



The Data Driven CFO

The evolving
role of financial
leadership in
the legal sector

WHITEPAPER

Modern demands of Chief Financial Officers

Introduction

Today, the role of the Chief Financial Officer (CFO) within law firms is more demanding, more broad-based, and more critical than ever. CFOs must navigate an extremely challenging macro-economic landscape, while keeping tight control of financial governance and operational excellence. They are responsible for maintaining profitability despite escalating costs. They must ensure that processes are optimised during a period of shifting workplace norms to safeguard financial health and guarantee compliance. Moreover, they must retain visibility, both of present circumstances and the likely outlook, at a time of rapid and often unpredictable change.

Despite these challenges, there is much to be positive about. Recent research by Thomson Reuters among mid-sized law firm CFOs and COOs indicates that they are broadly confident about the future financial performance of their firms. Most leaders are predicting high to moderate growth across Key Performance indicators (KPIs) such as revenues per lawyer, profits per equity partner, demand for services, and negotiated billing rates over the next three years. Clearly, there are opportunities to be seized in this climate.



However, several threats are looming too. Many expect direct expenses and overheads to increase, while a sizable minority are forecasting contraction, flat or low growth in productivity. With salaries spiraling and concerns over whether firms have adequate capacity to meet demand as competition for talent heats up, finding ways to enable lawyers to be more efficient in their work and shortening the billing and payment cycle is a major preoccupation for many CFOs. And, of course, this applies to their own team's activities too, as they seek to keep finance headcount at sensible levels, while making sure that the finance function overall adds value to the business.

In this white paper, we explore some of the financial, operational, commercial, and strategic imperatives that are prominent on CFOs' agendas in the current climate and look at some of the ways they can be addressed.

Financial and Operational Imperatives

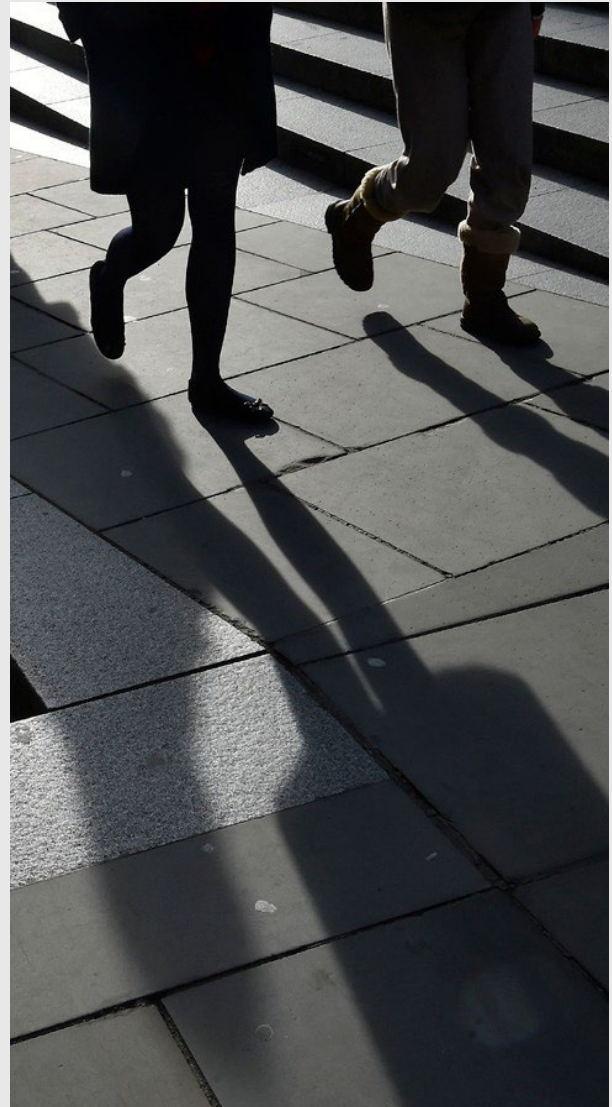
The people piece

One of the current challenges facing law firms is recruitment and retention at a time when workloads are heavy, with many junior lawyers routinely working extremely long hours¹ and wage inflation (and inflation more generally) at historic highs. Talent is at a premium, and competition between law firms for the brightest and best lawyers is fierce, pushing salary levels for newly qualified lawyers at some firms well above the \$200,000 mark². According to the 2022 Thomson Reuters Institute report on the State of the Legal Market, 86% of law firm leaders see lawyer recruitment as the greatest risk to firm profitability. In a separate study, around seven in 10 CFOs and COOs surveyed by Thomson Reuters say they see associate salary increases as a major risk, are worried about staff poaching and their firms' lack of capacity to meet client demand and have concerns about lawyer productivity.

