are also concerned that some acquisitions involve behaviours on the part of the target firm that do not prioritise clients' interests, so clients suffer significant detriment after an acquisition. This detriment may arise because the target firm does not take steps to investigate concerns about the acquiring firm's competence, systems, staffing and capacity to act in its clients' best interests going forward. Where this occurs, it can also undermine public trust and confidence in the solicitors' profession and in the provision of legal services.

What we found

Acquiring a firm – motivations

Acquiring firms gave a variety of reasons for buying firms and adopting an acquisitional growth strategy. These included:

Available opportunities

There is an availability of sound firms looking for an exit strategy, often due to succession planning issues or because they are unable to afford run off cover to exit the market (further detail is provided in the reasons for sale section below).

Some acquiring firms told us that they can pay little or no consideration for an acquisition, which can be attractive. Any expenditure is largely incurred after the acquisition in integrating the businesses. One acquiring firm told us that for them, acquisitions are often a cheaper way of increasing their client base, than attracting new clients via advertising.

Acquiring firms also told us that opportunities to acquire local firms solved issues of opening a new office in areas where they have no presence. A local acquisition allows a solid base from which a firm can then grow organically.

Costs savings

Taking advantage of lower overheads and operating costs that an acquisition could bring.

Future sale

One acquiring firm told us that their acquisitional growth strategy was put in place to focus on the objective of increasing turnover. One of the reasons for this might be to sell the enlarged firm or seek third party investment in the future.

Talent base

Some firms see acquisitions as a useful way to supplement expansion achieved from internal business initiatives. Acquiring more profitable clients and recruiting younger partners

with a client following helps support these initiatives. One partner's view was that "n*ewer, hungrier blood*" enables bigger and better teams to be built, thereby increasing revenues. Acquiring firms also means acquiring talent and this can help address recruitment issues at a firm, brings in different skill sets to the business and, due to the increased size of the firm, can allow greater opportunities for career development.

Smaller firms said they struggle to recruit and retain talent as they find it increasingly difficult to compete with salaries offered by bigger firms. Acquisitional growth is one answer to this. Growing in this way has helped these firms build infrastructure and recruit and retain talent through the better opportunities that well-managed growth offers to staff.

Client base

We heard that acquisitions allow firms to consolidate their client base in existing practice areas. They also allow firms to expand their client base by acquiring a presence in new geographic regions. Some acquiring firms also considered increasing their client base by diversifying into new practice areas.

One acquisitive firm told us that for smaller firms there are only three options: "*get niche, get big or get out*". Acquisitions mean they no longer have to rely on clients walking in, on lender panels (where they said more is required for less) or clients responding to adverts. Growth has given them a freedom and flexibility they had not previously enjoyed.

Selling a firm – motivations

We spoke to individuals involved in the sale of a law firm to explore their motivations for selling the business. They told us that there were four main reasons behind a sale.

Firstly, the cost of run-off operates as a barrier to exiting the profession, including for those running profitable businesses. The Law Society estimates that PII run-off cover is approximately 50% of what six years of PII cover would cost a firm. Our own 2023 research found that firm's annual PII costs were equivalent to 3%-9% of their annual turnover[1].

Secondly, individuals told us they pride themselves on having provided years of dedicated client service and the only viable alternative to an orderly closure with the associated cost of run-off cover, is a sale of the business. Choosing a sale allows the legal needs of their client base to be met, partners are given the opportunity to wind down and retire, and security of employment is provided for staff.

Thirdly, it can be difficult to recruit younger lawyers into smaller firms due to comparatively lower salaries and issues around work/life balance. Individuals at smaller firms told us that partners at a medium or large firm can usually retire relatively easily, as there are normally colleagues to take over. However, their experience was that younger lawyers are generally reluctant to invest capital into the business and take on management responsibilities. This makes succession planning from within the firm difficult and forces them to consider a sale.

Fourthly, there has been consolidation of the local market driven by positive opportunities for growth and low profitability in fragmented providers. To compete effectively in these conditions, some firms have had to consider a sale of the business to remain a going concern. In doing so, it provides an opportunity for growth, economies of scale and developing the range of services offered to clients.

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[1] Run-off cover | The Law Society
SRA | The professional indemnity insurance market for law firms | Solicitors Regulation Authority

Considerations when acquiring a firm

Acquiring firms told us they took a number of factors into account when deciding whether to enter into an acquisition.

- Size. Acquiring firms were keen to emphasise that they generally look to acquire smaller firms (occasionally of a similar size). One medium sized firm we spoke to said it was only interested in acquiring firms with a turnover of less than £2m. Another acquiring firm said it was important that, on each acquisition, it is "*the fish and not the food*", meaning that it was the larger party in an acquisition and would absorb a target firm.

- Geographical location. One acquiring firm told us that it only targets firms within a 25 mile radius to so it can it can send existing staff there and maintain a presence at each office, provide a personal service to clients by being able to meet them in person, retain a sense of community and ensure management and supervision are not overstretched.

- Financial position. One acquiring firm explained that it only targets businesses that are profitable but can do better. Given its strong infrastructure, it can make relatively simple improvements to a target business to increase its profitability. Another acquiring firm told us that it would only consider an acquisition if the target firm could "*wash itself*" in the first year (i.e. cover itself financially). Other acquisitive firms had a two-year time frame for profitability and if that was unlikely to be achievable, they wouldn't proceed with an acquisition. Acquiring firms we met told us that where a business is in financial distress, they will generally not proceed with an acquisition due to the short timeframes often involved, an inability to undertake proper due diligence and the financial risks the transaction could bring to the wider business. Instead, they preferred targeting businesses that were stable, profitable and simply struggling to exit the market.

- Practice areas and whether they are complimentary or new. Unless it was a specific business goal, the acquiring firms we met are generally reluctant to take on new practice areas in which they have little or no experience. Their focus is on acquiring firms with core practice areas which can be incorporated into a firm's existing supervision arrangements.

- Quality of work and client base. Acquiring firms ask themselves if there is a synergy in these areas which can complement, supplement and strengthen an existing team and bring opportunities to cross sell.

- A target firm's PII claims record.

- Integration. Acquiring firms said they considered a number of factors including:

    - the strategic fit of the businesses
    - the identity of the firm, for example its reputation and approach to client service
    - the ability of staff to work together.

    These areas are explored in further detail in the integration section below. One partner told us that an acquisition their firm had undertaken was unsuccessful because *the* "*behaviour of one of the partners made it extremely difficult to work with them*". He emphasised that with acquisitions it can be "*easy in but difficult out*", meaning that it is relatively straightforward for existing staff from a target firm to join

an acquiring firm, but more difficult to remove them if there are issues post-acquisition and this can present a challenge.

Key risks when acquiring firms

We spoke at length with individuals about their view of the key risks that may arise when acquiring a firm. The risks they identified fell into broad categories and themes. There was a clear message from those we met that they consider risks relating to due diligence and integration are key. These are covered in specific sections below.

