Definitely Mabey

2013 Key Performance Indicators

This column will deal with some of the key results of the 2013 Canadian KPI Survey conducted by Law Firm KPI Inc., a for-profit company co-founded by Karen MacKay of Phoenix Legal Inc. and myself 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.

Stephen Mabey, CA
Principal & Managing Director

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 2013 and 2012 surveys are based on the data from the 2012 and 2011 calendar years respectively.

Your financial dashboard

In the September/October 2013 edition of the American Bar Association'sÂ *Law Practice Magazine*, I had the good fortune to co-author the lead article "**Your financial dashboard**" with Colin Cameron, founder of Profits for Partners Management Consulting Inc. The article is intended to simplify the concept of performance analytics that law firms have and need to continue to embrace. It should also provide a more robust understanding of KPIs then I can do justice to in a column.

Canadian trends

I am basing the trends on the averages from the 2013 and 2012 surveys versus the highs and lows or strongest or weakest. Certainly based upon this year's survey results not many were doing the “happy dance” heading into 2013 and it sheds some light on the latest round of associate and partner counselled departures that is quietly taking place in major Canadian legal markets.

What stayed the same

Very little is the quick answer. The only two significantly tracked KPI that were the same year over year were the ratio of partnersâ€™ hours worked to the total hours worked, which remained at 45 per cent, and the ratio of average billed to average work rates (rack or standard rates) for associates that remained at 93 per cent in both 2011 and 2012.

What improved

The total amount of days of fee billings “locked up” in unbilled work-in-progress (WIP)Â and accounts receivable (AR) improved dramatically in 2012 with a drop of 40 days from 188 days in 2011 (101 days in WIP and 87 days in AR) to 148 days in 2012 (77 days in WIP and 71 days in AR). Many firms over the last two years have put a strong emphasis on both billing and collection programs and it appears to be paying dividends.

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Despite (or more likely as a result of) the continued downward pressure on rates and pushing work down, the average hourly billed rates for associates showed a slight increase to $216 in 2012 from $212 in 2011.

While there was year over year growth in some specific expenses, the average net overhead per partner dropped year over year to $174,412 from $185,689.

What KPI deteriorated

The drop this year in the leverage ratio of associates to partners was much slighter than past years with it only declining to .86 in 2012 from .88 in 2011.

Perhaps more a barometer in the size of the legal market than gains in alternative billing (the real types not utilizing the billable hour), the average hours worked for both associates and partners declined year over year to 1,267 from 1,419 and 1,240 from 1,377 respectively. The fact that associates and partners are basically working the same amount of hours should not be lost on partners.

The average billed hourly rate for partners declined year over year to $382 from $401.Â This is most likely due both to actual requests by clients to discount bills and perceived requirement in order to keep volume of work in a shrinking legal market.

The combination of drop in hours for both associates and partners and the rate drop for partners results in a decline in average billings for both groups on a year over year basis. The associates dropped to an average of $262,006 from $294,767 while partners dropped to $490,803 from $531,890.

It follows logically that as a result of the above changes the KPI net income as a percentage of fees billed would decline. The decrease was to 38 per cent from 40 per cent year over year. In an earlier column I explained why I don't talk about profits per partner as it sacrifices tomorrow for today (and generally at the expense of a firm's talent pool).

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Comparative trends

In 2013, Law Firm KPI was also able to have a small group of U.S. firms (13 firms covering 12 states) ranging from three to 56 attorneys complete the survey so we could test its application for U.S. firms. While we don't have year over year comparisons, I thought it would be interesting to look at a Canadian-U.S. comparison. (I have treated a U.S. dollar as being equal to a Canadian dollar for the purposes of this comparison.)

As a result of the firms in the U.S. reacting faster than most Canadian firms to the downturn in the economy and the average size of the firm in the U.S. sample, the leverage KPI is .51 versus .86 for the Canadian firms. As well, the ratio of partner hours to total hours is higher in the U.S. firms by 11 per cent at 56 per cent.

Because the U.S. firms are cash-based taxpayers versus the accrual accounting in Canada (their income determined by what is billed and collected not just what is billed), you would expect faster billing times.Â

The U.S. firms' number of days of fee billings "locked up" in WIP is 58 â€" 19 days quicker than Canadian firms. However, they seem to have an even greater challenge collecting the fees as their average days of fee billings "locked up" in AR is 14 days higher at 85 days.

The size of the firms in the U.S. survey and the slower client embracing of discounts and rollbacks in Canada is reflected in the average billings for associates and partners, both of which are almost $14,000 and $95,000 lower respectively than the Canadian firms. However, the work levels (in billable hour terms) have not fallen off as sharply as the Canadian firms with average hours per associates and partners being 1,544 and 1,447 respectively in 2012.

Two last KPI worth comparing are the average net overhead per partner, which for the U.S. firms was $2,250 per partner less than the Canadian firms, and net income as a percentage of fees billed, which was only 1.5 per cent higher than the average for Canadian firms.

One conclusion you can start to draw from this information is that the historically large gap between U.S. and Canadian law firms of under 100 lawyers is closing and fairly quickly.

Until next month, as Plato is

attributed as having said,

"A good decision is based on knowledge and not on numbers."

More information on the annual survey at **www.LawFirmKPI.com** or for a free guide **An Introductory Guide— Key Performance Indicators**.

Comments or Questions?

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