Leading through change – how is the role of FD evolving? Four FDs give us their take

ALTERNATIVE INSIGHTS

Top 3 takeaways:

1. **Learn to build influence across the firm**
2. **Adapt your KPIs to the new normal**
3. **Don't see data as a purely financial tool**

The role of the legal finance function has changed. Twenty years ago, the finance manager juggled the numbers and turned out a few graphs at the end of the month. Few law firms even had a finance director.

These days, many firms' finance directors are in the front rank of the strategic management team, making decisions, driving change and steering performance. How has that role changed during the pandemic, and how can legal FDs build on the situation to the benefit of their firms?

Alternative Insights spoke with four top Financial Directors in the legal industry about how their planning has changed during the pandemic, and what it takes to be seen as a strategic leader in a law firm.

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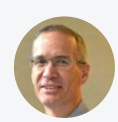

GRAHAM MOORE, CEO

katchr

Planning is paramount:

AN INTERVIEW
WITH STEVE TREGENZA,
FINANCE DIRECTOR
AT NATIONAL LAW FIRM,
CAPSTICKS

CAPSTICKS IS A LEADING UK LAW FIRM SPECIALISING IN THE HEALTH, HOUSING, REGULATORY AND SOCIAL CARE SECTORS. WITH OFFICES IN BIRMINGHAM, CHORLEY, LEEDS, LONDON AND WINCHESTER, IT EMPLOYS AROUND 450 PEOPLE, INCLUDING 55 PARTNERS.

Steve Tregenza joined the firm just over two years ago. He trained at PwC in his native New Zealand, before moving to the UK and taking up a succession of finance roles in the media industry. Capsticks, where he leads a finance team of 20, is his first post in the legal sector.

Like many people, Steve has been largely working from home since mid-March.

"We were all set to begin the staged process of bringing people back into the office when lockdown restrictions began to be tightened up again. We're now back at just a skeleton crew in the offices and everyone else working remotely. I've been in twice in six months," he says.

Pre-2020, Capsticks had enjoyed three years of strong growth. The annual budget was regularly exceeded, and average annual growth was around 10%. The firm's financial year runs from May to April, so Steve and his team had just had the new annual budget signed off when the pandemic hit.

Ordinarily, once the Excel-based budget was approved, it was used to benchmark performance every month, while an online BI tool was used to project performance for the next month, based on the latest extrapolated data. If any significant issues were identified, they would be analysed in more depth, but, says Steve, there was no great need for comprehensive quarterly or six-monthly forecasts.

Lockdown reset

Lockdown, of course, changed everything.

"It was immediately apparent that the budget we'd just approved would need to be reviewed. The new one looked very, very different to the one we'd signed off two weeks earlier, as we wanted to do the best we could to protect the business and the people within it," he recalls.

Work levels have in fact held up very well at Capsticks, and six months into the pandemic, the firm is back in growth mode. The new budget is still a fixed 12-month budget, but it is subject to considerably more scrutiny than previously, particularly in regard to future performance, given the unknown variances as the year progresses.

To prepare the new budget, Steve says the finance function undertook a robust planning process that considered a range of different cashflow scenarios. The first priority was simply to make sure the firm could continue to trade and have enough liquidity to keep going.

"We looked at multiple scenarios in terms of what we thought could happen. The main priority was cashflow and cashflow forecasting. It had to become a lot more robust and more regular than we'd previously done it. We used to do it bi-monthly. In the first few weeks of lockdown, we were doing it weekly. Now we're on a more steady keel, we're doing it monthly," he says.

More scrutiny of data

One area of change was the degree of scrutiny on data. It's a case of same data, more often and more visible, explains Steve.

"We now spend a lot of time looking at the volume of new matters opened as a metric of how much work is coming in, to be able to forecast future hours. That used to be a monthly review and it wasn't really scrutinised that much. We are now doing it weekly and it goes to all the partners in the firm," he says.

