

Management Round Up

History

Our whole environment has been revolutionised. 2007 the Legal Services Bill, 2008 the recession and 2010 the Legal Services Act.

Whereas previously the priorities were the provision of law as our clients have become more demanding and our competition enhanced we have a new set of focus points. Whereas many firms have started to encompass the demands it doesn't apply to all plus even where firms have adapted there are still partners who haven't grasped that changes in business methodology will actually make them better off.

So:

- Cash Flow & Working Capital
- Client Relationships
- Competition
- Business Development
- Productivity
- Profitability
- Compliance

Key Business Measures

Just a couple of key points.

Working Capital has to top the list, there are still too many firms going out of business because of cash flow shortfall and in many cases it is because we are deluding ourselves. If WIP is not billable and recoverable it should not be recorded. Monthly WIP adjustments should also be banned unless the whole WIP is clean and recoverable.

It should all start with the **inception** of the matter and agreed payment terms, proper time recording (and if we cannot get 5 billable hours a day we are either over resourced or ill disciplined)

Discretionary costs and recruitment should be continuously reviewed – if we haven't the cash we cannot have it.

Financing practicing certificates is one thing. Financing VAT is something else

Gross Profit is the difference between billing and the direct costs (including drawings) of achieving that. It is still not measured by departments by all firms. Even high volume departments should be looking at 50% minimums where commercial type activities should be hitting 65-70%.

This measure gives a clear indication as to whether, for the business acquired, we have too many partners and lawyers, our division of labour is not effective and we are not making use of IT as we should be.

Accountability and Delegation

Perhaps the most key role in the modern firm is that of legal head of department who has clear accountabilities and with the support of the partnership to see things through. Billing, Working Capital, Gross profit, Client Experience, Business Development, Compliance, Staff Development and Delegation. He needs to be equipped with the right sort of management information and KPIs and be able and required to report monthly to the partnership on performance trend, recovery or greater exploitation. A real business management role.

One thing that has to be sorted out early to ensure the success of this HOD role is the role of partners which have to change. We need some honesty to ensure succession and success. We need people in jobs that they are good at and enjoy so some honesty about likes and dislikes (such as management, accountability, business development and people development) and of course retirement as succession needs planning.

Strategy & Plans

We cannot work in isolation and so a comprehensive and participative 3 year strategy is essential, reviewed every year and the basis of annual budgets. This should be by department and cover the principle revenue streams within work-types.

Step one is to take stock – what we achieved last year and the current year and then by applying business development initiatives assess the capabilities at least for billing and gross profit. Overheads are what they are and discretionary spend – such as BD and IT – needs to be justified on its merit and ROI.

BD has to allow for client retention, client development (repeat business and cross selling) – the clients being the greatest asset in such an exercise and then new business where we recognise the potential client base, the benefits that we can bring and then of course defining the route to that market. 10,000 Wills on the database can generate updates, LPAs and cross selling of other services.

Enhancing enquiry handling can make a significant difference in all areas of performance – needs process and culture. Where I have seen it done the results are stunning.

GP and revenue performance are greatly affected by efficiencies and productivity plus the basis of billable time of 5 hours per day. If we cannot achieve that we either have to find more work and be efficient or we are over resourced and need appropriate action.

Dynamic Management

Once we start our new budget year only month one should show reports against budget. Progressive firms have now implemented trend rather than year to date data and perpetual forecasting so that a department head needs to look at trends, peaks troughs and justify a revised forecast each month to his colleagues through the recovery of troughs and the exploitation of potential peaks. We should always be reviewing risks and opportunities.

This should cover the key elements of billing, gross profit, chargeable time, lock up (WIP – of course validated - and outstanding bills), headcount, complaints, matter starts.

When we do our forecasts and budgets we also need to ensure that we have some milestones in place for any projects where success or otherwise can be judged and progress on not reassessed.

Staff Development and Appraisal

We need for a start to separate the skills required to do the job from the development of individuals for the new world. Delegation and accountability is key so we need good descriptions for all with accountability nice and clear and the KPI and reports available and regularly reviewed. If we do this right most members of staff should be able to complete their performance appraisal themselves which again is part of the appraisal process for some firms.

As partners know not everyone wants the responsibility of management and business development but do want to be very good at what they do. Those that want to develop into management or BD need to be trained to do so. All appraisal systems should be able to measure people of job performance and development capability. An essential output from any such system should be a training and development needs analysis which can form the basis of that element of the budget.

We should also recognise that every department will have a worse performer in need of training and coaching until we get to the point of no hope.

Don't Stop Reading Yet

IT exploitation. Without the effective use of IT there is very little chance of success - even if it is just for compliance.

The availability of back-ups for disaster recovery – my experience says that maybe as many as 30% of firms are not able to restore from back up. Even where it is achievable too many firms do not have SLAs internally or with third party suppliers that can confirm how quickly a system can be up and running -Sometimes 4 or 5 days. Maybe private clients won't notice but a commercial client will depart.

Cyber attack defence and social media policy. How many firms have neglected to put the right processes and cultural changes in place. Without the right processes it can be as simple as virus attacks but moves on to accessing client data, to attacking telecoms systems and generating massive bills right the way through to attacks on bank accounts. I have witnessed them all.

Failure to exploit software systems that have been paid for and even annual maintenance charges paid is also so common. With the right sort of accountability in place for all the key criteria it is essential that there is positive engagement with IT suppliers.

IT costs are not an overhead and if managed right any investment will generate a return. Such investment for infrastructure or for applications need not be scary with capital expenditure – some suppliers and some finance houses make such investments generating returns from month 1.

A great example of this is with mobile and agile working – saving of office space, retention of great people as their work:life balance changes, communication with other offices and clients real time and on line saving so much time and ensuring so much more training, direction and involvement

Examples

- System down for 5 days for 30 fee earners at £200 per hour equals £150k lost billing
- £4m billing firm upping GP from 50% to 60% adds £400k to net profit
- 30 fee earners at £200 billing on extra unit equals £140k extra per annum. Two units £280k
- Upping new enquiry conversion from 25% to 50% (and yes a 100 person firm is likely to be generation 500 enquiries a month – scary how many don't know) is worth £750k additional billing per annum

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