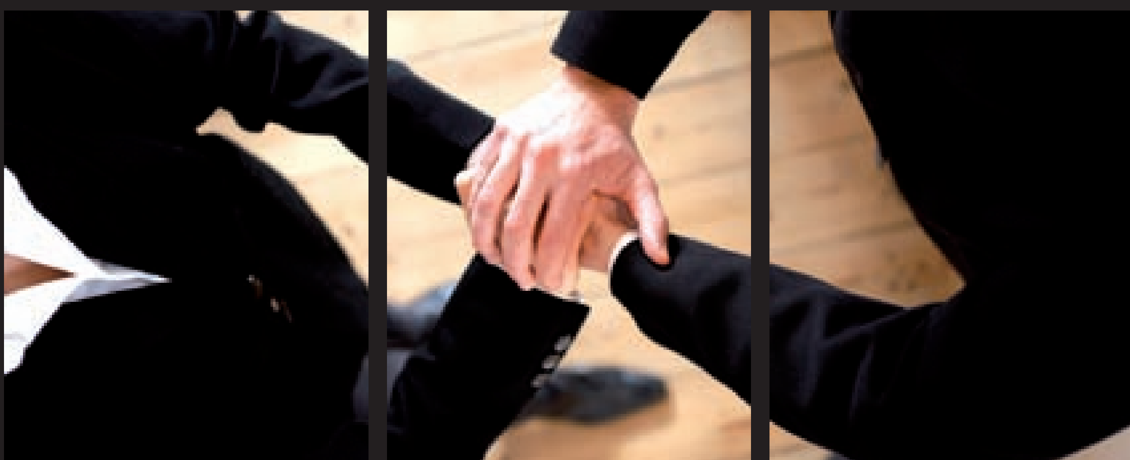
Balanced Scorecards for Law Firms

JOHN STERLING



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Executive summary

IT HAS been over ten years since Robert Kaplan and David Norton published their landmark strategy book, *The Balanced Scorecard*[1]. The book and the concept of a balanced scorecard (BSC) are now so entrenched in the field of strategic management that application of balanced scorecards is literally 'old news' to strategists. Yet the concept is only beginning to take hold within law firm management circles.

In commercial, manufacturing and other service industries, balanced scorecards have proven to be an extremely useful tool in translating strategy into meaningful action and understandable, measurable outcomes. Naturally, that includes tracking financial outcomes, but in a law firm environment it reaches well beyond revenue per lawyer and profit per equity partner. It calls on management to identify meaningful measures and actions related to the development of top quality people, highly satisfied clientele and superior business practices and processes.

The balanced scorecard is not a 'silver bullet' solution or an off-the-shelf prescription for effective strategy implementation. On the contrary, it requires creative thinking that connects firm and practice level strategies to action plans and measures that answer a critical question for lawyers and staff. Namely, an effective balanced scorecard answers the question, "what does this strategy mean for me?"

Beyond the qualitative benefit of answering this critical question for people throughout the law firm, adoption of balanced scorecards yields superior performance. Naturally, Kaplan and Norton's own research underscores this performance improvement, but independent researchers have found similar advantages. Most recently, a study published in *Advances in Accounting* found that "firms who adopt the BSC significantly outperform firms that do not adopt the BSC over a three year period"[2]. Simply, shareholder returns are better at firms that employ balanced scorecards to drive strategy implementation.

In an era in which law firm performance is increasingly public – and a determining factor for where the best lawyers decide to practise – it seems axiomatic that firm management would want to adopt tools that are proven to improve performance. This report provides the necessary introduction for firms wanting to adopt the balanced scorecard to improve their own performance.

The report includes:

- An overview of the balanced scorecard concept and tool – from Kaplan and Norton's original conception to its practical application around the world and the results achieved from its adoption;
- A discussion of how the balanced scorecard applies in a law firm environment – including a discussion of the central opportunities created by balanced scorecard adoption, as well as the central challenges the tool presents for law firm management; and

- An in-depth discussion of each of the major elements of a balanced scorecard – with an emphasis on their meaning in a law firm environment:
  - ☐ **Financial measures** – the most straight forward and easily understood element;
  - ☐ **Client measures** – client satisfaction is generally understood and highly valued in most law firms;
  - ☐ **Learning and growth** – a set of measures focused on the firm's people, their knowledge and their capabilities; and
  - ☐ **Business processes** – the most difficult element for most firms to conceptualise and measure, and an area that requires creative thinking and strong linkages to firm strategy.

This report is not about dogmatic application of the balanced scorecard. On the contrary, a rote and dogmatic application of the tool is almost certain to fail in a law firm context. Yet, there are many examples where all or parts of the balanced scorecard have been used quite successfully – within and outside the legal sector. For firms that have struggled with implementation in the past (i.e., that have agreed on a compelling strategy but fallen well short in implementation), this is a tool that can dramatically improve focus, accountability and execution. However, the balanced scorecard should be coupled with other factors that are equally important in driving successful implementation (for example, communication, involvement in the strategy development process, resource allocation and budgeting, organisational and technology alignment, etc.).

This report provides insights into how the balanced scorecard can be adapted for application in a law firm management context. It includes pragmatic advice for tailoring the core elements of the balanced scorecard to law firms' unique structural constraints. Finally, it includes real world case studies that illuminate how other firms are using financial and non-financial measures to drive effective strategy implementation.

References

1. Kaplan, R., and Norton, D., *The Balanced Scorecard*, Harvard Business Press, 1996
2. Crabtree, A., and DeBusk, G., 'The effects of adopting the Balanced Scorecard on shareholder returns', *Advances in Accounting*, Volume 24, Issue 1, June 2008

About the author

JOHN STERLING is a founding partner with Smock◆Sterling Strategic Management Consultants with 25 years' experience in strategic management and market research. Mr. Sterling has worked extensively with law and other professional service firms, as well as with industrial and consumer product companies and not-for-profit organisations. His work with TimeLine Theatre Company in Chicago led to their winning the Richard Goodman Award for excellence in strategic planning from the Association for Strategic Planning in February of this year. Mr. Sterling is president of the Strategic Management Association in Chicago and is a contributing editor to *Strategy & Leadership*. Prior to co-founding Smock◆Sterling in 1989, Mr. Sterling was a senior consultant with Ernst & Young and a senior policy analyst at the University of Illinois at Chicago.

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