

# Performance Measurement for Law Firms

ALAN HODGART



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# Executive summary

THE INCREASINGLY competitive environment facing law firms has led to a recognition that there is a direct correlation between measuring firm performance and profitability. Firms are now managing the performance of fee earners more rigorously than in the past. What might have been an acceptable level of performance in one period has become underperformance in another. A failure to address the issue of performance will result in a firm suffering a loss of competitiveness.

*Managing Partner's* new report on *Performance Measurement for Law Firms* sets out the key issues many law firms face when measuring performance and provides advice as to how to tackle these issues in a compact format. It provides best-practice guidance on putting an effective performance measurement system in place and advises on how to gather a complete set of data to be able to manage and measure not only the firm's overall performance, but the performance of fee earners and support staff – as the overall performance of the firm is contingent on the performance of these key people and functions. Measuring the firm's and its fee earners' performance will enable a firm to make the right strategic or operational choice and remain competitively profitable in a challenging legal market.

Chapter 1 sets out a number of key problems law firms face when measuring performance and advises on the appropriate measures for your law firm and how you can measure performance in a way that can lead directly to action to improve performance.

Chapter 2 discusses the data and financial information needed at a firm-wide and practice-group level to be able to measure and manage a firm's performance effectively. It also discusses the role of profit and revenue as a financial measure of performance and includes worked examples of calculating costs, profit and revenue.

While Chapter 2 discusses the financial measures of performance, Chapter 3 examines how these financial measures can be used in a practical way to improve the firm's profitability. This can be done through adopting an economic structure that is aligned to the type of work the firm is doing. The right economic structure is determined by whether the firm is undertaking high-value or low-value work and this chapter advises on how you can align the economic structure of the work you are doing to maximise profitability.

A law firm's performance cannot be managed without managing the performance of fee earners who drive a firm's performance and Chapter 4 identifies the key issues in measuring fee earners' performance and sets out the best approach to measuring this.

Chapter 5 further develops the theme of measuring team performance by discussing the measurement of support staff performance which can sometimes be overlooked but is equally important if they are going to support fee earners in delivering the work efficiently and effectively. This chapter discusses how to approach the measurement of each support function in turn such as the finance function, the marketing function, the HR function, the IT function and other support functions.

Chapter 6 considers one of the key performance measures – that of profitability – and examines how this can be used by management to monitor and compare the outcomes of working with different clients to project future revenue and profit levels, as well as monitor the performance of lawyers in managing their clients and the work that they do for them. It also discusses how project management can play a vital role in successfully driving profitability within a firm.

Chapter 7 summarises the key issues covered in this report and advises on how to overcome them when measuring a law firm's performance.

Expert contributor Jon Cartwright, partner at Hazlewoods LLP examines in Chapter 8 the key issues facing UK law firms in setting their budgets for the next financial year.

Chapter 9 discusses the balance between the firm's and the client's interests in setting fees while Chapter 10 evaluates the case for and against deleveraging.

Finally, Chapter 11, written by expert contributor Alistair Rose, head of the professional partnerships advisory group at PricewaterhouseCoopers (PwC) discusses law firms' performance trends in the past year.

Written by one of the world's leading strategic development advisers to law firms, this report is a complete, quick and easy guide to measuring performance in law firms such that any firm which follows this guidance will see a significant improvement in the management of performance and, ultimately, in the performance of the firm.

This report is aimed at all those concerned with the performance of their law firm, from managing and senior partners, finance directors, practice group heads and HR, to marketers and other support staff.



## About the author

ALAN HODGART is recognised as one of the world's leading strategic development advisers to professional services firms. His client base covers a very wide range of businesses, from some fairly small firms to some of the world's largest. He works throughout Europe, the US, Asia Pacific and Latin America.

Alan assists his clients in developing the means to improve and sustain their competitiveness by establishing effective strategic management and leadership processes. He is particularly experienced at converting strategic change into practical action steps, and in helping firms build commitment to the behavioural changes required. He has a deep knowledge of competitive trends in the professional services markets and uses this to assist clients in arriving at a genuinely competitive position. Alan also maintains a research database on competitive trends in the professional services markets of all major jurisdictions. This provides a strong basis in advising firms in different countries because he is able to take into account the particular features of each geographical market, as well as provide objective data on which to base his advice.

Alan has been a strategic consultant for his entire professional career and has specialised in working with professional firms for over 20 years. Prior to this, he was trained in strategic consulting and analysis, as well as organisational change methods, where he worked on a global basis with major companies and institutions.

Alan was awarded a 'Lifetime Achievement Award' for his work with professional services firms.

Previously director at H4 Partners, Alan became managing director at Huron (UK) Limited when H4 Partners became part of Huron Consulting Group in November 2009, a consultancy advising professional firms (including in-house legal departments) for nearly 20 years.

## About the author

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