



Coping through COVID: How is the finance function helping law firms to adapt?

ALTERNATIVE INSIGHTS

Top 3 takeaways:

- 1 Be radical. This is a unique opportunity to review finance processes, systems and technology from top to bottom.**
- 2 Think long term. The changes you make now need to be sustainable.**
- 3 Maintain the human touch. Working remotely can feel isolating - make the effort to keep in touch.**

When lockdown was introduced at the end of March, few appreciated the unprecedented impact it would have not just on the UK, but on the global economy.

Whole industry sectors were shut down overnight, offices closed, social interactions curtailed, long-established working practices overturned.

Like many businesses, law firms faced a double whammy of a sudden and dramatic drop in revenue, combined with an urgent need to find a new way of working. The finance function found itself in the eye of the storm as firms tried to respond to the new circumstances.

Alternative Insights spoke with four top Financial Directors in the legal industry to find out how their firms adapted and what impact it had on the role of the finance function.

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No more excuses for digital laggards:

AN INTERVIEW WITH NICK LAKHANI,
PREVIOUSLY FINANCE DIRECTOR
OF ASB LAW

asb | law

NICK WAS FINANCE DIRECTOR OF ASB LAW, A FULL-SERVICE LAW FIRM WITH OFFICES IN CRAWLEY AND MAIDSTONE, WITH 89 FEE EARNERS. IT WON AN AWARD FOR 'NEW BUSINESS AND SERVICE DELIVERY MODELS' IN THE FT INNOVATIVE LAWYERS AWARDS EUROPE 2018. IN JULY 2020, IT WAS ACQUIRED BY PROFESSIONAL SERVICES GROUP, KNIGHTS.

"I don't think the current pandemic has been the trigger for finance functions in the legal sector to change. The real change came in the financial crisis of 2008/09, when perceptions changed and the finance function was finally recognised for the valuable role it can play in driving performance," says Nick.

"I joined ASB the day after Lehman's went bust in September 2008, so I was straight in at the deep end. The things I did then – like regular conversations with banks, regular cashflow forecasts, working capital management, stakeholder communication, keeping a calm head – are the things law firm CFOs should be doing now."

Nick suggests firms should be producing regular cashflow forecasts to help them navigate the crisis based on three scenarios: worst case, best case and most likely case, before choosing one to proceed with.

"Banks really want to see that you've considered all the implications of the crisis and what it means for the business, and see that your cashflow has been stress-tested to deal with these scenarios," he says. "It's the bare minimum stakeholders will be asking for during these times."

He believes it is vital to review cashflow at least weekly, if not daily, given the drastic change in the economic environment. Firms that rely on transactional work, in particular, are likely to be suffering a substantial reduction in new matters, which are unlikely to return to normal levels for some time.

Nick's role at ASB Law also covered IT. It was in this IT leadership role that Nick guided the firm to outsourcing its IT infrastructure to the cloud in 2013. It was a move that, "in my opinion, proved to be one of the best investments we ever made," says Nick. "In particular, it has been returned many times over in the past few weeks alone."



It enabled the firm to move to remote working seamlessly without any issues at all, because everyone was already used to working in the Citrix desktop environment. Every piece of information that was available to them at their office desk is just as accessible from a remote location.

The firm also invested in a new Peppermint paperless practice management system, which is aligned to remote working. As Nick explains: "if you take the example of a payment from a client account, previously we'd have lots of what we called 'pink slips' moving around the office, being signed by different people. Now it's all done digitally. So the fee earner requests a payment, it's then approved by the partner, the details are checked, it goes via the workflow to the finance department and they send the payment – without a single physical piece of paper being involved. That, combined with the cloud infrastructure, has led to a pretty seamless transition to remote working."

The impact of the pandemic and ensuing lockdown has certainly sharpened the focus on the role of the finance function in professional service firms. But Nick doesn't believe it has fundamentally changed that role. He worked hard at

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Key takeaways:

1 Be hands on
The most senior finance person in the organisation needs to be much more hands-on at the moment. That means reviewing pretty much everything that goes out of the door to ensure cash outflows are minimised and to mitigate the inevitable contraction in inflows.

2 Check in on remote employees
Some people miss the physical connectivity of being in an office, so don't leave them isolated. Make the effort to call or video-conference to see how they are doing and keep them involved with what's going on outside their specific role.

3 Talk to your clients
This is a good time to touch base with clients, so they don't feel abandoned. It is an opportunity to strengthen that relationship, maybe offer some free advice or webinars. In the long term it will pay off.



