Measuring and Reporting for Law Firm Success

PETER SCOTT AND RICHARD WYATT

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UK/EUROPE/ASIA OFFICE
Ark Conferences Ltd
6-14 Underwood Street
London N1 7JQ
United Kingdom
Tel +44 (0)207 566 5792
Fax +44 (0)20 7324 2373
publishing@ark-group.com

NORTH AMERICA OFFICE
Ark Group Inc
4408 N. Rockwood Drive
Suite 150
Peoria IL 61614
United States
Tel +1 309 495 2853
Fax +1 309 495 2858
publishingna@ark-group.com

AUSTRALIA/NZ OFFICE
Ark Group Australia Pty Ltd
Main Level
83 Walker Street
North Sydney NSW 2060
Australia
Tel +61 1300 550 662
Fax +61 1300 550 663
aga@arkgroupasia.com

Online bookshop
www.ark-group.com/bookshop

Reports Commissioning Editor
Evie Serventi
eserventi@ark-group.com

Reports Publisher – International
Fiona Tucker
ftucker@ark-group.com

UK/Europe/Asia enquiries
Robyn Macé
rmace@ark-group.com

US enquiries
Daniel Smallwood
dsmallwood@ark-group.com

Australia/NZ enquiries
Steve Oesterreich
aga@arkgroupasia.com

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Chapter 1: The challenges facing law firms today

Purpose of this report

There are many challenges for a law firm that wants to be successful. For example:

- The increased competition arising from the global economic crisis;
- The power of external investors to invest in and consolidate law firm businesses, creating critical mass where it did not previously exist;
- Demographic forces creating a reduced number of people able to succeed to the current ownership and in due course to management;
- The accelerating use of technology both in managing the business and especially in service delivery;
- The growth of online marketing and social media;
- Employing people with the right skills (especially IT and relationship skills) for the role as it is today and will be tomorrow;
- An increasing focus on risk and managing that risk effectively;
- In England & Wales the new regulatory regime following the Legal Services Act 2010 (LSA); and
- The new approaches to monitoring and regulation adopted by the Solicitors Regulation Authority (SRA).

These challenges can – and to be successful – must be dealt with by the modern and progressive firm: but the authors are convinced that the basics of law firm management remain unchanged. Successful firms will continue to review and amend their strategy in terms of services and service delivery.

This report is about the importance of measuring the variables that affect the issues raised above and how to do so. It is often said that 'what gets measured gets done', but this is not strictly true. Many things are measured month-in, month-out and nothing changes. The statement is incomplete. The authors would suggest that 'what gets measured *effectively and has a consequence as a result of changing behaviour in response to those measures* gets done'.

Those extra words are critical: the effectiveness of the reporting and the consequences for good and poor performance. There are law firms out there with finance teams producing reams of reports and others producing colourful graphs in online, real-time desktop dashboards for management and owners. However, if there is no consequence for the manager, be they Head of Department Managing Partner or a team leader, in either taking action or not taking action as a result of reading the information provided, all that measurement is redundant.

In this report, we encourage law firm managers, at all levels, to think about their business and produce information that will alter the behaviour of their people – from the principals (e.g. directors and partners) through to all fee-earning and support staff.

All things are measurable with enough imagination and commitment. Not measuring things because management thinks it is not possible is abrogating responsibility. There is of course an argument that measuring some things is too time-consuming and costly and that this can outweigh the benefits likely to be obtained. However, if the issue is important enough, then it must be measured.

The firm's management must determine what behaviours it seeks and effectively communicate that to its people. Reward systems must encourage the right behaviours, and measurement must assist management in identifying whether those behaviours are congruent with the firm's overall strategic goals and immediate tactical plans. Change happens when the attraction of a better outcome (such as better pay or profits, more interesting work, or an opportunity to develop one's career) or the fear of a worse outcome (such as no income, reduced profits, or a career block) drives someone to do things differently.

Unless reward structures encourage people to do the right thing and penalise people who do the wrong thing, little will change. No matter how cunning you are at identifying the one and only Key Performance Indicator (KPI) in your business, unless you report on it to those that influence behaviour and there are rewards and consequences for respectively achieving or failing, you will struggle to make things happen. In how many partner appraisals is the appraisee implored to cross-refer work and work together with the other partners to develop the business, only for the partner to go back to their desk and do exactly what they did before?

