

## **Briefing Note September 2012**

### **What do you look for in a Finance Director - traditionalist or modernist?**

The market for legal services is changing and the pace of change is accelerating, as the impact of the Legal Services Act and a continuing deteriorating economic outlook take their toll. Increasingly demanding clients who require more and more value for their money and increased competition from better resourced and more developed firms mean that ever higher performance from every part of a law firm is now essential. That includes higher performance from Finance Directors who must manage their firms' finances more efficiently to ensure that their firms are able to keep up with competitors.

As law firms have matured into significant businesses, this has necessitated enhanced financial management:

- Increasingly auditors and banks are recommending a change in Finance Director to a suitably qualified and credible professional.
- Clients are demanding higher levels of service at a lower cost.
- Management of firms now require more and better information about their partners' financial performance; and
- Managing Partners come under increased pressure to respond to business risks in the most appropriate way.

The 'right' Finance Director will not only provide the necessary expertise to support the business but also ensure that the firm is well placed to address the challenging changes which will shape tomorrow's legal markets.

The Finance Director of the future will in particular need to be an expert in at least the following areas:

- Ensuring best practice finance and operational procedures
- Managing working capital and improving profitability
- Ensuring 'financial stability' and managing financial risk
- Managing bank, audit and regulatory relationships
- Business planning

- Advising on reward structures
- Managing other support services

The Finance Director should be able to:

- set clear goals, robust methodology, objectivity and timeliness. These may relate to annual budgets and business plans or new business initiatives, mergers, joint ventures and UK or overseas investments.
- always consider the firm's goals and objectives, lay out the options and recommend a course of action. The advice should bring consistency to your decision making.
- ensure that your firm has access to the full range of financial measurement ratios and other Key Performance Indicators and that the firm's business performance is closely monitored to accelerate cash flow and strong profit performance and eliminate weak financial performance. In particular, profitability and cash management should be measured from a market facing, client / matter / work perspective as well as from an organisational / department / group / partner / associate viewpoint.
- ensure that costs are minimised and working capital is efficiently managed to maximise the firm's cash flow.
- ensure that accounting, tax and compliance issues are fully and effectively managed.
- engage in a mentoring / coaching relationship with partners and other fee earners to improve their understanding of the firm's financial goals and to help them maximise their contribution to the firm's success.

A Finance Director of the future should also be able to help the firm meet the difficult challenges now facing legal practice by:

- benchmarking performance across different client groups and comparing to external benchmarks.
- ensuring the best use of different pricing strategies to maximise client revenue, build market share and leverage capacity.
- providing financial modelling to demonstrate the impact of various reward structures, both immediately and over time, taking into account a range of assumptions and advising on how performance criteria should be weighted. To do this, Finance Directors must be IT literate and ensure that systems upgrades are well managed and that appropriate desktop technology is available to partners and others in order to enable them to perform their roles more effectively.

If you are a Managing Partner, do you consider your Finance Director a strong right hand complementing what you do and vital in helping business planning, or does

your Finance Director just give you reams of raw data with no analysis, instead of providing quality financial information? And importantly, is the information you receive in “real-time” to enable you to take timely action, or is it historic because of the time delay in getting it to you?

The ‘right’ Finance Director should, as well as taking responsibility for the finance team, also manage broad business issues, which should enable Managing Partners to delegate more responsibility for other support services and leave them more time to manage strategy and deal with partnership issues and client relationships. Having said that, a Managing Partner has ultimate responsibility for the performance and well-being of a firm and should always be able to hold his / her own with a Finance Director on essential financial management issues. In reality the relationship between a Managing Partner and a Finance Director should be a partnership, working together in harmony to create a ‘top team’.

High on the list of priorities for any business should always be working capital management (remember- *cash is king*), so your Finance Director should:

- understand what your bank is looking for if it is to be able to fully support your firm rather than just hoping to rely on a gentleman’s agreement and a fragile overdraft facility. Banks are generally open to well managed firms which are strategically active, not over leveraged and where there is evidence of effective and well managed working capital that can tell a sound financial story.
- actively manage and review WIP and ensure that debtors are managed fully, making fee earners and partners responsible for their cash collection.
- benchmark cash collection rates as well as profit generation because the two do not necessarily go hand in hand or follow one another.
- educate partners and fee earners on how to manage their clients differently to improve cash generation

In short the ‘right’ professional, qualified Finance Director will improve business performance, ensure a firm’s future prosperity and repay his or her cost many times over.

Do you have a Finance Director who just produces the numbers or are you looking for someone who can influence the firm moving forward?

**Do you want a traditional Finance Director or a Finance Director for the Future?**

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