

Added Value

Accountancy firms can give law firms more help for mutual commercial benefit?

Law firms are probably facing the biggest commercial challenges in their history. The Legal Services Act, the advent of new competition from banks and supermarkets, changing offerings from traditional competitors, more demands from their smarter clients, the impact of the 14 million in the “y” generation and their buying methods, technology escalation and compliance – law society rules and regulations, government impositions such as money laundering - and the squeezing of available liquidity funds by banks.

Law firms see as their biggest challenges – availability of financial and management information, the effective use of technology, marketing and practice development, the recruitment, development and retention of the best staff and how to manage themselves from strategy planning through business plans and delegation. They don't know whether to merge, become MDPs, refocus their business attention, be more aggressive in marketing or spend on technology for efficiency and commoditisation.

We will take as read good accounting, audit and tax planning services from accounting firms to law firm clients but most medium and smaller firms (i.e. outside of the top 300) need much more proactive assistance and they need it soon.

There are added value services that accountancy firms can offer. I suggest below a few but there are so many more.

Most law firms do not have an effective business strategy. They nearly always lack the time or inclination but this is often as the management of the firm (lawyers) has never been trained or coached in management. Some firms generate a strategy after an away weekend but often not based on solid information about headcount, realisation, fee income, leverage, client patterns and profitability, market share, benchmarking against competition and so on. There is then often a big gap between the strategy and the budget. I know it as the business plan – starting point, milestones, measurement, SMART objectives, delegated accountability, change process and so on. Strategy papers where completed are often not communicated, monitored or reviewed and we end up with a budget based upon fee income against expected headcount. There are even some firms that abandon budgeting because of lack of compliance/interest.

Relevant management information is generally not available. The same old monthly pack is produced, these days a bit quicker but not providing focused KPIs to management in time to affect performance. Firms need to develop a framework of management information relevant to the key business performance and improvement areas. The firms should also be looking at true client performance as well as traditional time recording, billing and lock up.

Most of the above is like food and drink to accountants but I see little evidence of the skills being transferred to law firm clients.

Another area is that of compliance, which can incorporate best practice (Lexcel standards), client care. This basic discipline can have a massive impact on the state of

working capital. Banks are beginning to realise that they have advanced money to law firms by way of overdrafts and lending because they are “professional organisations”. Banks are now fearful in a number of cases as to the safety of their money and quite rightly so. Overdrafts are high, lock up is high, billing is slow and millions of pounds of WIP is written off every year.

By working closer with firms on basic compliance accounting firms can provide a true added value service. Getting the basic client inception routines right can have a speedy improvement in cash flow and even happier clients. Most reputable case management systems can now assist this process but firms often need a third party (i.e. other than the chief cashier) to advise them. When did the accountancy provider last look at what the case management system can offer? Careful client inception, conflict checks, money laundering checks, fee estimates, credit limits, agreeing a billing profile with the client and sticking to it, setting up WIP and disbursement triggers, reviewing estimates, billing on time and so on. All of the above assist compliance, best practice, cash flow and revenue realisation at the same time as better client satisfaction and less complaints to the Law Society.

It is possibly a good time for accountancy firms to review the role of their client partners and how he can get much closer to his law firm clients and develop the mutual business.

*Bill Kirby is Managing Director of Professional Choice Consultancy Ltd.
www.professionalchoiceconsultancy.com a company that is dedicated to advising law firms on business strategy and planning and the strategic use of information technology. This and related topics can be discussed with Bill on 1 October at the specialist training course.*