

Maximizing Your Firm's Profit with Better Financial Data

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Do you understand the difference between cash flow and profit? Can you read a financial statement? Would you like to improve the profitability of your firm? This paper is for those who excel at practicing law (or any other trade for that matter), but who would like to improve their financial management skills. Understand the How's and Why's of structuring an effective finance and accounting department and be introduced to tools and techniques to plan for, measure, and promote financial success.

If you are like many practicing attorneys in small law firms, which we define as those law practices with 5 or less attorneys, you are passionate about practicing law but may not be so passionate about administering your law practice. Your passion led you to law school; you probably didn't go to business school. Your knowledge of running a firm is likely to be less a function of scholastic training and more a result of on-the-job training learned from personal experience (the school of hard knocks) or from other more experienced attorneys.

Our goal is to focus you on a simplified, common-sense structure that empowers you to leverage the full benefits of financial management while maximizing your time practicing law. Indeed, administering the business aspects of your law firm should not take you away from your ability to generate more revenue for your firm. The fact that you are successfully practicing law is impressive by itself but practicing law and running a law firm concurrently is even more impressive – and perhaps for some who are new at this, even intimidating.

My premise is that you are experts in your chosen fields and are looking for basic guidance – maybe some fresh ideas – from a financial professional like me. I am not expecting to 'wow' you in this finance presentation today with my professionalism and polish as many of you are very capable, polished presenters yourselves. You do not want me to 'shock and awe' you with an impressive litany of terms; rather, you would like to be equipped with practical knowledge that includes some basic tools and techniques to improve the management of your firm and create an environment among your associates that fosters financial success. I will strive to use basic terminology that is intuitive to you and purposeful for your firm.

By way of background, I come from a family of industrial entrepreneurs with a few lawyers sprinkled in for good measure. One brother is an intellectual property attorney; another is a district attorney. In my networking circles, I often associate with attorneys who tend to be well connected and have great ideas to share. Some of them have been very helpful to me in constructing this presentation.

My career began as a financial professional reconfiguring finance and accounting departments in big companies and eventually, working for a Big 4 management consulting firm where I specialized in financial management and business process design. I had the privilege of working in a wide variety of geographies and industries with large companies with large budgets. During that time, I noticed a disparity between the quality and volume of financial talent in large companies and the lack of certification and training among the finance staff in small companies. It seemed to me the large companies were better run and less prone to financial mistakes due to the immensity and variety of talent that they could accumulate. Small companies, on the other hand, seemed to be at a disadvantage as they lacked the people and money resources to gather the best management practices and implement them in their companies.

Sensing that small companies needed my help more than large ones, I left big-firm life for the entrepreneurial world. Rather than participate with a team of consultants assigned to one firm, I became the singular management consultant with whom many firm owners would come to work. I began packaging my financial management approaches in ways that were digestible and affordable for small-to-medium-sized firms. I became determined that no small firm under my influence would be regarded by its industry peers as small-minded with weak financial management practices. I developed, tested, and refined a variety of tools and techniques that originated from world-class organizations and repurposed them to small-to-medium-sized firm owners. My goal was to teach firm owners how to control their firm while minimizing any resources expended to establish that control.

To effect consistent, meaningful change across the entire finance department and, ultimately, across the entire firm, these concepts had to be packaged into high-quality, fully integrated, budget-friendly solutions. My goal has been to develop a set of methodologies so useful that I (or anyone else) could walk into any firm and improve the financial management therein. Over the last 15 years, I have personally refined this methodology with nearly 30 companies while also learning from many other like-minded professionals. I hope this experience and refinement will be useful to you today.

Let's agree to meet each other on equal footing. I will focus on the principles of financial management so that you can improve the management of your firm without succumbing to the shortcomings of trial-and-error financial management that erroneously relies on 'winging it' and on utilizing sometimes contradictory advice from financial professionals who might disagree on how to spend your precious time and money. The concepts of what we will discuss today – profit, cash flow, and the differences between the two, financial statement literacy, and financial metrics – are grounded in basic principles used by all firm owners whether they be lawyers or owners/operators of other types of firms.

The principles do not change, but sometimes the flavor of how those principles are administered can change according to the expertise and emphasis of the financial expert. Not every financial expert is a good fit for the unique needs of a given firm. It is important that we understand how to assess when we have a good fit and when the financial expert is demonstrating his or her skills in a particular area of expertise without taking into consideration the actual needs of the recipient firm.

Financial Expertise Providers

Before discussing the different types of financial advice that you might receive, it may be helpful first to detail the categories of financial expertise. For purposes of our discussion here, I have categorized them into [1] CPA firms, [2] Bookkeepers/Controllers and associated firms, [3] strategic financial resources such as CFO's, [4] business coaches, and [5] financial business process design consultants.

The CPA Firm—the first type of financial expert and the most prominent and best-branded one is the CPA or certified public accountant. A CPA license is earned through a rigorous credentialing process that requires intensive schooling, testing, and work experience followed by continuing education each year to maintain an active license. What distinguishes the CPA from other types of financial experts is the CPA's singular authorization to audit, review and attest to the financial statements of companies. With this authorization generally follows subject matter expertise in the areas of financial statement preparation and internal controls (procedural and process safeguards that companies install to minimize the risk of financial fraud).

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