

Universal Timekeeping: A Critical Profitability Tool for Lawyers



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We can no longer afford to guess at profitability.

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There was a time, not very long ago, when the basic profitability strategy in most law firms was “If we charge a high enough fee, we will make a profit.”

Alas, the era of endlessly rising legal fees is over. Law firms today face increased price sensitivity in practice areas, which has imposed a general downward pressure on revenue. Any attempt to increase a fee can be expected to be met with client resistance and threats to go elsewhere for legal services.

Universal timekeeping is the one and only key that can unlock the power of the six financial indicators outlined in this article. No lawyer or law firm can afford not

to make this investment in sustainable profitability and competitive survival.

If you are not practicing universal timekeeping, your management of the profitability of your law practice is little more than guesswork.

Six Key Financial Measurements

Regardless of whether a law firm has one lawyer or thousands, there are six basic measurements of financial performance that can provide accurate information about the current financial health of the practice. They also have been proven, in law firms of all sizes, to be insightful diagnostic indicators of impending problems. By paying attention to just six metrics, a law firm – especially a smaller firm – can greatly strengthen its ability to spot and address potential financial problems before they deteriorate into a crisis.

With complete, accurate timekeeping, any law firm of any size can produce these measurements. Without it, they cannot. These six time-based measurements are:

- **realization rates** (g., percentage of recorded billable hours that are billed to the client)
- **fully-loaded operating cost per lawyer hour** (e., total operating costs, including non-owner compensation, divided by the number of recorded hours of lawyer work)
- **fee yield per lawyer hour** (e., total fee revenue received for the entire firm, a practice group, or a matter, divided by the number of recorded hours of lawyer work for the entire firm, a practice group, or on a matter)
- **profits per lawyer hour** (e., fee yield per hour minus fully-loaded operating cost per hour)
- **utilization rate** (e., percentage of all work performed by fee earners that is billable to clients, either as an hourly rate or as part of a non-hourly fee)
- **workflow leverage** (e., ratio of billable work on a matter that is recorded by partners to that recorded by associates and paralegals).

“Do or Not Do. There is No ‘Try’”

There is a critically important common factor in all of these measurements: time. Without time records it is impossible to make any of these measurements. Partial time records might be considered a step forward toward accurate financial

measurements, but sometimes they can be worse than no records at all. Incomplete records can produce highly unreliable results, which sometimes cause lawyers to add an even more unreliable “X factor” to their estimates of the financial health of the practice.

As Master Yoda famously implied, you don’t get credit for doing half the job.

The most common weaknesses are:

- recording only hours billed on an hourly rate
- exempting some lawyers or practice groups from timekeeping requirements
- substituting “standard hours” or “modeled hours” for the actual amount of time that was required
- vague or incomplete descriptions of the work (*g.*, “research” or “internal consultations”), which are almost useless as management information and have a high probability of prompting fee disputes

The simplest and most cost-effective way to avoid these problems is to enforce the best practice of all in timekeeping in professional services firms:

Everyone records everything.

As the name suggests, universal timekeeping means that every fee-earner in your firm – from paralegal through the most senior partner – records every hour worked, regardless of whether it is billable time or not, and regardless of whether the client is paying an hourly rate, a flat fee, a commission, or under any other fee structure. This is the only reliable way that the members of a law practice can know what it costs to produce an hour of professional services and whether that hour is generating enough profit.

Best practices in universal timekeeping aim at ensuring the highest level of completeness and accuracy. They include:

1. **Enter your time yourself.** Don’t rely on an assistant to do it for you. You are the one person in your entire office who is best able to describe the work that you performed, clearly, completely, and in a way that will reduce the chances of a fee dispute.
2. **Enter your time as soon as possible after you do the work.** The memories of busy lawyers, no matter how diligent, become less accurate in a remarkably little amount of time. In our work with law firms on profitability issues, we have observed that delayed time recording – even after only a few days – can result in significant lost fee revenue for the firm, either through forgotten billable hours, underestimated time (which is much more

frequent than overestimates), or fee disputes over incomplete or inaccurate time entries.

3. **Whenever possible, enter time directly into the timekeeping system.** Notes and temporary time sheets are better than relying entirely on one's memory many days later; but every transfer of information from one record to another carries a risk of mistakes. Every fee earner should be able to record time directly into the system from wherever he or she happens to be. This makes systems that offer direct remote time recording, especially using a mobile application, an especially good investment for busy lawyers, because it is never "after business hours" in the "cloud." These systems also take away any excuses for not following the first two best practices: do it yourself, and do it now.

About the Author

Norman K. Clark is a lawyer and co-founding principal of the international management consulting firm of Walker Clark LLC, which works exclusively with the legal profession. He is a past Chair of the Law Firm Management Committee of the International Bar Association, and is a current Co-Chair of the American Bar Association's Transnational Practice Management Committee. He is a Professor on the law faculty of the International Institute of Business and Law, in Panama City, Panama, where he teaches a course on Law Practice Management in that school's LL.M. program.

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