"The more we can do on the front-end to ensure an invoice complies with client guidelines (even at the point of time entry) will save a lot of time, and ultimately money, by reducing the risk that the invoice might be written down. This is not just about efficiencies, it's about real dollar costs to the firm. We strive for top-notch service both on the legal advice side and on the administrative side, so being better able to adhere to client guidelines also cements positive relationships with them."

Lisa Jessup, Chief Financial Officer, Foley & Lardner

Finding ways to keep costs contained while easing the burden on lawyers by automating routine, repeatable processes, such as bill preparation, streamlining workflow management and time-recording, and increasing transparency is essential. By enabling lawyers to do their work (both legal and administrative) better, with fewer unnecessary distractions or impediments, they become more efficient, freeing them up to concentrate on higher value activities, maintaining healthy profit margins, and keeping clients happier. They also are more likely to avoid stress and enjoy their work more, increasing loyalty and job satisfaction and reducing personnel churn.



CFOs equally need to apply the same efficiency/effectiveness lens to the finance function itself. Keeping it lean while maximizing the support it provides to lawyers and partners is a tricky balancing act. Again here, tools that provide transparency and enable tasks to be automated are critical to save time, deliver business intelligence quickly, and increase accuracy. One recent survey³ suggests that one-third of firms intend to increase headcount in their finance function within two years, with almost one in ten planning an increase of up to 20% this year. That may be necessary, of course, but the reality is that CFOs will want to keep additional resourcing to a minimum.

¹ Source: Financial Times

² Source CityAm

³ Source Totum Partners

Optimising payments and other processes

How to get paid faster remains a persistent preoccupation. The lock-up period for the UK's City law firms is currently averaging 150 days according to accountancy firm Crowe⁴. At a time when salary rises risk putting profitability under extreme pressure, improving WIP management, minimizing the risk of contested bills, and reducing time taken to convert work-to-cash are critical considerations, impacting KPIs, partner remuneration levels, and equity earn-out. With the right approach, underpinned by smart technologies, it is possible to turn this from a threat into an opportunity to get paid faster, smooth out cashflow, and improve the operational health of a firm.

All this is just one key part of the excellent governance, refined, cost-efficient processes, and clear audit trail that are front of mind for CFOs today, so that they always have real-time oversight and control. While keeping a tight rein on costs is a top priority, ensuring regulatory compliance and reducing risk is another. The CFO will want to be in a position to highlight systems and processes that are working well and replicate them, while being able to spot those that aren't performing optimally at an early stage and rectify problems, more important as firms navigate the hybrid working model.



Having the right data at hand is key. CFOs need to ensure that they, lawyers, and other decision-makers, can access the information they need, in an easily digestible way, on whatever platform is most convenient to them, wherever they are. Therefore, it's important that practice and financial management systems are open and connected, so that they can integrate seamlessly with other legal and business technologies from the same or other providers, such as Microsoft® Teams, via suitable application programming interfaces (APIs).

"We can schedule metrics in 3E® to create and share reports with the partners and lawyers, so they have up-to-date information readily available whenever they want it, without having to call up the finance department and have them pull information together for them. It's all displayed on their dashboards. 3E also offers good capabilities to connect to other software, since there are stock interfaces for it to do that. This is really important."

