FINANCIAL MANAGEMENT.
Quality management attracts business
(Jan 05)

When asked to draw a triangle representing a partnership hierarchy and place within it the components that make up a successful practice the usual result is for partners to place themselves at the top, associates on the next level, followed by other fee earners and lastly support staff. Rarely does any firm place clients in the top place despite their critical importance to success.

This juxtaposition goes to the heart of how some solicitors see themselves in terms of providing service to clients. In the course of business a practitioner learns much of the client's activity, performance and behaviour. Paradoxically, a client learns little or nothing about his adviser's performance or operational capabilities.

A client who is moving from one part of the country to another or who has decided for whatever reason to change legal service provider is faced with a near deafening silence in the search for reliable information on law firm performance and capabilities. Having canvassed a number of firms, from large to small, many share a view that this is not important as someone – a banker, an accountant and old school friend – can always make a recommendation. This is hardly a professional or assured basis for referral when a major economic or personal decision is at stake. It is surprising no better 'system' has emerged.

Humour me for a moment and consider the following scenario. A business person travelling in NZ from overseas may do what many of us did; decide to settle here or at least make an investment. Apart from the tedious bureaucratic steps that have to be surmounted it is inevitable that a lawyer is going to be required to deal with such mundane things as tax advice, conveyancing, business purchase/greenfield investment, employment law advice, will drafting etc etc. How is this person going to arrive at the door of a law firm best able to meet his/her needs? This real situation occurs thousands of times every year. Add in the number of New Zealanders who seek new or additional legal advisers every year and you get some idea of the volume of 'mobile' instructions. Robust mechanisms for capturing this mass of instructions are well nigh invisible. Fortunately the reported 'failure' rate appears low but the anomaly remains.

Where is the investor, traveller or disgruntled client to turn for information? The internet? Hardly, when only about 20% - 25% of firms have a web site and several claim to be the 'biggest, best, brightest', so how is a client to make an informed choice?

Perhaps it is worth considering what it is about the law firm/client interaction that creates the solicitor client relationship. One way of doing this is to look into marketing and other research. Unfortunately when it comes to law firm and client relationships much of the research comes from negative rather than positive experiences. However, there are a number of 'givens' when it comes to selecting any service provider. The client looks for a combination of factors including some or all of the following:

- Personality
- Technical competence
- Timeliness
- Value for money & cost
- Efficiency & productivity
- Profitability
- Experience
- Communication skills etc.

There is no order to the list as each client will have different priorities; some will be making repeat instructions, some will be 'first timers', some will making 'distress' purchases etc.

'Quality' has been left out, as a majority of clients lack the relevant skills to make accurate qualitative judgements on legal or other professional services. Even businesspeople are unable to make accurate qualitative judgements on matters such as distribution agreements, licences, lease conditions or business sale and purchase conditions.

This leaves the question how can a client reasonably and objectively select a lawyer? It is worth noting at this point that New Zealand is unique in having no independent commentators who publish generic law firm performance information, nor does any fiscal data get published, even in aggregated format. There is no transparency and according to some practitioners this is a good thing as performance data is somehow 'sacrosanct' and private.

Here is where I disagree wholeheartedly, for this attitude contrasts with the economy at large, where transparency and good governance go 'hand-in-hand'. If I were in practice in New Zealand I would be leading the charge to publish any details that would enhance my profile. Looking overseas the level of information that individually named firms are prepared to publish includes:

- Fee income (in $s)
- % of fees by work type
- Profit per partner
- Margin
- Fee Income per fee earner
- Costs per fee earner (in $s)
- Work in Progress (in $s)
- Work in progress volume
- Debtor volume (in $s)
- Debtor days etc.

Whilst some of the information enables rankings to be produced no judgements are made on firms that have higher/lower performance levels – each firm is 'unique' and sound reasons may explain variations.

In addition to the above, information is readily available on clients – sometimes by name but always by industry focus.

Clients are keen to have any information that can confirm the business competence of their service provider and it is not unreasonable for them to ask for information on a range of management measures, from staff turnover to salary/remuneration, utilisation, HR 'leverage', debtor policy, etc. If Best Practice standards were published both sides of a transaction would benefit from an increase in transparency. The client gains confidence that the business skills supporting the legal knowledge are sound and the firms themselves can observe performance trends and put remedies in place if sub-optimal performance is identified. Left as it is at present everyone is in the dark.