

PETER SCOTT CONSULTING

Briefing Note July 2013

Challenge everything about your firm – to discover whether you really are ‘in good shape’

For law firms there has probably never been a more challenging time than now, given the changes now impacting upon legal practice at an ever faster pace and driven by -

- **Clients** who require more and better 'value for money' in markets which becomes ever more competitive. Only those firms which make satisfied clients their top priority will succeed in today's competitive legal markets.
- **Economic circumstances** which are forcing firms to rethink how they operate, the services they provide to their clients and the kind of law firms they need to become to be competitive.
- **Technology** which is encouraging clients to demand that their law firms re-engineer their ways of working so as to deliver services in the most efficient and cost effective manner.
- **Government** which seems determined to change the face of much of legal practice, to 'liberalise' and open up legal markets to more competition.

Such 'drivers of change' will not be stopped or reversed and in many cases the forced changes being brought about have been long overdue. Instead they should be seen as opportunities to be taken advantage of.

However, to take advantage of the opportunities now presenting themselves, law firms will first need to make sure they are themselves in good shape.

Set out below are checklists relating to just some of the more important aspects of law firms' businesses which they must get right if they are to be competitive and profitable. It may be helpful for you to use these to 'score' your firm and then, perhaps most importantly, to think about any *actions* you may need to take to get into good shape.

Your strategic planning

Strategic planning requires continuous research, analysis, planning and decision – making. In particular strategic planning should be a process of logical analysis of the external and internal factors exerting influence or control over a law firm and which are bringing about change, followed by decision – making based upon that analysis.

Your strategic planning	Yes^v	No^X	Action
External factors			
Do you in a planned and methodical way talk to and listen to clients, prospective clients and intermediaries who refer work, about -			
- How you are perceived in the market place?			
- Your capability gaps and improvements needed to your service?			
- Their legal services needs in the future?			
- Your strengths and weaknesses compared to competitors?			
Do you know -			
- What are your most profitable opportunities?			
- What is the potential demand for your specialisms?			
- Where your firm should position itself and build capability to gain more profitable business?			
- How you can generate more revenue from your current client base?			
- How you can reduce the risks of losing clients to competitors?			
- In which of your clients there is untapped potential for categories of work you currently do not do for them?			
- Where in your intermediary referral relationships there is untapped potential for more work?			
- What are the external risks to the future of your firm?			
Internal factors			
Do you know the hurdles which exist in your firm that need to be overcome for your firm to achieve its goals?			
Do you know what are the internal risks to the future of your firm?			
Have your partners recently considered what kind of law firm they want the firm to be?			
Are your existing strategic plans realistic and achievable within given timescales?			
Does the firm have the right / best people on board to help it achieve its goals?			
Do you have a partner retreat planned to review / refresh your strategic plans?			

Your partners' performance

In today's competitive legal markets, any law firm that wants to be successful must ensure that the performance of its people (and of its partners in particular) is actively managed. Ensuring that a law firm's people are highly trained, skilled and motivated should therefore be a critical objective if a firm is to achieve a competitive advantage over its rivals.

Your partners' performance	Yes✓	NoX	Action
Have you agreed with your partners the performance criteria and target levels of performance required of them?			
Do you have in place a process of feedback and appraisal to manage performance?			
Is your feedback and appraisal system effective in building high performance?			
Are all your partners prepared to change how they work and behave to achieve your agreed goals?			
Do you have any underperforming partners?			
Do you know how much underperformance is costing you (not just in direct financial costs but in the cascading damage that can be caused throughout the firm)?			
Are you able to recruit and retain the best people for your business?			
Do you know what your people want from their careers?			
Does each person in your firm have a clear career plan?			
Do you have succession plans in place to secure the future of your firm?			
Are all your partners prepared to be managed?			
Are there sanctions on a partner who refuses to comply?			
Should all your equity partners be equity partners?			
Are the skills and behaviours you say are valued in your firm appropriately rewarded?			
Is your firm making sufficient investment in people to develop the skills and behaviours required to succeed at your firm?			
Are all your partners willing to expand their knowledge in new areas and development of new skills?			
Do all your partners -			
- Form strong relationships with clients?			
- Understand and manage clients' expectations?			
- Have good team working skills?			
- Manage people well through helpful supervision, feedback, coaching and tackling poor performance?			

Your financial performance

Financial performance of a law firm should, for the most obvious of reasons, certainly be about making good profits and generating strong cash flow. However, successful financial management should also be regarded as a strategic goal in that it will help to underpin a law firm's ability to develop and to achieve its strategic ambitions. The ability to *'recruit and retain the best'*, which will be a critical element in any law firm's planning to achieve a competitive advantage in its market, will not be possible without the ability to remunerate partners at a level which they perceive is at or above the market rate.

Your financial performance	Yes✓	NoX	Action
Do you have the appropriate level of financial expertise in your firm?			
Do you consider you should be able to make more profit from your existing level of business?			
Do all your partners want to earn more?			
Do all your partners understand the processes of making profit and generating cash?			
Do your partners feel confident to 'talk money' with clients?			
Do they understand the financial reports provided to them and do they take appropriate action on them?			
Are you certain you have adequate financial resources to continue in operational existence for a period of no less than 12 months from now?			
Do you measure –			
- Profitability of clients?			
- The cost of carrying out types of transactions / types of work?			
- The profitability of types of transactions / types of work?			
- The financial performance of each part of your firm?			
Do you regularly test your KPIs to ensure they are telling you what you need to know about your business?			
Do you use all the information provided by your KPIs?			
Could your KPIs be simplified and made more effective?			

Your exposure to risk

It was recently said* that

"It has got to make financial sense, but you have to see risk management as one of your strategic objectives. Business resilience is actually a competitive advantage"

*Lenoire, C., head of FM Global's risk consulting division, as quoted in an article by Miles Costello in *The Times*, 21 January 2013, p.36

The connection between measuring and managing risks to reduce or eliminate the possibility of suffering loss and as a consequence, creating a law firm capable of outperforming its competitors to gain competitive advantage, has not always in the past been made. However, if a law firm is seen by its clients to be effectively managing the risks in its own business, then those clients are more likely to choose that firm to help them manage the risks in their businesses.

Your exposure to risk	Yes ✓	No ✗	Action
Do you know all the risks to which you may be exposed in each area of your business?			
Do you know where knowledge of all your risks is stored?			
Is that knowledge under your control?			
Do you have controls and procedures in place to manage all the risks in your business?			
Are your controls and procedures embedded into your systems in a way that they cannot be bypassed?			
Do you have systems in place which enable you to monitor on a regular basis those risks and to review the effectiveness of your risk management procedures?			
Do you have gaps in your knowledge of your risks?			
Do you risk test every new matter?			
Do you have controls in place to vet both existing and new clients?			
Do you have a professional risk manager?			
Do you train your people to be aware of the risks in your business?			
Are there sanctions on people who do not follow your risk procedures?			
Do you have contingency plans in place to limit damage to your firm in the event of a risk crystallising?			

There are of course many more aspects of a law firm which will always need attention, but if a firm can ensure that it is effectively dealing with the above, then it is likely to be making progress towards getting into good shape to meet the challenges in today's legal markets.