Getting business-minded

Commercialising the finance function in law firms

The focus of finance departments in law firms must shift away from predominantly producing financial statements and audit reports to analysing business performance and forecasting using industry best practice. This requires a change in mindset, acquiring empowering technology that facilitates a joined-up view of the business as well as the right skill set to help with strategic and commercial finance.

Management reporting is an intrinsic activity of any finance function regardless of industry sector. According to a recent PwC report, well-performing finance functions in industry are spending 25 per cent more time on analysis and employ nearly 40 per cent more 'business partnering' roles than other averagely performing departments. They are also using technology innovatively in order to support this organic analysis and make metric monitoring routine and widespread.

Rather surprisingly however, the scenario is very different in the legal sector. There is a huge and growing niche industry that is supporting and provisioning reporting to the finance function for law firms. One cannot help, but wonder why? What makes the finance department in a law firm so different to those in other industries – after all, the components of the function must be common in any sector?

Lack of commercialisation

Finance functions would benefit hugely from adopting a more commercial approach. Unlike in most industry sectors, where finance departments are heavily focussed on analysing business performance to determine the cause and effect of various parameters and trends, law firms are primarily focused on processing the transactions, compliance and production of financial statements.

Finance functions in law firms seldom undertake business forecasting that goes beyond a cumulative estimation of the number of billable hours that fee earners might bill on client matters. As businesses, it is imperative that they look beyond balancing the books and satisfying the auditor. It boils down to law firms' approach to data exploration and perhaps even their ability to do so effectively.

One of the major reasons why law firms are not able to embrace data exploration and report production is the high number of software application installations across the business. Consequently, due to a lack of integration between applications, it is impossible to get an accurate view of statistics and metrics without copious amounts of time dedicated to the task.

Law firms need to take a leaf out of the book of other industries and take an enterprise resource planning (ERP) approach to business operations. Such technology platforms are already widely adopted across many other business sectors, providing a unified view of the business supported by streamlined data repositories and so offer real-time access to all financial elements of law firm operation

Right software

Fundamental to the ability to commercialise is a joined-up, underlying technology platform that offers a single view of the business and therefore one version of the truth. A typical law firm deploys all or a combination of practice management, time and billing, collections, expense management, and various reporting technologies. Additionally, they still use Microsoft Excel spreadsheets to keep account of other records.

Getting the disparate systems and data sources to seamlessly integrate so that information is reliably consolidated is no mean feat.

In the case of international law firms with multiple offices, the problem is exacerbated as invariably individual units deploy their own local systems that integrate only with a general ledger account map – if that at all.

Law firms need to take a leaf out of the book of other industries and take an enterprise resource planning (ERP) approach to business operations. Such technology platforms are already widely adopted across many other business sectors, providing a unified view of the business supported by streamlined data repositories and so offer real-time access to all financial elements of law firm operation – sales, working capital, resourcing, compliance and profitability. It is worth mentioning that such systems significantly lower the total cost of ownership of technology too – maintaining a plethora of proprietary systems is hugely expensive, in terms of cost, time and resources.

Data exploration in the hands of business

An ERP approach puts data exploration capability in the hands of the finance team, allowing them to analyse the business to the nth degree, whilst applying their own experience and knowledge to the analysis. The same information is available to leaders across the business too for exploration and comprehension in a digestible format.

For instance, the over-arching key performance indicators (KPI) of firms can be made available via dashboards on desktops of the team members globally. Every member can track the metrics relevant to them and collectively to ensure that the firm stays on course. This kind of easy access to data enables interrogation of information for patterns – for example, local, regional, country wise; and causes such as industry trends, regulations and economic that affect business performance.

With data exploration capability, the finance department can help steer the business in the right direction. For example, a head office accountant based in the UK reviews business performance at month end and notices that the revenue of the firm's intellectual property (IP) practice is down 30 per cent. A click later, the accountant has established that 10 per cent is due to a drop in revenue from the French division. Another click of the mouse further reveals that nine per cent of the drop comes from one matter, which is a fixed fee assignment.

Subsequently, during a review with the partner under whose portfolio the matter falls in, the accountant learns of the French clients' growing interest in fixed price engagements. This encourages the accountant to leverage data residing in the global ERP system to discuss with the French general manager the firm's experience of fixed fee growth in other markets, how potentially the business model for France is likely to change over time, and the steps that need to be taken to mitigate the temporary impact of the adjustment, including advisory steps in operational cost management.

The accountant then adapts the rolling forecast for France to accommodate the expected effect of the changes including the extended cash conversion cycle associated with fixed billing.

The learnings are then provided to the firm's chief financial officer (CFO) who relates past performance and future expectation to the board. Additionally, the CFO also advises on the actions already taken by the finance team and the necessary measures that must be taken outside of the finance department's function, including drafting the firm's most experienced bid manager to the French office to train the local bid team to profitably price fixed fee projects.

Now, multiply this investigation and remedy cycle across every key financial metric and market across the firm – it is easy to appreciate the business benefits such an approach can deliver.

The finance team can undertake predictive analysis and forecasts, closely monitor KPIs, minimise exposure in the face of harsh economic headwinds, and carry out proactive planning to pre-empt difficult business situations.

Employing right skillset

To achieve this kind of working environment, there is also a dire need to evaluate the composition and skill set of the department. Law firms will benefit from employing management accountants whose primary expertise lies in areas such as performance measurement, financial strategy, and risk management. They are well-equipped to offer advice on financial projects; business analysis, competitor and market trends; and budget and forecast based on industry best practice.

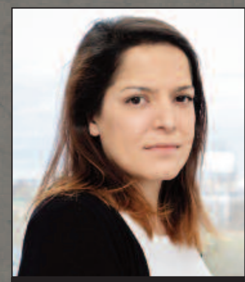
The right technology with the right competencies will enable the finance team to become influencers and proactive players in the growth of the firm – rather than merely 'informers' of the financial position of the organisation that many finance department are in organisations today.

Given the shifting trade flows, for many law firms, internationalisation is fast becoming a moot point. Increasingly, corporates today are requiring legal services in other countries, especially the US, Germany, France, UAE, and China. In addition, there is growing market volatility and regulation that are continuously transforming the commercial landscape that law firms operate in.

Rather than be passive players, finance departments must actively navigate and steer their organisations through an ever-evolving and perhaps even unfamiliar environment to achieve business growth. Information at the tips of their fingers along with the optimal skill set will enable them to rise to the challenge – and vitally, add value.

Perhaps the biggest advantage of 'commercialising' is that finance departments can genuinely find new ways of improving business performance, reducing risk, and strengthening the overall resilience of their firms. All this cumulatively will surely help law firms gain competitive advantage too – which is largely touted as one of the key benefits of Big Data analysis.

Elaine Everard is product manager at UK-based LexisNexis Enterprise Solutions, a provider of technology solutions to law firms and other professional services firms. The company is the software solutions arm of LexisNexis UK, which is part of RELX Group, the FTSE 100 global information and publishing company.



By Elaine Everard