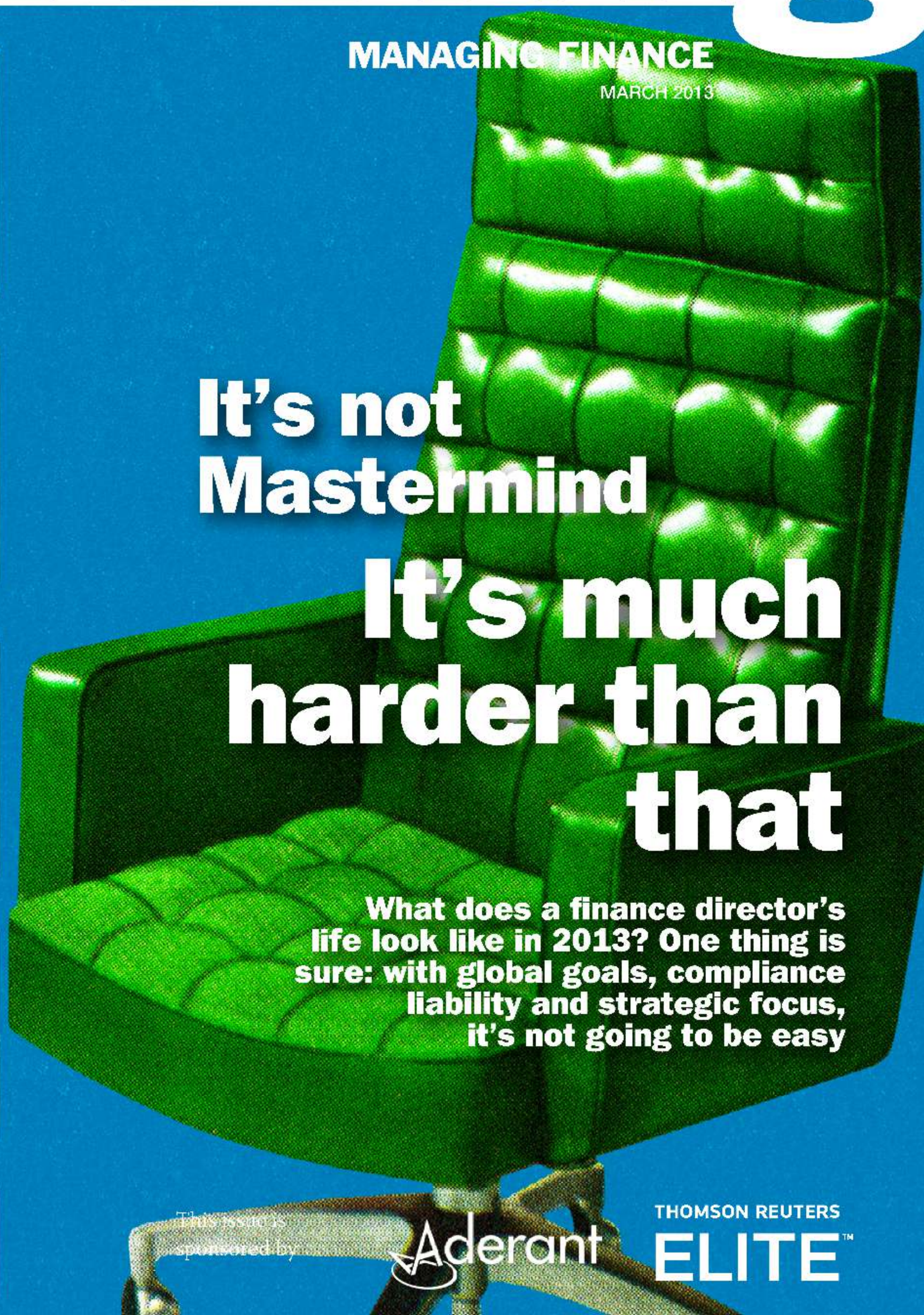
Briefing

MANAGING FINANCE
MARCH 2013



It's not Mastermind
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What does a finance director's life look like in 2013? One thing is sure: with global goals, compliance liability and strategic focus, it's not going to be easy

Interview

Robert Boardman

Herbert Smith Freehills' FD outlines how to make a better firm

Feature

Embracing the strain

Finance chiefs are remaking their role while taking on new liability

Research

What price liability?

Do the top 100 legal FDs think the reward for COFA should be equity?

Industry views

Financing the future

Better financial management needs to happen firm-wide

Briefing jobs: Senior roles in finance on the Briefing jobs page

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Paul Colvin, CFO, Bird & Bird

* To hear more about Expert Matter Planning please see the interview with Paul Colvin, featured in this month's issue of Briefing.

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Can finance save the law firm?

It's not lawyers who will make or break tomorrow's law firm – especially not the big firms. It's management, and above all (possibly) the finance function. That's because finding untapped revenue and profitability, managing legal work a lot better, and being able to see things from the client's perspective are probably all skills that lie in management – not lawyering.

That's why for our main interview this month is with someone who came to the legal business after the downturn, someone who'd never known the 'good old days': Robert Boardman, FD for almost all of the relatively freshly minted **Herbert Smith Freehills**.

We also have a feature article analysing the role of the FD now that the COFA regime is here, including interviews with FDs at **Berrymans Lace Mawer, Burges Salmon, Nabarro, Shoosmiths, SJ Berwin, Weightmans and a mystery top 15 firm**.

Plus: as part of our Top 100 Finance Director research, sponsored by **Thomson Reuters Elite**, we find out whether FDs think they should have equity status in light of the COFA changes; we have a case study and an interview with issue sponsors **Aderant** and **Thomson Reuters Elite** – plus case studies and analysis from leading suppliers.

I hope you enjoy this issue – feel free to email me at rupertw@lsn.co.uk with your thoughts.

Rupert White, editor of Briefing

Interview: Robert Boardman, Herbies' FD

Herbert Smith Freehills' FD talks to Rupert White about global growth and a new kind of interventionist finance team

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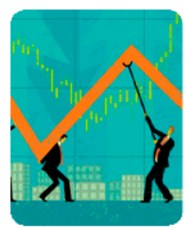
Feature: Embracing the strain



Nicola Laver puts the FD under scrutiny and finds a role steeped in liability, but at heart of shaping tomorrow's firms

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Survey: What price responsibility?

We find out what FDs think about equity status and the COFA role as part of LSN's Top 100 Director Research

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Briefing jobs

A range of great finance jobs on the **Briefing** jobs page. Pass it on... or perhaps not

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Industry analysis index

In Briefing we bring you relevant industry analysis from some of the legal sector's leading voices.

This month's issue sponsors: **Paul Colvin, CFO at Bird & Bird**, talks about how matter planning software from **Aderant** helps the firm proactively manage matter costs and profitability, and **Briefing** interviews **Patrick Hurley at Thomson Reuters Elite** about getting global visibility and control at international firms.

Plus: **Isabel Montesdeoca at Concur** talks about why law firms should be reviewing their travel and expense processes to ensure compliance, increase re-billing opportunities and streamline cost management. **Matthew Arnold & Baldwin's FD, David Abrahams**, talks to **Briefing** about leasing with **Econocom,** and **Fraser Mayfield at LexisNexis Enterprise Solutions** explains why technology is the vehicle for international expansion.

This month's interview with
Robert Boardman at
Herbert Smith Freehills
was transcribed by:

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Photography of Robert Boardman: Jonathan Goldberg

The Briefing Interview

Global challenge, global opportunity

Rupert White talks to Robert Boardman, finance director for UK, US, EMEA and Asia at Herbert Smith Freehills, one of the firms that might be an example of the future of global law – a merged Europe-US-AsiaPac global legal business

Over the last few years a lot of copy has flowed under the bridge of time about how the legal market is changing, renewing. It's different. Which is funny because most of the time it's the same people, and the same firms, doing the same things. Not in Briefing, of course – we're trying to spot the trends as they happen.

