

Lawyers are not interpreting financial reports

Educating staff on the reasons for best practice is the first step towards more effective cash management, says **Peter Scott**



Peter Scott is director of Peter Scott Consulting
www.peterscottconsult.co.uk

Cash flow cannot be left to chance and must be actively managed.

However, managing cash generation in a law firm is not something which should be left solely to a finance director and a finance team.

I was recently with the revenue managers of a law firm (revenue managers have responsibility to manage both work in progress and debtors), discussing how they might operate more effectively. They were experienced in their roles but clearly as they could only do so much in the face of unwillingness by partners and other fee earners to play their part in the process of cash generation. I hear similar stories from most law firms I meet.

Why are there such people obstacles in law firms which need to be overcome if firms are to accelerate cash generation?

Several years ago I was with a group of associates in a law firm discussing financial management and one of them

said: "I don't have a clue about the financial reports I receive."

Financial reports are supposed to provide information to lawyers so they can better manage their practices. However, if the lawyers do not understand the reports and do not know what actions they should take based on them, then their financial management will suffer. This is just one example where a lack of financial knowledge and awareness damages financial success.

Instead of just being told to take financial management action, it should be explained to lawyers why they should do so, as it would be more likely they can be persuaded to operate more effectively.

Primary initiatives

Firms who have been successful at cash management have from the outset embarked on major initiatives. These have raised the



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awareness of partners and other fee earners on the importance on the part of individuals to follow 'best practice' financial disciplines related to cash management.

Firms have launched extensive education programmes in an effort to help partners and fee earners develop a keen culture of financial awareness, relating to providing credit to clients and re-educating those in the business as to what is required to maximise cash flow.

Education as to why best practice financial disciplines should be followed is often one of the key elements in successfully implementing more effective cash management.

There are key areas on which to focus the education of partners and other fee earners.

- Helping them understand that cash generation involves a process, beginning with when instructions are taken, and that each step of that process must be properly managed, otherwise it will impact detrimentally on the rest of the process.
- Emphasising the importance of agreeing with clients at the outset on how financial aspects of matters are to be dealt with, including taking money on account, agreeing frequency of billing and payment terms – if these are not agreed at the start they are likely to cause subsequent problems.

- Explaining that good management of work in progress is an essential part of managing and strengthening client relationships and, far from being upset, clients will actually welcome receiving regular monthly invoices rather than getting a nasty shock by receiving a large bill after six months. Likewise, agreeing bills with clients before submitting them helps not only to collect the cash more quickly but also to foster client relationships.
- Persuading partners in particular that invoices, once processed, need to be sent out promptly, otherwise not only will cash collection suffer but relationships with clients may be damaged if credit controllers chase them for bills they have not received.
- Focussing on improving the abilities of partners and other fee earners to talk to clients about money. Unwillingness to discuss money, caused by embarrassment or fear of upsetting clients, can be a major cause of poor cash flow.

If lack of financial awareness by partners and others is contributing to poor cash flow, then implementing a financial education programme can be one of the most effective initiatives to take to improve cash generation. **SJ**