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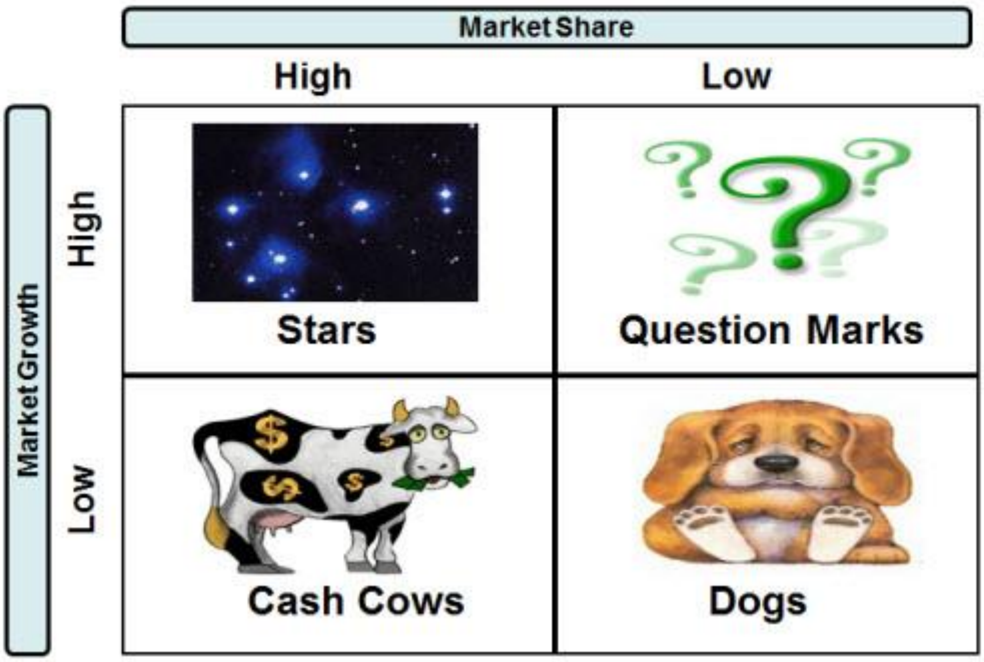
A Model to gauge and understand fee-earners performance

Traditionally fee-earners have been measured on fee income and little else. This is of course the ultimate measure but it's important to understand why a fee-earner performs well or otherwise and this can lead to actions that improve performance – even for those who are already doing well! The model explained in this chapter will help managers and fee-earners alike see in simple form where performance is above / below expectation and give clues to reasons. This is turn allows strategies for fee-earner performance improvement.

A large sheet of fee-earner performance numbers prepared by your accounts team can be challenging to tackle and decipher as a manager.
And making the issues understood by fee-earners can also prove difficult. After all it might be argued there is a negative correlation between an enthusiasm for accountancy and the law!

A simple illustrative approach that shows performance based on two key factors is helpful to both the manager and fee-earner. And importantly it provides clues to why a fee-earner is deviating from the expectation that in turn can help effective management for that fee-earner.

The **Boston Matrix** was a marketing concept developed in the 1970's to plot where a businesses product sat in terms of 2 variables: Market Share & Market Growth.



It allowed a product to be plotted based on theses 2 important variables:
High Market Share / High Market Growth: Stars
High Market Share / Low Market Growth: Cash Cows
Low Market Share / High Market Growth: Question Marks
Low Market Share / Low Market Growth: Dogs

Obviously the more products in the top left corner and less in the bottom right hand corner the better! And once known which box a product sits then a strategy can be devised for that product.

For example once a product is identified as a ‘Question Mark’ with Low Market Share and High Market Growth (top right hand box) it is likely to benefit from a strategy based on increasing the presense in the market place. Identifying a ‘Start’ (High Market Share / High Market Growth) will lead a business to look at developing similar products that could fit those criteria. And once a ‘Dog’ is identified (Low Market Share / Low Market Growth) it might make commercial sense to cease that offering as it is diluting the offerings of better performing products in the other three boxes.

The Boston Matrix concept of identifying two key factors that in turn allow for relevant strategies to be put in place can helpfully be **applied to the fee-earning performance of a staff member in a law firm**. Instead of measuring market share and market growth we measure 2 important factors for a fee-earner:

- Contribution (profit)
- Time recorded

Fees have been the traditional way of measuring fee-earner performance but what is critical is whether the fee-earner makes an overall contribution (profit). It is reasonably simple to calculate the hourly return required by a fee-earner to break even (how much a fee-earner needs to make assuming they hit their chargeable hours target). The firms annual central overhead budgeted costs (central staff, rent & rates, stationary, IT etc) should be divided across all fee-earners (based on expected chargeable hours) and this cost should be added to the fee-earners salary cost (including employers national insurance and pension contributions). This total figure should then be divided by the annual chargeable hour’s budget to get a break even return for that fee-earner.