That's why this month we interview Robert Boardman, finance director (UK, US, EMEA, Asia) for newly merged Herbert Smith Freehills. It's a new firm, and he's a relatively new boy, joining Herbert Smith, and the legal sector, in 2009. Before that he spent seven years in various financial services and investment houses, after leaving Arthur Andersen in 2000. He knows the outside world, and he understands what financial houses think of other businesses – how they assess their relative health and financial competence. It's that view that's probably influencing the changes happening within HSF.

HSF's merger in 2012 with the Aussie firm Freehills created a global behemoth, an £800m revenue firm with big connections in Asia-Pac, one of the key markets for growth in legal. It's a big play, and it may be the only real route for the biggest firms to growth. But does it mean other firms, if they can't go global, are strategically out in the cold? No, says Boardman – as long as they can get a clear strategy of their own.

"There's a group of top firms that have made that play, to go for globalisation either by organic growth or by merger, and there's a group of businesses that have that scale and that capability. For the firms that aren't able to, because of their size or the cost of investing in global expansion, and their inability to fund that, there are still a variety of strategies available, in terms of being niche players in both the domestic markets, or combinations of different markets, focusing on different areas.

"I also think that there're a number of opportunities coming out of [the market changes], with the very large firms all going after the large multi-national clients and the big ticket transactions. That's opened up a number of niches [outside those areas]. So if [as a smaller firm] you can develop your strategy to exploit one of those niches, perhaps by taking on some very well-trained people that fall out of an area of businesses perhaps not being focused on by one of the big global firms, you can make yourself a very exciting business.

"The key to it is: either go for the big global strategy which you can afford, or think very hard about what your specialism is, and then remain agile and flexible."

He says it still makes sense to be able to be in a couple of geographies – so even for the smaller firms, it seems, the future has to be international even if it's not global – and strategically firms need to look for the lucrative geographies and attempt to create a strategy to exploit them.

"There clearly are opportunities in places like Asia and Australia, particularly, but that may not be playing to the strengths of your business, or where you see the opportunity. [Playing in multiple geographies] is one way of balancing up your book of business."

The globalisation of Big Law, therefore, leads to a number of further opportunities for firms not in the top 10 or 20 – these combinatorial strategies open up to them as Big Law fights a bigger battle. It just needs the right people in those smaller firms to see the mix to go for.

"This is all part of talking about the quality of earnings that arise from your strategy, and you can get quality of earnings from a number of different sources by the spread and the repeat nature of your clients – or you can get it from geography, or from the type of law that you do. It's just picking from the matrix."

This is a corporate man speaking, not the sound of a traditional law firm FD – and this strategy of a multiplicity of revenue streams is one of the key lessons Boardman says he thinks legal can learn from the world of big business.

Whether it's in finding a strategy for growth, to sell the firm, or raise investment for expansion, he says, "you're talking about quality of earnings in terms of sector, geography, the repeat nature of the business, financial hygiene, or optimising what it is that you've got – and then turning those revenues into as much profit and as much cash as you can".

"Quality of earnings makes your business easier to grow and more fundable. Banks and investors look at those aspects. If you're looking to grow and expand your business, those are the things that you need to be able to clearly communicate and get those investors and those funders comfortable with."

people would admit that the good times pre-2008 meant that most firms never had to run the tightest ships in terms of trying to maximise profit and reduce waste/overspend wherever possible. Now, though, things are very different. "Over the last three or four years there's been a real focus on getting efficiency gains. But I would take it one step further to

Herbies' tie-up with Australia's Freehills in October 2012 created one of the world's biggest firms, and Asia-Pacific's largest

Leveraging management information

Boardman came to the legal sector just at the point when the financial and corporate world hurled itself off a cliff, dragging its legal advisers with it. But Boardman's background meant he could see something in legal that many had not: that there was a lot of slack in the system that in other businesses would have been taken in. There was, and he says still is, a lot of untapped financial return in legal. The problem has been seeing it, and then getting at it – a lack of business intelligence and management information, and the ability to leverage that information.

"One of the reasons I joined HSF is that there's a significant opportunity to [find that untapped return]," says Boardman. Most talk about the 'contact to cash process'. It's not just converting the work – you have to figure out the whole contact to cash scenario, from the point at which you're being introduced to the client, then your business development efforts, right the way through to actually getting paid. That's one of the things we're trying to do here at HSF – optimise that process, and look at learning more about how we can help our clients."

So where are law firms missing out on being more profitable, creating better financial hygiene? Put simply, where is the slack, and


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how can we remove it?

"Other firms are making considerable efforts, but at HSF we think that we've got a unique way of looking at optimising our revenue. It's all about the ability to drill down and capitalise on your information and your business intelligence – being able and knowing when to leverage technology and people, to know when a client's payment run date is, for example, and agree with a client to submit bills at a different point in the month, knowing that you haven't missed their payment run date. You get paid faster and that leads to efficiencies of process on both sides. Clients are quite focused on this both from a corporate governance and procurement perspective. When something's approved, they like to get it paid. They get judged on those payments, because it's part of their working capital stats and their working capital efficiency.

"Being able to understand the way clients operate creates a virtuous circle, it leads to greater business efficiency all around, and increases your level of financial hygiene. Revenue is optimised when you do that on a timely basis, but you need processes and technology in place that allow you to find those opportunities and efficiencies, which is some of what we're trying to do."

Transparency and client service

Those processes and technology combine to make an attempt to change the way law firm lawyers and business services people work – making people more focused on how the client behaves (when they pay, how they pay, what reporting they want, when they want it and so on) makes the firm more client-focused and it makes it more responsive.

"It's about visibility and transparency, for both parties. The client knows what you're doing, they're able to get regular updates, good visibility on financials that they understand … and that leads to more efficient billing and payment cycles and a better relationship all around, because you understand the client's business better."

"It's about visibility and transparency, for both parties. The client knows what you're doing and they're able to get regular updates, good visibility on financials"

Robert Boardman, FD at Herbert Smith Freehills

This delivers against Boardman's quality of earnings benchmark and it brims with financial hygiene points. "I've got a greater predictability of income, I've got a better conversion rate, and that allows you to forecast into the future, see what my pipeline is in the business – and that's a great story for funders and owners in the business as well, because they can see when the revenue likely to happen, and how likely is it to happen? You get a much better view on your pipeline and your visibility of how you work with your clients."

This is something banks like Barclays, for example, have been calling on Briefing readers to address for years – because it's about stability and cash flow – but it's more than that, says Boardman. "If you can get this right, you can help make the lawyer more efficient and free up time. It makes them more efficient in the administrative areas, and makes them think about it in a different way."

But you do need technology to do this, as well as processes. Technology, linked to processes, trigger points and deep insight into the financials of a firm, lets you see "when a matter is getting to a point when it might need to be billed, and if you can do that dynamically, you can then help and support the lawyer", says Boardman. This help is very guided and proactive, and the example he gives is that one of the finance team might go to a lawyer and say: "Ok, you know this client likes to be billed at this point? You know that the work has built up to the threshold? What would you like to do? Would you like to phone that client up? Would you like us to issue a bill? It's now time to do it." That's an interventionist finance team, and it's clawing back significant efficiencies for the firm.

It's also saving management time, he says. "You can have a very high-quality two- or three-minute conversation with that lawyer, whereas previously you might have been running through their list of matters on a monthly basis. So it doesn't change their behaviour – I don't like 'behaviour' – but it changes the focus of their day and the focus of the support. There are opportunities, then, within support, to make sure you're optimising your support efforts, which will yield better results for the lawyers and release more time spent for helping clients.

""Time literally is money in this business, and I think that [doing things this way] gets respect, and I think people appreciate what we're trying to do. All those little tiny bits of intervention and support add up to extra numbers which fall straight through to the bottom line."

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Commerciality is the new normal

Another move firms like HSF are making to be more cost-efficient (a phrase Boardman baulks at significantly in our conversation) in the delivery of legal services is moving work to lower-cost centres. This might be outsourcing, offshoring or near-shoring, but it almost always

means concentrating certain functions or work in the hands of those who cost less to the firm (and therefore, in theory, to client). HSF is in the process of moving some work to Belfast, including due diligence and support for areas like real estate and funds.

