Benchmarking your Firm

Measuring your performance against a target can make your goals more achievable. But first, you have to have the right targets.

It’s true for athletes and attorneys: measurement improves performance. You set your sights on the best and then continually compare and improve what you’re doing to reach that pinnacle of success. This process is called benchmarking. But beware, an effective benchmarking program is not a slam dunk.

In the October issue of the Harvard Business Review, Andrew Likerman wrote about The Five Traps to Performance Measurement. While Likerman was referring to all businesses in general, these traps were modified on how they are particularly applicable to law firms.

• Measuring only against yourself, which keeps you from gaining broader insights for productive change
• Looking backward and making the same decisions that lead to the same mistakes—year after year
• Putting your faith in numbers without clearly understanding what those numbers mean
• Gaming your metrics by over-emphasizing the importance of billable hours
• Sticking to your numbers too long and stifling your company’s potential for growth

How law firms can avoid these traps

The best practice for productively gauging your firm’s progress is to pick benchmarks that are relevant, timely, non-restrictive and open to change.

Comparing your firm’s financials to firms that practice in the same region or areas of law will be helpful. You do not, however, need to stick with companies in a similar earnings category. Many industry studies, including the LexisNexis Economic Survey, show that your profitability quotient is more about the way you manage and leverage key business metrics, so don’t base your benchmarks on billings alone.

Rigidly trying to match the firm’s financials from this year to the one just passed is another common mistake that many firms make. Be flexible so that you can tweak your course along the way if a decision you made previously isn’t working now. Change your criteria as necessary and look for numbers that lead rather than lag the profits in your business.

Another way to assess your firm’s performance is to ask your clients. But make sure you understand what the client feedback numbers are really saying. Performance measurements are not just about figures on a financial statement or billing report. Studies have shown that employee and client satisfaction scores can directly impact profitability of a company.
However, the way this information is usually obtained can greatly compromise the value of the numbers or data being collected. One way to encourage an honest response is to hire a third-party company to conduct the survey for you.

And while you want to optimize your employees’ time, using performance metrics to measure your staff may invite unwanted gaming by them, such as padding their hours to meet the expected billable goals. If you are going to set billable hour or fee targets for your lawyers, you also want to set metrics like realization rates that measure how much they collect versus how much they billed as well as measurements for soft skills such as respect and mentoring, excellent client service, integrity, and community service, to name a few.

Perhaps the stickiest trap of all is complacency. Don’t be afraid to grow! Actively benchmark your firm’s performance to others and use that information to chart an aggressive plan for increased success. If you are stuck in survival mode, consider taking your partners to an offsite retreat with a law firm expert who will help you develop a plan to higher profitability.

**How benchmarking systems can help**

Benchmarking reports are critical for helping law firms make informed decisions about increasing effectiveness and profitability. Collection realization metrics and reports list billing transactions that were completed in a year and compare the original value of the fees to what was ultimately collected. These reports can show you your lost opportunity, for example, by comparing your actual realization per your fee agreements vs. what it could have been had you billed at your standard rate unadjusted.

For a complete reporting system that gives you a 360-degree view of your financial position and prospects, look for reports that make it easy to understand all of these critical factors:

- The expense of the staff who are working on the matter and other overhead expenses such as office space. The client you bill the most may not be the most profitable client.
- Hours worked by a timekeeper in comparison to target hours that you can use in conjunction with a staff leverage report to assign workloads.

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