Approach and planning

- Acquiring firms noted that the absence of any or a sufficient plan or criteria for acquisitions was a key risk. Acquiring any firm regardless of its strategic fit can create significant issues in the longer term to the stability of the firm. One individual told us that the firm changed its strategy from focused regional acquisitions to firms in financial distress and that proved fatal to the business. Another acquiring firm provided an example of not proceeding with a profitable immigration firm as it did not fit in with its strategy of only acquiring firms operating in areas of law that it was familiar with.

Financial

- Engaging in significant borrowing to fund acquisitions leading to financial instability.
- Staff leaving and taking clients and caseloads with them, adversely impacting on the firm's financial position and envisioned trajectory.
- Taking on material liabilities of the target which prove onerous in the long term adversely impacting on the financial stability of the firm.
- Cross selling as a means of generating revenue post-acquisition does not materialise as individuals do not have the business development skills required to do this The inability to generate this revenue can create financial stability issues.

Understanding of the target business

- Acquiring firms which are unprofitable in the early years. One individual told us that the two businesses their firm acquired were failing and negatively impacted on the firm's financial performance, becoming a key contributor to its later collapse.
- Failure to appreciate that thin margins in certain work areas (for example volume conveyancing) can have a significant impact on the acquiring firm's anticipated profitability.
- Underestimating the cost needed to integrate target firms. Achieving this can require significant financial investment. Some acquiring firms continue to operate and fund multiple accounting and case management systems post-acquisition which can prove very expensive. These additional costs can have a significant impact on the financial stability of the firm.
- A lack of financial disclosure by a target firm, for example in relation to its liabilities/contractual arrangements, could have a serious impact on an acquiring firm's future profitability. The success or failure of a strategy will be impacted by the health of the respective businesses before the acquisition

Practice areas and experience

- Taking on new work areas which the acquiring firm has no experience in and lacks the skills and expertise to properly deal with and supervise leading to significant consumer detriment.
- The acquiring firm is unable to deal with the substantial amount of immediate work required post-acquisition , for example identifying urgent matters, thereby adversely impacting clients' interests. This may be because they lack capacity and/ or expertise.
- Having insufficient staff to properly service the work. As a result, there is a risk key limitation dates are missed and complaints/service issues arise leading to consumer detriment.

Communication

- Poor communication with staff. Staff are uninformed and there is little or no transparency resulting in key departures/aggrieved employees which can adversely impact the financial performance and stability of the firm.

Targeting firms in quick succession

While the issues that can arise with firms adopting an accumulator/acquisitional growth model are similar, there are some areas that accumulator firms must be particularly alive to.

We heard that problems are likely to occur where underlying issues from recent acquisitions remain unresolved, for example a failure to integrate case management systems. This is likely to lead to a culmination of issues arising at a later point, some of which may have increased in seriousness given the initial failure to address them.

Multiple acquisitions over a short period may also cause substantial disruption to a business. This may have an adverse impact on staff, resulting in key individuals leaving. As well as impacting on the ability of the acquiring firm to continue to service client matters, individuals may take clients and caseloads with them, adversely affecting the financial stability of the firm.

Several acquisitions over a short period of time can put increased pressure on resources. Acquiring firms that are poorly organised, with no or ineffective plans or inadequate practical arrangements in place to manage or control rapid accumulation, are likely to struggle. People and resources will be spread thinly and they will have too much to do. Firms adopting an accumulator model told us that parallel acquisitions or acquisitions undertaken in a short timeframe of each other require more financial investment, planning and resources and that, for acquisitions to be successful, it is important not to cut corners.

Case study

Mr A was partner at a small law firm that had been acquired by a larger firm, B. Firm B continued to make multiple acquisitions after Mr A's business was purchased despite Mr A's business having not been properly integrated into firm B. Mr A described the pace of subsequent acquisitions as relentless. In his view, no thought was given to strategy, culture or the costs required for integration on these acquisitions.

Firm B's strategy was to acquire firms in financial distress. Mr A noted that a poor business prior to an acquisition is likely to remain so, unless a properly funded and worked through long term strategy is put in place to introduce changes to the business. The more distressed the firm, the more problems Mr A felt the acquiring firm is likely to inherit. Mr A informed the management of firm B of his concerns, however, they were dismissed.

Post acquisition, there was no integration of systems, policies or procedures of any of the firms that were bought. The acquired firms continued to operate independently without proper governance, systems or controls in place.

Firm B ultimately failed in a way that caused detriment to clients.

Targeting firms in quick succession – practical steps

Accumulator firms told us that there are practical steps that can be taken to help the process. Examples included:

- Having an established process for acquisitions in place, which includes an extensive due diligence checklist or an acquisitions manual covering all aspects of the acquisition process. The manual is a living document and updated after each acquisition.
- Properly planning and budgeting for integration. This will help the process to run smoothly and minimise disruption to the wider business.
- Having a dedicated operational team in place, proportionate to the size of the business, consisting of a nominated person who is responsible for overseeing an acquisition as well as designated project and business services teams to plan and manage the acquisition from start to finish, including due diligence. An acquisitions team is responsible for ensuring all practical arrangements (for example the integration of case management systems) have been completed. The team are dedicated to acquisitions only, with no other operational responsibilities.
- Making sure any previous acquisition has successfully integrated before undertaking a new acquisition.
- Having a debrief and lessons learnt meeting after each acquisition.

Checklist

Acquiring firms we met told us that, as a result of their experiences, if a firm is contemplating an acquisition, it should consider:

Approach and planning

- having a clear strategy and criteria for acquisitions.
- assessing the compliance arrangements of the target firm being acquired, and in particular its systems, processes and procedures for meeting its regulatory requirements.
- reviewing the claims history of the target firm to ascertain if there are any existing concerns or patterns of claims that suggest issues at the firm.
- getting to know the people in the business it is acquiring.
- the steps it will need to take pre and post completion including measures to integrate the target.

Financial

- exercising particular caution where a target firm:
    - has poor financial records
    - is not open and transparent, does not provide financial information requested or limits access to relevant third parties, such as their accountants.
- undertaking detailed cash flow forecasts for each acquisition and assessing when a target firm will be profitable.
- being prudent and budgeting for an initial downturn, especially in the first year following an acquisition.

- assessing whether it has the financial resources and capability to make significant investment into the new business if and when required.
- exercising particular caution when reviewing and valuing work in progress. Firms approach this in different ways and the value of the work in progress may not be as attractive or as much as it first seems.
- putting in place measures, when purchasing a target firm in financial distress, to ensure they are financially robust enough to absorb any adverse financial impact and are in a position to implement measures capable of turning the target firm's financial performance around.

Practice areas

- assessing the practice areas it is acquiring including whether they are new or complementary and whether it has the skills, experience and resources to undertake that work.
- reviewing whether it needs to take on staff to supervise and service any work acquired to ensure client interests are protected.
- checking whether the target firm has Lexcel or some other accreditation that provides confidence that file handling systems and processes meet the relevant criteria.

