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FM32: The Performance Metrics Dashboard
A Powerful Management Tool!

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Objectives

- The Performance Metrics Dashboard Concept
- The Dashboard Design
- Dashboard Implementation
- Business Value Obtained
- Critical Success Factors
- Common Pitfalls
The Dashboard

A simple way for law firm management to monitor key performance metrics from across the firm

*Why Do Dashboards Matter?*

- Graphs and visuals encourage storytelling, a sign of active interaction with the numbers
- Effective tools for ensuring shared financial comprehension and engagement among Partners and key decision makers
- Process of developing a dashboard can help define measures of success

*Why a Dashboard?*

- A well-proven performance management practice – provides a law firm wide perspective of overall functional area performance
- Firm objectives/goals and management expectations are clearly defined and articulated
- Standardize data sharing and performance measurement practices – brings all performance data from various sources before the decision makers.
- Serves as a performance diagnostic tool – facilitates decision on fact rather than judgmental inference – *Remove guess work!*
Why a Dashboard?

- Establishes a platform for law firm business and operational excellence – uses functional performance metrics to drive productivity
- Directs process improvement efforts – converts business data into action-oriented information; helps coordinate actions amongst diverse stakeholders and align execution with strategic goals
- Establishes the foundation for benchmarking organizational processes – through goal alignment across the organization

*Align People, Implement Strategies, and Measure Performance*

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The Performance Management Model

Where we need to go...

1. Assess Change Readiness
2. Establish Mission/Vision
3. Establish Firm Objectives/Goals

How we will get there...

1. Projects/Services/Technology Plans/Other Plans
2. Action Plans/Milestones
3. Execution of Plans

How will we know we are getting there...

Targets

Measured Data

Monitoring trigger / cycle

Performance Management

Performance Analysis

Track Outcome
Questions to Ask Yourself

- Why are you creating a dashboard?
- Do you need to track certain KPIs?
- Who needs to see the dashboard?
- Where will the data come from?
- How up to date does the dashboard need to be?
- What format does the dashboard need to be in?

The Dashboard Design

What gets measured gets done
Requirements of a Dashboard

Identification of Key Performance Indicators (KPIs)
- KPIs should be firm specific
- No law firm uses the same KPIs
- Important to the firm and defines success
- Implementation/tracking to guide firm strategy

Categorize information/identify data sources
- Quantifiable
- Practical
- Directional
- Actionable
- Financial

Requirements of a Dashboard
- Identification of Key Performance Indicators (KPIs)
  - Provides targeted objectives/added value
  - Reflects the firm’s goals
  - Viewed as key to firm success
  - It is Quantifiable
Dashboard Perspectives

Financial Performance
- Performance KPIs
- Operations
- Marketing/Business Development

Client Service
- Client satisfaction
- Client retention

A Balanced Scorecard Approach

Learning and Growth
- Organizational effectiveness (Functional areas)
- Human capital
- Training/resources

Internal
- Quality of Work
- “PI & PM”

Decision Making

KPIs Must Be Clearly Defined
Identify what needs to be collected
- What Data?
- Big Rocks First, Pebbles Next!

Precisely Measured – Accuracy is Crucial
- Do Not Try to Collect Every Metric at Once
- “Analysis Paralysis”

Accurately Interpreted
 Appropriately Acted Upon

“Good Metrics, Good Decisions!”
Balanced Score Card – Strategic Planning

What Does This Have to Do With Dashboards?

Target Setting – Firm Business Objectives

Financial Performance
- Billable Hours per Timekeeper
- Average Billed Rate
- Leverage
- Billings/Revenues per Lawyer

Learning and Growth
- Employee Development
- Education/CLE
- Desired Performance

Client Service
- Efficiency and Focus
- Added Value

Internal
- Processes
- Work Managed
- Innovation
- Excellence
- Results!
Financial KPI Examples

1. Unbilled Days
2. Uncollected Days
3. Net Income (Profit) as a Percentage of Revenue
4. Average Net Overhead
5. Revenue per Square Foot
6. Revenue per Attorney (?)
7. Revenue per Matter
8. Revenue per Client

Operational KPI Examples

1. Billable hours per FTE
2. Percentage of Partner hours
3. Billings per FTE
4. Average Billing rate
5. Average Work rate
6. Ratio of Billed-to-Work rate – “Realization”
7. Number of Matters Opened
8. Staffing Ratios
9. Cost Recovery Revenue/Matter
Marketing & Business Development KPI Examples

