Financial Planning and Management for Law Firms

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Executive summary

FINANCIAL PLANNING is often one of the most underrated aspects of a law firm managing partner’s role. When asked to summarise the role of a managing partner, firm leaders most often cite organisational, human resource or strategic planning as their primary tasks. Some give vague platitudes about ‘creating a culture of service’ for clients. Others talk about directing the firm towards emerging trends and outpacing competitors. Many even admit that the job description of a managing partner is more akin to a negotiator than an executive – helping broker agreements between partners with differing goals and visions for the future. Few firm leaders see themselves as finance executives. Those who do, often see financial management as a burden, an auxiliary task that diverts time away from fee earning and business development. For this reason, financial management is often delegated to a finance director or manager.

The best managing partners recognise that financial management is the glue that binds a firm together. These executives realise that strategic plans, in reality, are investment plans, focused on overcoming threats to a firm’s business model and revenue streams. Likewise, some organisation change is about standardising methods across the business that, in turn, reduce cost, increase client satisfaction and stabilise profits. Through this lens we can see law firm financial management at its most traditional, as a tool to invest in the future and to manage short-term profitability. This, however, does not fully portray its use or role within a firm. Financial planning can help set benchmarks for individual fee earners, practice groups and the firm as a whole. These benchmarks can communicate the firm’s strategic goals and values to low-level fee earners in ways that firm-wide e-mails or conference calls could never achieve. Financial reports can provide real-time information to firm leaders, identifying best practices and enabling more nuanced decision making.

This report, targeted at senior and managing partners, managers with strategic responsibilities, financial directors and those involved in people management, provides an effective practical guide on law firm financial management and planning. Through real-life case studies and analysis of current trends, we discuss different practices among law firms of differing sizes, market positions and geographic spread.

Chapter 1 provides an overview of the stages of financial management focusing on planning, implementation, reporting and reviewing. To enable this chapter to be used as a tool by law firm managers, we have identified who is responsible for driving each stage and what the primary goals should be. Furthermore, we look specifically at what profitability metrics (realisation, utilisation, margins, etc.) should be tracked most closely at different levels of the firm.

The next two chapters focus on how major changes in the legal industry are
affecting law firm financial management. Chapter 2 focuses specifically on the rise of alternative fee arrangements (AFAs). This chapter includes an overview of AFA usage within the legal industry and an analysis on the primary drivers pushing this trend forward. Also included is an in-depth examination of the most used AFAs including a risk analysis and recommendations on how to manage these new fee models profitably. Chapter 3 discusses the implications of the UK’s Legal Services Act 2007 on law firm financial planning, providing an overview of the changes brought about by the Legal Services Act 2007, as well as an analysis of the appetite for external investment in the legal services market.

The remainder of the report is dedicated to the nuts and bolts of financial planning. Chapter 4 discusses financial planning for strategic change, covering how to assess investment options and different methods of funding.

Chapter 5 follows on this topic with an analysis on how to manage relationships with external funders. This chapter has been built around a case study based on an interview with an experienced executive within one of the large lenders to law firms in the UK. It discusses changes in funding requirements in the past several years and, particularly, the impact of the global financial crisis on law firms. Looking at law firm financing from the financiers point of view, this chapter provides insight to firm managers on how to build working relationships with their financial partners.

Chapter 6 brings previous discussions together and looks at the life cycle of financial planning within law firms – from three-year strategic investment plans to daily reporting and operations. In this discussion, we provide advice to law firm managers on how to resolve the contradictions of managing profitability for the short term while also managing long-term strategic goals, as well as how large and small firms manage the details of law firm financial planning – from who manages each process to what metrics are followed at the firm-wide, practice and individual fee-earner level.

Part Two features case studies of best-practice financial planning and management in law firms. These case studies have been drawn from a range of firms to ensure readers gain a good understanding of the advantages and disadvantages of differing methods of financial management and planning. The case studies include multinational global leaders, major US firms, major UK firms, regional firms and specialist firms. We also highlight some unique problems that firms face in today’s globalised world such as currency risk management and investment across borders.
About the author

JOHN CUSSONS has more than 12 years of experience as a management consultant and project manager in sectors including professional services, mining, criminal justice, utilities and government. He has worked for clients in Europe, Australia, South America and South East Asia.

John’s experience in the legal and professional services sector includes working with small, regional and national firms, as well as large international firms. Much of his consulting work has focused on ensuring that strategy is translated into achievable plans and supporting management during implementation. Areas of work include:

- Domestic and international strategy – this includes development of both domestic and international strategic plans and has involved the analysis of present and potential future business models, country attractiveness and competitive positioning. Much of the work has also included supporting senior management teams to engage with their wider partnerships;
- Client and practice management – a number of engagements have involved developing client engagement strategies which allow the firm or specific practice groups to identify their key clients, develop models for managing client relationships and improve cross selling. An increasing area of work is also around the pricing of work and the structuring of teams to achieve profitability; and
- Mergers – this work includes the assessment of likely candidates in target markets, support during the approach to shortlisted candidates and during negotiations as well as post-merger integration support.

John Cussons has contributed to various articles on financial planning and management for law firms, such as ‘Achieving Profitability’ (The European Lawyer, October 2010), ‘The key to successful law firm management’ (Law Journal Newsletters, October 2010) and ‘Profit Bullseye – How to effectively measure and manage fee-earner performance’ (Managing Partner magazine, June 2011).

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