Communication

- putting in place a clear, transparent and consistent line of communication with staff. Staff should be notified at the earliest opportunity and kept informed.

Key risks on a sale

We spoke to a number of individuals who had been involved in a sale of a law firm. They highlighted some key risks that can arise during the sale process. These included:

- Managing the sale process. There are risks in completing a sale in a short period of time, including an inability to undertake adequate due diligence on the buyer. Equally, if the acquisition becomes a lengthy process, individuals told us that the process can be difficult to navigate and become overwhelming, especially when those involved are fee-earning alongside working on the proposed sale. This can also lead to potential disruption to clients. A lack of experience of the acquisition process (an acquirer may have done this a number of times), ultimatums from the acquirer and threats to "*pull the plug*" can add significantly to the pressures.
- Making sure all of a target firm's files form part of the acquisition. Some acquiring firms may legitimately try and exclude acquiring certain areas of the business if there aren't synergies in practice areas between firms. This can lead to significant additional work to make arrangements to transfer these files to another firm with informed client consent. This adds to the amount of work involved in a sale. Where this is not possible, there is a risk that the acquisition may not complete.
- Timely communication and 'buy in' from staff. Poor communications with staff can cause them to leave early (impacting on the financial position of the firm) or lead to a disruptive workforce if they do not 'buy in' to the process. Individuals also told us that they often felt isolated when selling the business as other partners/managers were often disengaged with the process and offered little or no support.
- Making sure there are synergies in culture, particularly when moving a smaller business into a larger entity. For example, some staff expressed a reluctance to move from paper to electronic files or adopt different ways of working.

Mitigating risks on a sale

We wanted to better understand from individuals who have been involved in the sale process, some of the lessons they learnt that can help mitigate the risks and challenges they faced.

Most individuals said the first step they would take is to better understand the process and requirements of a sale. The planning stage should cover the steps required pre and post completion. Viewing a sale as a simple process ignored the complexities often involved in selling a law firm, including the need to meet regulatory requirements around confidentiality, client monies and the transfer of live and archived files (see below).

Those involved in the sale process said they would enlist the expertise and assistance of third parties. This would help ease pressures, in particular on time and the amount of support individuals received while fee earning and negotiating a sale of the business simultaneously. Third party assistance would include help to conduct a financial review of the acquiring firm and/or assisting with other parts of the due diligence process (for example governance, systems and controls).

Individuals said that another advantage of getting assistance is that it can free up their time to undertake “softer” due diligence. This includes meeting people who know/worked at the acquiring firm to help identify potential issues with culture and integration. Individuals told us that this is a key opportunity to get a better understanding of the acquiring firm’s people, ethos and working culture, as well as policies, procedures, systems and controls.

Other learnings included not ’*putting all your eggs’* in one basket and having a back-up plan in case a sale fell through. This helps ensure that the target firm is not in a vulnerable position and can continue to operate and deliver legal services to its clients.

Timeframes

We were interested in the average length of time firms and individuals said acquisitions took (from identifying the target firm to completion).

Acquiring firms said that timings varied depending on the circumstances, including the type of firm they were acquiring. However, they usually estimated acquisitions took between six to 12 months to complete. Naturally, some acquisitions fell outside of this usual period. Three acquiring firms had been involved in acquisitions which took between three and five months. The shortest acquisition took around eight weeks. A few acquisitive firms had been involved in acquisitions which have taken over a year and in one instance over two years.

The majority of acquiring firms and individuals we met told us that they have never been under pressure to complete an acquisition quickly. Only two firms said they had experienced some pressure. One said it was because it involved the purchase of a firm in financial distress. The other said they had been put under pressure to acquire a firm quickly but, in hindsight, there was no genuine reason why. Having learnt from the experience, when they have undertaken further acquisitions, they have proceeded at their own pace.

Due diligence

Why this is important

Due diligence forms an integral part of the acquisition process. For an acquiring firm, it is an opportunity to build a picture of the financial, operational and cultural aspects of the target firm. For the target firm, due diligence helps to establish whether the acquiring firm has the necessary infrastructure and competence to ensure that clients' interests will be protected. It also enables the parties to establish whether they can work together in the best interests of their clients.

We were interested in firms' approaches to due diligence and the importance they attributed to their findings.

What we expect

Our Principles require firms and solicitors to act:

- in a way that upholds public trust and confidence in the solicitors' profession[2]
- with integrity[3]
- in the best interests of each client[4]. It is important to remember that the obligation to act in the best interests of each client applies to target firms when negotiating with a potential purchaser of their firm.

As set out in our mergers, acquisitions and sales of law firms Warning Notice the following behaviours may amount to a breach our regulatory arrangements:

- an acquiring firm undertaking no or inadequate due diligence on the target firm and failing to consider prior to acquisition whether it has the competence, systems, staffing or capacity to do the work it will be getting
- a seller failing to investigate concerns about the acquiring firm's competence, systems, staffing or capacity to act in its clients' best interests going forward.

What we found

Firms recognised the importance of due diligence in identifying and mitigating risks, ensuring both parties understand exactly what is being acquired and enabling them to plan for integration. A lack of business experience and acumen can impact the quality of the due diligence undertaken, which may result in a failure to identify risks with acquisitions.

All acquiring firms and most individuals from target firms told us that they carried out some due diligence. However, there was significant variation in its nature and extent, the amount of time invested, and the importance attributed to its findings. Approaches to due diligence appeared to be influenced by several factors, including the parties' role in the transaction (acquiring or target firm), experience of acquisitions, and third-party requirements (see below).

All acquiring firms undertook some financial due diligence, such as identifying liabilities and establishing whether there was a viable business with potential for improvement. It was also

[2] SRA Principles - Principle 2
[3] SRA Principles - Principle 5
[4] SRA Principles - Principle 7

common for firms to explore operational issues which would be central to integration, such as staffing, systems and processes. Firms reflected that it was difficult to ascertain the quality of the employees being acquired. Significant emphasis was also placed on the reputation of the firm, including any relevant claims or regulatory history.

Firms that had been involved in multiple acquisitions often highlighted the importance of values, culture and ethos, addressing these aspects in their due diligence. Some felt that while everything else could be changed, if the firms were culturally incompatible, the acquisition was very unlikely to succeed. One firm summed this up as, "*culture eats strategy for breakfast*".

We heard that understanding the culture of an organisation can be difficult and requires a nuanced approach. Firms emphasised the importance of taking time to get to know the firm and speaking extensively to staff at various levels. Additional suggestions included speaking to others outside of the firm with experience of the business and obtaining character references. This helps to establish if people are aligned in their approach and willing to adapt. Other acquiring firms considered culture to be less important, expecting the target firm to adopt their culture and ways of working.