It's all about the data:

AN INTERVIEW WITH
AMANDA LORAN,
FINANCE DIRECTOR
AT LAW FIRM STONE KING



AMANDA JOINED STONE KING IN 2018, HAVING WORKED IN THE PROFESSIONAL SERVICES SECTOR FOR 20 YEARS. SINCE JOINING STONE KING, SHE HAS REFOCUSSED WHAT WAS A RELATIVELY 'TRADITIONAL' FINANCE FUNCTION OF 12-14 PEOPLE INTO A MORE PROACTIVE, AGILE TEAM FOCUSED ON THREE CORE AREAS: WORKING CAPITAL MANAGEMENT, CASHIERING SUPPORT, AND REPORTING AND ANALYTICS. SHE BELIEVES THIS HAS GIVEN THE FIRM A SOLID FOUNDATION TO REACT TO THE EVENTS OF THE PAST FEW MONTHS.

"One of my key responsibilities, across the business and specifically in relation to the finance team, was to manage financial risk; to make sure knowledge within the team was spread around and not sat with only one person, reducing the risk to the firm and enabling the wider team - not just a few - to cope with curveballs. Albeit we didn't envisage the curveballs would be quite as big as this one turned out to be!" she says.

One of the biggest impacts for the finance function during the COVID crisis has been a change in the team's work and priorities. With senior financial management focusing on the firm's strategic response, the wider finance team has had to pick up more of the senior business-as-usual (BAU) tasks. There have also been more demands placed on analytics support to provide the data to inform strategic business decision-making, an embryonic role within the business.

"We had been developing our analytics and reporting functions anyway, but that's been significantly accelerated in the last three months. There is much more emphasis around capacity management, costs, profitability. Accessing and interpreting the data has probably been one of our biggest challenges," says Amanda.

A challenge that could have been exacerbated by the move to remote working for the entire finance team. Fortunately, just as the crisis hit, the firm was only a week away from completing a comprehensive overhaul of its IT systems, designed to increase agility and upgrade operating systems and platforms.

Its main platform is Elite 3E, along with a new legal desktop solution, supplemented with specific practice management tools such as MatterSphere.

As a result, the whole firm has been able to move to remote working relatively quickly and painlessly, to the extent that Amanda says her team now works just as effectively from home as in the office, albeit with new challenges around supervision and team cohesion.

"We've invested in the technology to support an agile way of working. We've consolidated our IT systems to make sure we're all operating in a consistent way, which has improved performance. At the moment, it's about enabling home working and agility, rather than necessarily the efficiencies," she says.

Stone King is proud of its strong firm culture around people. The firm has found a way of prioritising commercial considerations, while still retaining its values and culture. This has been achieved through internal collaboration between support functions and the fee earner community, not just the finance function running in isolation from the rest of the firm.

"As an example, the working capital team is working closer with fee earners to ensure bills are sent and invoices are paid on time, making them aware of the commercial implications of delays, working collaboratively, rather than as separate functions.

Before joining Stone King, Amanda worked in senior financial roles in several other professional services firms.



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Key takeaways:

1 Strong internal engagement

By involving the firm's different business units in key commercial decisions, Amanda has found it easier to ensure buy-in and retain a clear focus on commercial priorities, while protecting the firm's culture and values.

2 Be open with clients around pricing

Stone King has worked hard to be open and transparent with clients around pricing and fee discussions; proactively managing the relationship rather than reacting when it's too late.

3 Stay on top of the data

It is essential to stay on top of the data, The situation is changing so quickly, forecasts have to be agile. Simply remodelling your budget once a quarter is not enough.

During the financial crisis of 2008/2009, she'd helped to develop a tool which turned out to be invaluable during this crisis – an integrated three-year profit and loss balance sheet and fund flow model.

Ordinarily, she says the firm's financial model would be updated quarterly, but since the start of the crisis, they have been updating the model more frequently.

When the crisis hit, the firm was three-quarters of the way through its annual budgeting process. All that had to be re-done. With no real certainty of what even the next month would look like, let alone the next year, the three-year planning tool became vital in modelling different scenarios.

"It allowed me to revise our budgets quickly, assess the financial impact in terms of profitability and cash flow, adapt the modelling swiftly as current data changes, and use that information to have proactive discussions within the business and our external stakeholders," she says.

"It also means we can use these three-year forecasts to have sensible conversations with equity members around strategies to manage the business through that period."

