

# PETER SCOTT CONSULTING

## Briefing Note September 2022

### Four measures to futureproof your law firm

Leaders of law firms, like those running many other businesses, have returned after the summer to find that the challenges confronting them are growing. Inflation, rising interest rates, a likely recession, a cost-of-living crisis, and soaring energy prices will, directly or indirectly create pressure on law firms and law firm finances, and firms should be considering the steps they may now need to take to deal with the impact of these, if they are to futureproof their businesses.

Over the summer, I asked myself *“If I were still managing a law firm, what steps would I take to deal with these headwinds?”*, and in this Briefing Note I set out some of the measures which I would **urgently prioritise**.

#### 1. Ensure your financial management is in good shape

Strong profitability and cash flow will enable you to weather the likely storms ahead. Here are some basics to follow to improve your financial performance:

- **Measure and analyse what really matters**

The purpose of financial measurement and analysis should be to obtain clear and accurate knowledge about what is happening or is likely to happen in your business, and is the key to improving financial performance, because diagnosis of problems will point to solutions. Measurement and analysis of every aspect of your firm’s operation will be needed before any decisions are made and should always be based on facts rather than assumptions.

- **Make your reporting clear and understandable**

*“Information is a source of learning. But unless it is organised, processed and available to the right people in a format for decision making, it is a burden not a benefit”* - William Pollard

That quote certainly applies to financial reporting in many law firms which continue to provide their partners and other fee earners with over-complicated and lengthy financial reports which often only contain ‘raw data’ as opposed to high quality financial information which can be easily understood and acted upon.

If a firm can identify from the financial analysis of its business the **key performance indicators** that it will need to best manage its finances through difficult times and translate these into clear and understandable reports, then that is likely to be an important step forward.

- **Invest in quality financial resource**

If financial performance is to be enhanced, then your firm will need to analyse what it is going to require in terms of professional financial resource and to then set about putting that resource to work in the most effective manner. ***What kind of FD do we need? See <http://www.peterscottconsult.co.uk/briefings/Sept2012.pdf>***

Paying for a high-quality FD is likely not only to make financial sense but increasingly, banks are recommending (especially in more difficult times) that law firms change those heading the finance function to more suitably qualified, experienced and credible professionals.

- **Take control of your cash management - as always, cash is king**

Difficult times can put pressure on cash flow and so you should regularly **stress test** your cash flow

To take control of your cash management, consider implementing a cash generation plan built around realistic and achievable cash collection targets for groups / partners, which are arrived at based on current and prospective billings and aged debtors. Consistent achievement of targets can then be linked to payment of monthly drawings or distributions of profit to partners. This will test partners' 'hunger'.

- **Price and manage work for profit**

Clients are increasingly knowledgeable and sophisticated nowadays when buying legal services, and understand the value or 'worth' **to them** of their lawyers' services as well as being knowledgeable about the cost bases of law firms. Accordingly, clients require your services to be priced on a basis which is in their eyes '**value for money**' relative to the result your firm achieves for them.

Pricing needs to be controlled at every stage of a matter, and in more difficult times it will be even more important that you are able to:

- Scope work accurately
- Analyse the risks involved in doing the work and
- Budget that work to make a profit; and
- Manage the work to bring the job in on time and on budget

These require **project management skills** which most lawyers have not been trained to do but will need to be developed if work is to be turned into maximum profit.

## **2. Make sure you have the right 'Top Team' in place to take your firm through difficult times ahead**

Law firms need to be *agile* if, as in more difficult times like now, they are to successfully identify and respond quickly to threats to their businesses and to take advantage of opportunities. And to be agile, firms need to focus strongly on managing change, have streamlined decision-making processes and above all, have capable people who are open-minded, flexible, and are prepared to learn new skills and ways of operating.

The level of performance of those who have management responsibilities in each department / group / support function of your firm should be constantly improving to meet the challenges now facing law firms, and you should ask yourself questions such as these:

- Is each part of our firm managed by *the best person for the job*?

- How are our departments / groups / support functions internally overseen and coordinated?
- What levels of performance will those who are managing such departments / groups / support functions need to achieve if our firm is to be safely managed through difficult times?