The extent of due diligence was often influenced by the requirements of third parties, such as professional indemnity insurers (insurers), banks, private equity and parent groups. Some firms who had been involved with multiple acquisitions had developed due diligence questionnaires which incorporated previous and anticipated queries from their insurers and ensured key areas were covered. Firms conducted the majority of their due diligence in-house, but some sought support from accountants and insurers. Instructing third parties provided firms with expertise, and a different perspective.

Firms undertaking multiple acquisitions had refined their approach over time. Some took a uniform approach with standard enquiries for all acquisitions and others adopted a risk based model, depending on the circumstances of the transaction. To determine risks, firms considered a number of factors including the size of the target firm, areas of practice, the firm's financial position, and motivations for selling. One firm told us that although the target firm initially stated that they were looking to achieve synergies of practice areas, during discussions it became clear that the real motivation was to avoid paying PII run off cover. This made the acquiring firm more cautious during the due diligence process.

The time spent on due diligence ranged from days to over a year. Typically, distress sales were concluded more quickly, and as a result due diligence was expedited and less extensive. Firms who had made successful acquisitions adopted a more thorough approach to due diligence, taking the time to understand the potential risks and advantages. Due diligence tended to be broader with a greater emphasis on culture.

Some firms who had made successful acquisitions said there were instances where, following due diligence, they had walked away from a potential acquisition. Concerns during due diligence included a reluctance by the target firm to provide information. One firm stated that if information was provided in a disorganised manner, this was a red flag and likely to reflect the firm's approach to client files.

Individuals at target firms who did not undertake due diligence often relied upon pre-existing relationships with solicitors at the acquiring firm. However, good solicitors are not necessarily good business people. Target firms also tended to undertake less extensive due diligence, and sometimes perceived it as the responsibility of the acquiring firm. As our Warning Notice makes clear, sellers have a responsibility to investigate concerns about the acquiring firm's competence, systems, staffing or capacity to act in their client's best interests.

Acquisitions involve an element of risk. While due diligence is essential to mitigate risk, it will not eliminate it altogether. Despite some individuals undertaking extensive due diligence

over a period of months, the acquisitions ultimately failed due to the other party concealing integral information. Failed acquisitions can result in intervention, and in some cases, we have subsequently identified deliberate attempts to conceal serious issues, such as client account shortages.

However, there appeared to be a link between rushed and opportunistic approaches where minimal due diligence was undertaken and the subsequent failure of the acquisition. In some cases, these acquisitions involved distress sales, which made extensive due diligence impractical. In extreme examples, individuals told us that this approach contributed to the ultimate failure of the firm.

The health of the respective businesses before an acquisition is also likely to be an important factor in its success or failure. Thorough due diligence can, however, give acquiring firms a better understanding of the risks, helping them to put in place measures to mitigate those risks and increase the chances of the acquisition succeeding.

Good practices

- having a clear strategy, criteria and approvals process for acquisitions
- establishing exactly what is (and is not) being acquired
- recognising that both parties are responsible for undertaking due diligence
- taking time to plan what due diligence is proportionate to the circumstances of the acquisition (to determine what due diligence is required, consider factors such as the size, location and areas of practice the firm carries out)
- undertaking planned due diligence (for example on finances, cases, governance arrangements, systems, controls, processes, procedures and culture), asking appropriate follow up questions and seeking independent corroboration (for example from banks, brokers or accountants) if required
- being prepared to walk away from an acquisition if serious issues are identified
- considering whether third parties (such as accountants) could assist the due diligence process, and engaging with appropriate parties (such as insurers) at an early stage.

Poor practices

- setting unrealistic timescales or exerting pressure on other parties
- failing to undertake adequate due diligence
- ignoring or overlooking issues identified, or failing to check the veracity of statements made
- not having a strategy, criteria or approvals process for acquisitions
- pursuing acquisitions which depart from an agreed growth strategy/criteria
- perception that due diligence is the sole responsibility of the acquiring firm
- refusal or reluctance to provide requested information, delays, or providing disorganised/incomplete information
- rushing acquisitions, and not taking the time to get to know the other party.

Confidentiality

Why this is important

It is imperative that consumers can trust firms and solicitors to keep their information safe. This is the basis on which the solicitor-client relationship is founded. The duty of confidentiality is therefore one of the core professional principles set out in the Legal Services Act 2007[5]. It is also a professional standard set out in our Codes of Conduct (see below).

We sought to understand how client confidentiality was maintained and balanced with building an understanding of the business during the due diligence process.

What we expect

In accordance with the Code of Conduct for Firms, and Code of Conduct for Solicitors, RELs and RFLs ("the Codes") firms and solicitors are required to keep the affairs of current and former clients confidential[6].

Our confidentiality of client information guidance sets out our expectations in relation to mergers and acquisitions:

- During negotiations, sufficient steps need to be taken to protect confidential client information, and where appropriate, to seek clients' consent to any disclosure of such information.
- In order to enable conflict checks to be carried out a firm may wish to disclose the identity of key clients, and in general terms the type of work done for the client. Including a provision in the client's terms of business permitting disclosure expressly limited to this information for the purposes of merger discussions may be sufficient if it amounts to informed consent on the part of the client. More detailed information about work done or client billings is likely to require specific consent to be taken.
- What will be key is for a firm to demonstrate that it has not put business interests above those of a client and has carefully considered the question of confidentiality.

What we found

Firms recognised the importance of protecting client confidentiality. However, they experienced challenges balancing this with the need to undertake thorough due diligence and vet the target firm's work in sufficient detail. As a result, approaches to the disclosure of client information varied between firms.

Obtaining specific client consent for the purposes of due diligence, such as file reviews was not always seen as a viable option given the short timescales associated with distress sales. There were also concerns that notifying clients of a potential acquisition at a preliminary stage could cause confusion, uncertainty and may result in the disclosure of commercially sensitive information.

[5] Section 1(3)(e) of the Legal Services Act 2007
[6] Paragraph 6.3 of the Code of Conduct for Solicitors, RELs and RFLs and Code of Conduct for Firms

Firms, however, took steps to maintain confidentiality and it was common practice to sign non-disclosure agreements (NDAs) at the outset of negotiations. Some firms also included clauses in their standard terms of business with clients which permitted disclosure.

Whether these steps will be sufficient to avoid a breach of our rules will depend on the circumstances. If other steps are taken to protect client information, such as redacting case files or providing only generalised information about files, this might be sufficient. However, in many situations it will not, and you must ensure you have obtained informed client consent before sharing any confidential information.

We recognise that this might create practical difficulties in some situations, for example where a sale must proceed quickly, or where the parties do not wish to put the prospective acquisition into the public domain. One firm told us that obtaining client consent was not a viable option, and as a result did not undertake file reviews. The firm felt that this approach left them in a vulnerable/exposed position, as they were unable to build a complete picture of the target firm and associated risks.

This is a challenging area for firms, with difficulties balancing the acquiring firm's need to understand what they are acquiring, and the target firm's responsibility to keep client information confidential. Ultimately, regardless of the circumstances of the acquisition, firms must be able to demonstrate that they have considered the issue of client confidentiality and have not put your business interests above those of the client.