Boardman says it's "efficient for both the firm and the client" to be working more in Belfast, "because we're doing work to support the client, and we're able to pass through those savings to the client, that makes us more competitive, and it makes us more efficient". He argues that it's not about cost-efficiency, but about providing value – two sides of the same coin, to me. It's just disingenuous, you could counter, to say this kind of behaviour isn't about cost, because HSF's clients want more for less, and they want cost certainty. So whatever HSF does to correctly resource the work (admirable stuff), it's about cost.

"If I'm buying services [as a corporate] and my law firm says: 'We can give you the same level of quality, we can potentially produce a better product because we've got people who are mainly focused on this kind of thing, and we can deliver at more competetive price than we otherwise would have done', that's of huge value in terms of the certainty for the business, and it builds the relationship with the client. So I think it's more about value than cost."

Boardman 'gets' value, and can define his idea of it. He used to be in the corporate world and knows what it wants from a law firm – his was the role that is increasingly tweaking the ear of in-house counsel to control legal.

Clients are not going to go back to a world before 2008. How clients expect firms to behave, what they want for their money, who's going to do the work and how much transparency they get is the new normal, and Boardman wants HSF to be ahead of the game.

"Clients expect and need you to be perhaps more commercial than in the past. And in terms of providing transparency and the visibility, you can turn that into a positive point for yourself if you've got the right technology, processes and people in place. It means you can be adept, get the right support to your people, get the right people focused on the right things, and help the client – and however that's done, getting the right thing pointed at the client that the client thinks is value for money.

"By having a better relationship between finance and the client, it means the lawyers have a better relationship with the client. It means the whole business has a better relationship with the client, and if you understand those dynamics then you can turn that into a positive for everybody."

The clever tech behind some of these changes is made by a software company called Nexum Software, which is working with HSF, providing its business intelligence (BI) software and know-how to the firm. But technology isn't the real agent of change, says Boardman.

"The [BI] technology is an enabler to make changes in process and support those with the right people. The technology is important – it allows you to track and get lots of information out about the way things are developing within business, in a dynamic way, and to respond to those proactively. That then helps you change some of your processes around a client." Right now this is having a significant impact at HSF both in terms of conversion and recovery, says Boardman.

"You're much more likely to get a better financial outcome if it's dealt with or you have a conversation at the point that it happens."

Robert Boardman, FD at Herbert Smith Freehills

And it's immediacy, timeliness, that matters. "You're much more likely to get a better financial outcome if it's dealt with or you have a conversation at the point that it happens." Having the financial management information identifies issues and opportunities and good BI and processes allow you to work those opportunities, he explains, and to follow up on them. The IT enables all this, makes it possible – but you have to change the way you do finance support and make the processes around it dynamic and timely to really make it happen.

In the end, what Boardman and the rest of HSF are trying out is a fresh way of looking at the innards of legal business. It's a blend of business intelligence, business process management and BD. How very Briefing. Perhaps this took someone who'd never lived the bad old, fat old world of legal before 2008 to do it. Perhaps not – but it's that man who's doing it. ●

Feature

Embracing the strain

As the Legal Services Act finally comes to fruition, the very nature of the finance director's role is changing – up to a point. Nicola Laver looks at a role that's now steeped in liability and at the heart of the strategies and tactics that will take some firms to the heights, and some to the brink

These are tough times for legal business, and today's law firm finance directors are in an unenviable position, facing challenges that only the most robust financial management and discipline can meet.

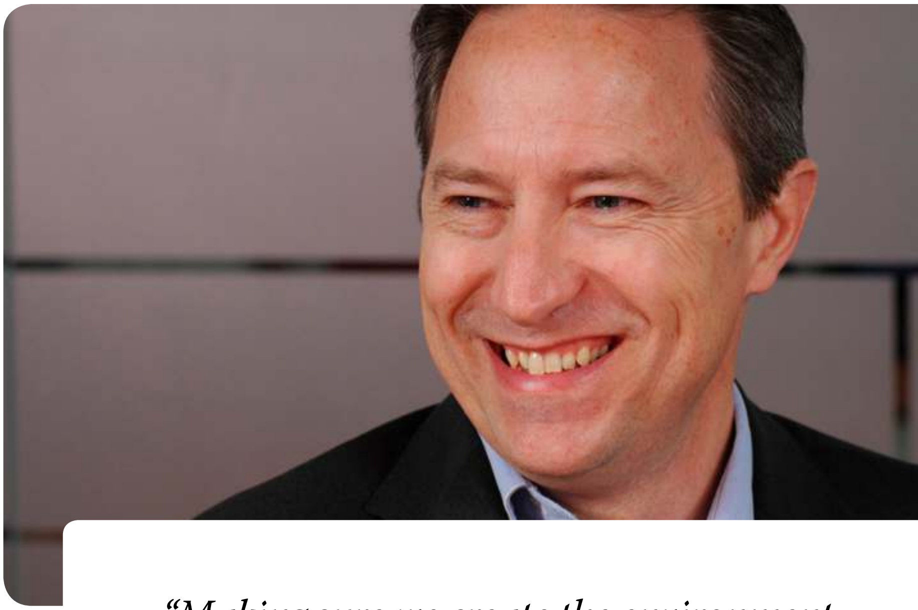
Cobbetts, the latest top 100 UK firm to collapse amidst unserviceable debts, joins a roll call that already features Halliwells and Dewey & LeBoeuf. Many in the industry expect more big names to go under, but prudent finance chiefs are recognising the current challenges and are implementing pragmatic, sustainable and forward-thinking strategies. They're also proving refreshingly realistic.

FDs cite continued pressure on fees, operating cost increases and the perceived oversupply of lawyers, combined with lower demand for legal services, as pressure points.

Simon Russell, Burges Salmon's FD, says a number of market level capacity issues need to be resolved before there's any chance of returning to more familiar conditions. But, he warns: "We may never return to the pre-crash levels of performance – the current situation may be the new normal."

Frank Lewitt, FD at Berrymans Lace Mawer, identifies other financial challenges facing his firm: "Customer resistance to price increases, rising costs, changes in the legal services marketplace, and threats of more competition as non-lawyer entities enter the market through ABSs."

Shoosmiths' FD Chris Stanton says the main challenge to the firm is maintaining growth levels and controlling costs. "Shoosmiths has achieved good growth over the last few years, and we are anticipating this continuing; but doing so in a sustainable manner is increasingly challenging. It can't just be about buying talent through lateral hires – it needs to be built from trainees up and embedded into a culture where people want to work."



"Making sure we create the environment that underpins our brand proposition in a controlled, cost-effective way is crucial to making such expansions a success."

Chris Stanton, FD, Shoosmiths

Such growth, he says, requires infrastructure expansion. But, he warns: "The danger for cost explosion at such times is huge. Making sure we create the environment that underpins our brand in a controlled, cost-effective way is crucial to making such expansions a success. The strategy must be consistent over time, though we can't be blind to immediate factors."

Same role, different firm?

Tony Cannon, Weightmans' FD, outlines the basics – that the finance role is to advise partners and the board on the commercial viability of proposals, and to help weigh up the cumulative impact of a series of initiatives that may be running in parallel – such as medium-term projections of potential impact on profit and cash flow.

But Lewitt characterises his main role as finance director in a slightly different way: "To proactively instil a sense of commercial reality into all the firm's strategic thinking, and make my opinions known loud and clear." The FD, he says, should act "as a member of the firm's management team. We are seeking cost cuts all round and reorganising processes to make them leaner and better".

"as a member of the firm's management team. We are seeking cost cuts all round and reorganising processes to make them leaner and better".

Frank Lewitt, FD, Berrymans Lace Mawer

Finance chiefs' responsibilities, taking into account, for instance, their unique offerings, personnel and firm reputations, really can be very different, says Lewitt. "Although the challenges from the outside world are similar to all firms the internal chemistries are always different."

New and emerging markets

Navigating the challenges presented by new markets (eg Indonesia and Jakarta) and emerging markets is one that firms ignore at their peril.

One FD at a top 15 law firm (who requested anonymity) warns: "One of the biggest problems in emerging markets is persuading clients of the value and necessity of our work, and that the expertise involved is not cheap – [a point] not helped by the overcapacity issue, leading to some crazy pricing which only undervalues us."