**Jari Sairanen, Head of Finance and Control,
Helsinki, Hannes Snellman**

⁴ Source: Crowe

Commercial and Strategic Imperatives

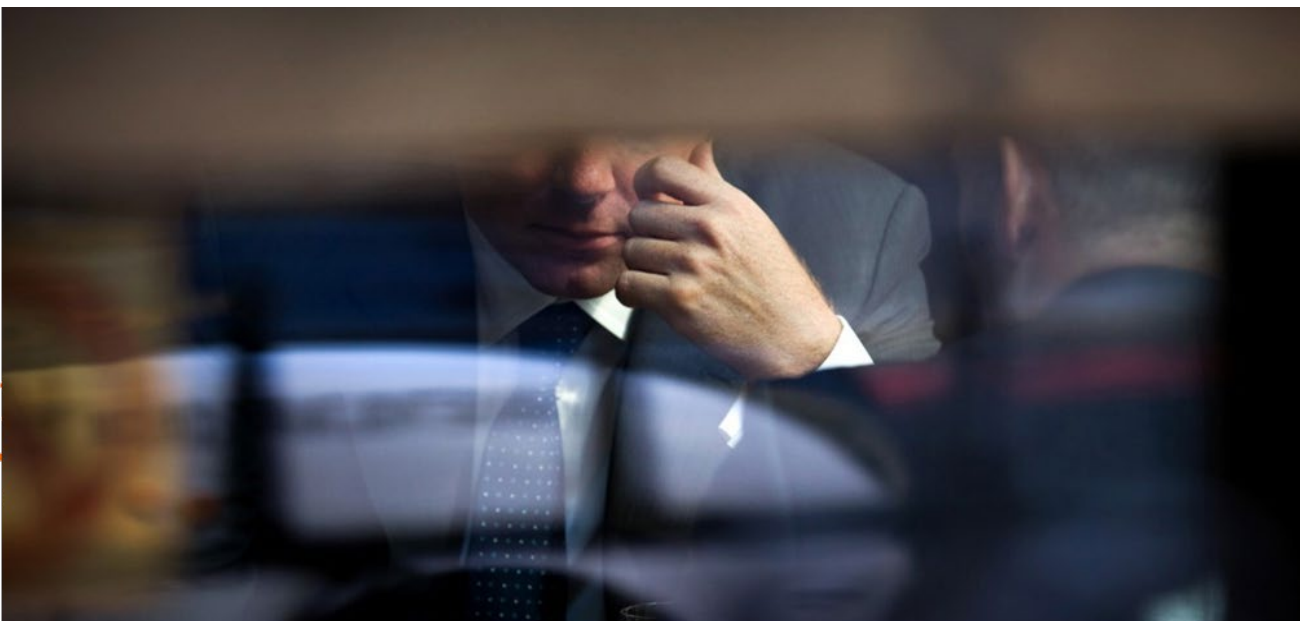
Recent years have seen heightened volatility in the economic landscape, with budgets and forecasts having to be re-run on a regular basis as the outlook changes, sometimes rapidly and radically, making it difficult to model for future developments and needs. At the same time, it is more vital than ever that CFOs can highlight bumps in the road ahead—or indeed spot and evaluate opportunities—to enable informed management decisions to be made about the day-to-day operations or the strategic direction of the firm. The ability to adjust data with smart solutions, to create simple visualizations and automate reporting is the key to overcoming assumptions with fact-based data. After all, CFOs want to spend as little time as possible in the “weeds” of their firm’s financial system. But they, and the rest of the firm’s senior leadership, do need a large amount of consumable information at their fingertips.

“I can be assured that I’m looking at up-to-date, accurate information which can be sliced and diced according to requirements. 3E is a very flexible system that has certainly benefited our decision-making and allowed us to make decisions more quickly.”

Roland Millar, Finance Director, Thomson Snell & Passmore

Accessible data is particularly important when it comes to major commercial transactions, such as prospective M&A activity. This has been gathering pace over the last year, with as many M&A deals involving UK Top 100 law firms taking place in 2021 as in all of 2020 and 2019 put together, according to Jomati Consultants⁵. For any law firm considering such a transaction (and for their CFOs in particular), managing the costs of consolidation is as important as realizing the prospects for growth. Both will rely on optimizing systems, clear financial and operational data, and accurate budgeting, forecasting, and modelling to underpin success.

Investment in technology to deliver these benefits must be deployed smartly and strategically for optimal results both immediately and in the years ahead. Vendors must have a proven track record, invest heavily in product development, and innovate from a high benchmark, with a robust and effective roadmap for future enhancements, so that solutions deployed today adapt to the requirements of tomorrow.



⁵ Source: Jomati Consultants

Taking Practice and Financial Management to the Next Level with 3E

CFOs and finance teams need best-in-class financial and practice management systems to provide their firms with the necessary visibility and accountability so that they can meet today's needs while enabling tomorrow's growth.

3E is the preferred law firm and financial management solution for large and mid-sized law firms to improve performance and connect all critical areas of their operations. As the market leader, 3E enables firms to drive operational efficiency, profitability, and growth through its sophisticated architecture, advanced analytics, industry-leading security, configurable platform, and complete mobility.

3E enables teams to streamline and automate tasks, improve processes, and provide fast, proactive service to clients. It delivers the business intelligence and insight needed to make timely, informed business decisions so that firms can gain a competitive edge now and keep it sharp in the future.

