Research on the Corporate Governance of Chinese Legal Consulting Firms

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Abstract: Legal consulting firms hold a significant share of China's legal-services market. However, their operations raise several regulatory and ethical concerns. Key issues include unreliable service quality, the provision of legal services by individuals falsely claiming to be licensed attorneys, and collaborative arrangements with lawyers that effectively circumvent the professional-qualification regime. These problems are closely linked to the low entry thresholds for establishing legal consulting firms, blind spots in administrative supervision, and the limited applicability of professional ethics to non-lawyers. Although legal consulting firms do not fall within the traditional category of legal professionals, their active participation in legal service provision necessitates inclusion within a unified regulatory framework. Moreover, it is imperative to clarify and coordinate the responsibilities of judicial administrative authorities and market regulatory agencies, in order to effectively address conflicts of jurisdiction among different administrative bodies.

Keywords: Legal services; Legal consulting; Chinese lawyers; Unauthorized practice of law

Introduction

In recent years, the quality of services provided by legal consulting firms in China has become increasingly difficult to ensure. Incidents involving the infringement of clients' rights and interests have occurred with notable frequency. For example, a legal consulting firm in Wuhan obtained users' personal information under the pretext of assisting with rights protection and debt recovery. It subsequently defrauded clients by charging illegitimate consulting fees. More than 700 individuals were reportedly affected by this scheme.[1] In addition, some advertisers, under the commission of legal consulting firms, have produced promotional materials that simulate lawyer-led legal defense, thereby blurring the boundaries between authorized legal practice and unauthorized service provision.[2] One legal consulting firm claimed to be the best

[1] See https://mp.weixin.qq.com/s/VFNYzgyFj30_r0zgrgXOqg (last accessed September 22, 2024).
[2] Ning Market Supervision Penalty No. [2022] 1042.

model enterprise in China's financial industry. However, investigation revealed that this accolade did not exist. The State Administration for Market Regulation concluded that such false advertising undermined fair competition by depriving other businesses in the same sector of equal trading opportunities and increasing the cost for consumers to make informed choices.[1] A legal consulting firm publicly displayed information at its place of business claiming it had signed contracts with more than 3,000 lawyers.[2] However, the *Lawyers Law of the People's Republic of China* (hereinafter, the *Lawyers Law*) explicitly requires lawyers to practice within law firms; accordingly, lawyers are prohibited from practicing at legal consulting firms. Such misleading advertising blurs the boundary between legal consulting firms and law firms and risks eroding public trust in the legal profession.

This study obtained data from Tianyancha, a widely used corporate-information platform in China. The search criteria specified enterprise names containing the keyword legal consulting, an operational status of active or in business, and an organizational structure designated as either a limited liability company or a joint-stock company. This method yielded data on legal consulting firms across various regions.[3]

Using the same search criteria, information was also retrieved on law firms, in-house legal departments, patent agencies, real estate registration authorities, grassroots legal service offices, and legal aid centers. [45]As shown in Table 1, a substantial number of legal consulting firms are currently operating in the legal-services market. The number of these legal consulting firms has already surpassed that of law firms.[6]

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[1] Tai Market Supervision Penalty No. [2023] 00479.
[2] Lu Market Supervision Penalty No. [2022] 00035.
[3] Based on statistical data as of October 16, 2024. When the keyword is used without limiting to entity names, a total of 489,673 results are retrieved nationwide. When limited to entities whose registered names contain the number drops to 60,456. This discrepancy relates to variations in scope of business, entity profile, address, brand, legal representative, patents, trademarks, shareholders, and key personnel. This paper uses the entity name-limited dataset. In this study, refer specifically to market entities whose registered names contain the phrase and whose organizational form is either a limited liability company or joint stock company. Other forms, such as sole proprietorships, partnerships, collectively owned enterprises, joint ventures, and individual industrial businesses, are excluded.
[4] The data referenced here includes entities with in their names, an operational status of active or in business, but with organizational forms excluding limited liability companies and joint stock companies. These include sole proprietorships, partnerships, joint ventures, and individual businesses, according to Tianyancha's categorization.
[5] Search criteria were as follows: (1) names containing with status active or in business; (2) names containing (fawu), active or in business; (3) names containing active or in business; (4) names containing active or in business; (5) names containing active or in business; (6) names containing active or in business.
[6] If broader search criteria are used, the total number of legal consulting or legal service entities would increase.