The expansion of firms into the East will, he says, lead to a trend of consolidation, given that larger firms will have a greater capacity to cope with start-up dilution. How a firm reacts to the opportunities really depends on its growth strategy, says Mike Giles, FD at SJ Berwin. Plus: "With a UK market heavily 'over-lawyered', any increase in domestic demand will be very welcome – although competition between firms for work is likely to remain high for the foreseeable future.

"International expansion is more risky, but strategic alliances or mergers can provide an opportunity for increased cross-border referral

work and improved business stability by reducing the dependency on existing markets and/or practice areas."

Today's clients are more discerning and demanding than ever in terms of value and pricing predictability, and they can afford to be in such a competitive marketplace – and firms cannot afford to ignore their expectations.

Meeting client demands

"Our clients will still pay for quality, but only just," explains Lewitt. "All we can do is strive to become as efficient as possible to be able to make a profit from the price we have to accept. However, our clients do not always give work to the cheapest provider and they value our solid robust professionalism."

BLM is, he admits, constantly rethinking its strategy. "Profits are always under pressure, with costs rising and prices held back, but we have successfully managed our way through the recession with little trouble."

And firms' remuneration models appear to be withstanding the pressures. Russell at Burges Salmon says his firm's "current system supports the behaviours we seek to encourage from partners".

"This helps partners focus on delivering excellent service, rather than worrying about how to structure what they do to maximise their own profit share."

But Cannon acknowledges that, while Weightman's remuneration model has worked well so far, "it is an area of management under constant review".

External investment

Finance chiefs are cautious about external investment, probably with good reason.

Charles Furness-Smith, Nabarro's FD, alludes to the idea that successful firms don't need it: "Those firms that went into the recession with the appropriate level of leverage and a profitability margin in excess of 35% are likely to survive. Firms whose business model requires very extensive investment in automation processes may need external investment, but it is not suitable for all."

Lewitt warns against it, though. "You only get outside investment if there is a serious need to do so. This is not a preferred option, and you lose control." Cannon has a further caveat: "Outside investment cannot replace good

"Those firms that went into the recession with the appropriate level of leverage and a margin in excess of 35% are likely to survive."

Charles Furness-Smith, FD, Nabarro

financial management and, on the contrary, poor financial management could well be a barrier to attracting such investment."

Our anonymous top 15 FD disagrees, but with a twist: "I can see a role for outside investors where there is the potential for significant systemisation of commodity legal product, but less so for premium/larger firms at this stage."

Merge, merge!

Big name law firm mergers are on the increase, a trend likely to continue in the current economic climate. It's an issue FDs can't ignore. Giles at SJ Berwin says: "Well-thought through and executed mergers should generate an economic benefit through a combination of cost savings and revenue growth over a relatively short timeframe, although there will be an up-front cost to be funded.

"Although banks have generally been willing to provide facilities to fund working capital needs for firms embarking on expansion programmes, the low growth environment, reduced client money balances and banks' increased cost of capital (to name just three factors) mean that funding is more difficult to obtain and is more expensive. Increasingly firms will be expected to fund more of their cash needs themselves, most likely through increased partner capital contributions."

Approaching the challenges

Cannon says Weightmans is ensuring it covers the basics well, particularly cash flow and its relationship with the bank.

"We then have to ensure we are closely attuned to actual and anticipated developments in our various markets and ready to respond quickly to changes.

"We are also constantly aware of the macro challenges and opportunities presented by the Legal Services Act as impacts start to be seen with new entrants to the legal market. The foundations for being successful in this area are to have a solid management structure in shape, particularly to facilitate quick decision making on potential investments, and also to have the financial resources on tap to fund such opportunities."

Critical to any FD's responsibility is, as Cannon identifies, "to raise and discuss the financial implications of any board business and to ensure that the directors have comprehensive financial data to underpin any decision. There is then the need to carry out due diligence on potential investments as they arise and identify the potential deal breakers for the board's attention as soon as possible. Normally this has to be done quickly."

Cannon nails it when he says: "The basic housekeeping functions must be given constant attention and one of my duties is to always keep a clear eye on how we are performing, in some cases on a daily basis, and not allow the basics to be ignored when more esoteric opportunities are being considered."

Cannon is a proponent of training to all levels of the firm on financial management so that all concerned understand the underlying financial framework of everything the firm does.

"Partners and all fee earners are much more likely to appreciate the importance of, say, prompt cash collection on their part if they can see how it impacts the firm as a whole. For instance, we issue a daily update to all partners showing progress against all our key indicators, including cash receipts and bank borrowings.

"Finally, one must always link in other aspects of the financial infrastructure that play a part in working capital management, such as distribution of profits and capital policy."

The harsh reality is that law firms must be responsive to existing pressures and adapt accordingly. But the future need not be bleak where law firm structures, top level management, financial decision making and strategies are watertight, and meeting the demands of the changing legal landscape and – just as importantly – the needs of clients.

As Lewitt says: "All firms need a strong financial director – especially when things get tough." ●

"Partners and fee earners are much more likely to appreciate the importance of, say, prompt cash collection on their part if they can see how it impacts the firm as a whole."

Tony Cannon, FD, Weightmans

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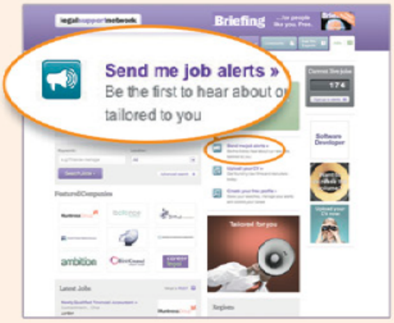

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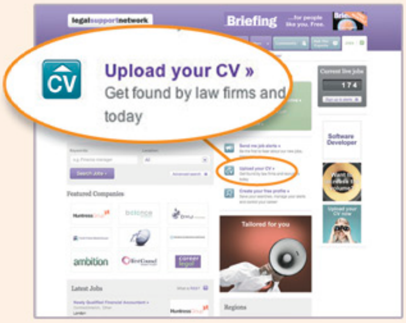

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What price responsibility?

Should finance directors get skin in the game in return for taking on the responsibilities of a COFA? Should they have equity stakes regardless? And what are the challenges if they get it?

Rupert White analyses what finance chiefs think about equity and their compliance roles as part of the LSN Top 100 Director Research

"Finance directors should have 'skin in the game' in the form of equity-based remuneration and capital."

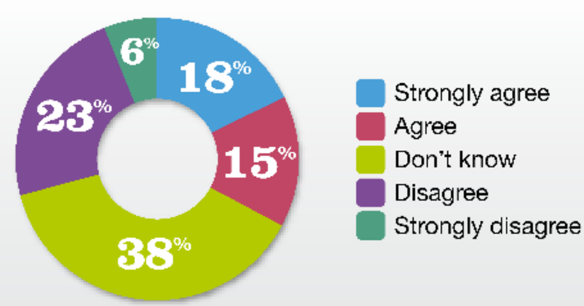
What do finance directors want? Whatever it is, we can be fairly sure that they didn't want to be made personally liable for indiscretions or cock-ups within their firm – but that's just what's happened to many after the last round of Legal Services Act changes. But there might be a silver lining to the COFA cloud: clout.

In the finance chief round of LSN's latest Top 100 Director Research, sponsored by Thomson Reuters Elite, in which we researched the names, positions and backgrounds of almost every top 100 law firm finance director, we also asked a question about job security:

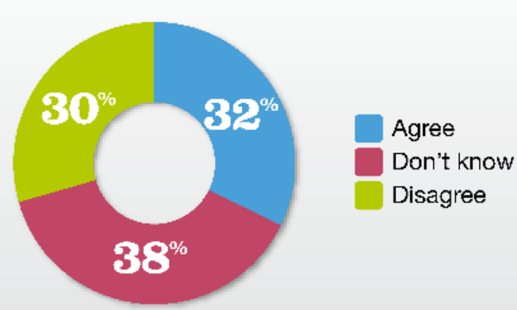
'Should equity partnership or an equivalent stake in the business be the reward for the risk being taken by FDs/CFOs who are now COFAs, as they are now personally liable for the firm's financial compliance?'