3E USE CASES INCLUDE:

- **Gaining complete visibility and control of your firm's financial health**
- **Meeting billing and cash management objectives with robust functionality and tools that help you shorten the work-to-cash cycle, improve time capture, and swiftly create and distribute invoices**
- **Making timely and accurate data-driven decisions, utilizing advanced reporting capabilities, and delivering insights in near real-time**
- **Accessing all business management activities from a single, intuitive user interface for maximum efficiency and insight, including time & revenue management, document management, and key performance indicators, all in a single view**

A trusted resource for revenue handling

65% 3x \$30.6bn

UK top 25 law firms use 3E

Revenue handled by 3E compared to next competitor in top 25 law firms (UK)

Value of revenue global top 20 law firms process annually through 3E

"An interoperable operating system"

"In the finance department, we are always looking for ways to support our firm better, whether that's through finding ways to improve important day-to-day business practices or looking out for the bigger picture. We felt 3E could grow with us better than anything else on the market. We needed a solution with scope to expand."

Lisa Jessup, Chief Financial Officer, Foley & Lardner

3E Case Study

FULL-SERVICE FIRM HOWARD KENNEDY DELIVERS IMMEDIATE AND FUTURE OPERATIONAL BENEFITS WITH 3E

Howard Kennedy was looking to rethink existing processes, moving away from manual, paper-based systems to create workflow efficiencies and foster greater productivity. It wanted to support change within the business over time by implementing a solution that could develop with the needs of the firm and external market drivers.

The firm chose 3E because it would be “future proof.” As a configurable platform that has a clear roadmap for future development, it offers a comprehensive range of functionality that supports their business needs. It was delivered on time and budget, with full support included. The initial goal of moving from manual to digital processes has evolved to deliver a wider range of benefits.

“3E has been a game changer. I’m not sure how we’d operate without it. It’s the perfect solution for a firm of our size. It takes away all that admin from partners and fee earners, so that was a big gain for us on that side.

It’s more efficient and more accurate, and that has a knock-on effect in terms of our cash flow and our working capital,’ because clients are paying more quickly than they did before, the bills are going out more quickly, and we can get a lot more payments through the system. The workflow solution was hugely beneficial.

We were very keen to have some off-the-shelf functionality, so the out-of-the-box solution worked really well for us rather than having it designed. It’s also the security of having something which is now future proof for the next 10 or 15 years.”

Paul Roberts, Chief Operating Officer, Howard Kennedy

3E CLOUD BENEFITS:

- **An open and scalable cloud foundation** – for faster payment, positive cash flow and reduced burden on lawyers
- **Powerful reporting and dashboards** – driving operational efficiency improvements:
 - » Instant, easy access to enhanced real-time information on operations
 - » Detailed insights on specific areas, such as productivity, billing and capacity
- **Sophisticated budgeting and forecasting options** via Advanced Financial Solutions
- **Efficient, secure remote working** – 3E’s benefits were proven when COVID-19 happened six months after launch
- **Platform for agile innovation** – for customizations, upgrades and add-ons:
 - » Financial reporting and time recording
 - » Keeping up with regulatory changes
 - » AI-driven automated document processing
- Skills transfer via **comprehensive training resources** and **expert support** for the first three months



Conclusion

Law firms need stability in an era of disruption. That requires visibility, accountability, and adaptability to create faster, more efficient processes; increase productivity; improve financial health; and deliver on strategic goals. Now more than ever, the finance function, led by the CFO, needs to add real value to the business, so that leaders can take smart decisions, head off threats, and seize opportunities.

For CFOs, the arrival of new challenges doesn't mean that the old ones disappear, as pointed out in a recent report from Raconteur on the Rise of the Legal CFO⁶:

"Finance leaders in law firms must continue to juggle the traditional elements of their functions with an enlarged commercial scope, underpinned by technology. As financial leadership positions extend their reach into other aspects of law firm management, their development will play a vital part in driving firm-wide business success and growth. The key to success in this development is, like so many other aspects of business today, set to be driven by the disruption caused by new technologies."

Today's CFO must balance diligence with innovation to deliver both resilience and growth, harness the firm's commercial drivers, contribute to its strategic vision, and oversee a wide range of systems and processes that will support business success both now and in the future. As the CFO job description gets longer, having the right toolkit to address all these different imperatives is vital.



To find out how 3E can help your firm meet the demands of today's legal landscape, contact **Thomson Reuters** today.



⁶ Source: Raconteur