Some legal service providers in China	Retrieved entity information
Legal consulting firms	49152
Law firms	42000
In-house legal departments	7111
Patent agencies	3179
Real estate registration authorities	3240
Grassroots legal service offices	394
Legal aid centers	1693

Table 1. Search Results for Selected Legal-Service Entities in China

Available reports indicate that in the 1970s, the number of lawyers in China was limited, and the scope of legal services they could undertake was relatively narrow. During that period, legal consulting firms emerged as an alternative channel for the provision of legal services. Based on the regional division of China's economic zones as defined by the National Bureau of Statistics, data were collected on legal consulting firms, law firms, non-corporate legal-service entities, and legal departments across the eastern, central, western, and northeastern regions of the country.[1] It was observed that the majority of legal consulting firms and law firms are concentrated in the eastern region of China. In contrast, within the legal-services market of the central and western regions, legal consulting firms outnumber law firms, indicating their relative dominance in terms of quantity.[2] This finding supports Zhou Yiqi's view that the distribution of legal services in China is uneven. Legal consulting firms, by providing services in the central and western regions, have to some extent contributed to improving access to legal services in areas where such resources are relatively scarce.[3]

1. Problems associated with legal consulting firms in China

As the number of licensed lawyers in China continues to grow, the supply structure of legal services is undergoing a profound transformation. The combined effects of market-based competition, evaluation mechanisms, and emerging service standards are steering the profession toward greater standardization, specialization, and internationalization. Advances in legal technology have further raised expectations for lawyers' technical competencies, yet many legal consulting firms still struggle to maintain baseline service quality. Core problems associated with these legal

[1] For regional analysis, the Eastern region comprises Beijing, Tianjin, Hebei, Shanghai, Jiangsu, Zhejiang, Fujian, Shandong, Guangdong, and Hainan; the Central region includes Shanxi, Anhui, Jiangxi, Henan, Hubei, and Hunan; the Western region covers Inner Mongolia, Guangxi, Chongqing, Sichuan, Guizhou, Yunnan, Tibet, Shaanxi, Gansu, Qinghai, Ningxia, and Xinjiang; and the Northeastern region consists of Liaoning, Jilin, and Heilongjiang. As of the present dataset, Tianyancha does not include entries for Taiwan region, Hong Kong, and Macao (China).
[2] The numbers referenced reflect the count of legal consulting companies and law firms, not the number of their employees. Therefore, no conclusion is drawn regarding staff size. Note that and are sometimes used interchangeably. This study focuses on the former.
[3] Zhou, Y.Q. (2024). A Study on Legal Services Provided by Non-lawyers. Hebei Legal Vocational Education, (3).

consulting firms include the absence of robust quality-assurance mechanisms, misleading advertising that undermines the professional image of lawyers, and collusive practices with industry counterparts that erode the integrity of the professional-qualification regime.

1.1 Unreliable quality of legal services

Legal consulting firms are typically not required to pass professional-qualification examinations, undergo admission-to-practice reviews, complete continuing legal education (CLE), or participate in service-evaluation mechanisms. Consequently, the legal services they provide carry a heightened risk of serious departures from professional standards. Under the *Lawyers Law*, law firms are designated as the legal entities that bear civil liability for professional misconduct.[1] A client who retains a law firm may therefore seek remedies for professional negligence or service errors. By contrast, a client who hires a legal consulting firm often faces a thorny path to relief: complaints to the judicial administrative authorities or the market regulation authorities may be declined for lack of jurisdiction; and in subsequent litigation, a legal consulting firm may argue that it has already fulfilled its obligations to provide legal services, further increasing the difficulty of obtaining redress.

1.2 False advertising and its impact on the public image of lawyers

A legal consulting firm informed clients that it operated as a promotional subsidiary of a law firm and assured them that both legal staff and licensed lawyers would be assigned to handle their cases.[2] These legal consulting firms often impersonate lawyers in the provision of legal services, which can easily mislead clients into believing they are receiving representation from licensed legal professionals. When disputes or scandals arise, such incidents negatively affect the public image of the legal profession. They may lead to diminished trust in lawyers and reduce public confidence in the rule of law. Although lawyers themselves may bear no fault in these situations, the legal profession as a whole is forced to bear the reputational consequences of misconduct by legal consulting firms. Professional image is a core value that the legal community seeks to uphold and protect.

