Goals, Measures, and Scorecards: Law Firms Fixated on Today’s Billable Hours and Collections
by John Sterling and John Remsen, Jr.

“What gets measured gets done.”
“What’s measured improves.”
- Peter F. Drucker

Our MPF Leadership Matters survey for May 2014 was a follow-up to our March survey covering strategic planning. That survey found that setting and using objective measures to track strategy implementation were keys to success.

The question is: Do law firms measure the key elements of their own strategies? Are they, in fact, measuring what they are managing?

Robert Kaplan and David Norton, authors of The Balanced Scorecard: Putting Strategy into Action, put systematic rigor behind measuring key elements of strategy. That is the essence of the “balanced scorecard” – which looks beyond today’s financial performance, embracing an additional set of measures that link to major goals and objectives and allow management to track whether these longer-term strategies (and strategy implementation) are working.

A classic balanced scorecard includes measurable objectives in these four important areas:

- Financial performance,
- Client satisfaction/relationship strength,
- People/professional development, and
- Internal business processes.

In his great book, True Professionalism, David Maister writes about the importance of looking beyond today’s billable hours and investing in the future of your law firm. He writes eloquently about the importance of investing in your clients, in your people and in your firm. Yet, we find that very few law firms effectively measure these longer-term, firm-building contributions.

This month we explore the extent to which firms are using measures and linking those measures to their strategic goals. These survey results are based on the responses of 56 managing partners, primarily of small to mid-size firms.
FOR MOST LAW FIRMS, IT'S ABOUT THE MONEY FIRST AND FOREMOST

We asked managing partners to share the extent to which their firm is tracking quantitative measures in four major categories (i.e., the categories mirroring the balanced scorecard) and the graphs below set forth how firm leaders assess how well their firms apply measurable goals and objectives to the four areas discussed by Kaplan and Norton.

As you will see, they pay attention to the dollars first and foremost. Developing people and improving internal business processes are next. Client satisfaction is way down the line.

As reinforced in the graph below, firms are most advanced in the use of financial metrics, by far, according to their leaders. On average, managing partners gave their firms an A– or a B+ in the use reliable financial measures. Fully 96% of managing partners said their firms had “excellent, highly informative” financial metrics or “solid, reliable” financial measures.
By contrast, firms have very weak (to non-existent) measures of client satisfaction and/or the strength of client relationships. Shockingly, more than 90% of managing partners said they had either “limited” or no measures tracking the strength of client satisfaction.
Firms don’t do much better when it comes to tracking measures of developing and retaining talent, with more than 60% saying they have little or no measures in this category.

Similar to developing talent, firm leaders say they don’t do a very good job with measures that track improvement in their internal business processes.
40% OF FIRMS LINK MEASURABLE OBJECTIVES TO STRATEGIC PLANS

Roughly four-in-ten firms directly link their strategic plans to measurable objectives (very consistent with the findings of our March survey on strategic planning best practices).

In addition, managing partners’ open-ended comments regarding the measures that have had the most positive impact on performance are illuminating.

- Attorney realization percentage - dollars in the door.
- Attorney origination dollars - how much work from NEW clients did you bring in this year.
- Shareholder work given to Associates.
- One of our goals is cross-selling existing clients. We measure both origination credit and matter responsibility credit. If we see a lawyer-client relationship with little difference between origination credit and matter responsibility credit (meaning that the originating lawyer is also doing most of the work), we have a good sense that the client has not been introduced successfully to our other areas of practice. We then focus on how to get that client introduced to lawyers who perform services different from those that originated the relationship.
- Timekeeper budget vs. actual practice group receipts budgeted vs. actual write-offs, discounts -- who, what and why new matters and how they were referred (existing client; referral from other practice area; etc.).
- The profit per attorney aggregated for each practice area and the related detailed metrics to derive the profit.
We have just started tracking practice groups as individual entities within the budget for both revenue and expenses, so really just the simple practice of breaking down the budget to the specific groups gives us information to confirm or inform us what the most profitable practices are, as well as what may not be profitable and why.

(We have) action plan(s) with due dates and assignments.

Transparent sharing of financial information with all attorneys has been helpful.

Billable hours to billable hour goals; standard value to matter value; billing revenues compared to budget; distributions compared to budget.

Management over those areas that monitor and track progress to goals.

Revenue per attorney.

Practice group efficiencies and profitability.

We have an annual budget and get a substantive monthly analysis of how we are tracking. Compensation is not tied to budget, but based on firm and individual performance.

Notice those comments are almost entirely about today’s billable hours and dollars in the door, with little attention or focus on longer-term investment in the future of the firm.

**90% OF MANAGING PARTNERS REPORT**

**POSITIVE CORRELATION BETWEEN MEASUREMENT AND PERFORMANCES**

Proving Drucker’s point that “what gets measured gets done,” more than 90% of the managing partners who link their strategic plans to objectives report either “a clear, positive correlation” between the use of measures and performance or at least “a modest, positive correlation.”
Managing partners’ additional comments support this point.

- There is clear progress when the department head or practice group leader appropriately and consistently participates.
- My sense is that the lack of goals and tracking causes a lackadaisical attitude.
- Attorney realization % has gone from 82% to 97%.
- We have just started doing this and I think it will have a clear positive correlation as people will be able to see the measurements and how they fit into the overall success.
- When we increase production (hours), the obvious increase in revenue results.

CLEARLY, MOST LAW FIRMS ARE NOT ADOPTING THE BALANCED SCORECARD

Generally speaking, law firms responding to this survey are not adopting a balanced scorecard, and some were introduced to the term only as a result of our survey. Only seven percent of managing partners reported that their firms have formally adopted a balanced scorecard, while one-third have “never even considered” adopting a balanced scorecard.
It should be noted that there is a very large middle in this sample. Specifically, nearly 60% of managing partners reported “adopt(ing) some balanced scorecard practices” or “informally adopt(ing) the balanced scorecard.” Managing partners are using metrics to help manage their firms, but that has not translated into an embrace of a balanced scorecard.

**THE MPF PERSPECTIVE**

Firms that actively use measurable objectives to monitor and drive strategy implementation report better performance. That finding has now emerged in three of the MPF Leadership Matters surveys we’ve conducted so far this year.

- **Look Beyond Today’s Billable Hours**
  As Maister says, billable hours determine today’s income. But what a firm does with its non-billable (investment) time in its clients, its people and the firm itself determines its future.

- **Measure and Reward Desired Performance**
  More than 90% of respondents report a correlation between using measureable objectives and firm performance.

- **Use Metrics to Drive Results**
  In our earlier survey on strategic planning, it was clear that firms that use metrics to drive strategy implementation have better results.

- **Be An Open and Transparent Leader**
  In our January survey on satisfaction with partner compensation systems, over three-quarters of partner compensation systems use data and that data is transparent to the partners.

- **Solicit and Respond to Client Feedback**
  The most shocking finding from this survey is the fact that over 90% of the firms responding to this survey do not have reliable measures of client satisfaction and/or the strength of their firm’s client relationships. As noted in our article in this month’s Legal Management, the most successful firms are five times more likely to gather client feedback to drive strategy than the least successful firms. Our clear recommendation is to gather systematic client feedback and use it to strengthen relationships.
SURVEY DEMOGRAPHICS

As noted in the introduction, 56 managing partners participated in this month’s MPF Leadership Matters survey. The survey sample skewed toward small and mid-size firms. As a result, these results are most relevant and useful to firms under 100 attorneys.
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