The new approach provides a much clearer view of performance compared to budget. In doing so, it gives more opportunity to act quickly if required, based on more robust data.

"It gives us a lot more confidence in terms of whether we're going to achieve our budget. It also gives us the opportunity to make decisions on resourcing in particular divisions much sooner. Rather than report on a downturn once it has happened, we can anticipate it and take appropriate decisions. It gives us as much visibility and warning as possible," says Steve.

It took a couple of weeks for everybody to be set up to work from home, with laptops and other necessary tech being provided by the firm. Although none of the finance team were furloughed, he says it soon became clear that remote working has its limitations, particularly in terms of staff well-being and engagement. Consequently, monthly team meetings in the office have become weekly catch-ups on Zoom; an opportunity for people to check-in, catch up with colleagues and update the rest of the team on what they've been doing.

Looking ahead, the big focus is to ensure a new PMS – Aderant – is implemented on schedule next year. A tricky enough challenge at the best of times, never mind with the vast majority of staff working remotely for the foreseeable future.

"We're looking at a go-live date of June 2021. We may be through the worst of it by then; but we need to plan for a scenario in which we are not. Historically, when you're implementing a new system, you get the whole project team in a room, you have a testing room, you have floor walkers on different sites, it's all very physical. How can we replicate that remotely, if we need to? That's probably going to be our biggest challenge over the next few months," says Steve.

3 Key takeaways:

1. **Scrutinise regularly**
The situation is constantly changing. Don't let your planning lag behind.

2. **Use scenario planning**
Consider a range of different situations in your planning and assess how they would affect the business.

3. **Reassess your KPIs**
The KPIs you used to prioritise might no longer be the most appropriate ones. Don't be afraid to change them.

" THE FIRST PRIORITY WAS SIMPLY TO MAKE SURE THE FIRM COULD CONTINUE TO TRADE

STEVE TREGENZA, CAPSTICKS "

Data is king:

AN INTERVIEW WITH
JULIA WARRILOW,
FINANCE AND OPERATIONS DIRECTOR
AT THURSFIELDS SOLICITORS

Thursfields Solicitors

FOR JULIA WARRILOW, FINANCE AND OPERATIONS DIRECTOR AT MIDLANDS LAW FIRM, THURSFIELDS, THE PANDEMIC HAS HIGHLIGHTED THE IMPORTANCE OF HAVING STRONG, ACCURATE DATA TO INFORM BUSINESS PLANNING DECISIONS.

Before March, the firm was set on a clear growth strategy. It had a three-year plan to increase turnover from £8m to £10m, with significant investment in premises, staff, and marketing. Each year, Julia would draw up a budget, with input from partners, which performance would be monitored against. She would also do a full P&L reconciliation and report into the board at the end of every month. So far, so normal.

Post-pandemic, that has gone out of the window. She did a complete reforecast of overheads and fees. She gets weekly updates on fees and forecasts from practice heads. The uncertainty over what exactly was going to happen meant all investment was switched off. Any 'nice to haves' were cancelled. In terms of reporting, the focus switched to new-business-related KPIs, such as number of incoming calls and new matters being opened, which Julia initially monitored on a daily basis.

"We've totally redone the financial planning, including post-Covid scenario planning that looks at four different income scenarios, ranging from awful to pretty good," explains Julia.

These have not been projected for the full three-year business plan, only for the remainder of this financial year and the following one.

Fortunately, as restrictions have eased in certain sectors, fee levels have quickly picked up, to the extent that residential conveyancing is now double what it was at the same time last year.

Expanding the role of FD

Julia joined the 19-partner Thursfields in 2012 as financial controller, having previously worked in industry and at global law firm, Eversheds (now Eversheds Sutherland). She initially saw it as a stop-gap post, having been used to playing a more strategic role at her previous employers. After talking to Thursfields' then MD, however, she realised they had a shared vision for expanding the influence of the finance function and its key role in driving the growth of the firm. She quickly went from finance controller to Finance Director and then Finance and Operations Director, which also covers business services, such as IT, facilities, and front of house.