1.3 Commercial collaboration that undermines the professional-qualification regime

Law firms and lawyers are prohibited from soliciting clients through improper means, including disparaging other law firms or lawyers or offering referral fees. [3] The professional ethics governing Chinese lawyers prohibit collaboration with legal consulting firms. However, in *Civil Judgment (2021) Xiang 01 Min Zhong No. 13850*, the legal consulting firm involved had promised the client that the case would be handled by a licensed lawyer.[4] In *Criminal Ruling (2022) Hu 01 Xing Zhong No. 934*, the legal consulting firm in question was found to have engaged in legal representation activities despite not employing any licensed lawyers. Unlike the evasive practices adopted by such firms, the 2017 revision of the *Lawyers Law of the*

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[1] *Lawyers Law of the People's Republic of China* (2017), art. 54.

[2] *Shanghai Shengjie Legal Consulting Co. v. Dong Yun*, Civil Judgment No. (2022) Hu 01 Min Zhong 12373, Shanghai First Intermediate People's Court.

[3] *Lawyers Law of the People's Republic of China* (2017), art. 26.

[4] *Changsha Zhengyi Legal Consulting Co. & Luo Guangxing v. Client*, Civil Judgment (2021) Xiang 01 Min Zhong No. 13850, Changsha Intermediate People's Court.

People's Republic of China establishes strict requirements for legal practice, clearly delineating the conditions under which individuals may engage in the legal profession.

2. Analysis of underlying causes

In China's legal-services market, legal consulting firms are numerous and their service quality is hard to assure. The primary causes are, first, the low entry barriers for establishing legal consulting firms and, second, inadequate regulatory oversight of such firms.

2.1 Low entry barriers to establishing legal consulting firms

Initially, the establishment of legal consulting firms required examination and approval by judicial administrative authorities and was subject to dual oversight by both judicial and market regulatory bodies. However, in 2004, the State Council abolished the administrative approval requirement for the establishment of legal consulting firms.[1] Since then, the creation of legal consulting firms has required only registration with market supervision authorities. Although both legal consulting firms and law firms provide legal services, the former operate under significantly lower entry thresholds.

2.2 Inadequate regulation of legal consulting firms

Chinese lawyers are subject to a comprehensive regulatory framework, including the *Lawyers Law*, the *Measures for the Administration of Lawyers and Law Firms*, and the *Code of Practice for Lawyers*. In contrast, legal consulting firms operate in a regulatory gray area. The insufficiency of regulation governing legal consulting firms is reflected in gaps in administrative oversight, the limited applicability of professional ethics, and the absence of industry self-regulation.

Administrative penalties imposed by market regulation authorities on legal consulting firms can generally be classified into two categories. The first category concerns irregularities in business operations. These include failure to commence business within six months without justified reason, suspension of operations for more than six months after commencement, failure to submit annual reports in accordance with legal requirements, failure to conduct business at the registered address, and failure to file tax declarations. The primary legal basis for these penalties is Article 211, Paragraph 1 of the *Company Law of the People's Republic of China*.[2][3] For entities that operate in non-corporate forms, the applicable legal instruments include the *Law on Sole Proprietorship Enterprises* and the *Regulation on the Administration of Market Entity Registration*.

[1] State Council, *Decision of the State Council on the Third Batch of Canceled and Adjusted Administrative Approval Items* (2004).

[2] *Company Law of the People's Republic of China* (2018 Amendment), art. 211.
[3] *Company Law of the People's Republic of China* (2023 Revision), art. 260.

The second category of administrative penalties concerns the substantive business conduct of legal consulting firms. This includes the dissemination of false advertising, engagement in unfair competition, and the unauthorized provision of legal services by impersonating licensed lawyers. [1]The legal basis for such penalties includes Article 28, Paragraph 2, Article 34, Paragraph 2, and Article 55, Paragraph 1 of the *Advertising Law of the People's Republic of China*, Article 8, Paragraph 1 of the *Anti-Unfair Competition Law*, and Articles 13, Paragraph 1 and 42 of the *Pricing Law*.[2][3][4]

However, most administrative penalties pertain only to irregularities in business registration or operation, while official sanctions addressing substantive business misconduct by legal consulting firms remain limited. This reveals a regulatory gap in the oversight of such entities. In addition, different types of business conduct fall under the jurisdiction of different administrative bodies, reflecting a fragmented structure of legal regulation and administrative authority.