We gained 34 responses, spread almost perfectly evenly across each 25 firm segment, and the answers were more mixed than we

"Should equity partnership or an equivalent stake in the business be the reward for the risk being taken by FDs/CFOs who are now COFAs, as they are now personally liable for the firm's financial compliance?"



Combined 'agree/don't know/disagree'



expected: slightly more agreed with this proposition than didn't, and the largest response was 'it depends'. But almost a third of respondents (32%) agreed with the proposition, with 18% strongly agreeing.

When the responses are broken down into strongly agree/strongly disagree/agree/disagree/don't know responses, there's much more strong agreement than strong disagreement with this idea in the top 100.

Which points up that strong agreement is far higher than strong disagreement – 18% strongly agree, while only 6% strongly disagree with the proposition.

"In most firms, the FD is an employee and would not have the appropriate status to carry out the COFA role effectively. Partners are unlikely to cooperate if their actions are being investigated by the FD, or with the FD reporting them to the SRA if he sees fit. The FD's job would probably be at risk if he did so. To have the appropriate status to carry out the COFA role, the FD needs to be an equity partner – and a fairly senior one. Otherwise, the COFA role should be held by a senior partner who is a lawyer," says one top 100 FD.

There might be governance issues for FDs taking partner equity, however. "There is a case for aligning the FD's reward to that of the firm, but also a counter argument that says it can lead to a lack of independence. I think that applies particularly to the COFA role, where independence and a willingness to 'whistle blow' are crucial to the role," says one FD.

And, though 'It depends' doesn't meant 'yes', our 'it depends' responses may sometimes have hidden the opinion that FDs should have equity or an equivalent reward anyway. "FDs should have equity status given their responsibilities anyway. I do not believe that the appointment as COFA should be singled out as a unique reason for equity status," says one FD.

Those in the top 50 agree much more with the proposition than those in the bottom 50, which might be expected as they have more responsibility. But the comparison between these segments is stark: two in five (40%) agreed in the top 50, compared with one in four (26%) in the bottom 50. Notably, there was no strong disagreement in the top 50 at all.

Once responses are segmented into groups of 25 firms (top 25, next 25, and so on), you see a more nuanced picture. In the top 25, half of respondents agreed or strongly agreed, while 37% said 'don't know/it depends', and just one person disagreed. But in the second 25, half disagreed, and only a quarter agreed.

So, the top 50 is quite split on the question, in reality, with those in the top firms much more in favour than any other 25-firm segment.

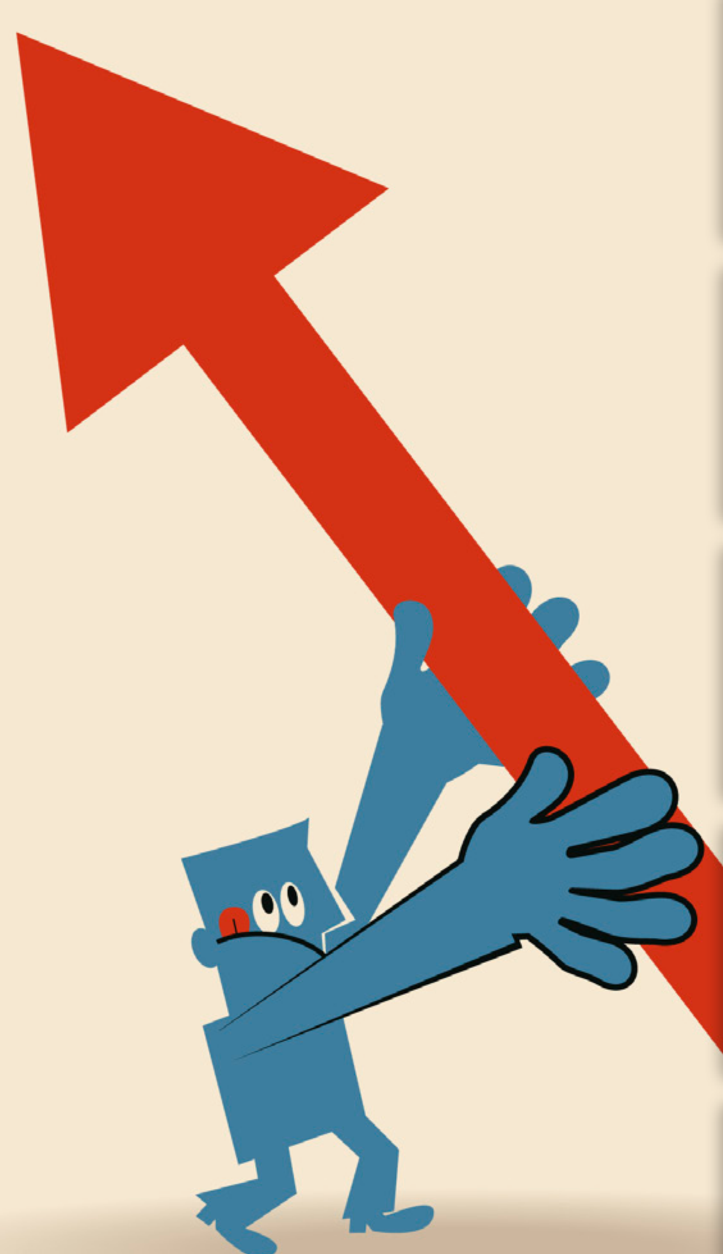
One top 100 FD neatly sets out the issues around becoming COFA when giving a 'disagree' answer: "Simply taking on the COFA role is unlikely, of itself, to warrant a share of the equity. The overall contribution that the FD makes to the firm and the responsibilities that they have (including COFA) should, in aggregate, be the deciding factor in whether such is 'worthy' of an equity stake. The difficulty for FDs in situ is changing the mindset of partners and, increasingly, I suspect equity stakes will only be achieved through moving to another firm where the status of the incoming FD is part of the initial negotiations."

So, while there's a lot of agreement in the top 100 that the COFA position should be the 'tipping point' towards equity, there's probably more agreement still that FDs should have equity/board parity with lawyer partners. But will 2013 bring that wish to fruition? ●

Find the full list of the top 100 finance directors at
www.lsn.co.uk/finance/top-100