"Just before the pandemic, we'd reached a place where the board were ready to push forward the next phase of our growth journey, but we were facing some passive resistance from fee-earners. With lockdown, the resistance disappeared as people realised they couldn't carry on doing things the same old way. They needed to embrace technology and start doing things digitally, implementing technology like Thirdfort to improve processes. We're now at a point where we want to capitalise on those good behaviours and move the business forward, so we're actively exploring new systems and products to embed in our process," says Julia.

LEADING THROUGH CHANGE

Relationship building is vital if heads of finance aspire to play a broader leadership role in their firms, she believes. As her role at Thursfields has expanded, it is a belief she is used to putting into action. She speaks to partners regularly, both formally and informally, and goes to great lengths to ensure she understands their priorities and concerns, and gets their buy-in to the business strategy.

"If you don't build relationships and create that engagement, you'll struggle to get buy-in and you'll just be seen as a 'bean counter'. They need to understand why their budget is at the level it is, why the targets are set at that level, and so on. If you don't bring them on that journey, you'll face entrenched resistance; an attitude of 'I'm doing the best I can'. But if they understand the bigger picture of income, costs, forecasts, it's easier to demonstrate the merits of your argument around fees or personnel changes, whatever it might be," she says.

The other vital part of the leadership equation she says, is data. And lots of it. Law firm leadership, especially in the finance function, is only as strong as the data that underlies decision-making, particularly during times of change.

Firms that have grasped this already, whether in the past few months or further back, will be in a better position to emerge out of the pandemic stronger in terms of their financial management and strategic planning.

"For some firms, these changes have been forced on them, but hopefully those finance directors that didn't have buy-in from the top table will now have that support. Law firm leaders will also realise that the only way you can run anything is by data. Not only in the finance function, but across the firm. Data allows you to make better decisions and more educated financial plans. It underpins your strategies and processes. And it can make sure you are better prepared for future challenges. It's definitely the biggest learning point to come out of this situation," says Julia.

3 Key takeaways:

1 Make the best of a bad situation
Use the current situation to demonstrate the benefits of doing things differently, whether it's changing the management structure or embracing technology.

2 Build influence
Becoming a strategic leader in your firm means expanding your influence outside the finance team.

3 Dive into your data
Better data means better, faster and more robust decisions, which can make all the difference during challenging times.

> "WE'VE TOTALLY REDONE THE FINANCIAL PLANNING, INCLUDING POST-COVID SCENARIO PLANNING THAT LOOKS AT FOUR DIFFERENT INCOME SCENARIOS, RANGING FROM AWFUL TO PRETTY GOOD."
>
> **JULIA WARRILOW, THURSFIELDS SOLICITORS**

IN PARTNERSHIP WITH: katchr

Building influence in the boardroom:

AN INTERVIEW WITH
TIM SARSON,
FINANCE DIRECTOR
AT BIRKETTS LLP

Birketts

TOP 75 UK LAW FIRM BIRKETTS HAS SEEN ITS INCOME ALMOST QUADRUPLE OVER THE PAST 12 YEARS, FROM AROUND £15M WHEN FINANCE DIRECTOR TIM SARSON JOINED IN 2008, TO OVER £58M IN 2019/2020.

During that time, it has grown to 750 employees, 70 partners and five offices – four in East Anglia and a recent merger with a specialist insurance law firm in London.

As FD, Sarson heads a finance function of 20 people, including 11 that handle client funds. Although an integral member of the senior management team, he is not a partner in the firm. A situation which could have the potential to create a certain amount of friction. The fact that it doesn't is testimony to Tim's ability to successfully navigate a course between authority and ownership.

"Law firms are very different to most other types of businesses. A typical owner-managed business might have three or four people with an equity stake in it. We have 70, but to allow them all to influence the day-to-day running of the business would mean it never moves forward. They have to relinquish that control – and that means you need to gain their trust," explains Tim.