Type of Conduct	**Regulatory Authority**	**Legal Basis**
Irregular Business Operations	Market Supervision Authority	Article 211, Paragraph 1 of the *Company Law of the People's Republic of China* Article 67 of the *Regulation on Company Registration* (2016) Article 60, Paragraph 2 of the *Law on the Administration of Tax Collection* Article 36 of the *Law on Sole Proprietorship Enterprises* Article 24, Paragraph 1 of the *Regulation on the Administration of Market Entity Registration*
Unfair Competition	Market Supervision Authority	Article 8, Paragraph 1 of the *Anti-Unfair Competition Law*
False Advertising	Market Supervision Authority	Article 28, Paragraph 2 of the *Advertising Law* Article 34, Paragraph 2 of the *Advertising Law* Article 55, Paragraph 1 of the *Advertising Law*
Failure to Display Prices	Market Supervision Authority	Article 13, Paragraph 1 of the *Pricing Law* Article 42 of the *Pricing Law*
Unauthorized Practice of Law	Judicial Administrative Authority	Article 55 of the *Lawyers Law of the People's Republic of China* (2007, 2012, 2017 Revisions)
Impersonation of Lawyer	Public Security Authority	Article 46 of the *Lawyers Law of the People's Republic of China* (1996, 2001 Revisions)

Table 2. Administrative Penalties and Legal Bases

[1] Chang Market Supervision Penalty [2024] No. 360; Ning Market Supervision Penalty [2022] No. 875; Jingle Market Supervision Guang Penalty [2023] No. 14; Ning Market Supervision Penalty [2022] No. 1042.
[2] Tai Market Supervision Penalty [2023] No. 00479.
[3] Lu Market Supervision Penalty [2022] No. 00035.
[4] Xiang Market Supervision Penalty [2021] No. 20.

Although legal consulting firms engage in legal work, they lack critical components associated with the legal profession, including formal legal education, professional qualification examinations, continuing legal education, and participation in professional self-regulation. As such, they do not fall within the conventional scope of legal professionals and are not bound by the ethical standards governing the legal profession. Judicial decisions have indicated that some legal consulting firms actively promote their rights protection services through unsolicited outreach.[1] In contrast, promotional activities conducted by lawyers are subject to professional ethical restrictions. Lawyers are prohibited from soliciting business from unspecified individuals or the general public.[2]

The work performed by legal professionals is characterized by a high degree of specialization. This specialization raises both the threshold and cost of effective external oversight. In such contexts, industry self-regulation serves as a necessary complement to administrative supervision. For example, Chinese lawyers are subject to dual regulation by judicial administrative authorities and bar associations. In contrast, the governance of legal consulting firms lacks mechanisms of industry self-regulation, which has contributed to the persistence of service-related misconduct and regulatory disorder.

3. Governance strategies for legal consulting firms

“Although the integration of public bureaucracies and professional control mechanisms in modern societies has significantly reduced the space for fraud and the survival of technically or ethically unqualified practitioners, this does not mean that such individuals no longer exist within professional communities.” [3] The core governance challenge with respect to legal consulting firms lies in their status as non-professional legal actors, which makes it difficult to apply conventional professional ethics as a regulatory tool. In response, it is advisable to shift the regulatory focus from the legal profession to the broader category of legal services. By reframing the object of regulation in this way, legal consulting firms can be brought back under unified supervision within the legal-services market, even in the absence of strict entry controls by judicial administrative authorities.

3.1 From a legal profession perspective to a legal services perspective

Lawyers are part of the legal profession, whereas legal consulting firms fall outside this category. “The legal profession is generally understood to possess both independence and exclusivity.” It is characterized by rigorous qualification

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[1] Market Supervision Penalty [2021] No. 49; Pu Market Supervision Penalty [2022] No. 154; Pu Market Supervision Case No. [2022] 97.

