

PETER SCOTT CONSULTING

Briefing Note January 2012

Confront your sacred cows

Your people

Professional firms are people businesses and people are the largest single item of overhead. Performance by your people will be key to your competitiveness. Ensuring you have the right people on board for your business in the future and investing in them will be necessary if you are to successfully take forward your firm. Asking some of the following questions may help you to focus on critical people issues.

How 'hungry' are our partners?

Are all our partners prepared to stretch themselves in the interests of the firm?

How 'passionate' are they about building our firm?

Have we identified and communicated the skills and behaviours which are to be valued, measured and rewarded?

Do all our people have the necessary skills and behaviours required to consistently provide our clients with the services they will want from us in the future?

If not, what will we need to do to recruit and retain people with those necessary skills and behaviours?

What should our people be doing better / more of / less of / differently if we are to gain competitive advantage over our rivals?

Are all our partners prepared to be managed?

How many of our equity partners should really be equity partners?

Can our partners justify why they should remain partners?

What is the cost to our firm (in addition to the direct financial cost) of 'underperformance' in terms of:

- Lost opportunities?
- Lost clients?
- Poor internal morale?
- High people 'churn'?
- Wasted management time and effort?

Are we prepared to invest in our people to develop higher performance?

If answers to any of the above questions lead to the conclusion that matters need to change, then your firm will need to face up to those issues and deal with them. To do nothing should not be an option; otherwise your firm will be at risk.

Your clients

It is clients who pay the bills, but how many law firms regularly ask their clients what services they will need from their lawyers in the future and how they will require those services to be delivered?

Focus on your client / referrer base by asking some of the following questions:

Do we know what our clients / referrers think about us and the service we provide them?

Is there a gap between how we perceive our work for clients / referrers and what clients / referrers think?

Do our clients / referrers know what we do?

Do we know which of our clients / referrers are 'at risk' (in the sense that they are likely to migrate in the near future to other firms?)

Are we managing our client / referrer relationships in a systematic way with a view to building and sustaining **profitable** client / referrer relationships?

Do we have a planned approach to winning new business from both existing and potential clients?

Do we know what services our clients / potential clients / referrers will need from us in the future?

For how many of our clients do we only do one area of work?

Your financial measurement

Recently a partner in a law firm told me that his firm had increased its turnover last year, but profitability had fallen. Despite the explanations given, he and others still felt they had not yet got to the bottom of why profits were reduced.

If your firm has concerns that it may not be getting the full financial picture, then focus on what your firm currently **measures** to enable you to analyse what is happening in your business, so you will then be able to take decisions based upon known facts rather than on untested assumptions.

Financial measurement will reveal not only a detailed financial picture but also a great deal about what underpins that financial picture and will provide strong pointers

to how the firm will fare in the future and the action it may have to take if it is to achieve its objectives.

For example, targeted financial analysis is likely to reveal:

- How a firm uses and manages its resources, particularly its people;
- Information regarding the nature of every part of the firm's client base, its 'quality', its profitability and the extent to which the client base is being developed and managed;
- The willingness of those within the firm to adapt to change in their working practices;
- Whether the structure of the firm is appropriate for the achievement of greater profitability;
- The relative contributions of each part of the practice.

The key is to measure 'what matters'. For example:

Are we producing financial reports which tell us what we need to know about our business?

If so, do we / how do we use this information?

Which information do we not produce, the absence of which is preventing us driving our financial performance?

Do we have on board people with the necessary knowledge and skills to analyse such matters and recommend and implement solutions?

Begin your analysis by identifying every individual item of overhead and ask for example the following questions to ensure you are 'running lean':

Is this overhead necessary for the efficient and profitable running of our firm, or could we do without it / use it less / use it more effectively?

We need this overhead, but how can we reduce the cost of providing it?

The financial performance of each part of the firm will also need to be measured if you are to be able to take appropriate decisions regarding the future direction and shape of your firm:

Do we know how much profit / loss each part of our firm is making?

Do we currently have the means / knowledge / skills to measure such profits / losses?

How profitable / loss-making is each of our clients?

Which parts of our firm are generating cash / soaking up cash?

If you are able in an objective and critical manner to ask and to answer questions such as those above relating to your people, your clients and your financial measurement, then you will begin to build a picture of the issues which as a priority will need to be attended to if you are to get your firm 'into shape' to deal with the challenges and opportunities which the legal market will present in 2012 and beyond.

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