One of the potential areas flagged up by the crisis as requiring additional attention for the finance team was around data analysis and reporting. Although the firm's existing systems contain an awful lot of data, accessing and extracting it is sometimes a little 'clunky', says Amanda.

"It's highlighted the need for real-time, accurate data. We need to be able to extract and interpret data promptly, to help inform business decisions. This requires the appropriate tools but also the appropriate personnel with the requisite skills, not something you can just pull out of a hat. In terms of developing the team and the systems, this is a real area of focus," she says.



Finding the right balance:

AN INTERVIEW WITH
JASON BIGG,
FINANCE MANAGER
AT GIRLINGS SOLICITORS

BEFORE JOINING KENT-BASED GIRLINGS SOLICITORS AS FINANCE MANAGER IN NOVEMBER 2018, JASON BIGG WAS A FEE-EARNER IN AN ACCOUNTANCY PRACTICE. EXPERIENCE WHICH HE SAYS HAS BEEN INVALUABLE IN NAVIGATING THE CURRENT CHALLENGES.

Since he joined the firm, he has helped to introduce a new practice management system and restructured the six-person finance team, both at the end of last year. Just as these changes were bedding in, the coronavirus crisis hit, and it was a case of all hands on deck.

The firm has a wide mix of disciplines with some of these being badly affected by lockdown, with around a 20% drop in monthly billings. As a result, although his role is ostensibly board level, Jason has had to undertake additional operational tasks over the past two to three months as the finance team has helped the firm to adapt to the change in circumstances.

"The balance of our work has changed considerably. We used to spend a lot of time processing financial transactions. Now we are doing much more management reporting (to assist with decisions such as the furloughing staff), looking at fee-earner performance to identify likely fee income of the business and identify the productivity levels of each department. Previously, we were reviewing fee-earners on a monthly or quarterly basis, but we're doing it almost weekly at the moment to see if there are any trends we need to respond to," says Jason.

One of the first issues the firm needed to address was technology. With the firm moving to remote working, there was an urgent need to ensure everyone had access to up-to-date, reliable IT and ancillary equipment to be able to do their jobs effectively.

"We ordered about 40 laptops, which had to be setup to our own specifications. We made sure people had monitors, keyboards, chairs, mouse mats and anything else they needed, some of these items were taken from desks in the office. I also had to immediately update many of our internal finance policies and guidelines. For example, many fee earners still sent payments to their clients via cheque. That's no longer possible, so we had to quickly bring everyone up to speed on our new BACS-only payment process," he says.

Despite the challenges, he says the remote working model was up and running efficiently within a week. The backbone of the model is a remote desktop link-in. Rather than using the cloud to host the firm's data, it is stored on its own servers, with back-ups off site, and staff have remote access to the servers. This is supplemented with specific tools to manage certain tasks, such as Tikit's Partner for Windows credit management system.

With the reduction in work on the billings side, Jason has been able to reallocate team members to other roles, such as debt collection and credit control, although he says the level of debt to bills has not risen significantly. Partner for

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Windows, which was fully integrated into the firm's practice management platform just a few weeks before lockdown, has helped to drive efficiencies in this area by automating many previously manual tasks.

One area where the finance function has implemented a change in approach is cashflow forecasting. Previously, Jason and his team would look at the firm's cashflow statements for the month ahead. However, the uncertain financial environment has meant he is now trying to forecast cashflow for the whole year, so the firm can budget for the longer term.

"In addition to the normal annual budget, we're trying to project out cash movements for the next year. An area that has been the trickiest is the likely billing amounts per department. Using the reduction in the first month of lockdown, we extrapolated that for the year ahead based on the level of reduction we saw that month. We are reviewing fee income every couple of weeks at the moment, rather than once a month, so we can budget for the cash coming in," says Jason.

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Key takeaways:

1 Engaging with fee-earners

No matter how many times you ask people to follow the new guidelines, there will be a hardcore few who insist on doing things the old way. But don't give up! Keep engaging with them and explaining the benefits – they'll get on board eventually.

2 Managing billings and cashflow

This crisis is so unprecedented that there are no models you can learn from. The state of uncertainty means you have to be absolutely on top of your cashflow situation at all times.

3 Rethink your IT hardware

Many firms will be reviewing their IT budgets post-lockdown. Is it better to host in the cloud or on local servers? Desktop PCs or laptops with docking stations? Questions like these suddenly take on a new urgency.

Cashflow forecasting and budgeting is largely a spreadsheet-driven process, he says, and although pre-lockdown the firm was considering investing in more powerful data analytics tools, plans are on hold for the moment.