[2] Market Supervision Penalty [2021] No. 49; Pu Market Supervision Penalty [2022] No. 154; Pu Market Supervision Case No. [2022] 97.

[3] Rueschemeyer, D. (2010). *Lawyers and Society: A Comparative Study of the Legal Professions in the United States and Germany* (Y. Yu, Trans.). Shanghai: Shanghai Sanlian Publishing House. (Original work published in English)

requirements and disciplinary mechanisms.[1] In contrast, members of legal consulting firms are often not required to have a background in legal education, are not subject to qualification examinations, and are not governed by professional associations or legal ethics codes. However, these standards—such as legal education, continuing education, and professional examinations—are all grounded in the framework of the legal profession. When applied to non-professional legal actors, they may not offer effective regulatory leverage.

If one adheres strictly to the perspective of the legal profession, legal consulting firms do not meet the criteria for professional admission. As such, they are not recognized as members of the legal profession and are not subject to its ethical codes or mechanisms of self-regulation. However, legal services are not merely defined by professional identity but also by the nature of the activities performed. From the perspective of legal services rather than the legal profession, both legal consulting firms and lawyers engage in similar forms of legal service provision. The professional nature of legal services increases the difficulty and cost of effective external oversight, which in turn justifies the need for specialized regulatory mechanisms. Therefore, shifting the regulatory lens toward legal services provides a normative basis for subjecting legal consulting firms to formal regulation.

3.2 Incorporating legal consulting firms into the unified regulation of legal services

Legal consulting firms can also be categorized as non-lawyers legal practitioners. The regulation of non-lawyers legal practice has long been the subject of academic and policy debate. In the 1920s, some commentators observed that Wisconsin law prohibited only unlicensed legal practice in recorded court proceedings. They argued that the statute should be amended to prohibit any individual from engaging in legal practice without prior licensing, thereby encompassing a broader range of legal service activities. This perspective emphasized that legal practice is a privilege that should be exercised only by individuals of good moral character who have obtained specialized qualifications through extensive training.[2]

In contrast, Denckla contended that legal services provided by lawyers are not necessarily superior in all cases. Prohibiting non-lawyers legal practice, she argued, could restrict access to legal services for low-income populations and infringe upon the public's freedom to choose legal service providers.[3]

As an experimental model of non-lawyers legal practice, the state of Washington introduced the Limited License Legal Technician (LLLT) program. According to Aprile, LLLTs were authorized to provide services primarily in the area of family law. However, the high cost of training and education meant that LLLTs were not necessarily able to serve low-income populations. Moreover, because they were only

[1] Li, B.S. (Ed.). (2003). *Introduction to Legal Professional Ethics*. Beijing: Higher Education Press.
[2] Aarons, C.L. (1929). The Practice of Law by Non-lawyers. *Marquette Law Review*, 14, 1–21.
[3] Denckla, D.A. (1998). Non-lawyers and the Unauthorized Practice of Law: An Overview of the Legal and Ethical Parameters. *Fordham Law Review*, 67, 2581–2606.

required to complete a portion of the law school curriculum, LLLTs often lacked the capacity to handle more complex legal matters. Rather than narrowing the gap in access to justice, this model risked raising new concerns regarding the sharing of legal fees and the erosion of traditional professional ethical boundaries.[1]

In light of the above perspectives, within the context of China's legal-services market, the regulatory oversight of legal consulting firms should be strengthened due to persistent problems such as the infringement of client rights and the unauthorized provision of legal services by impersonating lawyers. One possible approach is the establishment of a unified legal services regulatory body or the enactment of a comprehensive legal services law. Such measures would provide a formal framework for incorporating legal consulting firms into the broader regulatory architecture and addressing current deficiencies in oversight. A report by the United Kingdom's Office of Fair Trading identified several aspects of the legal services industry that may disadvantage consumers. [2]In a review of the regulatory framework for legal services in England and Wales, Sir David Clementi emphasized the need to establish oversight institutions with a clear focus on consumer protection.[3] Against this backdrop, the Legal Services Board was established, tasked with supervising approved regulatory bodies and overseeing the operation of the Solicitors Disciplinary Tribunal.[4]