Those who are managing departments / groups / support functions should in particular:

- Identify the key issues and challenges their departments / groups / support functions face so they can deal quickly and effectively with threats and opportunities;
- 'Lift their heads from their desks' and think strategically about their roles, as well as just day to day operational issues;
- Challenge every aspect of their departments / groups / functions and every assumption on which current plans are based;
- Focus on what they will need to do in practice if they are to grow and lead their teams so as to help build your firm's competitive edge over rivals;
- Prioritise their thinking around 'innovating' when planning how they work and use their people and the technology available to them, to steal a march on rivals;
- Step out of their comfort zones to drive out complacency and to encourage ambition;

### **3. Future proof your firm – by aligning your future strategic focus with the needs of your clients and your people**

**Future proofing** a law firm should aim to **maximise owner value, reduce risks, and drive competitive advantage**. The focus should be on those things which will be future drivers of competitiveness, and on areas identified as risks to the business. Markets are changing fast and only by continuously questioning the validity of the status quo, and adjusting as necessary, will law firms be able to successfully respond to the powerful forces now impacting on their businesses. Doing nothing cannot be an option in today's economic climate and a more competitive legal services market.

Planning for your firm's future should begin with a process of analysis of both external (your clients) and internal (your people) factors exerting influence or control over your firm, followed by decision – making based upon that analysis.

### Ensure your firm will be *in the right place* – with clients

Strategic planning for a firm's future direction and growth requires continuous research, analysis, planning and decision – making – **and should be client driven**. Briefly, here are just a few questions to begin that analysis:

- *Do you in a planned and methodical way **listen** to clients, prospective clients, and referrers of work about:*
  - *How are you 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?*
  
- *What are the 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, and 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?*
  
- *Are you now, given the likely challenges ahead, **in the right place** in relation to your strategic focus?*

### Ensure your firm will be *in the right place* – with your people

A firm's people are its greatest assets but also arguably comprise its greatest risks. By aligning future strategic focus with managing people risks to ensure **the right people will be in the right places**, a firm will be better able to futureproof itself.

Future – proofing a firm's people is likely to require a focus being placed on the following:

- The firm's future leadership
  
- Ensuring it will have the right people in the right places 10 years ahead
  
- Preventing loss of talent and as a consequence, client relationships
  
- Reconciling the interests of younger partners, older partners, key staff, and clients; and
  
- Developing the skills of its people and managing and rewarding their performance.

Do you currently have *the right people in the right places*?

#### 4. Consider what will need to change in your firm, if you are to meet the challenges you are now likely to face, and to take advantage of opportunities which may arise

I find that law firms looking to adopt a 'change culture' too often discuss the need to change in quite general terms, rather than tightly focusing on those important areas of the business which urgently need to be transformed if the firm is to obtain a competitive advantage over its rivals and to futureproof itself.

##### Focus on what is important.

The ability to focus on what is important means we can see things more clearly, and developing a strategic **clarity** should be at the heart of planning a distinct strategic intent. Identifying in this focused manner what is important, **what needs to change**, and being clear as to **why** such change is needed, should be the first steps to take, and are likely to include:

- **The ability to anticipate, and to respond to, clients' needs**  
To successfully compete, a law firm has to outperform its rivals in the ways required by its clients, and the ability to provide clients with the expertise and 'added value' clients now require to ensure longer term client satisfaction, is paramount. Obtaining **client feedback** is likely to reveal how a firm may need to change in terms of its expertise, its delivery of results and how its clients see 'added value' being provided. Once feedback is given, then clients will expect changes to be made.
- **The way its people work and how their performance is managed and rewarded**  
To achieve the standards of performance required by its clients, a law firm must ensure that it has access to highly trained, skilled, and motivated people who are high achievers and who will need to know in which key areas their performance will be measured, their performance goals, how their performance rates against these goals and crucially how their performance will be rewarded. This will require active management of its people if a firm is to outperform its rivals.
- **Reward**  
Being able to reward people appropriately is vital if a firm is to be able to recruit and retain the best people. Gauging internal opinion on a confidential basis is often necessary if a firm is to change the way it rewards its people, particularly its partners. This is likely to be the case in particular if there is the prospect of moving from a traditional lockstep system based solely on seniority, to a more contribution-based approach.

Peer pressure, developed by responses to *confidential internal questionnaires* regarding how people are prepared to change the ways in which they perform, behave, and are to be rewarded, can be powerful tools to use to obtain buy-in to making changes which will have a beneficial impact on the firm. With the support of a majority in favour of such changes (think the 80/20 rule), a managing partner may then feel strong enough to face up to any reactionary internal forces holding back a firm.

Managing change in a law firm can be a difficult and complex matter and, like a continuing journey, is never over. There is no single or ready-made solution, but always being aware of the need to win

'hearts and minds' is usually a good approach to adopt. However, given the current challenges now facing law firms, that approach may not, on its own, be sufficient, and the more urgent approach of **CHANGE BEFORE YOU HAVE TO** is likely to be the more prudent way and effective way forward.

What measures will you now be prioritising to futureproof your law firm?

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