

Interview with Knights CEO David Beech: Alternative Business Structures Across the Pond

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Recently, author Nelson had the pleasure of interviewing David Beech, the CEO of the professional services firm Knights in the UK. David has led the business, originally a law firm, since 2011. His vision for Knights is to become the leading regional professional services business in the UK.

The interview took place on the Legal Talk Network podcast (*The Digital Edge: Lawyers and Technology*) with co-host Jim Calloway, available at <http://legaltalknetwork.com/podcasts/digital-edge/2017/01/will-alternative-business-structures-u-k-law-firms-cross-pond/>.

By way of introducing David, he qualified as a corporate lawyer in 1990 and in the late 90's turned to law firm management until 2004 when he left the practice of law to raise and manage a private equity fund. He brought these skills together by leading Knights to become the first professional services firm to raise external private equity investment in June of 2012 and to become the fastest growing commercial firm in the UK.

According to David, the UK Legal Services Act, passed in 2007, and subsequent regulations issued in 2012, resulted in hundreds of law firms applying for Alternative Business Structure (ABS) licenses. ABS differs from how law firms in the US operate in two fundamental ways: Lawyers and non-lawyers can share in the management and control of these businesses and they can have non-lawyer investment. But David said that, after the flood of license applications (about 600 of them), only about 25 law firms actually used the licenses once they had them, bringing in external, non-lawyer investors who became partial owners of the ABS.

David is fond of saying that Knights is a model of merit, not of tenure. In fact, he calls Knights a meritocracy. As Knights became more of a business than a traditional law firm, overhead went down. There are 400 lawyers but there are no secretaries. Lawyers handle their own correspondence and billing. They have found that a lawyer can generate a bill in about three minutes. All lawyers receive technology training to make them more efficient. They also work to measure return on

marketing efforts and most importantly, they receive extensive training in client engagement which he believes is critical to client retention.

When Knights underwent its transformation, it was recovering 74% of chargeable time recorded. Today, it recovers 92% of chargeable time recorded. Impressive, yes? 60% of their engagements are flat fee. Their focus is away from showing fees per tasks on bills - they are careful to show all chargeable time instead. Clients have proven to appreciate the amount of work done – and of course, the successful results!

Unsurprisingly, the firm achieves efficiencies by stressing project management. It also responded to clients' desire to be given "more for less" by bringing in paralegals to do lower level work.

As they converted over to the new system, there was almost no loss of partners. There were certainly emotional struggles going from being owners to being employees, but the lawyers found (to their surprise) that most of them were not faced with financial negatives. In fact, those who produced well, which was the majority, got steady and gratifying salary increases – and were relieved of all the headaches of management, including a lot of boring meetings and details, and therefore able to focus on the practice of law. Clients also enjoyed the increased access to their lawyers.

Currently, Knights has 104 lawyer partners, all salaried employees. With no equity profit sharing, it is, in David's judgment, much easier to attain a "team" philosophy. Work is shared between lawyers, associate and paralegals – they brought in 140 paralegals after they transitioned. No one has big fancy offices. They work together side by side, sharing the tasks of client representation. David says they have had to "manage out" people who cannot seem to become part of a team because they are focused on a hierarchical structure.

David doesn't claim all this was easy. Business people and lawyers react differently. Lawyers want to divvy up pots of money at year's end and business people want to reinvest monies in the firm. They had to work hard to establish a new culture – as David says, "to win their hearts and minds". The lawyers learned that the business managers, and there are not many of them, had no interest in interfering in legal

work. Slowly, the vast majority of lawyers found themselves adopted the team outlook and culture.

In the US, we hear the fear that there will be less emphasis on legal ethics in an ABS, but David refutes that – in fact he calls that fear “rubbish.” He believes ethical compliance is greater now that managers monitor it. Without strong ethics, the firm brand – and therefore business – would suffer.

Another American concern is access to justice. David acknowledges that his firm is a business to business law firm, so he is unable, based on his experience, to speak to that issue. He does acknowledge freely that access to justice is as much a problem in the UK as it is in the US.

One notable ABS failure, in Australia, was Slater and Gordon. David’s view is that they simply made a mistake by buying the professional services arm of the British insurance claims processor Quindell for too much money.

When asked about ABS coming to the US, David said Investors and clients will find a way to compete with lawyers whether or not ABS is used. Change will simply happen driven by clients and investors. Not to embrace ABS is, in his view, missing an opportunity. It is a better and safer path to keep legal services in a regulated environment. Lacking a crystal ball, he was reluctant to predict whether ABS will come to our side of the pond, but he certainly took note of the ferocity of the resistance to ABS in the US. He notes mildly that American lawyers seem to see ABS as a threat to their profession and seem blind to the opportunities offered by an ABS.

One thing David noted at the end of the interview was that he is surprised that more American lawyers haven’t visited him to “chat him up” about running a successful ABS. So if you find yourself in the UK, he invites you to come and see him. I’m pretty sure he can come up with a wonderful piping hot cup of tea.

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