Good practices

- redacting client files before allowing access for the purposes of due diligence
- use of NDAs
- including provisions regarding disclosure in a firm's terms of business with the client and making sure it amounts to informed consent
- limiting the extent of disclosure, by sharing only what information is necessary for the purpose of due diligence.

Poor practices

- confidentiality is not addressed as part of the planning process
- the importance of protecting client confidentiality is underestimated.

Integration

Why this is important

Integration is the process of bringing the two firms together and is perhaps the most crucial part of the acquisition process. It is where the value or benefit of the acquisition is realised.

What we expect

As set out in our Warning Notice, acquisitions can create challenges in respect of business integration, organisational culture, and maintaining standards of service to increased client numbers. Managers of an acquiring firm should therefore make sure that acquisitional growth does not lead to ineffective governance structures, systems or controls[7] which could cause detriment to clients or undermine trust in the profession.

What we found

Integration was one of the biggest challenges firms faced. They emphasised the importance of prioritising integration and ensuring that there was a change management plan and budget for this. One acquiring firm explained, "*you cannot cut corners, and you have to be in control of these issues from day one. If you lose control of these issues, you will lose control of your business*". Firms reflected that it was easy to underestimate the resources required for integration. One individual attributed the failure of a firm to the mindset of growth as a means to increase turnover in order to sell the firm. As there was no long term commitment to the future of the firm, there was no intention to integrate and acquisitions were in name only.

We found that people, culture and processes were key elements to successful integration.

People

Firms often looked to retain staff after an acquisition. Retaining key staff also helped acquiring firms address recruitment issues and kept talented individuals at the firm. Despite this, most firms had experienced some attrition. Redundancies, attrition or key staff leaving the business can adversely impact morale and operations. Some firms therefore looked to lock-in partners for an initial period of two to three years to aid integration. To prevent poaching, one firm liaised with recruitment consultants in order to learn about salaries in the surrounding areas and ensure they were comparable.

Firms emphasised the importance of engaging with staff at the earliest opportunity and adopting a coordinated approach with consistent messaging. This approach helped to ensure that the right people were engaged at the right time. Firms recognised that acquisitions are often a period of uncertainty for the staff involved, and the outcome is not necessarily what they would have chosen.

As a result, many firms had experienced some resistance to change. Examples included changes in ways of working, such as from paper based to electronic files, or learning to use a new case management system. Other employees struggled when moving from a smaller to a larger firm with more structured and formalised processes.

[7] Paragraph 2.1 of the Code of Conduct for Firms requires firms to have effective governance structures, arrangements, systems and controls in place

Firms who had made successful acquisitions ensured that fee earners were welcomed and respected. Time was allocated to provide introductions, manage expectations and explain how fee earners would be supported. Some firms introduced buddy systems, shared offices, away days and social events. Acquiring firms helped buy-in by explaining why things were done in a certain way, and providing support, time and training. Firms felt it was important to allow time for any initial resistance to change to subside, and the status quo to settle.

Firms also took steps to minimise attrition but accepted that it was not always possible to integrate everyone. Other firms placed less importance on retaining staff and accepted that there would be a much higher level of attrition if people were unwilling to change/adapt.

The success of an acquisition was likely to be adversely affected where integration of staff failed and they continued to work independently or in silos.

Culture

Firms emphasised the importance of cultural integration (see due diligence section) but acknowledged that this was hard to define and embed. We saw a range of approaches to this, including instilling shared values, standards and ambitions. Some firms looked to the new management team to establish a clear direction and vision for the firm. Firms also emphasised the importance of the management team sharing information and adopting a transparent approach. Some individuals attributed the failure of acquisitions to a lack of transparency, and excessive concentration of power and control amongst a small group of individuals.

In some cases, this meant the target firm adopting the acquiring firm's culture, and in others it meant creating a new culture with elements of both. For some firms there was a period of transition, where they looked to identify and incorporate best practices from both parties. Other firms looked to incorporate the name of the target firm, as they recognised there was goodwill and value in the brand/identity.

Processes

Firms emphasised the importance of integrating systems and processes and ensuring this was operational as soon as possible. Failure to do so caused confusion and made it easier for staff to develop inconsistent practices. One firm deliberately left a month between exchange and completion to ensure that everything was operational on day one and allow time for staff training. This included IT (covering accounts and case management systems), reporting lines, and case handling protocols. This proactive approach helped to ensure that all staff were working consistently and minimised issues arising at the outset for staff who were already likely to feel anxious.

Approaches to IT integration varied, and many firms had experienced issues. Some firms initially used multiple systems to progress client matters, others used one system but maintained data on legacy systems. The remainder looked to extract data and migrate it from the old system to the new one. The extent of data extracted varied depending on the terms of the acquisition (for example, whether the acquiring firm was a successor practice, or just acquiring elements of the business).

Firms reflected that although the process of integration was often costly and time consuming, it was better in the long run as firms benefitted from economies of scale, increased oversight and consistency of approach. A small number of firms chose to maintain separate systems and the target firm effectively continued to operate independently.

Overall, there appeared to be a link between poorly planned/managed integration and firm failure. This was particularly the case where firms continued to operate independently,

thereby increasing costs and making it difficult to maintain oversight. Approaches to integration are therefore likely to determine the success of the acquisition.

Good practices

- long-term commitment to the acquisition
- ensuring that there is a tailored plan and budget for integration, which can be managed alongside business as usual
- recognising that every acquisition will be different, and the approach to integration will need to reflect this
- integrating case and accounts management systems
- leaving a period of time between exchange and completion, to allow systems to be operational from day one
- having a plan for communication with the firm and employees to ensure that messaging is consistent, and expectations are managed from the outset
- supporting staff through the acquisition process, and allowing time for training and induction
- consider shared offices, seating plans, buddy systems, team lunches/events, and/or away days to aid integration
- monitoring/measuring the progress of integration
- undertaking financial forecasting and if appropriate planning for an initial downturn
- maintaining a lessons learned log, which includes the experiences of the target firm.

Poor practices

- underestimating the resources (time and cost) required for integration
- delaying or avoiding integration and allowing target firms to continue operating independently
- proceeding to another acquisition without integrating the previous firm (or at least ensuring that there is a properly resourced plan to do so)
- underestimating resistance to change
- not managing unrealistic expectations (for example, the target firm expecting to continue as previously and the acquiring firm expecting them to immediately adapt to new ways of working).

Live files

Why this is important

Clients trust firms and solicitors to act in their best interests. Their interests must therefore be a paramount consideration in acquisitions to prevent/minimise detriment, delay or disruption to their matters. Preventing clients from making an informed decision about who they want to act for them or treating client files as a commodity to be bought or sold, is not in clients' interests and may damage the reputation of the profession.

We wanted to understand how firms notified clients of an acquisition and sought consent for the transfer of live files.