INDUSTRY ANALYSIS INDEX

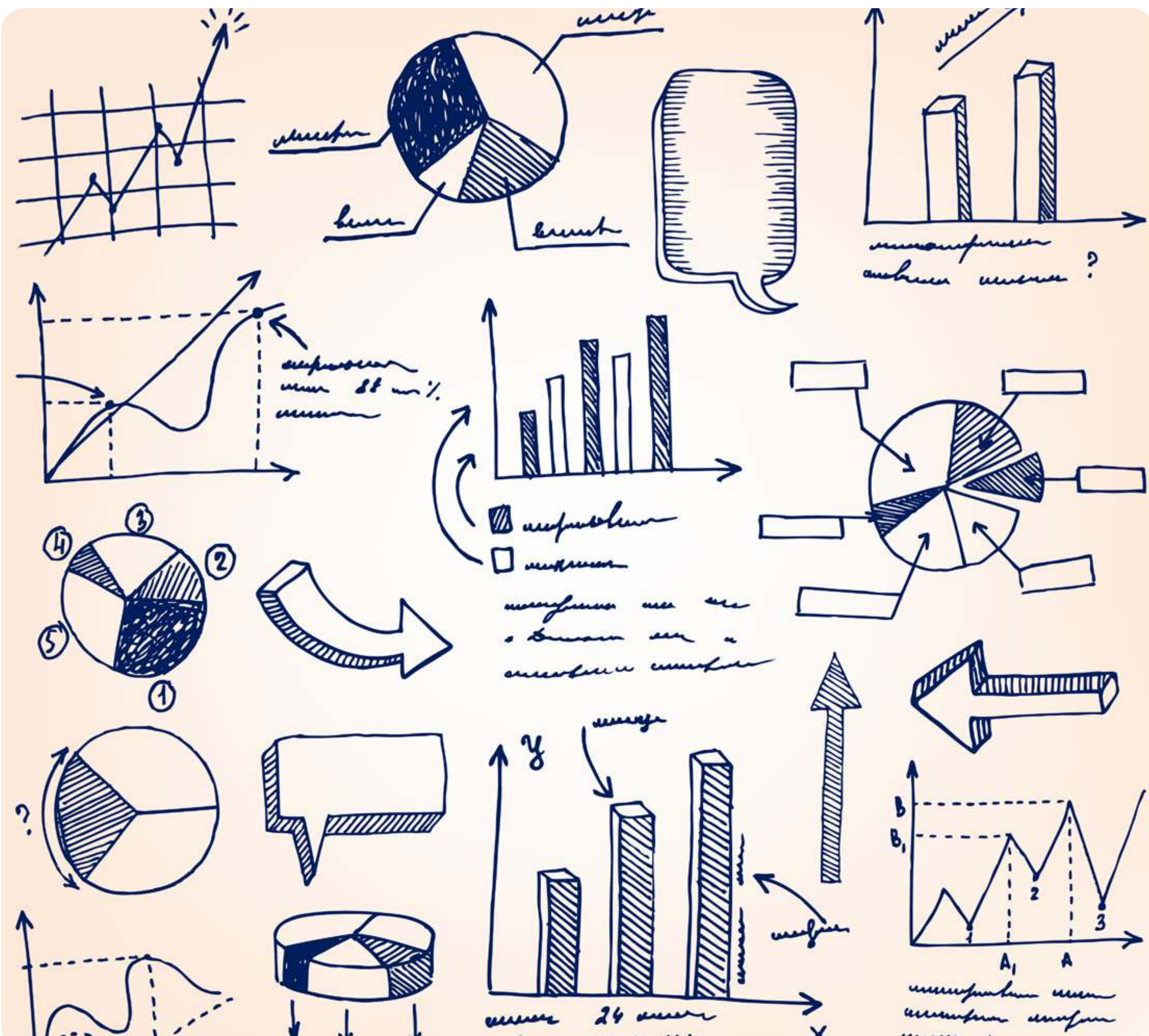
Financing the future



Briefing Case Study

Planned to perfection

Briefing talks to Paul Colvin, CFO at Bird & Bird, about how matter planning software from Aderant is helping the firm proactively manage matter costs and profitability



The imminent Jackson reforms on costs should be top of mind for most firms – and those investing in or already using matter management tools will have a significant compliance advantage. These firms will also continue to benefit from managing matter costs proactively to drive up profitability, and drive down unnecessary spend.

Bird & Bird are a prime example of a forward-thinking firm when it comes to matter planning. An Aderant user since 1997, the firm partnered with the legal software company to co-develop its Expert Matter Planning module, which Bird & Bird implemented shortly after the module was released in 2011. "Cost management has been a key element of our response to the credit crunch and the trend for toughening client negotiations based on price," explains Bird & Bird chief financial officer Paul Colvin. Matter planning software has, he adds, helped the firm "have confident client negotiations" and deliver to clients a more transparent, well-managed, cost-effective solution.

Matter planning augments the firm's commercial capability, he says. "We can call upon resources across the firm, in any country, and easily see how team changes will impact on profitability. The Aderant matter planning tool equalises the commercial playing field. There are some naturally commercial partners, but many are just extremely good lawyers. This tool brings a general level of commerciality to the firm."

Clients have come to demand more for less, and they want greater visibility of the cost of legal work. Matter planning is playing a big part in delivering against both of these client needs, says Colvin.

"We pride ourselves on being able to provide the best legal advice at a sensible price. The big debate that price squeezing has triggered for us is how to make sure our lawyers can articulate the value work brings, not the price of it." Bird & Bird uses matter planning to ensure that profit levels are maintained in an intensely competitive market, Colvin says.

It's the large corporate financial sector clients that have the most aggressive, price-focused, panel selection processes, he says, and matter planning helps to ensure that the firm doesn't step into loss on that work, while being able to offer the best value. "Our strategy is to plan properly for these [clients] and set a threshold beyond which we just won't go." Colvin is confident about the firm's position in such situations: "Although we may lose out initially based on price at times, clients often re-engage, disappointed with the service and

"We can keep clients fully informed, flag up any issues early, and make more accurate projections of cost."

Paul Colvin, CFO, Bird & Bird

advice they receive from others. In the end, price doesn't tend to be the main factor – clients want to know they are getting good value for money and the right legal advice and client service experience."

Clients are also leaning ever more towards alternative, especially variants on fixed fee, arrangements for certain work types. "Transactional clients are always asking for fixed or capped fees, and aggressively rejecting hourly rates," he says. Bird & Bird is responding to this in large part through educating partners who are still entrenched in the hourly rate, and Aderant's Expert Matter Planning tool "helps partners understand, with visual evidence, that fixed fee doesn't mean losing profit if you plan properly".

Using the matter planning module, partners can create a project structure that meets client needs and still ensures Bird & Bird makes a profit. "A big part of it is cost visibility and resource planning," explains Colvin, "which the tool helps us achieve very effectively." Matter data from previous projects also builds guides to pricing, so partners don't have to start from scratch each time a new piece of work is assessed. "The information is at our fingertips – we're able to look at previous work so that our cost management gets better and better over time."

The Jackson reforms mean matter planning is now almost a must-have. "Budgeting will become mandatory," explains Colvin, "and recovering costs will depend upon how well we have budgeted. The Aderant tool helps give the level of detail we need and otherwise would not have. We will be in the best possible place to recover our costs."

From a client perspective, he says, there will be greater transparency on the 'why and how' of costs, and a better understanding of when payments will be needed. While this helps client cash flow by removing the threat of a big unplanned bill, it will "engender a culture of constant dialogue" – and to have that dialogue, the firm needs ready matter information.

Matter planning "helps partners understand, with visual evidence, that fixed fee doesn't mean losing profit if you plan properly".

Paul Colvin, CFO, Bird & Bird

"We have noticed an increase in interest in the UK market around the Aderant tool because of the Jackson requirements," Colvin explains. "New functionality that will automatically populate the court cost budget format (Precedent H), alongside the elements we've used for some time, makes it relevant. I can see clearly how the tool will be of benefit."

And it's this ability to monitor costs during the case that means lawyers can, at any point in time, have sight of exactly what has happened. "We can keep clients fully informed, flag up any issues early, and make more accurate projections of cost," says Colvin.

Briefing Industry Interview

Going global

Law firms with international or global business bases need better reporting, more management information, global visibility and control, says Patrick Hurley at Thomson Reuters Elite

Global and international firms need a wide-ranging ability to deliver financial oversight, from a business perspective and from a compliance perspective. Now that finance chiefs are also playing a key compliance role in UK-based firms, the need for deeper, timely knowledge of a firm's financial position is more important than ever, says Patrick Hurley, vice-president for global expansion at Thomson Reuters Elite.

"Regardless of whether you're a big global firm or not, some of your clients are going to be global – so you may only think of yourself as a national firm, but if your clients are doing business globally, the issues of globalisation are going to impact how your firm does business. Finance directors who have offices in other jurisdictions but lack a consolidated global finance system that provides full visibility and control are taking some big risks."

An example, says Hurley, is an Elite client that took on a small office in a small jurisdiction that wasn't yet on their global finance system. For more than a year the firm was sending in WIP data that they thought was accounts receivable data. "Entirely incorrect numbers were being transferred into the global system, purely because head office didn't have proper visibility into what was going on," says Hurley. "That's a pretty extreme anecdote, but if you're not able to see what's going on, that's where you can end up."

Part of the problem law firms now face is that they're stuck with software, databases in particular, that cannot provide the best management information and reporting you can get, says Hurley.

"With a modern system like Elite 3E, you can build in the appropriate controls to ensure data is going in consistently, and that business and compliance rules are built into the workflow. For example, you literally can't create a new client in the system or enter time against a client unless you've done the appropriate anti-money laundering checks. You can't take a retainer for client monies without different trust regulation rules being enforced, depending on the jurisdiction of the client and the money and why you're holding it."

"FDs who have offices in other jurisdictions but lack a global finance system that provides full visibility and control are taking some big risks."