2 examples (one full time and one part time employee) of how to arrive at a ‘cost per hour’ for a fee-earner are below (assuming a f/t fee-earner is required to do 35 chargeable hours per week and there are 6 weeks holiday per year including Bank Holidays):

Total Central Overheads	**£2,100,000**
Full time equivalent (FTE) fee-earners	**75**
Overhead allocated per FTE	**£28,000**

FEE EARNER 1: Full time (35 hours PW)	
Salary (inc Ers NI & employer pension)	£54,000
Overhead allocated	£28,000
Total Cost	**£82,000**
Annual Chargeable hours budget	
(35 hours * 46 weeks)	1,610
Hourly Break-Even (Cost per hour):	**£50.93**

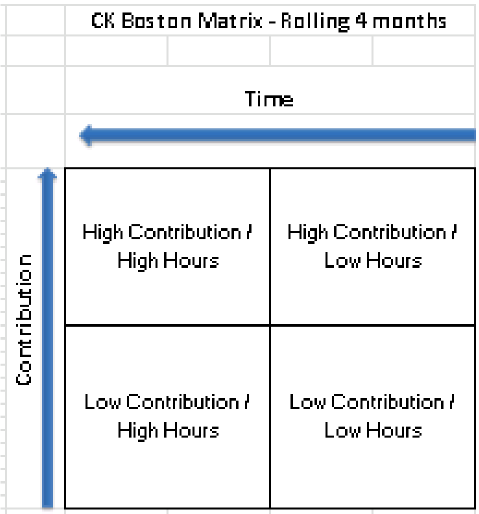
FEE EARNER 2: Part time (21 hours PW)	
Salary (inc Ers NI & employer pension)	£34,800
Overhead allocated (60% of FTE)	£16,800
Total Cost	**£51,600**
Annual Chargeable hours budget	
(35 hours * 27.6 weeks)	966
Hourly Break-Even (Cost per hour):	**£53.42**

If a firm required a 20% return on the fee-earner costs then the 2 examples would have to make per hour:

Fee-earner 1: £50.93 * 120% = £61.12
Fee-earner 2: £53.42 * 120% = £64.10

If the fee-earner makes that **return** per hour and undertakes the **hours** set then they will hit their target.

But if there are variations either in return per hour or time recorded then the position on the Boston Matrix will gives clues as to the reasons in variation against standard (above or below).



The box a fee-earner sits depends on the two variable discussed as follows:

- High Contribution / High Hours – Undertakes a lot of work that provides good margin and / or is done efficiently – the box to aspire to be in.
- High Contribution / Low Hours – Undertakes good margin work and / or works efficiently but might not have enough work to do.
- Low Contribution / High Hours – Undertaking work that does not provide enough margin and / or is overworking files. Possibly working hard but not covering enough case work.

- Low Contribution / Low Hours – Working inefficiently or on work that does not provide enough margin and is not undertaking enough work.

The aim of course is to get as many fee-earners into the top left hand corner as possible! And it is advisable to measure people over more than just one month to iron out any short term anomalies like holidays. A 4 month rolling basis can work well for gauging progress.

It is simpler to see how someone is generally performing without any need to review lists of figures. And the fact there are 2 central performance factors being measured allows us to drill down and capture / understand reasons for any variation in performance. And in turn the manager can then act.

Let's use our 2 fee-earners mentioned earlier as theoretical examples:

FEE-EARNER 1	Monthly		
	Actual	Budget	Variance
Turnover	8,320	8,190	130
Hours Worked	120	134	-14
Return per hour:	69.33	61.12	8.21

FEE-EARNER 2	Monthly		
	Actual	Budget	Variance
Turnover	4,600	5,192	-592
Hours Worked	102	81	21
Return per hour:	45.10	64.10	-19.00

Fee-Earner 1 had a turnover higher than budget but did fewer hours than required. We can see this fee earner works efficiently and / or undertakes good margin work but does not undertake enough work. Hence they would be plotted in the top right box: High Contribution / Low Hours. We should encourage this fee-earner to continue working in the same way (makes a £69.33 return an hour compared to a £61.12 budget) but they might be short of work when considering the hour's shortfall. A strategy can then be devised to get the fee earner into the top left hand corner of the Boston Matrix. This might involve ensuring they maximise their day and that they get more work (of a similar margin potential) to undertake as the figures suggest there is capacity.

Fee-Earner 2 recorded far more hours than budgeted but the work done was undertaken inefficiently and /or was charged at a rate insufficient to ensure the required profitability with only

£45.10 made per hour worked compared to a requirement of £64.10. Hence this fee-earner will sit in the bottom left box – Low Contribution / High Hours. We can ascertain that fee-earner 2 is working hard but probably over working files and might need some help in a more efficient way. And we know it might be that they are doing work that is not economical for someone with their cost rate to undertake. Knowing that these are potential issue means worked can be drilled into to see the actions leading to this inefficiency. For example it might be found that the fee-earner is taking too long on a task that could be done in a different way that would increase efficiency. They might not be utilising the IT system so training might be required. Or they might not be charging out to a client at a rate that allows acceptable profitability.

Knowing how your fee-earners have performed and the reasons for that performance are critical. And the Boston Matrix allows you to identify and act upon the issues that are highlighted. It's a powerful tool to raise performance. A recommended Key Performance Indicator (KPI) is to measure the % of fee-earners in the top left hand corner (High Contribution / High Hours) and to increase that % month-on-month. As a law firm manager you can rest assured that if that KPI increases, then your firm's probability will also increase in a strong correlation.