Gain the trust of partners

So how is that best achieved? Lawyers are renowned for being detail-focused and fairly conservative – it comes with the territory of the job – so possibly need more reassurance than most that the person they are relinquishing control to is not going to squander it.

At Birketts, the partners are involved in agreeing the firm's strategy, but relatively few of them are involved in drawing it up.

On the financial side at least, Tim drives the strategy development and, together with his team, is responsible for executing it to enable the firm to achieve its objectives. Doing that, however, means earning the trust of partners and gaining their buy-in to what he's trying to do, which in turn comes down to building influence across the firm.

"The first thing you need to do is show them you're not just there to add up the numbers at the end of the month and pop them into a graph. You're there to understand the business – their business – and how to make it stronger. You need to take the time to get to know the individual partners, what makes them tick, what their priorities are. Without that, you can't build influence effectively. They will see you as a provider of useful financial information, but not as someone who can advise them and be trusted to exert influence at a more strategic level," says Tim.

He continues: "It's a listening game. I would be surprised if there is a quarter where I have not spoken to every partner. You need to give them time to tell you what their challenges are. Go and talk to them. Pop in for a chat rather than spending another hour on a spreadsheet. Spend time listening and understanding what their issues are. Don't look to say 'no', look to say, 'How can I help you?'".

Shift in mindset

It requires a shift in mindset not only on the part of the FD, but also on the part of the partners. That's the big difference between a finance director and a financial controller or manager, he believes. The FD is tasked and trusted to take on that more strategic advisory role. If the firm and its partners are not ready to relinquish that control, the finance function is more likely to be led by a financial controller or manager, whose focus is on the numbers, not on wider strategy.

Getting the balance right has never been more important than during the last eight months, as firms face unprecedented pressure on their finances, particularly during the early weeks of lockdown.

The last thing lawyers wanted to be worrying about at that time was whether there was enough money to pay the bills and keep the taxman happy. They needed to focus all their energies on delivering excellent client service, winning new business, finding the best solutions for clients.

Difficult things to do at the best of times, without worrying about who's going to pay the cleaner or which conferencing system the firm should be using.

"In a firm our size, that's taken as read. But it may be harder for smaller firms to make that leap," says Tim.

"It's a shift we've seen at Birketts over the past seven or eight years. When I joined, the partners set the strategy and the directors implemented it. Now, the strategy is set by the management board and then approved by the partners. It's a subtle but significant change. Once the strategy is approved, partners can focus on growing their practice, and we can focus on executing the strategy. But to do that successfully, partners need to have full trust in the management board - particularly non-partner members like the FD."

3 Key takeaways:

1 Understand the business
To be respected as a strategic advisor, you need to show you understand the business, its challenges and its goals.

2 Make friends with your fee-earners
Make the effort to go and talk to fee earners regularly about their priorities and concerns.

3 Be a facilitator, not a blocker
Don't just say, 'no', think, 'how can I help you achieve that?'

> "PARTNERS ARE INVOLVED IN AGREEING THE STRATEGY, BUT FEW ARE INVOLVED IN DRAWING IT UP"
>
> **TIM SARSON, BIRKETTS LLP**

Diving into the detail:

AN INTERVIEW WITH
LINDSEY WOODLAND,
FINANCE DIRECTOR
AT TINSDILLS SOLICITORS

tinsdills solicitors

"THE FIRST BIT OF PLANNING I HAD TO DO AFTER LOCKDOWN WAS ANNOUNCED WAS TO THROW ALL OUR EXISTING PLANS IN THE BIN AND START AGAIN!" RECALLS LINDSEY WOODLAND, FINANCE DIRECTOR AT TINSDILLS SOLICITORS.

The firm, which has 13 directors and offices in Staffordshire and Cheshire, was in the midst of planning for its new financial year, beginning at the end of April. The planning process at that point was typical of many firms of a similar size, based around fee budgets and cashflow forecasts.