Within the firm, he says there has been a slight change in the perception of the finance function. Inevitably, there are still some who see finance as a back-office administrative function with a penchant for introducing new processes and procedures. But at the same time, he says, many fee-earners have appreciated the way finance has swiftly responded and helped the firm adapt to the new environment.

"It's about finding a balance between introducing new policies such as digital-only payments, while not hindering people in the way they like to do business. We don't get it right all the time. Some people thank us. Some people moan about us. But in the long run, we're all working towards the same goals," says Jason.



An opportunity to rethink the firm:

AN INTERVIEW WITH
JON OLIVER,
PORTFOLIO FINANCE DIRECTOR OF
MOJO EXECUTIVE CONSULTANCY



AS A PORTFOLIO FINANCE DIRECTOR, JON HAS WORKED FOR A HUGE RANGE OF BUSINESSES, BOTH PUBLIC AND PRIVATE, ACROSS DIVERSE SECTORS. RECENT APPOINTMENTS INCLUDE FINANCE DIRECTOR ROLES FOR A MANUFACTURING BUSINESS AND FOR A MAJOR REGIONAL LAW FIRM IN YORKSHIRE.

Jon believes that although the coronavirus crisis and subsequent lockdown changed the commercial landscape overnight, it could actually be a catalyst for some much-needed changes in the legal sector.

In the short term, this is likely to require a fundamental review of the firm's strategy, both to manage the current crisis, but also in terms of what it means in the longer term.

"I can't imagine many businesses where the strategy they were working to in March 2020 will still be valid in August 2020. You need to re-do your budget, your cash-flow forecasts, your business plan. Not just from a financial perspective, but also from a growth perspective. Where is growth going to come from in future?"

Law firms can be bottom-heavy, he notes, with many administrative and junior staff supporting relatively few partners. It is a model that was increasingly being questioned anyway. This crisis gives FDs further evidence to support the drive towards a leaner, more efficient approach. He cites the example of secretaries:

"Most partners feel the need to have a secretary. But in most businesses, the idea of all managers having their own secretaries and support staff went out 20 years ago. Law firm leaders should look at how they've operated over the past 12 weeks and ask, 'What does my firm look like going forward?' And that's likely to mean fewer heads and more focus on what's important: cash and profit."

He suggests that if it's done well, working in this new way, with pared back admin, shared resources, greater use of digital technology, for example, demonstrates that law firms can still provide great service, meet their clients' requirements, hit their targets in terms of income, billing, etc, but in a more cost-efficient manner.

The way the crisis is forcing firms to prioritise cash could also help FDs introduce long overdue changes in the approach to billing and debt chasing, says Jon. Contrary to some lawyers' concerns, it could actually strengthen relationships with clients.

He knows of one law firm that had £5m languishing in work in progress and debt. Lawyers didn't like to invoice for the work they were doing, and didn't want to be seen to be chasing payment, because they thought it might harm the client relationship. But by insisting on a firmer, more proactive approach to billing, the new procedure helped to improve the firm's cash position by over £3m.

"As far as I'm aware, not one client complained. In fact, I'd argue that in some cases clients respected the firm more, because they could see it was a modern, commercially-focused law firm," he says.



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Key takeaways:

1 Everything is up for grabs

This is an opportunity to start again from scratch. Start with the services you need to deliver and work back – what is the best way to deliver them? And what changes are required to make that happen?

2 Know your risks

To survive a crisis like this, you need to identify your risks very early, mitigate them in the short term and understand what they look like for the medium to long term.

3 Focus on the future

Done well, the tough decisions and changes you make now will provide a solid foundation for future growth, greater efficiency and higher profits in the longer term.

Technology is an essential enabler to help firms achieve these types of changes. Historically, investing in new IT tools was rarely at the top of the priority list, particularly if it would necessitate changes in processes and procedures that partners were comfortable with. But not any longer. Jon believes that if lockdown has taught us anything, it is that digitally-enabled agile working is not a choice, but a necessity.

"Technology has to be at the forefront of your thinking. Is it good enough? Is there more we could do? How good does it need to be for the next three years to deliver our strategy? I wouldn't believe any law firm that tells me there is no change required there," says Jon.

One area where technology is vital is in managing remote and agile working, which has quickly become the new norm. With more and more people working from home, firms will require a different approach to managing productivity.

Law firm leaders need to ensure teams are being productive and that individuals are contributing profitably. Investment in technology will help improve communication and deliver accurate management information to allow managers to make informed business decisions.