The unified regulation of legal consulting firms is not incompatible with the promotion of multi-disciplinary collaboration. Regulating legal consulting firms serves the purpose of ensuring the quality of legal services and maintaining market order. Encouraging multi-disciplinary practice, by contrast, aims to provide clients with integrated, one-stop legal services. In this regard, Section 2.6 of the *Legal Profession Act 2004* in New South Wales, Australia, introduced provisions for Multi-Disciplinary Partnerships (MDPs), removing the restriction on income sharing between lawyers and non-lawyers.[5]

In 2019, the *Hainan Special Economic Zone Lawyers Regulations* in China stipulated that certified public accountants, certified tax agents, certified cost engineers, patent agents, and other licensed professionals may serve as partners in specialized general partnership law firms. [6]At the same time, the regulations provided that all legal service institutions and personnel within the region would be subject to unified supervision by the judicial administrative authority. Although this unified administrative oversight applies only within Hainan Province, it nevertheless

[1] Aprile, J. (2016). Limited License Legal Technicians: Non-lawyers get access to the legal profession, but clients won't get access to justice. *Seattle University Law Review*, 40, 217–245.
[2] See https://webarchive.nationalarchives.gov.uk/ukgwa/20140402172414/http://oft.gov.uk/shared_oft/reports/professional_bodies/oft328.pdf (last accessed December 20, 2024).
[3] See https://legalservicesboard.org.uk/about-us/who-we-are#question-7 (last accessed December 20, 2024).
[4] See https://legalservicesboard.org.uk/what_we_do/pdf/Regulatory_Approach.pdf (last accessed December 20, 2024).
[5] See https://legislation.nsw.gov.au/view/html/bill/c1b84e48-2ea9-6774-8ee6-ca82ac1870bd (last accessed December 20, 2024).
[6] Hainan People's Congress Standing Committee, *Hainan Special Economic Zone Lawyers Regulations* (2019).

represents a practical example of integrating legal service institutions into a centralized regulatory framework under judicial administration.

3.3 From fragmented regulation to integrated oversight

The regulation of legal consulting firms requires proper coordination between market regulation authorities and judicial administrative organs. In the past, members of the Chinese People's Political Consultative Conference have proposed strengthening oversight of legal service companies. Market regulation authorities have maintained that judicial administrative organs, as the original approval bodies, should bear primary responsibility for supervision. In practice, market regulators assist judicial administrative authorities in addressing violations such as failure to update registration, failure to complete cancellation procedures, failure to submit annual reports, and failure to disclose required public information.[1]

At present, regulatory actions by market supervision authorities toward legal consulting firms primarily focus on procedural issues, such as unjustified suspension of business operations, failure to submit annual reports, and failure to file tax declarations. However, administrative sanctions addressing more substantive misconduct—such as infringement of client rights or disruption of market order—remain relatively rare. Due to the complexity of legal services, their regulation inevitably involves multiple administrative agencies. In his work The Logic of Fragmentation, Liu Sida argues that the fragmented nature of China’s legal-services market is closely tied to the state institutions behind different categories of service providers. Improving the governance of legal consulting firms requires their incorporation into a unified regulatory framework for legal services. It is essential to clearly delineate the respective jurisdictions of judicial administrative authorities, market regulation departments, other relevant administrative bodies, and professional associations in order to ensure effective and coordinated oversight.

4. Conclusion

From the perspective of legal profession-based regulation, legal consulting firms are not bound by the requirements of legal education, qualification examinations, or professional self-governance. As such, they do not qualify as traditional legal professionals and are not subject to legal professional ethics. However, since they provide legal services, legal consulting firms can and should be brought under a unified regulatory framework for legal services.

The governance of legal consulting firms is not solely a matter concerning the firms themselves or their regulatory authorities. It also requires clarification of the relationships between legal consulting firms and their clients, as well as between legal consulting firms and licensed lawyers. The ethical rules governing the legal

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[1] Hubei Provincial Market Supervision Bureau, *Response to Proposal No. 20241088 of the 13th Hubei CPPCC Session* (2024).

profession should also be further refined to prevent law firms and lawyers from engaging in business collaborations with legal consulting firms that undermine the professional-qualification regime.

Ultimately, once the responsible regulatory authorities are clearly designated, governance of legal consulting firms may be improved through several concrete measures. These include establishing appropriate qualification requirements, providing continuing legal education, formulating codes of conduct, and developing mechanisms for handling complaints and public reports.