"It was quite rudimentary," says Lindsey, who leads a finance team of four, previously five, staff. "We would approach all the department heads and ask them to forecast their revenue for the next 12 months. We'd look at what they achieved during the previous 12 months, any changes to their team or capabilities, and agree a target for the coming year. We'd do that for every department and then use it to build a firm-wide fee budget. We'd then go through a similar process for costs. We were halfway through that process, but it was all binned within a few hours," she says.

Creating a 'corona forecast'

In its place, Lindsey drew up what she calls her 'corona forecast', initially for the six months from April to September. Fee estimates were colour-coded green for the first two months, amber for the next two and red for the final two, indicating the degree of certainty in the estimates. These would be fed into a cashflow forecast. In addition, she developed a simple modelling tool that enabled her to calculate, for every member of staff, the financial impact of them staying, leaving or being furloughed. She also built a month-by-month fee budget for each fee earner.

"These tools have proved incredibly useful and we will continue to use them going forward. It means we've got a virtually real-time cashflow planner. In the past, I would have done my cashflow forecast at the beginning of the year and just explained the variances on a monthly basis. Whereas now, each month we are keying in the actual fees and costs and replacing them month on month, so we've constantly got an up-to-date picture of our cashflow," says Lindsey.

This has provided a more secure foundation for planning ahead as the firm moves through uncharted territory.

Creating these tools – largely in Microsoft Excel – to provide this 'live', granular information was a task that Lindsey undertook herself during the first few hectic weeks of lockdown. The primary focus of the department heads was to make sure their departments were able to continue working remotely. But once that was done, Lindsey knew that expectations on the finance function would be high as the firm – one-third of whose income comes from conveyancing - planned its survival strategy for the months to come.

The more data-driven, rolling forecast planning approach implemented since lockdown is one she expects to continue as things return to normal. It is something she has done in previous roles in much larger organisations, but there has never been a need for it at Tinsdills, a very stable business employing around 100 people. The pandemic, however, has demonstrated the longer-term value of such an approach.

"Next year, I expect we will keep our whole year budget, but at the same time, we will also run forecasts. So instead of having the two columns in the spreadsheet, actual versus budget, we will add a third column, forecast. It will enable us to see, this is what we thought at the beginning of the year, this is what it is, and because of this, this is what we're now forecasting," she explains.

Adapting to new ways of working

As well as transforming Tinsdills' approach to planning, the pandemic and the subsequent move to a remote working environment also brought changes to established ways of working. Most notably in terms of cash handling.

Immediately prior to lockdown, the firm had moved all its payments online, replacing a mixture of cheques and physical payments via a card terminal in the office. It was a move she had been advocating for some time, and the decision was justified immediately as restrictions around lockdown came into effect.

She believes that many firms – and their stakeholders – become wedded to a certain way of doing things, because that's the way it has always been done. Whereas in reality, there are much more efficient and effective ways to achieve the same objective.

For example, after moving to online payments, the firm's auditor raised a query about the fact there was no longer a signed payment authorisation for each payment. It's typical of some of the ingrained processes and attitudes common in many law firms – and many finance functions – that have been swept away by the pandemic.

"I had to point out that, while there might not be a signature, the person needed to log on to the bank's payment system, log on to a PINs-entry machine, input the log in number, then a password, then a one-time password. Surely that is more secure and more traceable than a piece of paper with a signature, which more often than not is little more than a squiggle?" she says.

> "MANY FIRMS BECOME WEDDED TO A CERTAIN WAY OF DOING THINGS"
>
> **LINDSEY WOODLAND, TINSDILLS SOLICITORS**

3 Key takeaways:

1. **Be ruthless**
Lindsay helped to keep the firm on track by quickly ditching her just-completed planning and starting all over again.

2. **Update your data as often as possible**
The more up-to-date the data is, the more accurate a picture it can provide of your current – and potentially future - performance.

3. **Prioritise the outcome, not the process**
Don't be afraid to change the process if it helps you achieve the outcome more effectively or efficiently.