This happens because there is no incentive for them to change and there is no sound measurement of success. If cross-referrals were measured and rewarded, the partner would be encouraged to cross-refer work. If a fee earner's bonus was based in part upon their adherence to this, they would not undermine and obstruct others. By setting expectations, reporting on behaviour, and rewarding accordingly, you can achieve the results you want.

Measurement

How to measure what you need to measure is not always easy. There are things we want to measure that are intangible. They may be matters of opinion or of judgement, or they may require some specific effort on the part of the firm or of individuals: but if they are part of the key drivers within the firm, it is imperative they are measured effectively.

Historically, for example, most firms knew that the majority of their work came from repeat business from existing clients and contacts or referrers. Over the past 25 years or so, most firms have at least quantified that: they have tables or charts showing where the work is coming from and perhaps show how this compares with last year. In many firms, though, there is no *analysis* of the trends of work sources and the implications for the firm in terms of work generation.

The generation of new work has to be one of the most, if not *the* most important area for management attention. Without work, there is no business, but scant regard is paid to analysis in this area. Measuring the sources of work, the trends in those sources, and then undertaking a cost benefit analysis of the effort required to obtain that work are the first steps in making good evidence-based decisions about where to focus the marketing effort in future.

By measuring sources of work effectively you are then able to analyse that data. It will probably, in most firms, show that most work is still repeat business: but it will highlight changes in work sources, such as the rise of the website as a work source. It will also highlight any work sources that are nothing more than networking time-wasters, or people who have not referred anything for years.

The biggest key driver within a law firm is its culture and values. How do we measure intangibles such as compliance with the firm's values? This is one of the hardest things to measure and some believe it to be impossible. One solution is to use surveys or 360 degree appraisals. Firms that use such an approach will often affirm that the results encourage adherence to those values and that the people being asked for their opinions are usually fair and consistent in their answers. Even though it is judgemental, it is still valid and measurable.

Competitive advantage

The object of this report is to show you how to gain competitive advantage for your firm through the use of effective measurement techniques and analysis. Competitive advantage is 'an advantage that a firm has over its competitors, allowing it to generate greater sales or margins and/or retain more customers than its competitors. There can be many types of competitive advantages including the firm's cost structure, product offerings, distribution network and customer support'.[1]

Measurement is critical because without it, we cannot know if we are making progress towards cheaper production, better marketing, etc. We can always guess, but that is not evidence upon which to make management decisions. Competitive advantage matters because it is the part or parts of your firm that place you ahead of the competition. It means that you have to do things differently and keep innovating to stay ahead.

Law firms (and lawyers!) can be highly conservative in their thinking and suggestions of change are often met with 'Why? We've always done it this way.' But a firm that does things the same way as every other firm or the same way they always have done cannot have competitive advantage.

The law firm that will be more profitable and survive the challenges outlined at the start of this chapter will be the one that looks at its business and identifies areas where it can have an advantage over its competitors. It will be the one that does things differently and is constantly seeking to improve.

Measurement of each area of the business will ensure that attention is focused on where improvement is needed. Equally importantly, measurement must be made of all areas of the business to ensure the firm is ahead of the game or aiming to be so.

Reporting

Having established what needs to be measured, the biggest challenges are how to report effectively and to whom. Large reporting packs with no guidance or analysis are counter-productive. Those people generating the reports – typically but not always the finance team – should distinguish between data and information. Large tables showing chargeable hours by fee earner in a firm is data and unless it is presented alongside a target and shows performance against those targets, then that is all it will be. When those targets and variances are added, then it becomes information.

Reporting must be targeted at the appropriate person and presented in a way they understand. Only provide information that each reader needs. The reader is not then distracted into looking at other areas over which they have no influence and nor do they spend time poring over interesting data, which is not actually information.

So, how do we encourage people to read what we send them? A common complaint is that 'They have all the information but don't read it before the meeting'. Often people open packs at the start of a meeting and turn the pages while the first agenda items are being dealt with. They have not read the report, reflected on its contents, and thought of plans to address the issues raised. Why?

One reason relates to learning styles. Some of us learn by listening, others by seeing, and others by doing, referred to respectively as aural, visual, and kinaesthetic learners. You need to make it easy for your readers. When presenting information, the preparer will have a stronger and better impact if they take account of the learning style of the reader.