"The power of Zoom and Microsoft Teams over the last three months has shown virtual meetings work well. Trust is a big factor. For most organisations, a greater reliance on remote working demands a positive cultural change," says Jon.

Actively working on relationships with clients is a key strategy that firms should be prioritising at the moment, too, believes Jon. Firms need to show they care, whether that's through communication, regular phone calls, extending payment terms in the short term. Clients need to see that you've gone the extra mile.

"When we come out of this, law firms will be fighting hard for business. If you haven't shown your clients how much you value their business, they will go elsewhere. If you do, they are more likely to stay loyal," he says.



Financial priorities and performance management in a remote working environment:

GRAHAM MOORE, CEO OF KATCHR



On a recent webinar panel session I spoke to three finance leaders from Katchr client firms about their experiences to date in responding to the current crisis. I was keen to understand how things had changed in terms of financial priorities, new approaches or tactics being adopted, and how performance management was being handled in a remote working environment.

Financial priorities, it turns out, have not changed much. Or at least not in these three firms. Good financial management does not look much different in good times or bad. In a well-run law firm, the standard measures of success remain the same: recording the hours, billing those hours, getting paid, and replenishing WIP with new instructions.

So what has changed? Certainly the phrase "cash is king" has never been so popular. Whilst the 4 measures

above might remain the ingredients of success, the overall objective has now firmly switched from profit to cash. At least in the short term. And the key to maximising cash is of course speed – reducing that WIP to cash cycle time. More emphasis on assessment of risk, stricter requirements for cash in advance, more interim billing, and fee earner accountability for debt are all elements of tighter lockup management we are hearing about.

Across the wider Katchr customer base we have definitely seen more emphasis on self-service reporting. This, I believe, has been driven by two factors. Firstly, the inability of managers and team leaders to assess the workload and productivity of their people by simply looking across the room or walking around the office, has created a need for other information to make decisions on. Data-driven decision making, whilst the de-facto approach of most finance professionals, has not always been as prevalent amongst the lawyers.

Secondly, especially during the first few weeks of lockdown, this has been an extraordinarily fast-changing environment. As a result, monthly, or even weekly reports

distributed by a finance team have been out of date before they were even published. With fast and easy self-service access to up to date information, managers have been able to react swiftly as circumstances have changed around them.

One common theme is that, even for the more specialist firms, new business volumes have varied significantly across work types. The ability to re-purpose people to ensure that resources are matched to workloads has become an important advantage to those firms with the ability to make those judgements on hard data and not just gut instinct.

Looking forward, the consensus of our webinar panel was that overall revenue was not likely to return to pre-pandemic levels until sometime in 2021, so matching expenditure to income was going to be the challenge for the next 6 – 12 months as focus slowly returns to profit.

So what's the "new normal" for law firm finance leaders as we enter this new era? Well the way work gets done may change significantly, but what work needs to be done remains the same: focus on WIP, bills, debtors and instructions as the base to build profit and ultimately return to growth.

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Conclusion

A catalyst for change

It's notable that none of the contributors regard the coronavirus crisis as a singular event that is driving unexpected change across the legal sector. Rather, they see it as a catalyst for increasing the pace of changes that were already occurring. Albeit increasing the pace in an unexpectedly dramatic fashion.

"I don't think the current pandemic has led to a change in behaviour," says Nick Lakhani, formerly of ASB Law. "But it has led to a dramatic stepping up of behaviours that good law firms should have been practising anyway."

Few, if any, of the huge transformations that have occurred have come out of the blue. They are processes that were already in progress across the legal sector to one degree or another. A more commercial focus on profits and cash flow, for example. A more central, proactive role for the finance function. Leaner, more efficient operating models. Remote working. Investing in digital technology and services. These are not new ideas. If firms were not already addressing these issues, then regardless of the coronavirus crisis, they would have faced an increasingly challenging market.

"This will allow law firms to do the things that they've wanted to do, but not been able to. A lot of law firm finance directors have been pushing on this over many years, but often faced resistance. COVID-19 has blown away that resistance," says Jon Oliver, from MOJO Executive Consultancy.

In supporting law firms through these unprecedented circumstances, finance functions have often taken on a more central role as financial gatekeepers and strategic leaders. As the immediate crisis recedes, the challenge is to cement this position and help firms navigate to a new commercially-focused, flexible and digitally-enabled normality.

"We're entering a new world. Those that embrace change, they can see the benefits and they should succeed. Those that have been unable to adapt to that change and return to the old ways of working, then like it or not, they are going to have problems," says Jon Oliver.



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