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2012 Key Performance Indicators

By Stephen Mabey, CA

This column will deal with some of the key results of the 2012 Canadian KPI Survey conducted by Law Firm KPI Inc., a for-profit company co-founded by Karen MacKay of Phoenix Legal Inc. and me in 2010 to specifically undertake surveys of key performance indicators for law firms with up to 100 lawyers. The purpose of the survey is to provide Canadian law firms with industry information in order to benchmark their own performance against the performance of other firms of reasonably comparable size.

As a result of the confidentiality of the survey, the information discussed here will be of a general or generic nature for the most part with no reference to geographical location. The survey in addition to providing the participant's results also indicates the strongest, weakest, and median and average results as well as highest and lowest when dealing with expense ratios for the group.

The 2012 and 2011 surveys are based on the data from the 2011 and 2010 calendar years respectively.

The 2012 and 2011 surveys are based on 893 and 707 timekeepers respectively. The breakdown of the timekeepers is 398 and 256 partners, 252 and 220 associates and 243 and 231 other timekeepers (paralegals, staff lawyers, counsel) respectively.

Start at the beginning

So what are KPIs? Lots of firms use different subjective and objective indicators to track their performance and perceived fiscal health.

So what makes an indicator become a KPI for a firm? When it:

1. Reflects the firm's strategy and goals;
2. Is key to the firm's success; and
3. Can be quantified.

Warning! Warning!

KPI are simply a tool and no substitution for the use of common sense and good judgment when it comes to the management of your law firm!

And now for this year's results

The 2012 survey results reflect an overall positive trend with some isolated pockets of negative indicators.

The average leverage ratio of associates-to-partners dropped to 0.88 in this year's survey from 1.23 in 2011.

While leverage is a key element in driving a law firm's profitability in times of plenty, it can have the opposite affect when work is not so plentiful.

Many firms in late 2010 and early 2011 reduced their associate complement, which is reflected in the 2012 survey.

Certainly a bright spot in the 2012 survey was the increase in the average billable hours per full-time equivalent (FTE) for both associates—1,433 versus 1,294—and partners—1,365 versus 1,265. However, as a result of the decrease in leverage, the 2012 survey reflects a further increase in the ratio of average partners' hours to the total of all timekeeper hours to 45 per cent, up from an average of 40 per cent in the 2011 survey.

The level of the increase in the average number of unbilled days to 110 days from 86 in the 2011 survey reflects an actual slowdown in many firms' billing cycle.

There was however, an overall improvement in the length of time it takes to collect accounts….

with the average number of uncollected days (receivables outstanding) dropping to 87 in 2012. The combined impact resulted in the 2012 survey reflecting the average total "lock up" (unbilled work in progress plus accounts receivable) increasing by 19 days to 197.

The 2012 survey results suggest that while firms' standard or work hourly rates decreased both for associates and partners, the average billed rate for associates remained flat at $207 while the average partners billed rate experienced a healthy uptick to $407.

While it may speak to both the quality and nature of the participating firms' client base, this apparent resistance to rate increases was not reflected in the 2012 survey when it came to average billings per associate and partner which increased by $43,000 and $71,000 respectively over the 2011 results.

The change in the KPI average net overhead—the cost that each partner must cover before any profits are generated by their billings (total expenses minus billings of all non-partner timekeepers divided by the number of partner FTEs)—always bears individual investigation as it is affected by events such as a drop in the billings of non-partner timekeepers; where a firm is at in the capital equipment replacement cycle; new or renovated office space; severance costs; stepped up marketing costs; partner attrition; etc. The 2012 survey reflects a positive trend in average net overhead with it decreasing to $188,150 from $208,152 in 2011.

The combination of enhanced productivity and lower average overheads resulted in some good news as the average ratio of net income-to-revenue rebounded to 40 per cent in the 2012 survey, up from 36 per cent in 2011.

The alternative measures of a firm's revenue generation act as further confirmation of the trends previously identified including average revenue per matter billed dropping by $476 to $3,612 in 2012; average revenue per square foot of office space which was up in the 2012 survey to $530, and revenue per employee (sum of billings for all timekeepers divided by all FTEs excluding partners) which averaged around $240,000.

While still relying on the billable hour but approaching staffing from a slightly different perspective, the average billable hours per legal assistant (ratio of total billable hours for all timekeepers to the number of legal assistants) dropped in the 2012 survey to approximately 2,500 hours.

Ongoing benchmarking

Because of the way Law Firm KPI has set up its database, firms can and are encouraged to participate the survey until November of each year, which may cause the final benchmarks for that year's survey to change from those reported in a September column, albeit not materially.

Until the next time, remember that much smarter minds, like Albert Einstein, understood:

"Not everything that can be counted counts and not everything that counts can be counted."

More info on the annual survey at
www.LawFirmKPI.com

or

For a free guide "An Introductory Guide— Key Performance Indicators" can be found at http://www.lawfirmkpi.com/intro_guide.php

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