Patrick Hurley, Thomson Reuters Elite

Financial reporting quality stems from enforcement like this, says Hurley, and better reporting is what the business needs – and what the compliance officer for finance and administration (COFA) must be able to do.

This combination of compliance and business needs might be the thing to wake many firms up to the value of business intelligence, says Hurley. "This is the time when business intelligence and better management information become a basic need, rather than a 'nice to have'. The software that was built 20 years ago was about storing the least amount of data possible, and business intelligence had to be built on top. New systems are storing all data in every possible permutation, so it's instantly available, without the need for layers of tools upon tools."

This isn't just about matter or department information – for finance leaders, modern finance systems offer a lot more visibility and control, especially for international businesses.

"Modern systems like 3E allow you to have local statutory financial reporting requirements without needing to rely on the local system," says Hurley. "And global and international law firms also have similar issues to big multinational corporations when it comes to having legal entity divisions around the globe, transfer pricing as assets are moved and so on, whether it's a Swiss verein or a single global partnership. They'll need to track money separately for certain countries, and then throw multi-currency and multi-language support into that mix, and you need a more capable, more modern IT set-up to cope with it."

As Robert Boardman, finance director at Herbert Smith Freehills, says in our interview this month, there's untapped revenue to be found in matching a firm's processes with how clients work.

But, says Hurley, one of the best ways to profitability lies in guiding the way fee earners and the business in general puts bills to clients. If a client won't accept being billed for multiple fee earners attending the same meeting, for example, stopping line items like that being even entered is a long step on the path towards better profitability. "If you can build control in at the beginning, you've not wasted a time re-billing and figuring out why a bill's been rejected. And you'll increase cash flow because you'll get paid more quickly."

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Patrick Hurley, Thomson Reuters Elite

In the end, understanding what the client wants isn't just for fee earners – it's a business-wide issue, and finance can play a huge part in making it happen. Finance can determine what 'normal' looks like, and track when it's not happening, but it can also do so much more. It's now within finance's grasp to clean up the journey from work to cash, says Hurley, and to be able to intervene regularly and capably in the WIP-to-cash process to ensure it's as compressed as possible.

Industry Analysis

Travelling lighter

Law firms should be reviewing their travel and expense processes to ensure compliance, increase re-billing opportunities and streamline cost management, says Isabel Montesdeoca at Concur

Like all businesses, law firms are operating in challenging times. But there are many things they can do to uncover profitability – and something as simple as reviewing travel and expense management processes could help recover invaluable revenue.

According to Jupiter Research, travel is the second largest controllable expense spend behind salaries. Law firm revenues can easily be lost to employee expenses, where up to 20% or more of T&E spend can be out-of-policy (according to the Aberdeen Group). On top of this, if a firm can't see where expenses are being incurred, it can't act to negotiate preferential rates with suppliers or identify cash leakage within the firm.

Without proper visibility into T&E spend, which an automated expense management system can deliver, firms are not just hindering revenue opportunities – they lack the information they require to ensure compliance with UK tax regulations and legislation.

Every billable minute counts, so any processes that can help increase fee earner and support staff productivity, by eliminating non-core activities and replacing them with automated processes, saves money and can potentially free up billable hours.

One firm that's an example of how well this works is Irwin Mitchell. We at Concur have been working with Irwin Mitchell to make the firm's travel and expense management processes even more efficient. By implementing our T&E management solution the firm has gained better control of and visibility into the expense claim reimbursement process. This has automated the expenses process at the firm, but the built-in travel request functionality also delivers enhanced visibility into the firm's employees' travel plans before travel is booked or money is spent – all of which is saving cash.

For law firms seeking to 'bill back' expenses to clients, typically recharging must take place within a relatively short time period. Irwin Mitchell is also using our automated system to reduce write-offs, which boosts their bottom-line revenues. The solution will also enable the firm to comply with laws around anti-bribery and COFA legislation, capture the right VAT information for HMRC compliance, and provide evidence of expense claims as required legally. We estimate firms can lose approximately 20% of recharge opportunities by not using an automated process.

Automating and streamlining the travel and expense management process not only helps increase revenue, it can also have a positive effect on staff morale. T&E paperwork is a common pain point for employees, and in a recent YouGov survey of 1,000 UK business travellers, nearly a fifth of people felt the biggest nagging issue associated with business travel and expense management was 'the stack of receipts and expense reports that needs to be completed' upon returning from a trip.

Managing T&E firm-wide, on the move

So, an end-to-end travel and expense management solution should provide benefit to the firm and the people in the firm.

When looking for such a solution, we think you should make sure it has the following features and functionality:

- A fully consolidated and automated expense management tool to include the processing of cash allowances and out of pocket expenses
- Improved efficiencies for the creation, approval and processing of expenses
- Automated workflow with automated policy adherence, matter code/GL code allocation (in real time), VAT calculation at the point of creation, and integration with practice management systems
- A single global platform with multi-currency, multi-VAT and multi-legislative capabilities
- A single platform for online booking, expense and invoice management through the use of mobile applications
- Accurate and timely reporting to enable planning, forecasting and general visibility

Plus, most law firms now have employees that operate smartphones and work regularly outside the office. Therefore, it's crucial to make it possible to manage travel and expenses on the go. A mobile application for most platforms (BlackBerry, iOS and Android) will let them capture fee images, submit or approve expense claims on the go, and request and book travel. In the YouGov survey mentioned above, 8/10 people said mobile apps on the road improved their travel experience.

By choosing an automated T&E system such as ours, firms like Irwin Mitchell haven't just automated the process of T&E expense management – they've gone a step further by also automating travel requests. Travel request capabilities enable the firm to facilitate the reduction of travel costs by evaluating the expenditure before it even takes place.

Automated systems replace a primarily paper-based task and streamline the process to increase efficiency. With its extensive reporting capabilities, Irwin Mitchell will not only have greater transparency to better forecast business, but it will also have the detailed reports required so it is fully accountable to its partners regarding travel and expense spend. And, with powerful mobile capabilities on their smartphones, law firm people can quickly and easily capture expenses – and get back to more

Briefing Case Study

Investing for growth

David Abrahams, finance director at Matthew Arnold & Baldwin, talks to Briefing about leasing with Econocom to fund investment in practice and case management systems

The savviest law firms of 2013 are those that understand the real cost of doing work, doing that work more efficiently, and aiming to grow market share. To do that, firms need technology – which can cost serious money. The challenge is how to fund investment in the IT that can deliver more value to clients and more capability to the firm.

MAB is an £18m revenue, full-service firm with offices in Watford and London. David Abrahams, MAB's director of finance, explains that they had made the strategic decision to replace its "dated" legacy IT systems and invest in new practice management and case management systems to deliver an upgrade "fundamental to MAB's business and growth strategy". It also needed to be financially agile over the period of the investment – there's no point in having great IT if paying for it might cripple growth.

As the project was a £1.2m spend, Abrahams was keen to find the optimum way to finance the project and the right financial partner. Bank financing an investment like this would have restricted the firm's agility, so MAB instead chose to work with Econocom to finance the spend on a leasing model over five years including them funding the 'build stage' of the project until 'go live'. The five-year lease gave MAB evenly spread, controlled costs.

"This technology is fundamental to sustaining our commercial and competitive advantage and for the firm's next stage of growth," says Abrahams, "so we would have made the investment anyway." However, Econocom's leasing model had many commercial advantages, he says. "Using a bank, we may have had to put debentures or other security in place, potentially restricting other borrowing." Unlike a loan, leasing also keeps other forms of credit available to a firm.

"Not constraining our balance sheet puts us in a stronger position for financing other projects, keeping options open for other investments that help our competitive position."

A major benefit of Econocom's leasing model is a significant tax saving, as leasing payments are fully tax deductible. On a project of this scale, this is an advantage firms can't ignore. "These full allowances for leasing finance versus capital allowances are sufficient to decide on the leasing route," he says.

"There are surprisingly few financing firms who offer backing for software-led projects", says Abrahams – precisely the projects law firms looking for a competitive step up need – which was a key reason for working with Econocom, as well as the financer's ability to provide interim finance during the build stage.

