

# Employee ownership in law firms: a growing trend?

Robert Postlethwaite, Partner and Managing Director at Postlethwaite Solicitors, presents the benefits and shares his experience of the journey to employee ownership



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Of the approximately 9,500 solicitor firms in the UK, an estimated 30 have embraced employee ownership, primarily through Employee Ownership Trusts (EOTs). While this represents a small percentage, it is a trend poised for growth as more law practices face challenges that increasingly make the traditional partnership model less viable.

## THE EVOLVING LEGAL LANDSCAPE

In recent years, a growing number of law firms have struggled to achieve succession and continuity through the creation of new partners. Associates, no matter how talented or engaged, often shy away from partnership roles. The demands of partnership, namely time, emotional investment and financial commitment, are less attractive in a modern work culture that values flexibility and work-life balance, even with the potential for substantial financial rewards.

This challenge is compounded by the evolving nature of law firm success. Modern law firms must be agile, with a strong focus on leadership, technology and teamwork, beyond just providing excellent legal advice. Some firms seeking to invest in technology are exploring substantial equity investment, further straining the traditional partnership model. These factors are driving many firms to incorporate, which in turn opens the door to broadening ownership to include non-lawyers, such as employees and external investors. This shift helps create a motivated and adaptive culture, better equipped to embrace ongoing change. For firms considering employee ownership, the Solicitors Regulation Authority (SRA) generally requires approval. While the SRA has strict requirements, they are increasingly familiar with EOTs and respond promptly and supportively to applications.

## THE BENEFITS OF EMPLOYEE OWNERSHIP

Firms that have incorporated and taken the significant step of transitioning to employee ownership through an EOT can experience a range of benefits. In businesses where success hinges on the skills and commitment of all staff, not just a few standout lawyers, an EOT can foster a strong, collaborative culture, with a shared sense of purpose.

One of the advantages of employee ownership is the ability to share profits across the entire workforce. Firms can distribute annual bonuses of up to £3,600 per employee, free of income tax, provided the bonuses are given to all employees. The EOT model is flexible, allowing firms to tailor rewards to the right people in the right roles.

While income tax-free bonuses must be uniform (although they can take into account things like an employee's salary), additional fully taxable incentives or equity ownership options can be offered to key employees, such as through share options. Moreover, employee ownership does not preclude raising external equity, as long as the EOT retains at least 51% of the company's shares. Additionally, practice owners who sell their shares to an EOT can do so without incurring capital gains tax.


While most employee-owned law firms are structured as companies that are majority-owned by an EOT, there are examples of partnerships or LLPs where a member holds an ownership stake on behalf of the firm's employees. This structure is less common but can be a viable option, depending on the firm's specific needs and goals.

## THE JOURNEY TO EMPLOYEE OWNERSHIP

As a firm specialising in employee ownership for over 20 years, and having advised over 150 companies and several law firms on transitioning to EOT ownership, we understand the value of this model firsthand. After three years of careful planning, a timeline extended due to the Covid-19 pandemic, in 2023 we were proud to transition ourselves, to a 100% employee-owned firm through an EOT. Eighteen months on, I can say that for us, becoming employee-owned has been a really positive experience overall. It seems to have supercharged our collaborative culture, how team members have worked together since the change has exceeded my expectations and lightened my load a bit, everyone seems really invigorated and enthused by what we have done.

## CONCLUSION

While employee ownership offers significant benefits, it is not a one-size-fits-all solution. For some law firms, the traditional partnership or LLP model will continue to be the gold standard. Others may prefer a corporate structure with ownership concentrated among a select group or they may choose to join a larger group. However, it is anticipated that a growing interest in employee ownership among law firms will continue, particularly involving those with a strong, collaborative culture and a clear plan for leadership succession.

While employee ownership could potentially be part of a strategy to revitalise an underperforming firm, it is not a quick fix for financial difficulties. A credible, deliverable business plan is essential, and the current owners may need to adjust their expectations of the firm's value. 



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