What we expect

In accordance with the Codes, firms and solicitors must inform all clients for whom they are acting of their closure (including acquisition), so that they can make informed decisions and understand the protections afforded to them[8].

As set out in our Warning Notice, we expect firms to keep clients informed and allow them to make informed decisions as to who they want to act for them in the future. Clients should be given a reasonable amount of notice about what is happening. The following behaviours may amount to a breach our regulatory arrangements:

- treating client files as a commodity that can be bought or sold irrespective of what the client wants to do or who they want to represent them going forward
- failing to obtain properly informed consent from clients and failing to give them a reasonable amount of time to decide where they want their file, documents, or money to go prior to the transfer to an acquiring firm
- having acquired a firm, failing to identify urgent client matters such that important deadlines are overlooked, impacting on clients' interests.

Our closing down your practice guidance (closure guidance) states that it is for the client to decide which firm they want to take over their matter. If a firm is selling its practice, it must inform all its clients of the change in ownership and gain their consent to transfer their files and money in advance. Firms should consider:

- the information which they give to their clients to enable them to make a decision on an informed basis as to whether to instruct the 'new' firm, or to instruct a different firm, and
- how to deal with the issue of confidentiality (see above).

What we found

All firms inherited client files as part of acquisitions. In most cases this included both paper and electronic case files. Firms and individuals recognised the importance of obtaining informed client consent and most took steps to contact clients before transferring live files.

[8] Paragraph 8.6, 8.10 and 8.11 of the Code of Conduct for Solicitors RELs and RFLs, and Paragraph 7.1(c) of the Code of Conduct for Firms.

We acknowledge that in extreme circumstances it may not be practicable to contact all clients prior to an acquisition, for example in a distress sale. This approach should be avoided where possible, however, we recognise that an urgent transfer of files can sometimes be in clients' interests. In such cases the acquiring firm will need to contact clients urgently. Firms should liaise with our authorisation and professional ethics teams at the earliest opportunity.

Where consent was sought, clients were given a minimum of two weeks to make a decision. Once consent was obtained, acquiring firms provided clients with updated client care letters, terms of business and contact information.

Firms emphasised the importance of the parties adopting a collaborative and coordinated approach to client communications. This provided consistent messaging for clients, and managed expectations from the outset. Firms felt this approach improved customer service and reduced the risk of complaints. Most firms did not notice any material changes to the volume or nature of complaints following an acquisition. A small number of firms experienced a slight increase.

Firms provided continuity for clients by retaining key staff where possible. Where fee earners chose to leave, caseloads were reviewed and reallocated. Firms emphasised the importance of ensuring that staff were following the same policies, procedures and ways of working. This included undertaking file reviews to identify training needs, and differences in ways of working. This appeared to be a particular priority for firms with accreditations, such as Lexcel.

In addition, most firms looked to integrate case management systems to ensure that there was oversight, and key dates were not overlooked. Some firms had experienced challenges integrating case management systems, due to the cost and time involved. This is explored in more detail in the earlier integration section.

Good practices

- proactive, coordinated and consistent communication with clients and ensuring they have up to date contact information
- providing continuity for clients as far as possible, ensuring key dates are identified and actioned
- preventing disruption or delay to client matters (for example, proactive engagement with third parties, such as lender panels, helps to ensure that completions are not delayed due to administrative issues)
- integration of case management systems.

Poor practices

- staff do not follow the same policies and procedures for handling matters
- acquiring and acquired firms continuing to operate independently, leading to a lack of oversight and consistency in case handling.

Client money and residual balances

Why this is important

Client money is sacrosanct[9], and it is vital that consumers can trust firms and solicitors to keep their money safe. It is imperative that firms and solicitors have robust systems and controls in place[10]. Failure to safeguard client money can have a serious impact on people's lives and cause significant distress and inconvenience for them, their families and third parties.

We sought to understand how firms protected and managed client money throughout the acquisition process.

What we expect

In accordance with the Codes, firms and solicitors must safeguard the money and assets entrusted to them by clients[11]. The SRA Accounts Rules 2019 only allow withdrawals of client money from a client account:

- for the purpose for which it is being held
- following receipt of instructions from the client, or the third party for whom the money is held, or
- on the SRA's prior written authorisation or in prescribed circumstances[12].

What we found

Most acquisitions will involve the transfer of client money. Furthermore, all acquisitions we discussed involved smaller target firms with lower client account balances than the acquiring firm. Most firms and individuals recognised the importance of obtaining informed client consent and took steps to contact clients before money was transferred. A small number of individuals were involved with distress sales, where it was not practicable to contact clients prior to the acquisition.

Approaches to the management of client money varied. Some firms transferred all balances, whereas others limited this to reconciled or live balances. There was a split between some acquiring firms opening separate client accounts to distinguish between funds and other firms transferring reconciled and identifiable balances to their existing client account. A small number of target firms added the acquiring firm as a signatory to their existing client account until the balance could be run down.

While approaches varied, all firms had robust procedures in place to verify and approve payments from client accounts and no shortages had been identified.

Most firms took steps to integrate accounts management systems. Integrating systems helped to increase oversight and ensure consistency of approach. The challenges around integrating systems is explored further in the integration section.

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[9] Levy v SRA [2011] EWHC 740 Admin 30
[10] Bolton v The Law Society [1993] EWCA Civ 32 and Levy v SRA [2011] EWHC 740 Admin 30
[11] Paragraph 4.2 of the Code of Conduct for Solicitors, RELs and RFLs and paragraph 5.2 of the Code of Conduct for Firms
[12] Rule 5.1 of the SRA Accounts Rules 2019

Most firms also inherited some residual balances although one acquiring firm refused to do so on the basis that they did not have client consent. It was common practice for firms to consider residual balances as part of their due diligence, and to encourage the target firm to distribute the balances prior to completion.

Firms ensured that any remaining residual balances were not overlooked following completion. They told us that they engaged with the SRA where appropriate to deal with any balances where there were difficulties notifying the clients.

Good practices

- ensuring the client account has been reconciled and keeping balances separate until satisfied
- robust approaches to verifying and approving payments from the client account
- integration of accounts management systems
- proactive approach to residual balances.

Poor practices

- accounts management systems are not integrated
- residual balances are not considered in advance of completion.

Original documents and archiving

Why this is important

Consumers trust firms and solicitors to safeguard their original documents and archived files.

We wanted to understand how firms notified clients of an acquisition and sought consent for the transfer of original documents and archived files.

What we expect

In accordance with the Codes, original documents such as wills, should not be destroyed[13] and files and papers should be stored securely to protect confidentiality[14].

Our closure guidance (including acquisitions) for firms states:

- As a matter of good practice, firms should notify any former clients who may be affected, including those for whom they hold documents, such as wills or title deeds. It may provide an opportunity for clients to collect such documents and reduce the firm's future archiving costs.
- If firms continue to store files, they will need to consider data protection requirements and make sure the files are stored securely.
- An appropriate and rigorous destruction policy should be applied.

