

Best-practice management series

Financial Management in the Legal Profession

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Financial Management in the Legal Profession

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Profiles

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About the *Managing Partner* best-practice series

FOR EIGHT years *Managing Partner* has led the way in producing practical, detailed information that has helped managing partners around the globe manage their law firms to the very highest standards possible. We dedicate our time to researching, understanding and distilling the information you require into a packed and compelling resource that returns real dividends.

As a part of this research, we are now publishing this series of management reports in conjunction with respected authors and practitioners including Alan Hodgart, Neil Cameron and Frank Maher. It is a series that will further your in-house knowledge and provide a ready-made library on successful law-firm management.

The *Managing Partner* best-practice series is a collection of highly practical reports. Each one features case studies that demonstrate real-world best practice, in-depth analysis that examines the key factors for success, as well as the latest research and comment from law firms, leading industry consultants and our dedicated team of editors and researchers.

The series features eight reports that focus purely on the management issues facing the legal profession, including:

- Strategic marketing;
- Strategic IT management;
- Risk management;
- Know-how;
- Mergers, networks and alliances;
- Human resources;
- Leadership and change management;
- Financial management.

The titles of the reports are chosen for their topicality, relevance and importance for those wanting to improve their management understanding and ability in the legal profession.

The series aims to practically aid learning, with success stories from firms that have achieved measurable improvements in the provision of services and generated genuine increases in profitability. But the reports also look at management mistakes and potential pitfalls, reducing the chances of making similar costly errors.

The *Managing Partner* best-practice series is a resource that we hope will become a highly referenced source of practical information for all those involved in law-firm management today.

About the publishers

This management best-practice series is brought to you by Ark Group.

Ark Group is a global business-to-business publishing and events company with offices in London, Singapore, Australia and the US. The company's extensive product range includes international conferences, exhibitions and training seminars, a number of magazines and newsletters, as well as websites, e-mail services and dedicated online forums. Ark Group publishes *Managing Partner* magazine, the essential guide to strategic practice management in the legal profession. ■

Executive summary

IN TODAY'S world, law firms are increasingly having to look to smarter, more cost-effective ways of working to maintain competitive edge. While many would say this is a truism, there are still areas of activity within many firms where joined-up thinking would appear to be lacking, which can lead to internal obstruction and resistance to strategic growth efforts.

This report focuses on perhaps the most important of all these areas – financial management. Its purpose is to show, systematically, what law firms can do to ensure that financial management acts in the interests of growing and maintaining the business for the long haul, and is not purely focused on this year's numbers.

More specifically, it reveals that financial management must focus on supporting, not driving, the realisation of both short- and long-term business goals, and also that all management accounting procedures, processes and reporting methods should take up as little partner time as possible. This last point is particularly crucial, as it frees up partner time for business-critical activities, rather than routine business administration.

A comprehensive and integrated approach

If financial management is to be truly effective it needs to be applied to a wide variety of business functions, many of which are given insufficient recognition by law firms. These include tracking and managing human, structural and relational capital (as discussed in chapter 2), managing the income statement and current earnings

(chapter 3) as well as working capital and cash flow (chapter 4), and also the importance of performance management in increasing profitability.

This report also reveals that a firm's success is about much more than meeting and/or exceeding budgeted profit and last year's profit. Law firms often focus excessively on profit, expense (budget and actual) and increasing billable hours, perhaps as a result of the rapid expansion of many law firms in recent years. But, for whatever reason, presenting the business to partners in this context is often problematic because they struggle to correctly interpret the data and, more importantly, will be unsure how to manipulate that data for the overall good of the firm.

This is why firms need to refocus on the true purpose of their business, or more specifically, on the one thing that firms must do to ensure survival – keeping more clients more satisfied. Growth will then naturally follow. In essence, a firm's financial management function must be directed to this end.

New criteria are needed

Once this key fact is grasped, it becomes clear that mere profit-related data alone cannot show firms what they need to do to keep on track and expand their business. What is needed is a new list of criteria to measure what may be required. This list would include activities such as: assessing the firm's current market position; seeing whether the firm's liquidity, current year's profits and attractiveness to its employees has improved; and measuring the level of innovation for client solutions.

Financial management in this context often restricts itself only to measuring liquidity and profits, and occasionally measuring productivity. What also emerges is that the emphasis is rarely on long-term planning but on short-term gains – not a strategy that would automatically lead to disaster, but a gamble nonetheless.

What is needed is a balanced approach that uses a law firm's three productive assets – namely the fee earners' available professional time, the firm's cash, and perhaps most importantly the firm's ability to turn work into cash – to concentrate not only on increasing profits but husbanding the firm's intellectual capital and improving management ability itself. This should be done in accordance with the firm's strategy, which drives a well-defined financial plan.

Two other points are worth making here in this connection. First, current financial-management processes should link into the strategic and financial plan in such a way as to enable measurement of a firm's internal and external performance. Second, financial processes should try and focus partners on KPIs that support the firm's management side (as discussed in detail in chapter 5).

Avoid perfectionism

Another potential stumbling block to sound financial management concerns the common occurrence of perfectionist tendencies in lawyers and accountants. These tendencies often lead to inaction because of a perceived flaw in measures, policies and plans, which can strategically paralyse a firm.

What many law firms need to bear in mind is that in many cases long-term financial management and outward-looking financial processes are dependent on indicators, not hard facts, and becoming

relaxed about this is crucial for those involved.

Put 'management' back into finance

A successful financial management strategy must manage not just 'the numbers', but all the other aspects of the business that directly impact on the numbers, such as human, relational and structural capital, for example, by using Return On Partner Effort (ROPE), as discussed in chapter 2. As well as this, a firm needs to measure itself against its competitors and look at all its market sectors.

Finally, the firm's employees, even if not directly involved in financial management, should be made aware of the importance of financial issues (a point made relating to partners in chapter 5), and of efficient practice management in general (see chapter 3). Related to this, the consequences of poor financial management must be spelt out – especially to those who consider the numbers to be solely the responsibility of the accountants.

It is also worth remembering that not only does sound financial management contribute directly to a firm's survival and growth, but can also reveal the real condition of the firm. This in itself could be considered key to establishing reliable, long-term business strategies. ■

Mark Ward
Managing editor