

Keeping on Top of Management Information in a Law Firm

- Challenging Issues for Challenging Times

In challenging times the management of the finances of a law firm is all the more important. Difficult decisions need to be made, work levels need to be monitored, late-paying clients need to be chased, important relationships need to be nurtured. How can firms ensure that the right information is made available to support this?

Providing lawyers – and partners in particular – with the right information in order to keep on top of these issues is critical. However, very often all that happens is that reams of detailed figures are circulated, which hide the key data or indicators the recipients should be looking out for. Working through the information to find the relevant pointers, understanding them, and deciding what action to take provides more of a distraction from client work rather than an aid to it. It is interesting to note that lawyers who will happily get to grips with a contract three inches deep, will carry a much slimmer pack of management figures to and from the office in their briefcase for weeks without ever getting around to looking at them. Memorably, a group head in a large law firm was heard to remark, ‘Every month I get a pile of management accounts, but frankly there are only three numbers in there that I can do anything about, and it takes me half an hour just to find them.’

Over the years many law firms have developed training programmes for partners and aspiring partners, to help them understand the finances of law firms and the meaning of the different indicators shown in the financial reports. However, this has not always been accompanied by much effort to make the presentation of the information clear and user-friendly, especially to the busy lawyer whose incentive is to spend time on billable work, rather than on analysing internal management data. In many cases individual partners ask their finance departments to provide them with bespoke reports, presenting data in a different way that they find easier to understand. Over time finance departments end up devoting significant resources to the production of different views of the same information, leaving them too busy to step back and consider whether a simpler approach to the reports in the first place might avoid the need for constant recasting of the data.

There are two issues here. First, deciding what information should be made available to whom, and how frequently. Secondly, the form in which that information should be presented.

The right information

Most law firm practice management systems have the ability to generate standard financial reports, although generally firms want to tailor these to their own way of working and often the standard reports are more helpful to accountants than to lawyers. When specifying the information that should be included in the firm’s management reporting suite, there is a great temptation to include every number that someone might need to know. However, much information can be looked up in the practice management system when required and does not therefore need to be reported on. In other words, information can be ‘pulled’ by the user when needed, rather than ‘pushed’ to them in the form of reports. For example, when a partner is opening a new matter and negotiating with the client about the fees, it is wise to check whether that client has outstanding unpaid bills, because this may give some leverage in the negotiation (and even provide a reason to consider

whether the firm should be taking on more work for the client at all). This does not mean, however, that lists of all clients and the amounts outstanding from them need to be circulated to all partners every month.

Deciding on the right information to provide has to start from a consideration of what responsibilities the recipient has. Whilst a great deal of information may be available by enquiring within the Practice Management System, in order to help individuals discharge their responsibilities, the firm may want to 'push' reports to them periodically, rather than expecting them to find time to look for themselves.

For an individual with responsibility for a particular client relationship, the headlines that need to be 'pushed' out are likely to include how many matters are ongoing, how much has been billed to that client and at what realisation rate, what billed amounts are outstanding, what WIP has been built up etc. It might be helpful to show trends in these figures (especially for example if the client is getting slower and slower at paying bills, which may be an indication of forthcoming problems). The recipient might also want to be able to drill down into more detail behind the figures. Heads of practice groups will regularly want to see indicators such as the utilisation rates for the fee earners in the group, again with the ability to see trends and to drill down into the detail. Managing Partners will want to see these figures across the firm as a whole, broken down to highlight particular problem areas.

Embarking on this kind of analysis often uncovers a lack of clarity about roles and responsibilities and can lead to interesting debates about what the firm expects of its partners and fee earners generally. When information is circulated, what does the firm expect the recipients to do about it? Partners in general may wish to see an indication of the overall profitability of the firm. But if that figure is not encouraging, it does not of itself help them to take action to improve it. As these issues are clarified, the work may also reveal a lack of consistency across the firm about the way key performance indicators are measured. Sorting out these problems is particularly important when the firm needs to be pulling in the same direction and taking decisive action, rather than wasting time arguing over the way the measures are calculated.

It is frequently a cause of frustration for the management of a law firm that partners 'in the field' do not focus sufficiently on the key drivers. However, if all partners receive all the information in the same format, most will assume that someone else has the task of acting upon it. Partners who join their firm's central management often comment on the different perspective they gain. It may come as a surprise that the firm's management pays particular attention to a few key numbers which are buried in the management accounts. Sharing the management perspective by promulgating data clearly and concisely might help the firm to prompt the right action across the business, whilst also helping to devolve appropriate levels of accountability to partners in their practice groups.

The right format

The second issue is how this information is to be provided. There are many software solutions and clever reporting systems available. But they are only useful if they are providing the right information and if that information can be understood and acted upon. The right information, clearly presented in a simple spreadsheet can be just as effective – more so than a morass of information presented in the form of fancy charts and diagrams which do not help the recipient to take appropriate action.

The way in which reports are presented can have a significant impact on their effectiveness. Charts and diagrams can be more helpful than columns of figures. Simple presentation using colours (e.g. red, amber and green depending on how healthy the indicators are) can aid interpretation. The reporting software available now enables firms to present information in imaginative ways. Such advances in data presentation make it quicker and easier for partners to access the information they need to manage the business.

If one does not want to divert fee earning partners unduly from their chargeable time, information presented to them should be comprehensible at a glance. Many firms have started to develop 'dashboards' providing

only a few key indicators in the form of diagrams or ‘traffic lights’, in the same way as a quick glance at the petrol gauge can tell a driver whether he needs to stop at a service station without unduly distracting him or her from the motorway. Some practice management systems provide a degree of dashboard functionality, but often the firm will want to combine financial information with indicators from other systems and therefore look to present the dashboard via their intranet (in many cases using SharePoint). There are tools on the market which facilitate this approach, providing connectors into different systems commonly used in law firms and combining the information into a single view.

Further tools are available that enable firms to model different approaches (e.g. to staffing a matter) and calculate the profitability of them. Such tools can bring in a much greater degree of sophistication in pricing and staffing matters, but depend on those using them having a clear and shared understanding of the underlying information and the firm’s approach.

Taking this forward

In our experience, getting the right reporting structure in a law firm can be a further-reaching and more time-consuming process than anticipated. It is often too much to expect the Finance team to be able to deal with this alone. It requires co-ordinated input from key Partners involved in management, the Finance team and the IT department, as well as perhaps the partnership secretarial and HR functions when roles and responsibilities need to be clarified. Technology has a part to play but, without dealing with the issues, investment in technology is often wasted. However, addressing the underlying questions of roles and responsibilities, agreeing on the right measures and providing them in a user-friendly format can be very powerful. It removes frustrations both from the management and the partnership as a whole, and eliminates many of the barriers to taking positive action.

For further information please contact

Tony Pullman (tony.pullman@3kites.com, tel: 07917 367872),
Melanie Farquharson (melanie.farquharson@3kites.com, tel: 07802 850932)
Paul Longhurst (paul.longhurst@3kites.com, tel: 07785 254909).

3Kites Consulting

March 2010

3Kites Consulting is a limited company registered in England and Wales. Registered number: 5644909. Registered office: 1 High Street, Knaphill, Woking, Surrey, GU21 2PG. www.3kites.com