2 Hazardous Vanity KPIs Law Firms Should Avoid

“*What gets measured gets managed.”* Remember that saying?

It was credited to Peter Drucker, legendary management consultant, educator, and author. It’s typically used to promote an emphasis on measurement. As if to say, measurement is a good thing. You should measure the things you want to improve.

Just one problem. Drucker didn’t say it. VF Ridgway, noted academic, did. In the 1950s. And he was taken completely out of context.

Here’s the quote again, in context.

“What gets measured gets managed — even when it’s pointless to measure and manage it, and even if it harms the purpose of the organization to do so.”

Most modern law firms *love* data. That love can become a slippery slope though, and often law firms swing from one extreme to the other. Either firms choose to ignore their KPIs and metrics altogether, or they obsess over a multitude of KPIs, giving themselves mental indigestion.

Here’s the obvious question. What makes a KPI bad?

- Too broad. Focusing on broad or generic metrics like sales and revenue without the appropriate amount of clarity, context, and disclosure.
- Too narrow. Assessing the health of your entire law firm by measuring a single practice area or task (i.e., drafting real estate agreements).
- Easy to manipulate. Our cognitive bias means we’re more likely to manipulate the KPIs we have direct control over. If your KPI is the number of new client meetings, you’re far more likely to inflate or manipulate that figure to meet your numbers.
- KPI stragglers. Metrics that won’t be reflected in the business for several days, weeks or months aren’t *immediately* useful because they don’t provide you with the clarity you need to make important decisions now.

What sort of hazardous, vanity metrics are law firms focused on?

Hazardous metric #1: Sales

It’s common for law firms to focus their attention on rainmaking. Rainmakers receive a significant amount of benefits and rewards if they’re able to bring in business. If a law firm is struggling to make money, sales solves everything, right?

Wrong. Law firms can’t outgrow losses. Take a look at your law firm’s revenues for the last three years. Check that against your profit for the last three years. Are they in proportion to each other? Do they match? If they do, your law firm is doing fine.

What if they don’t? Your law firm may be in trouble. Is your earnings growth one third to half of the new business your rainmakers brought in? This kind of growth is dangerous.

As firm rates continue to increase, realization rates decrease. Discounts, write-downs and write-offs increase proportionally. If you’re making lots of sales, but your discounts, write-downs and write-offs continue unchecked you have a problem.

You can’t outgrow losses. A recession, the loss of a major client, any sort of unexpected event is likely to put your firm into the red. As sales increase, your profits should increase as well.

Hazardous metric #2: Realization rates

Your realization rate tracks the difference between the amount you bill and the amount that’s paid to you, by your client. It’s an incredibly important metric to track. If you’re looking to build a successful law firm you must track your realization rate.

Here’s the problem. Measuring your realization rate is hazardous when it prevents you from focusing your attention on a KPI that’s far more important. Your total billables. It’s very common for firms to rely on reconstructive time entries. This is a dangerous practice which could cost you 50 to 70 percent of your income.

Tracking our time as-it-happens is the most reliable (and most profitable) method. The longer you wait, the more billable leakage you experience.

- You lose 10 percent of your billable time if you record your time the day of, once a day.
- You lose 25 percent if you wait 24 hours to record your time.
- You lose 50 to 70 percent if you wait one week.

It’s common for attorneys to reconstruct their timesheets at or around 30 days. If you’re focused on your realization rates but you’re still relying on reconstructive timekeeping, you’re losing an astronomical amount of money.

It’s common for attorneys to focus on realization while choosing to ignore contemporaneous (as-it-happens) timekeeping. Your realization rate isn’t a metric you should avoid. It *is* a metric you should avoid obsessing over.

Most law firms choose to either ignore their KPIs and metrics altogether or they obsess over the wrong set of KPIs, giving themselves mental indigestion. Focus your time and attention on the details that matter and you’ll have the canary in the coal mine you need to grow your law firm.