



Enhancing Profitability in Law Firms

Tools for Measuring and Monitoring Performance

Law firm leaders face a multitude of pressures on profitability and growth. Cost controls are an ongoing concern, but achieving sustainable results means going well beyond trimming expenses. Leveraging the collective performance of your partners, associates, and paralegals can put your firm on a path to significant improvements in efficiency and cash flow, and create growth opportunities.

As a professional services organization (PSO), your inventory is your time. How effectively you utilize the human capital in your practice will ultimately determine the firm's profitability. You must build a compelling value proposition based on the experience and capabilities of your people, and then utilize your reputation to attract and retain talented partners and make investments in existing or new practice areas. When properly executed, this strategy should enhance the sustainability of your firm and the long-term wealth potential for the firm's owners.

Enhance profitability and firm growth by embracing the cultural implications of measuring productivity, billing, and collection activities.

Monitoring and measuring three aspects of performance over time is proving to be an effective tool for predicting the future cash flow and profitability of law firms.

Start by monitoring productivity

Individual and collective productivity can be effectively monitored by setting and tracking the utilization of your people. This is typically measured by hours charged. Members of the firm should be assigned a chargeable hour budget that reflects their role in the practice and the duties they perform. For instance, partners may be assigned a chargeable budget of 1,600 hours; associates might be given a budget of 1,850 hours. Non-chargeable support and staff hours should also be tracked.

Chargeable hours can be used to quickly measure productivity variances on an annual, monthly, weekly, or even a daily basis. These targeted chargeable hour budgets are not goals; they should be agreed to as firm-wide expectations. Circumstances will always affect an individual's ability to achieve his or her budget, but an inability to achieve budgeted chargeable hours across practice areas, at an office level, or as a firm, is an early warning signal that should not be ignored.

By monitoring the data, you create a strong predictive indicator of future billings. Making this data visible and accessible stresses how important it is to everyone in the firm.

Next, look at billing activity

The firm should set expectations around billing frequency and overall realization. Establish protocols to provide coaching and oversight of individual partners at the practice or office level. If your overall goal is to achieve, for example, 85 percent realization, you should monitor progress against that objective at the end of each billing cycle.

Work in process (WIP) is another billing-related indicator that should be monitored. We recommend analyzing overall aging, plus aging and concentrations by individual, practice group, and office. Growth in unbilled WIP can be another warning of potential future billing realization difficulties or performance issues at a more granular level.

It comes down to collections

This is where the rubber meets the road. When properly worked and monitored, an effective effort around collections can help smooth out cash flow peaks and valleys. Monitor and track billing disputes and write offs to see if there are consistent themes running through this portion of the business cycle. It is important to remember that the actual cash collection is the culmination of a series of good business practices. Ultimately, a consistent inability to collect a reasonable fee for services performed is a powerful barometer of the market acceptance of your firm's "product" and value proposition. Conducting client surveys is an additional way to gain insight into your firm's strengths and areas for improvement.

In smaller firms, cash collections are often the main indicator of firm health, but it is also important to understand all of the actions required to get to this point. Larger firms need systems and performance indicators to monitor and predict future cash collections.

How we can help

The effectiveness of your firm at capacity utilization, and your ability to invoice and collect fees at acceptable variances from standard, are key drivers of profitability. Our experienced professionals can help your management team develop and implement these tools in your law firm.

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