Sending a pack of papers across to an aural learner will fall on stony ground but talk and explain the issue to them and you are more likely to make your point effectively. A visual person will be happy reading, but even happier seeing graphs, especially if they use colour to distinguish different data sets and emphasise the point. A kinaesthetic learner will want to play with the papers and make notes and calculations themselves to reach their conclusions. You may find that suggesting they make a few calculations (even if the results are already in the pack) will engage the learner and increase your credibility in their eyes.

So, why bother with any of this? It is because law firms need to be more effectively managed and that is only going to happen when the manager has effective information. Reports are only of use if they actually help management. Reports will only help management if they can use them, and they will only use the reports if they are in a form they can understand.

Determining the learning styles of your audience is beyond the scope of this report but there are many 'quick and dirty' ways of identifying a person's learning style. Spending a few minutes observing them and listening to their vocabulary in a meeting is usually sufficient.

Basis of the arguments in this book

A primary tenet of this report is that information has to be reported to the correct people in a form that they understand. Unsurprisingly, this will be different information for different functions in the firm and the presentation of that information must be in a form that most effectively communicates the points that are important to the reader.

The HR Director, for example, requires much more detailed information about staff costs, attendance, and CPD than a Head of Department (HoD), but they will both require similar data. The HoD will want it for their department or for individuals within their department. The HR Director will want overall figures for the department to compare with other departments and with external benchmark figures. The Finance Director (FD) will want more detailed analysis on performance by individuals and for the whole department than the HoD but, again, they will want similar information.

As well as wanting similar information with different levels of detail, they may also want it for different purposes and at different times. There is an increasing need to have more accurate real-time information. This is not only for business performance reasons but, increasingly, for regulatory reasons.

Constantly assess whether the reports are relevant to managing the business and if nothing changes in light of the information being produced, it may well be that the information in that report is not key to the management of the firm.

Everything can be measured. The authors are yet to find a KPI that cannot be measured. The challenge is to find a way to measure the KPI that is cost effective. This must not put management off measuring those key issues. KPIs are absolutely fundamental to your business, and they must be measured. If you don't measure and report on them, the audience you want to influence will not know where they are against their targets, objectives, and budgets. Without effective measurement and reporting, how do you expect them to move towards and achieve or exceed the objectives set?

Why effective reporting matters

At the beginning of this chapter, the point was made that what gets measured effectively gets done.

Ineffective reporting is nothing more than data, words, pictures, or noise. It is when it is accessible and digestible that it becomes information. People respond to information. One of our biggest drivers is the need to contextualise, to understand, and to make sense of things. Reporting on an issue focuses attention upon it. It is the opposite of 'out of sight, out of mind'. Being transparent and being seen to be transparent is very important.

One problem that must be addressed is the need to drop data from the reporting package. If the most important nugget of information is lost in the light pollution of a 50-page Board report, then communication will fail and the necessary information will not get through to management. So, take out what is not KPI-related and keep it targeted and brief.

Breaking the cycle of stasis or decline

If management has identified that performance is under target, the next challenge is to identify what, and where, intervention is required.

A common failing is to try to address poor output in a simplistic fashion, by demanding better output, forgetting that outputs are the result of a series of previous events that led to those outputs. Most obviously, fees result from work done, which in turn is dependent upon obtaining work, which in turn is dependent upon meeting potential clients, which is dependent upon having the opportunity to do so. Fees are generated in a series of stages. So, increasing a firm's fees may be dependent upon improving a stage much farther back in the process than at the billing stage.

Accurate measurement, by asking the following questions, will help to pinpoint which element needs to be addressed:

- Are you meeting enough potential clients?
- Are you converting enough potential clients into business meetings and then converting them to clients?
- Are you ensuring that the right levels of staff are engaged in the work to make it profitable?
- Are you measuring your performance against that of your competitors?

Without accurate measurement, these are nigh impossible to answer with certainty. Where to intervene should be determined by identifying the weak part of the cycle and by cost.

Correctly identifying the right place to intervene is not possible unless accurate and timely data is available. Measuring each stage of the process (gaining work, undertaking that work, billing it, and collecting the cash) will provide the knowledge to identify that place.

Without accurate measurement and timely reporting of KPIs, excellent (or possibly even good) management decisions are less likely to occur except by luck or intuition:

and while there is a valid place for intuition in management, great management seeks facts to guide and support its decisions.

Reference

1. Definition of competitive advantage from Investopedia, see: http://www.investopedia.com/terms/c/competitive_advantage.asp#axzz2NR0AwnuS.