The future is difficult to predict:

GRAHAM MOORE, CEO OF KATCHR

If the last 6 months have taught us anything, it's that the future is difficult to predict. And yet we already knew that, didn't we? That's why most of us spend time analysing historical data. What's already happened is easy to measure, it is solid and re-assuring. Predicting the future is just too flaky. It's not an exact science so it jars with our analytical brains.

In our work with law firms, one of my most common observations is that too many firms put too much emphasis on backward-looking KPIs and too little on forward-looking ones. Hours recorded and value billed last month might be (relatively) easy financial data to report on, but how much action do they drive? How many levers do they offer to management for improvement?

Future focussed KPIs help us understand future opportunities and risks by using appropriate historical data to predict what might happen. For example, if our client satisfaction score is trending downwards, that may not be reflected in last month's billing, but it certainly will be in future months. But with such a predictive indicator, there is time to take action before that impact is felt. Similarly, with turnaround time on cases, if time from instruction to billing is trending upwards for a given work type, there are potential future problems (with both cash and client satisfaction) building that require short term action.

Law firms all have access to large volumes of data about the matters they handle, the people that handle the matters, the people that instruct them, the prices charged and the results achieved. If firms can learn from that data, they can surely make better decisions moving forward.

One of the challenges of using data for prediction is the complexity of the models. Producing a historical billing report is usually straightforward – the data usually comes from the practice management system in a fairly useable form. Manual intervention is only required for presentation and occasional tidying up. This means the reporting intervals are usually measured in days or weeks. Cashflow or profitability forecasts on the other hand usually require large amounts of manual input, cross referencing data from multiple sources, resulting in a complex mesh of inter-related (and often fragile) spreadsheets. However, automation of this process is within the reach of all firms these days, which means that a quarterly, or half-yearly budget review, and a monthly (at best) cashflow forecast, can be replaced by literally daily updates with zero manual intervention. More regular review of up to date information enables data to be properly used to guide decision making.

For all law firm FDs, faster access to future-focussed management information is surely an outcome worth striving for.

Conclusion

A catalyst for change

All four of our contributors regard the pandemic as an opportunity for law firm FDs to truly demonstrate their value.

The continuing uncertainty in the wider economy and the priority focus on finances means many firms are looking to the finance function for more than conventional reporting and analysing.

The planning, and in particular, the forecasting aspect of the finance function needs to be at the very heart of law firm business strategies going forwards in a way that previously, in many firms, perhaps it wasn't.

For Lindsey Woodland a Tinsdills, the immediate priority when lockdown hit was to make sure she had the answers to the questions she knew would come once the situation stabilised.

"For the first couple of weeks, department heads were too busy sorting out their own departments to make too many demands on me. But I knew that as soon as everyone's heads stopped spinning, I would be the first person they would ask about how we were going to get through this. What would the finances look like in 3, 6, 12 months' time if this happens or that happens. I needed to have those answers ready," she says.

Making changes for the longer term

Having set up the software, implemented the processes and captured to provide those answers, the value of having solid forecasts to underpin decision-making is not going to vanish when the pandemic is eventually over.

"We've got to take some positive things out of this situation," says Steve Tregenza of Capsticks. "Part of that will be the ability to know what data drives the business and know what to look at, how often, how much."

And that's not only a task for finance directors. It is something the whole senior management team should be involved in, taking the data out of the finance silo and integrating it into the general strategic planning development of the firm.

It's increasingly common for larger firms to create new data-focused roles like data management officers or innovation directors. But all senior management roles need to be focused on data, says Thursfield's Julia Warrilow.

"If firms have been switched-on throughout this pandemic, they'll realise that data allows you to make more educated financial planning, which facilitates more rigorous strategy planning and process development. That should have been a big learning point for all law firms over the past few months," says Julia.

> FORECASTING NEEDS TO BE AT THE VERY HEART OF LAW FIRM BUSINESS STRATEGIES.