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## Also This Month

### Upcoming Events

18/10/2012 - [Using Financial Efficiency to Reduce Cost and Increase Profit](#) - Webinar

### In-House Training

Our CPD accredited training can be a cost-effective way to ensure you achieve results throughout your firm that will impact on bottom and top lines. [More information.](#)

### The Profitable Partnerships Programme

This law firm business development programme helps partners and key solicitors to measurably and sustainably improve business development performance and profitability. We deliver tracking of performance across a range of key indicators, from new clients and instructions to monthly billing rates. [More information.](#)

### Blog

Get involved in the debate - read our posts on the issues and challenges confronting your industry, and provide your own opinions on our [Blog](#).

Friday August 31, 2012

## Successful Partnerships

Dear Associate,



This month Barry Wilkinson discusses the dangers of Autopilot "Do No Harm" Management, and addresses the issues of revenue performance and cash flow raised by quarterly reports from both sides of the Atlantic.

As ever, any comments or shares are gratefully received.

The WRP Team.



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## Do No Harm?

This month American writer Bruce McEwen (a.k.a. Adam Smith Esq) has produced a memorable turn of phrase.

In analysing the profit performance of the top 50 UK firms he makes a point that we often have to make in our detailed analysis of firms' results – ***Averages Can Be Misleading.***

He then uses what we would call ABC analysis to split the data into three groups:

- A** – Firms clearly succeeding and prospering
- B** – Firms whose future is unclear
- C** – Firms which appear to be going backwards

### A Great Fork in the Road

His analysis then continues the hypothesis that the legal profession is coming to a great fork in the road – either you make the right strategic moves and go rapidly forward, or you don't – and changes in the legal market will make your future decidedly perilous.

In [a previous article](#) we analysed the future of the legal profession using Charles Handy's Sigmoid Curve.

## Cash Management for Law Firms – Ark Group Sector Report

Recognising our expertise in the area, Wilkinson Read & Partners have written a definitive sector report on Cash Management for Law Firms. The report, available [here](#) from publishers the Ark Group, addresses in detail the cash flow challenges facing legal firms of all sizes, and details specific strategies for improving cash management and achieving rapid yet sustainable results.

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It seems that the combined forces of Deregulation (ABS), Technology and the impact of LASPO will significantly change the business model for a wide variety of legal services. Many firms will be faced with big strategic decisions that they have as yet been able to avoid.

### Autopilot "Do No Harm" Management

Or, to use Adam Smith's phraseology "One way it (the PEP results) cannot be read, I believe, is to think it reflects the distribution where **Autopilot "Do No Harm" Management** is a successful or even a responsible approach".

But here's the rub – and one of Charles Handy's most significant points in his sigmoid curve chapter.

So long as the data apparently shows that the current model is remaining successful (and remember the headline data is that PEP is still increasing!) the incumbent management will not feel impelled to take brave strategic initiatives.

**Autopilot "Do No Harm" Management** is precisely what the partnership structure encourages, and short-term and historic data suggests there is little problem. So how can managing partners create the necessary sense of urgency? After all:

"If the Partners Don't Get It, They Won't Let You Fix It".

### Suggestions for Action

Here are a few suggestions, to which we shall return in future bulletins:

- Ensure all partners understand the attributes likely to distinguish the successful firms of the future from those in decline (our "Independence" series will address this)
- Have partners conduct SWOT and PEST analyses on their departments – they should at least have a view of what is likely to happen in their own world! Ensure these assessments are fully considered by the partnership.
- Ensure monthly management reports give much greater prominence to the volume and value of work taken on.
- Update budget forecasts regularly. Much of industry, and even a few law firms, have moved to Quarterly Rolling Forecasts as a key tool of financial control, rather than relying on outdated budgets.

**Autopilot "Do No Harm" Management** has indeed done no harm for many firms over the years, but it is not the way to manage uncertainty. The level of uncertainty about the future is unprecedented for law firms and risk has to be acknowledged and factored in to the decisions.

Procrastination could prove to be the most dangerous decision of all. As Charles Handy said "if you keep on going the way you are, you will miss the road to the future". (The empty raincoat, p. 49).

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## What's Going On?

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The approach to reporting in the UK is very different to that taken in the USA, where quarterly reporting for law firms is an act of faith.

The Citigroup quarterly survey of law firm profitability has enabled trends to be identified and forecasts to be made, on a far more robust basis than the historic annual data used in the UK.

A few concerning trends have been emerging:

- Revenue collection has grown, but operating costs (especially staff costs) have grown faster
- Billable hours appear to be declining quarter by quarter
- Firms increasingly need to discount fees
- Staff costs contained by failure to pay spring bonuses.

Increasing headcount and operating costs whilst productivity and revenue decline is not a recipe for success, but at least the outcome will not be a surprise.

### **A Step Forward in Law Management**

The recent introduction of the Law Management Section quarterly benchmarking report is a similar step forward.

[The headline extracts from the report](#) have highlighted a squeeze on cash flow, with 40% of firms reporting more cash flow pressures than in the previous quarter. This constrains freedom of action, and anecdotal evidence suggests many partners are losing sleep over this issue.

### **The Danger of Averages**

However, the median fee income is up on last year – so why the cash squeeze? This is probably a case of misleading averages (see article above), and many medium-sized firms are reaching a fork in the road.

Those firms suffering a shortfall in revenue will also be suffering cash shortages due to their inability to flex their costs in line with revenue. The answers here will require an element of surgery.

Those firms that have increased their revenue may in effect be overtrading – growing a firm with a long lock-up cycle without increasing the capital base is bound to test the borrowing capacity to the full. In this case, the answers are far less painful and require a resetting of the lock-up cycle on a far more realistic commercial basis.

### **Take Part**

In time, the new LMS quarterly survey will become truly invaluable – even more so if [more firms take part](#) (and you do not have to be an LMS member to do so).

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## Ask the Expert

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In this [article](#) for the Law Management Section, Barry Wilkinson discusses changes in the market, balance sheet and cash flow management, and cost structures.

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