This last point is important. Abrahams likens it to building your own house, in that normally one needs to fund building works before getting a mortgage on the finished building. Econocom offers something quite specialised, he says, in that Econocom paid all suppliers including all contractors during the 'build' phase. "They charged us daily interest on money spent so far. It's not cheap, but it is an enabler." MAB approved each payment, retaining spend oversight. "At the appropriate time, when we are ready to use the system – to 'live in the house' – the five-year lease of the project spend kicks in."

Abrahams says financing for software and services has been a positive experience. "As with any project, business partners must be chosen carefully. You need to have a strong partnership to make it work."

He and the MAB team learned useful lessons during the process. "We have inevitably come out older and wiser. It's very important to understand how their model works, the timetable, their tick boxes and the financing mix of hardware and software. Understand their view of the world, and agree definitions – especially of hardware up front. Try and look at things as they would, then you will get the most benefit.

"It's a 'Ronseal' solution – it does exactly what it says on the tin".

"This technology is fundamental to sustaining our commercial and competitive advantage and for the firm's next stage of growth."

David Abrahams, FD, Matthew Arnold & Baldwin

Find out more about
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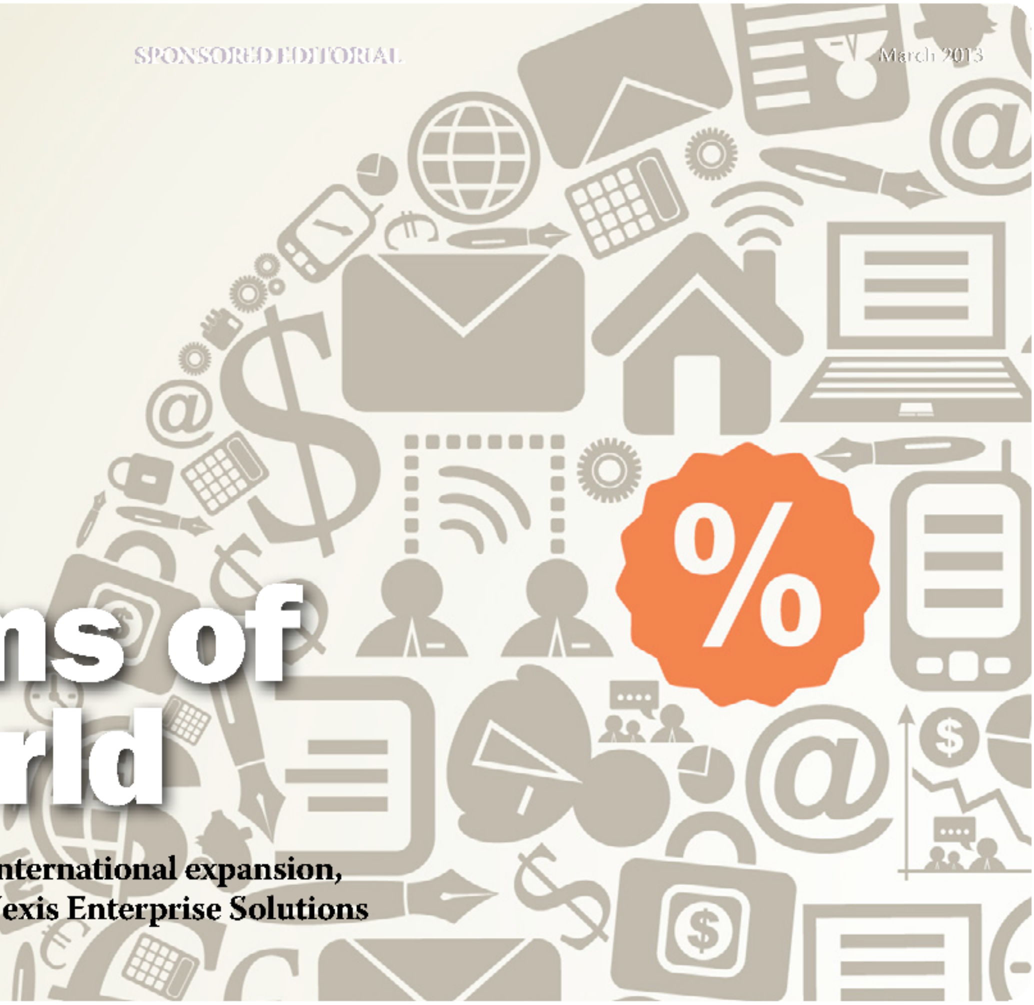

Industry Analysis

Systems of the world

Technology is the vehicle for international expansion, says Fraser Mayfield at LexisNexis Enterprise Solutions

For many large law firms, according to a recent PwC survey, international expansion into new and emerging markets is becoming a strategic priority. Half of the top 25 law firms now source more than 40% of fee income from international operations, and half of the top 10 expect to merge with or acquire an international firm in the next three years.

Success of such a strategy will depend on firms' ability to adapt business practices to simultaneously meet the diverse requirements of local and international markets efficiently and within the regulatory boundaries. Technology can enable this.

Organisations are increasingly implementing global procurement strategies, closing down the traditional method of sourcing legal services. Organisations are now increasingly inviting legal service providers to bid for their business on a global basis, negotiating preferred commercial terms for each region.

For law firms to negotiate the best terms for themselves and their clients, accurate information, often in real time, is paramount. A technology platform that provides an international environment for business, taking into account the vagaries of diverse markets, can provide such information.

But firms competing on an international scale must get their pricing right – pricing that is applicable and appropriate for customers locally and across geographies.

A number of factors require thought here. There needs to be a mechanism that allocates the most appropriate resources to matters without compromising quality or profitability. This requires skills and competency analysis capability on a global basis. In M&A situations, competency analysis will play a vital role in helping firms ascertain where the skills mix within the newly formed entity will be strong or weak, serving as input in steering firms towards winnable and profitable business.

The cash-based approach that is used to determine revenue/profitability, centred on deduction of lawyers' salary from billings or collections, is no longer an accurate measure. Firms need to take into account factors such as the duration of matters, how efficiently the work was performed, what level of personnel were assigned to the matter, and so on.

Applying a project management-led approach to the life cycle of legal matters to ensure that jobs are proficiently executed and reported on is essential. Such an approach will be instrumental in establishing a common methodology to measuring profitability across firms' regional operations.

Insight and awareness of what has worked and what has not is crucial for decision making. International firms need to be able to take transactional data and distil it into a framework that informs the business on all aspects of operation. Firms must be able to evaluate every billable hour – at client, matter or lawyer level – to understand the effect of utilisation, realisation, leverage and cost allocations on profitability and performance.

Performance management

One area that's challenging many international firms is identifying consistent management performance indicators for lawyers, some of whom are used to operating on a cash basis, as in the USA, versus accrual performance metrics often used to measure partner/lawyer performance in the UK.

Standardisation of reporting across jurisdictions is key to ensuring a fair and transparent performance assessment process. The technology platforms that law firms use must cater for these regional variances, while offering robust options to devise other performance metrics that are suitable to the requirements of the individual industries in which they operate.

And, against this backdrop, firms must adhere to evolving country-specific and wider international regulations. If the new draft fourth European Money Laundering Directive, which proposes that legal entities must hold current information on their beneficial owners, with subsidiaries updated daily on share-ownership changes across company groups, is approved, the compliance burden on firms will increase substantially. Ensuring access to specialised dynamic compliance software will be imperative.

Meanwhile, at an operational level firms need to standardise management reporting structures. Finding a technology platform that offers statutory and regulatory compliance capability across major jurisdictions as standard is the only foolproof way of staying compliant. This will also reduce firms' compliance cost burden.

In the international legal arena, we think a robust technology platform that delivers a structured approach to business, based on globally recognised practices while delivering the agility to respond to new market developments and opportunities, is essential. It will allow firms to quickly re-deploy resources, create new offerings or abandon unsuccessful projects, based on business insight and driven by strategic goals. It will facilitate strong leadership, cultural change and provide the confidence to compete in the global market.

Our new business management system, codenamed Nimbus, is one such platform. We'll be releasing more information about Nimbus later in 2013.

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