Our Warning Notice to firms provides that:

- All reasonable efforts should be made to contact testators to seek instructions as to the continued storage of their will. They should not be left in a position where they do not know where their will is stored, or discover it was sold to another entity without their knowledge or consent.
- Where there is no response from testators, firms should keep evidence of the steps taken to show that all reasonable efforts were made to contact them, otherwise they may be unable to evidence that they have complied with their regulatory arrangements. Ultimately, in the absence of any response from testators, firms should make appropriate arrangements for the safe keeping of any unclaimed wills.
- If firms have acquired archive files, they should have in place a file storage and destruction policy that makes sure that files are kept for an appropriate period and then destroyed in a confidential way.

What we found

Most firms inherited original documents and archived files as part of acquisitions.

Firms emphasised the importance of ascertaining the volumes and existing arrangements for original documents and archived files during negotiations. This information helped firms to plan their approach to obtaining client consent, deal with enquiries and facilitate discussions about the long-term storage and destruction requirements for documents. Firms also

[13] Paragraph 4.2 of the Code of Conduct for Solicitors, RELs and RFLs and paragraph 5.2 of the Code of Conduct for Firms
[14] Paragraph 6.3 of the Code of Conduct for Solicitors, RELs and RFLs and Code of Conduct for Firms

considered practical issues, such as differences in the retention periods included in destruction policies, and determining which would apply. In practice, firms tended to apply the longer of the two retention periods.

Firms reflected that it was easy to overlook or underestimate the resources required to manage original documents and archives. Some firms had experienced additional challenges in relation to documents which had not been indexed, or where no files had been destroyed, in some cases for decades. This resulted in some acquiring firms spending weeks checking, logging and updating registers. Although this approach was resource intensive, it ensured that a consistent policy could be adopted.

This was illustrated by one firm who planned to exclude wills from any future acquisitions, stating that "*people say it is an asset, but it is a liability*". Other acquiring firms required target firms to review, organise and destroy appropriate documents prior to completion.

Approaches to obtaining client consent varied between firms. Acquiring firms tended to prioritise obtaining consent for original documents to archived files. This was often complicated by the volumes, outdated information, and poor record keeping. Firms were concerned about data breaches and contacting recently bereaved families. One firm paid an external provider to cleanse the data in the will bank and another only wrote out to individuals with live matters, or where files had been closed in the last two years. Firms often had difficulties contacting clients which resulted in them retaining paperwork indefinitely.

Many firms were reliant on alternative methods of notifying clients including publicising the acquisition on the firms' websites and social media, and via local news, radio and events. Some acquiring firms also redirected post, websites, phones, emails and retained premises of the target firm to ensure client enquiries were not missed.

Good practices

- making sure that you understand what you are inheriting (volumes, arrears etc)
- taking steps to make sure that the target firm is up to date with file destruction, and that original documents and archived files are indexed
- ensuring there is a plan and budget for the future storage of original documents and archived files
- applying a file destruction policy
- seeking informed consent
- considering alternative methods of notifying clients considered where appropriate.

Poor practices

- original documents and archives have not been indexed
- arrears remain for external storage providers
- failing to rectify issues with archives, for example where there was formerly no destruction policy, or the policy had not been followed.

Consultant growth

Why this is important

A consultant growth model is a business structure looking to grow primarily with solicitors working in a consultancy style arrangement, often without the traditional hierarchy or billable hour expectations. Legal services are provided by consultants who are solicitors and may be dispersed geographically, frequently working from home.

Consultants tend to work on their own client base although the retainers will be with the firm. They are usually remunerated by virtue of a percentage of the fees they bill.

Some firms are actively growing by marketing the solicitor consultant role as an alternative career path, with flexibility and fee-share based income highlighted as key advantages.

The dispersed nature of firms using the consultant growth model may make it more difficult to:

- exercise proper control and supervision over consultants
- protect client money and assets
- maintain effective policies, procedures, systems and controls.

There may also be issues around:

- the rapid recruitment of consultants (for example their experience and credibility) as firms elect to recruit larger numbers of consultants because they are only paid when the firm is paid
- confidentiality, particularly where consultants work from home or have other roles
- the retention and integration of consultants and the impact this can have
- the tension between fee splits weighted heavily in favour of the consultant and the investment needed to develop and maintain necessary business infrastructure.

What we expect

Firms which adopt this model must comply with our Standards and Regulations. In particular our Code of Conduct for Firms provides that firms:

- have effective governance structures, arrangements, systems and controls in place (paragraph 2.1)
- remain accountable for compliance with the SRA's regulatory arrangements where work is carried out through others, including managers and those they employ (paragraph 2.3)
- actively monitor their financial stability and business viability (paragraph 2.4)
- ensure that the service they provide to clients is competent and delivered in a timely manner (paragraph 4.2)
- ensure that their managers and employees are competent to carry out their role, and keep their professional knowledge and skills, as well as understanding of their legal, ethical and regulatory obligations, up to date (paragraph 4.3)
- have an effective system for supervising clients' matters (paragraph 4.4)
- safeguard money and assets entrusted to them by clients and others (paragraph 5.2)
- keep the affairs of current and former clients confidential (paragraph 6.3).

What we found

Choosing a consultant growth model

We met four firms that have specifically focussed on growth by a significant recruitment of solicitor consultants[15]. They gave a variety of reasons why they chose to do so.

They explained that many lawyers want to work in a different way, with more financial reward and greater control of their working patterns.

Firms told us that the consultant model offers a lifestyle choice. It has the advantages of a traditional law firm, for example offices and meeting rooms, a compliance back office, secretarial support and accounts function but with the advantage of solicitors retaining greater flexibility over their hours. Those running these firms told us they envisage a different working environment and ways of achieving targets. Firms believed they can combine the best of a traditional law firm with the transparency, freedom and flexibility that the consultant model brings.

Financially, firms said the model can be attractive. Consultants are only paid when the firm is paid. This ensures that lawyers are invested in the business and helps prevent complacency. Typically, there are fewer or no equity partners which can help firms build their financial reserves.

Factors firms consider when taking on additional consultants

There can be additional risks for firms adopting this model of growth (set out below), particularly when recruiting large numbers of consultants over relatively short periods of time. However, firms we met emphasised that while they have taken on increased numbers of consultants, growth has taken place over a number of years and has been both steady and measured.

We explored with firms the factors they consider when deciding whether to take on consultants.

All firms we met were at pains to make sure recruitment avoided those solicitors who simply wanted to "plug in" to their platform and operate in a silo without embracing the firm's processes, procedures, culture and values.

Firms were keen to emphasise that their recruitment policies are robust and selective. They want to take on the right consultants and not just any solicitor. Firms told us that they are inundated with CVs from solicitors, but recruitment has to be right and not "*just for the sake of doing it*".

