

PETER SCOTT CONSULTING

Briefing Note April 2017

Focus on what really matters

1. Analyse last year's financial performance

The purpose of producing financial information should be to enable you to

- Know what has happened / is happening / will happen in your firm
- Make decisions and take actions based on that financial information
- Manage performance of the people in the business

A law firm needs clear and accurate information to enable it to do this and the questions set out below are likely to be relevant if you want to improve your firm's performance this coming year. If your current reporting system cannot provide you with the information to answer each of the questions below then you may need to look at whether a review of your financial KPIs is now required.

What actions should you take once you have answers to the following questions?

Last year's financial performance
What will your analysis tell you about –
- The financial performance of each part of your firm?
- The profitability of your clients? Look at the aggregate turnover derived from the top 10% and 20% and bottom 10% and 20% of clients by billing value. This will most likely indicate where you are making / losing profit and which clients to focus on or drop and which areas of work to focus on or drop.
- The profitability of each type of transaction and type of work?
- Whether you are 'pricing for profit' and managing work for profit?
- How much more profit you would have made if you had reduced by 10% / 50% the amount of WIP your firm wrote off last year?
- How much more profit you would have made if <ul style="list-style-type: none">• you had captured and recovered an additional 15 minutes per day of matter related time per fee earner?

<ul style="list-style-type: none"> • 10% / 20% of time recorded to 'non – chargeable codes' had been properly recorded as matter related time and billed to clients (instead of being 'dumped' as non – chargeable time)?
<ul style="list-style-type: none"> - How much of your WIP remaining at your year- end could (and should) have properly been billed before your year – end to increase your profits last year?
<ul style="list-style-type: none"> - The cash generation profile of different types of work and clients?
<ul style="list-style-type: none"> - The billing and debt recovery profiles of each part of your firm and the effect on your cash flow if you had throughout the year carried 30 days less 'lock up'?
<ul style="list-style-type: none"> - Whether your people <ul style="list-style-type: none"> • have the skills and knowledge necessary to help your firm build higher profitability and stronger cash flow • understand the financial reports provided to them and do they take appropriate action on them? • or whether they need financial training?
<ul style="list-style-type: none"> - Whether your partners feel confident to 'talk money' to clients?
<ul style="list-style-type: none"> - Whether there are any obstacles in your firm that will need to be overcome if your firm is to achieve its financial goals?
<ul style="list-style-type: none"> - What your people should now be doing differently / better / less of / more of to improve their financial management?

2. Review last year's partner performance

In today's highly competitive legal markets, any law firm that wants to be successful must ensure that the performance of its people is actively managed. Ensuring that a law firm's people are highly trained, skilled and motivated should therefore be priorities if your firm is to effectively compete.

A firm's partners will need to know the key areas in which their performance will be measured, their performance goals in each of those areas, how their performance rates in relation to these goals and how their performance will be rewarded.

Performance management (and performance related reward) will need to be supported by a well -designed and well - managed **performance review process** to review performance over the past year and to establish with individuals goals for the coming year. Whichever form your performance reviews take, it is important that you now take the opportunity to

ask some fundamental questions about your partners' performance, including some of the questions set out below as they will determine your firm's future competitiveness.

Last year's Partner performance
<ul style="list-style-type: none"> - Did all your partners meet the target levels of performance and behaviour agreed with them last year. If not, the review should aim to understand why they did not meet targets and how their performance and behaviour can be improved in the coming year - Will performance criteria and target levels of performance be agreed with partners for the coming year?
<ul style="list-style-type: none"> - Did all your partners – <ul style="list-style-type: none"> - Understand and manage clients' expectations well so as to enhance client satisfaction levels? - Form strong relationships with clients? - Manage their people well through helpful supervision, feedback, coaching and tackling poor performance? - Show good team working skills? - During last year change how they worked and behaved to achieve your firm's agreed goals?
<ul style="list-style-type: none"> - Were all your partners last year willing to expand their knowledge in new areas and develop new skills and did each keep to an agreed plan to manage continuing competence?
<ul style="list-style-type: none"> - Did your firm make sufficient investment in its people to develop the skills and behaviours required for your firm to improve its competitiveness? If not then how will you remedy this in the coming year?
<ul style="list-style-type: none"> - Were any of your partners underperforming (in that they did not meet minimum target levels across a range of criteria), and if so, how will you remedy that underperformance in the coming year?
<ul style="list-style-type: none"> - Do you know how much underperformance cost you last year (not just in direct financial costs but in the cascading damage that can be caused throughout a firm)?
<ul style="list-style-type: none"> - Do your partners understand what is valued in your firm and are skills and behaviours which you consider are valued appropriately measured and rewarded?
<ul style="list-style-type: none"> - Do you currently have in place a process of feedback and review to effectively manage high performance?

- Do you know what your partners want from their careers and does each have a clear career plan?
- Are all your partners prepared to be managed for the greater good of the firm?
- Does the firm currently have the best people on board to help it achieve its goals?
- Is your current reward system helping or hindering you in achieving your firm's objectives?
- Do you in a planned and methodical way listen to clients, prospective clients and referrers of work about: <ul style="list-style-type: none"> - How you are perceived in the market place? - Any capability gaps and improvements needed to your service? - Your clients' legal needs in the future?
- Do you currently have a clear, achievable and resourced plan to plug any gaps in your ability to provide clients with what they want from you, to ensure continuing client satisfaction and loyalty?
What will your partners INDIVIDUAL PERFORMANCE PLANS now include for the coming year?

3. New Partner training

This is the time of the year when new partners are made up. But how many of these new partners understand what is expected of them in their new roles and how many have had any kind of training or coaching to prepare them for their challenges ahead?

Ideally, tailored career development programmes should be put in place several years ahead of lawyers becoming partners, so they are ready to 'hit the ground running' once they are made up.

However, even if this has not been done to date, **it is still not too late** to put your newest partners through a concentrated and focused partner programme over the next few months. And for those who you may be considering elevating in a year's time, now is the time to begin the process of preparing, supporting and developing them.

Whatever your timescales, new partner development programmes should, depending upon the needs of both your firm and your new partners, focus learning outcomes on those areas which are going to help to make your firm more competitive, including:

- **Business management**, (because law firms are businesses and need to be managed as businesses);
- **Leadership, people development and managing teams;**
- **Business development and enhancing and sustaining client relationships;**
- **Financial management;**
- **Behaviours and attitudes required for partnership, including sharing, supporting and learning how to work as team players;**
- **Management of risks.**

Ideally programmes covering the above areas ought to be planned over a period of several months rather than a one – off event so that new partners can assimilate as much relevant knowledge as possible.

And importantly, partner development programmes should not be limited to new partners, but should extend to existing partners throughout their careers if a law firm is to build a culture of high performance.

Having looked at last year's performance, what actions are you now going to take which will substantially improve the coming year's results? Try to prioritise no more than say six areas so as to focus your efforts on what will really make a difference for you.

Good luck in the year ahead