1. Client Growth Rate
2. Dormant Client Percentage
3. Average Fee per Client/Matter
4. Average Fee per NEW Client/Matter
5. Marketing/Business Development Budget Ratio
6. Marketing/Business Development Cost per Client
7. Client Retention
8. Growth in Top Clients
9. Practice Areas per Client
10. Number of Lawyers per Client
11. Number of Matters per Client

Typical Performance Indicators

Financial
- Revenue per lawyer
- Net income as %age of revenues
- Average net overhead per lawyer
- Revenue per matter
- Revenue per client
- Unbilled days (WIP)
- Uncollected days (AR)

Client (Marketing)
- Growth rate
- Practice areas/client
- Average fee/client
- Dormant client %age
- Growth in top clients
- # lawyers/client
- # matters/client
Typical Performance Indicators

**Internal**
- Revenues/Expenses
- Net income
- Defects – PI & PM
- Staffing allocation
- Quality Control

**Learning and Growth**
- Human capital investment in line with business strategy
- Training effectiveness

Select KPIs That Drive Firm Growth

“Higher Gross Revenues Automatically Lead to Higher Profits!”
Running a highly profitable Law Firm that produces amazing profits year after year has little to do with the quality of the attorneys in the Firm as it does the quality of their legal services.

Do YOU Know What Numbers to Measure to Ensure Profitability and Drive Growth in YOUR Law Firm?

Most Law Firms do NOT know!

**WHY NOT?**

**Factors:**
- Just don’t know what KPIs to utilize
- Not Compiling Measures on a Consistent Basis and Accurately Comparing them Month over Month, Quarter over Quarter, Year over Year....
“Our Only Benchmark is Our Own Past Experience.”
-Mid-Size Law Firm Partner

**Misleading Benchmarks?**

**Revenues per Partner**

Law firms vary significantly in terms of how many staff supports each Partner – Impacts Profitability!

**Benchmarks can be skewed; tend to lean**
towards larger firms – Small v. Large Law Firms

**Lack Clear Understanding of Metrics**

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Metrics and Benchmarking

- Measure your Firm against a group of similar firms
- Compare specific performance measures across the members of the group

National Sources of Benchmarking Data

- Lexis Firm Insight BI Companion/Peer Monitor
- ALM Survey of Law Firm Economics
- Hildebrandt Peer Monitor Economic Index
- PwC Economic Surveys

**Big 4 in the House!**
KPIs – Use Liberal Doses of Common Sense!

- KPIs help to better assess Firm performance
- Consider your Firm’s specific goals
- KPIs can and will change over time as your Firm evolves
- Measure Firm performance with good and timely information
- KPIs are measurable inputs, but no substitute for Common Sense and Good Judgment

Dashboard Implementation
Dashboard Implementation

- Historical Data Analysis
- Risk Management
- KPI Design/Benchmarking
- Reporting Design
- Evaluation
- Firm Performance Baselines
- Control Phase

Dashboard Business Evaluation Process
Key Players/Implementation Process

- Executive/Management Committee
- COO/Executive Director/Admin Directors
- Project Manager(s)
- Financial Data Manager(s)

Power of the Dashboard

“Knowledge is Power”
- Francis Bacon
Power of Dashboards

• “You Can’t Drive The Car by Solely Watching the Dashboard “

• Rather, it helps you know how well you are progressing towards your destination

Power of the Dashboard

Best Practices

➢ Dashboards should include 8-10 KPIs
  ▪ Financial and non-financial metrics
  ▪ Get a well-rounded view!

➢ Measure/track performance and success

➢ Suggested dashboard metrics:
  ▪ Working Capital
  ▪ Operating Cash Flow
  ▪ Current Ratio
  ▪ Return on Equity
  ▪ Debt to Equity
  ▪ AR Turnover
  ▪ AP Turnover
  ▪ WIP Turnover
Power of the Dashboard

**Best Practices**
- Other Possible Dashboards
  - Cost of Servicing a client
  - Practice Area Profitability
  - Profitability by Partner

- Knowledge Management
  - Operational efficiency

**Types of Dashboards**
- Taskflow
  - Directed Action
- Business Intelligence
- Presentation layer
Power of the Dashboard – Lesson Learned?