They are also keen to attract the best lawyers and in particular seasoned professionals who are experts in their fields and have "*been there, seen it and done it".* Solicitors generally have to have a minimum of 10 years post qualification experience and many who join have more than 20. Some firms emphasised the need for consultants to have a client following before joining.

Firms also took into account a number of other factors. These included only recruiting consultants who will fit into the culture of the firm and are passionate about providing a quality service to clients. Consultants also had to strengthen existing practice areas.

[15] We did not speak to consultant solicitors in this review

Firms highlighted that recruitment could only take place if they had the infrastructure to support it. This includes having sufficient supervisors and back-office capability to support increased numbers.

Risks in the model

We wanted to better understand the risks with this growth model and explored this further with firms. Although some risks may be specific to this growth model, many will apply to all firms whatever growth model they adopt.

Consultant firms told us of the risks that may arise. These fell into broad categories and themes, including:

Financial

- Whether:
    - they are taking on excessive debt to set up and support the model which they will struggle to repay, adversely impacting on the firm's financial stability
    - the fee split between the firm and consultant is too heavily weighted in favour of the consultant. This may prevent money being reinvested into the business and in particular infrastructure. The fee split may be unsustainable for the business in the long term.
- More firms are adopting this model increasing competition and impacting on profitability.

Compliance

- Having poor compliance, systems and controls in place to oversee the model and consultants, leaving them free to operate without adequate supervision and oversight.

Resources

- Not enough investment is made in the firm's infrastructure to support consultants or the model. This may:
    - lead to ineffective governance structures, arrangements, systems and controls
    - adversely impact on the service provided to clients
    - result in ineffective system for supervising clients' matters and the safeguarding of money and assets entrusted to them by clients.

Culture

- The firm lacks a cohesive or unifying culture. Consultants are not integrated, feel isolated and unsupported. This can adversely impact on their work, increase consultant turnover and have a negative impact on the stability of the firm including its financial performance.
- There is a perceived lack of fairness between consultants and employees, leading to divisions and a lack of a cohesive culture.

Recruitment

- Poor recruitment policy with little emphasis on strategy or criteria. There is an open door policy focusing on quantity rather than quality. Each additional consultant has a cost to the firm, for example onboarding, training, integration, supervision and support. Increased numbers of consultants place additional pressure on the firm's finances and infrastructure.

Management

- Management are inexperienced and have no familiarity with the model. There is no clear vision and a failure to bring in experienced individuals with knowledge and experience of the model that are capable of running a business that is more than "plug in and out".
- Management continue to fee earn and devote insufficient time to running the business and ensuring compliance arrangements are in place and followed.

Practical steps to mitigate risks

Firms told us of the steps they have taken to mitigate the risks arising from adopting a consultant growth model. Steps firms have implemented include:

Financial

- Avoiding rapid expansion and aiming for cautious, sustainable growth.
- Attracting work to the brand and not the consultant. If a consultant leaves, clients will keep faith with the firm rather than the consultant, ensuring that revenues are not adversely impacted.
- Making sure the remuneration structure with the consultant allows money to be reinvested into the business and keep it financially stable.

Compliance

- Implementing "*gold standard*" compliance and having dedicated compliance teams and infrastructure to ensure adherence to the firm's regulatory obligations. All firms said this was a fundamental step to mitigating risks (for example in relation to accessing client monies or confidentiality) which was non-negotiable.
- Investing in practice areas and making sure they are appropriately staffed including having clear reporting lines to heads of department who have been specifically recruited to manage and oversee work.
- Instructing a specialist external compliance auditor to review the firm's policies, procedures, systems and controls on a periodic basis.

Resources

- Investing time and resource into the business including putting in place a centralised compliance, accounting, marketing and IT team. Firms said this investment was crucial to the successful running of the model as it allowed consultants to work effectively with clients.
- Ensuring IT systems and software allow consultants to work remotely and protect client confidentiality.

Culture

- Making welfare a top priority and having dedicated resource to ensure the successful integration of consultants into the firm.
- Implementing various initiatives to support integration including away days and social activities to mitigate feelings of isolation.
- Making sure consultants attend regular in person/face to face team and partner meetings so they feel like they are part of a firm.
- Avoiding operating as a platform service where consultants "*plug in and plug out*" and have little loyalty to the firm.
- Putting in place a personal development programme for consultants to enhance their skill sets and undertake new learning opportunities.
- Encouraging consultants to come into the office and meet others to create a sense of cohesion and belonging.

Recruitment

- Having a clear strategy for recruitment, including a robust and selective recruitment policy focusing on quality rather than quantity.
- Recruiting only the best lawyers.

Management

- Taking away fee earning responsibilities from the management team so they can devote their full time and attention to the running of the business.
- Recruiting a non-executive director from outside the legal profession to bring fresh ideas and challenge existing ways of working.

Processes and procedures

We discussed with firms the processes and procedures they had in place to make sure they comply with their regulatory responsibilities.

All firms confirmed they had central processes for client onboarding including conflict and money laundering checks. Some firms had an extensive onboarding manual which all consultants received at the outset and had to comply with.

All firms also had supervision arrangements in place for consultants. Arrangements varied and included file audits, reviews of work by heads of department and the screening of emails and incoming post by a senior lawyer. Having a central case management system also made monitoring of files easier.

Access to the client account was restricted at all firms, with no consultants having direct access. Any payments out of the client account must follow an authorisation process involving finance and management.

Further information and resources

We have published a warning notice on mergers, acquisitions and sales of law firms.

Any acquired residual client account balances should be dealt with in accordance with the SRA Accounts Rules and associated guidance.

Our Guidance on 'Confidentiality of Client Information' addresses concerns arising from potential breaches of confidentiality where there is an acquisition.

Our 'Closing down your practice' guidance supports those closing their practice to protect their clients' interests and comply with our requirements. The guidance includes the closure of a firm being acquired or merging with another authorised body.

If you require further assistance or have any queries, please contact our Professional Ethics team.

Annex 1: Our sample and approach

Overview

The purpose of this project is to gather a range of views and experiences from firms and solicitors on the growth models adopted by them.

Given the number of firms and individuals we met, our thematic review represents a snapshot of the approach of a limited number of firms and individuals. The review enables us to identify themes, examples of good practice and areas of concern. It does not extend beyond law firms and the individuals we regulate.

Sample

To better understand the growth strategies adopted by firms, we met:

- key internal stakeholders
- an experienced SRA intervention agent
- firms and individuals including:
    - five accumulator firms that have acquired two or more firms in a 12 month period
    - five acquisitive firms that have acquired firms over 36 months
    - four individuals that were:
        - involved in the sale of a target firm where the acquiring firm subsequently failed, or
        - at a failed acquiring firm
    - four firms using the consultant model.

Approach

We used meetings to gather qualitative information. Each firm and individual was given an opportunity to select a date for our meeting.

We used a structured list of questions to ensure we covered the same topics with all firms and individuals and recorded responses in a consistent format. We also used multiple interviewers to reduce the impact of any personal bias.