

PETER SCOTT CONSULTING

Briefing Note October 2016

The critical components for success – but first you may need to challenge your current thinking

Over the past 12 months the three **most read** of my **Briefing Notes** have related to:

- **Future direction and growth**
- **Partner performance and reward**
- **Profitability and financial management**

This is not surprising because these are arguably the most critical components for success as a law firm and those firms which focus on these areas and develop and implement their plans with determination are likely to build and sustain the most successful law firms. Given that each of these three topics occupy a great deal of thinking time by law firms, in this month's Briefing Note I set out below some thoughts on approaches to be adopted if you are now considering a review process.

Getting started

Progress is unlikely to be made in any of these three critical areas unless firms first **challenge their current thinking**. The agility of a law firm is likely to be defined by its ability and willingness to change. There is a need to think ahead and embrace new ideas. The world is changing fast and only by continuously questioning the validity of the status quo and adjusting as necessary will law firms successfully respond to the powerful and adverse forces impacting on their businesses. Doing nothing is not an option in today's aggressive and competitive legal markets.

To help you begin to challenge your firm's thinking, I set out below just a few questions on each topic which may be relevant to your firm.

Future Direction and Growth

Strategic planning for a firm's future direction and growth requires continuous research, analysis, planning and decision – making – **and the momentum is client driven**. Planning for a firm's future should begin with a process of logical analysis of both the external and internal change factors exerting influence or control over a law firm, followed by decision – making based upon that analysis. Here are a few questions to begin that analysis.

Future direction and growth
What are the external and internal risks to the future of your firm?
Are your existing strategic plans realistic and achievable within given timescales?
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?
Are you finding it difficult to 'stand out from the crowd' and create meaningful differentiation from your competitors?
Have you lost valued clients and good people to firms which are larger and more developed than your firm?
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?- Their legal needs in the future?- Your strengths and weaknesses compared to competitors?
Do you know of any obstacles in your firm that will need to be overcome if your firm is to achieve its goals?
Does the firm have the best people on board to help it achieve its goals?
Is succession an issue for you now, or will it be an issue for your firm in the next 5 years?
Do you consider you will be able to achieve your realistic goals on your own?

Partner performance and reward

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 a firm is to effectively compete.

And as competition between law firms for the best talent becomes more intense, the manner in which firms manage how they reward their partners becomes ever more critical. Partner reward is driven by market considerations and firms which are unable to offer competitive rewards in their markets risk losing their outstanding people and will be unable to recruit the best. Here are just a few questions to ask about a firm's people.

Performance
Is your firm making sufficient investment in its people to develop the skills and behaviours required for your firm to succeed?
Are all your partners willing to expand their knowledge in new areas and the development of new skills and have you in place a plan to manage their continuing competence?
Do you know what your partners want from their careers and does each have a clear career plan?
Do you have in place a process of feedback and review to manage performance and is it effective in building high performance?
Have you agreed with partners the performance criteria and target levels of performance required of them?
Are all your partners prepared to change how they work and behave to achieve the firm's agreed goals?
Do you have any underperforming partners and if so, how will you deal with them?
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 a firm)?
Are all your partners prepared to be managed for the greater good of the firm?
Do all your partners – <ul style="list-style-type: none"> - Form strong relationships with clients? - Understand and manage clients' expectations? - Have good team working skills? - Manage their people well through helpful supervision, feedback, coaching and tackling poor performance?
Reward
What do you consider is valued in your Firm?
Is there anything which you consider is not sufficiently valued ?
Are skills and behaviours which you consider are valued appropriately measured and rewarded ?
If you consider they are not appropriately rewarded, then how should they be rewarded?
Would partners be prepared to behave differently and change their working practices to earn more?
Do all your partners want to earn more?
Should there be a system in place which more fairly recognises and rewards different levels and types of contribution?
Is your current reward system helping or hindering you in achieving your firm's objectives?

Financial performance and profitability

The 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 grow and develop to achieve its strategic ambitions. For example, the ability to *'recruit and retain the best'* which should be a critical element in any law firm's planning will not be possible without the ability to remunerate partners at a level which is at or above the market rate. Some of the following questions may be relevant to ask.

Financial performance and profitability
Do your people all have the skills and knowledge necessary to help your firm build higher profitability and stronger cash flow?
Is an urgency to 'bill and collect' instilled into the collective mindset of your partners?
Do you consider you should be able to make more profit from your existing level of business? If so, then how do you plan to do so?
Do you measure – <ul style="list-style-type: none"> - The financial performance of each part of your firm? - Profitability of clients? - The cost of carrying out types of transactions / types of work? - The profitability of types of transactions / types of work?
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?
Do all your partners understand what it takes for a law firm to make profit and generate cash and would they benefit from financial training?
Do they understand the financial reports provided to them and do they take appropriate action on them?
Do your partners feel confident to 'talk money' to clients?
Do you 'price for profit'?
How much more profit would you make if: <ul style="list-style-type: none"> - You were to capture and recover an additional 15 minutes per day of matter related time per fee earner? - You were to reduce by 50% the amount of WIP you write off when billing?
Do you have the appropriate level of professional financial expertise in your firm?
Does your level of profitability prevent you from recruiting and retaining the best people for your business?

Thinking leadership, which challenges everything about a firm, but at the same time, is realistic as to what the firm can achieve should be a prerequisite for successfully establishing a plan to go forward.

Good luck with your challenging!

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