The Key to a Good Dashboard is a Well-Defined Question

Sometimes a Critical Step in Problem Solving…..
Isn’t always about finding the right answers, but in having the right answer in the correct content.

Discuss!

Power of the Dashboard

The Power of Excel!

- How to bring data into Excel - ODBC
- Set up an Excel dashboard file
- Create table with raw data
- Analyze the data
- Build the dashboard
- Pivot tables
Dashboard Examples

Dashboard Examples
General Benefits

- Focus on key firm business processes
- Transparency of operations and visibility to Executive/Management
- Facilitates goal alignment across the organization through coherent action plans
- Induces peer pressure and healthy competition
- Facilitates a self-sustained.....
ROI from the Dashboard

• **Traditional productivity gains**
  - A highly productive law firm
  - Improved work product/delivery of services
  - Easy monitoring of firm expenses, cash flows, operating profits

• **Second/third tier benefits**
  - Better (proactive) performance tracking with timely action
  - Monitoring mechanisms are well-defined

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Critical Success Factors

Leverage existing technology infrastructure
  - Start simple, ensure usefulness, acquire buy-in

A sound measurement foundation
  - Identifying the right metrics (all levels of the firm) – the selected metrics should be reliable indicators of performance
  - **Interpreting metrics**

Ownership for (data) results

Analyzing results
  - Contextual analysis through co-relations
  - Translate performance metrics into clear improvement opportunities

A strong improvement process
  - Ownership for timely corrective action
  - Continuous process improvement
Critical Success Factors

- Employee training programs
- Effectiveness of the dashboard
- Metrics for the monitoring process – Controls?
- Regular re-evaluation of the dashboards for timeliness and responsiveness of performance indicators monitored – Deliverables consistent?

Common Pitfalls

Misconceptions

- Benchmarking
- Reconsider metrics rather than the tools
  - Right choice of KPIs
  - Right data (and source)
  - Correct dashboard representation
  - Ownership of data
PI & PM – A Powerful Combination

Process Improvement
Helps us determine the best way to carry out a certain kind of work to achieve.
- Efficiency
- Excellent quality of work and service
- High probability of successful outcomes
- Predictability

Process Management
A role and set of skills that ensures that for a particular engagement, we
- Use our “best process” appropriately
- Actively manage schedules, staff, and deliverables throughout this matter

Note: PM skills are used for managing PI projects

http://legalleansigma.com/
What is Project Management?

The process and activity of planning, organizing, motivating, and controlling resources, procedures, and protocols to achieve specific goals.

The application of knowledge, skills, tools, and techniques to project activities to meet the project requirements.

Lean
Do the right things
- Simplify processes
  - Eliminate waste / steps
  - Maximize process speed
  - Greatly improve productivity
- Focus on resource efficiency

Six Sigma
Do things right
- Understand relationships between variables
- Understand process capability and align with requirements
- Reduce and control undesirable variation

Lean and Six Sigma are complementary and are usually used together.

http://legalleansigma.com/
DMAIC: The Framework for a PI Project

Lean Sigma uses a disciplined problem solving approach:

- **Define**
  Define the problem and why it needs to be solved

- **Measure**
  Measure the current performance of the process

- **Analyze**
  Analyze the opportunities to reduce waste or variation

- **Improve**
  Improve the process by identifying, implementing and validating process changes

- **Control**
  Control the process by implementing methods to ensure improvements will be sustainable

**Continuous improvement = Competitive Advantages**

- **Define**
  What is important?

- **Measure**
  How are we doing?

- **Analyze**
  What is wrong?

- **Improve**
  What needs to be done?

- **Control**
  How do we guarantee performance?
Lean Six Sigma for Law Firms

There was a time not long ago that the legal marketplace was relatively untouched by the principles of Lean Six Sigma. In recent years, however, there have been some notable developments in this area. Several law firms have begun to implement Lean Six Sigma principles in an effort to improve the efficiency and effectiveness of their operations.

Lean Six Sigma is a methodology that combines the principles of Lean, which focus on eliminating waste, and Six Sigma, which is a statistical method for process improvement. The goal of Lean Six Sigma is to identify and eliminate the sources of waste in a process, thereby improving its overall efficiency and effectiveness.

One law firm that has successfully implemented Lean Six Sigma is X Company. The firm implemented Lean Six Sigma principles in several areas of its operations, including case management, client billing, and legal research. As a result, the firm has seen a significant improvement in its overall productivity and profitability.

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