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Leading law firm financial pros explore paths to increased profitability

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Profitability and bottom-line results are increasingly the top concerns for law firms as they drive day-to-day firm operations as well as long term strategies. Ken Crutchfield, a Vice President and General Manager at Wolters Kluwer, LRUS recently led a lively discussion on the topic of law firm profitability and some of the dicey issues surrounding the business of law at the recent ARK Group's 11th Annual Law Firm Profitability Summit.

In a panel titled *Choosing Targets and Prioritizing Profitability Projects and Initiatives,* Crutchfield was joined by a lineup of legal industry financial leaders who generously shared their insights, experiences, and an array of best practices for incorporating profitability into a law firm setting. Panelist included Jacqueline Bosma, CFO, McCarter & English, LLP, Keith Maziarek, Director of Pricing and Legal Project Management, Katten Muchin Rosenman LLP, and Sam Davenport, Director, Business Innovation and Finance, Davis Wright Tremaine LLP.

Setting the stage. Crutchfield led off the discussion by citing the results from a recent Legal Value Network survey that reported 52 percent of Am Law 200 firms surveyed indicating that their partners frequently use profitability metrics when making organizational decisions. This implies that 48 percent do not. Moreover, the survey found that 22 percent of firms, or nearly one in four, did not have access to profitability metrics, and one third of the firms surveyed did not include profitability metrics in calculating partner compensation. In short, while profitability metrics are frequently utilized by big law, there is still room for increased usage.

Crutchfield also pointed to the relationship between a law firm's technological savvy and its profitability. According to the recent Wolters Kluwer Future Ready Lawyers Survey, attorneys that indicated their firms embraced technology were more likely to report increased profitability versus firms that were transitioning or trailing with respect to technology.

Stops on the profitability journey: from whack-a-mole to moving the needle. When Jacqueline Borsma joined McCarter & English about six years ago, the firm was just beginning its profitability journey, but since that time the organization has made some major strides on that path. Borsma shared some of the lessons learned, as well what she prioritized and how she went about executing on those priorities.

Borsma explained that the first step was establishing a profitability metric to determine which business was profitable and which was not. Next, she met with firm partners experiencing profitability challenges. Borsma described this as the "whack-a-mole" stage where the firm's least profitable clients were scrutinized, as she tried to figure out what was going wrong. This approach was only so efficient since when one problem situation was fixed, another one inevitably popped up, she noted. Borsma also came to see that at times the fixes were fairly obvious, such as a when she discovered that a partner was unaware that the rate being charged a client had remained unchanged for a decade. Not surprisingly, she also found that some partners embraced the change process while others were resistant.

Once Borsma gained a sense of the issues at hand, she looked to prioritize root causes and sought out bigger win projects. These measures included conducting rate reviews, employing project- management protocols, and closely monitoring utilization metrics. Borsma observed it is important to take actions that deliver a big bang for the buck and really move the needle when pursuing profitability goals.

Starting from the top and dealing with leaky pipes. The firms that have come the furthest along the profitability spectrum are those where these initiatives have started from the top according to Katten's Keith Maziarek. That means getting senior leadership's buy-in to use of profitability methodology in decision making throughout the firm from the get-go. When the finance or billing departments lead off the profitability push, inevitably partners who don't like what they're hearing will complain to management, find a work around, or ignore the initiative entirely, Maziarek observed.

Maziarek further underscored the importance for leadership to enforce and reinforce the profitability message, as well as being willing to impose consequences. He also observed the ultimate factor for instituting profitability metrics is incorporating them into the partner compensation process, noting, "what gets measured gets done."

Maziarek also noted the crucial importance of educating partners about how various parameters that impact the profitability model are crucial. These factors include costs allocations, setting rates, alternative fee arrangements, discounts, as well as revenue erosion resulting from write-offs and write-downs, which he referred to as the "leaky pipe". You need to cover every base and make the lawyer comfortable with the entire landscape and, over time, these things will start to make a difference, Maziarek observed.

Maziarek also acknowledged difficulties sometimes encountered and the need to demonstrate empathy when embarking on the profitability journey. He shared a story about a highly regarded partner who had a big book of business, walked on water in the eyes of many at the firm, but did not like the numbers when they came out. His margins were around seven percent. That revealed a truth moment, prompting a delicate conversation in an effort to dispel the denial and disbelief, Maziarek recalled. Nonetheless, once you have these difficult conversations, you can start winning over those highly influential firm members, and that helps you gain traction with the process overall, Maziarek concluded.

Trust as a lynchpin for changing law firm culture. Sam Davenport indicated his firm, Davis Wright Tremaine, was pretty far down the path on its profitability journey, though noted some particular challenges with adopting metrics unique to law firms. You need someone at the top making a decision, and in a law firm you don't have that; all you have is a conglomeration of people, he observed.

As a result, Davenport conducts stakeholder analysis when he first approaches a change management project. That involves identifying the powerful and trusted players in the firm who are also passionate, or at least supportive, of the proposed changes. He then enlists that group to facilitate backchannels and facilitate the change message throughout the firm. After completing this first step, Davenport found that partners were much more receptive and that it was easier to move on to the education phase of the profitability journey.

At DWT the education process entailed Davenport, along with the firm's pricing director, giving presentations to all of the firm's 160 equity partners that focused on trustworthiness and usefulness of the profitability metric. These lawyers were walked through multiple scenarios of real matters, gaining an understanding of how and why the calculation worked, including its strengths and weaknesses. As a result, the trustworthiness of the metric was established well before the measure actually went into use.

Davenport also underscored the need for empathy and understanding when engaging in the change process. He recounted one conversation with a partner who said, "I understand the math, I just don't trust it." Davenport observed this is not just a throw away comment but goes to show this is not uncomplicated stuff given the peculiarities of law firm practices and operations. In Davenport's view, the successful transition to a profitability mindset involves a paradigm shift that needs to be slow (and usually painful) where people are converted one by one.

Some final thoughts on spurring transformation. Ken Crutchfield shared a couple of concluding ideas on spurring on transformational change. He suggested finding market data or other ways to use facts to help make your case. Crutchfield noted facts are friendly and can drive discussions and opportunities that change behaviors and get people to rethink how they can do things differently. Lastly, he advised the importance of finding some quick wins where it is possible to demonstrate positive results. This too can get an organization moving in the direction and embracing cultural change, Crutchfield noted.