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Legal project management: Which benefit is most important?

Legal project management is growing rapidly, due to the fact that it can help law firms:

- Protect business with current clients
- Increase new business
- Increase the predictability of fees and costs
- Minimize or eliminate surprises
- Improve communication with clients
- Manage risk
- Increase profitability
- Improve realization
- Improve financial reporting
- Deliver greater value to clients

I've written this list into so many proposals that I could recite it in my sleep.

But three recent events have made me step back and ask myself: Which of these benefits is the most important?

The first event was a speech by Mike Roster, co-chair of the ACC Value Challenge committee, when he kicked off the Lex Mundi roundtable I discussed last week. Mike has a unique perspective on the current changes in the profession. In his work as a practicing lawyer, he managed large legal teams from both sides of the table, as former General Counsel at Stanford University and Stanford Medical Center, and as the Managing Partner of Morrison & Foerster's Los Angeles office.

Mike's talk was titled "Facing Realities" and his key slide listed three targets that law firms must meet to stay competitive in today's increasingly challenging environment:

1. Reduce clients' total legal costs (either compared to recent experience or to an industry benchmark)
2. Provide high predictability
3. Improve outcomes (for example, reduce the average cost of verdicts and settlements for specific types of cases or reduce the number of workplace disputes that arise in the first place by some target percentage)

One slide summarized his advice about these three targets: "You've got to provide at least one to stay in the game. You will need to provide all three to win." In Mike's view, LPM is most effective when both sides agree on at least one of these goals in advance so that it is being used to achieve something specific.

The second event was working with LegalBizDev Principal Mike Egnatchik on a presentation he'll be giving next week in California at the Legal Edge 2012 Law Firm Risk Management Conference on "How Legal Project Management Helps Reduce Risk." The conference was organized by McGriff, Seibels & Williams and Paragon International Insurance Brokers, whom we have worked with in the past. As Mike and I wrote a few months ago in this blog, LPM can reduce professional liability risk by helping lawyers control quality, meet critical deadlines, avoid or quickly resolve fee disputes with clients, and maintain active, open and timely communications with clients on all aspects of every engagement. In some cases, this may lead to a reduction in their malpractice insurance premiums.

The third event that had me thinking about LPM benefits was the release last month of a survey titled Speaking Different Languages: Alternative Fee Arrangements (AFAs) for Law Firms and Legal Departments. The research was sponsored by LexisNexis and conducted by ALM Legal Intelligence. It is based on an April survey of 141 law departments and 194 large law firms, and is the best data I've seen on how and why AFAs are growing.

Note that I do not mean to imply that LPM is more important in AFAs than in hourly work. The vast majority of legal

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revenue still comes from hourly work (about 84% in the latest survey that asked for this figure, ALM's 2010 Law Firm Leaders survey), so the revenue impact of LPM is likely to be far larger on the hourly side. But lawyers need a reason to be interested in LPM, and the simplest and most common reason we've seen is that a firm has committed to a fixed fee. Nothing gets a lawyer's attention better than knowing that if they go over budget, they will have to pay for it themselves.

There are also some interesting parallels between the benefits of AFAs and the benefits of LPM.

When the survey asked law departments – the buyers – to rate the major benefits of using AFAs, the top three answers were cost predictability/transparency (87%), cost savings (68%), and increased efficiency – e.g. quality and value for legal service (44%). These survey results are quite consistent with Mike Roster's list.

When they asked law firms – the sellers – the same question, the top three benefits were quite different: attracting or maintaining clients (91%), simplified billing and operations (50%), and increased billing realization (43%).

The first benefit – attracting and maintaining clients – was named by more than nine out of ten firms, and far outdistanced the others. Based on off the record discussions, I think some lawyers would phrase this motivation another way: "We are offering AFAs because we have to."

This is such an important topic that I've just written an article for Bloomberg Law Reports with Jonathan Groner entitled "Using Alternative Fee Arrangements to Increase New Business." In a few weeks, after Bloomberg publishes it, I will reproduce it in this blog, so that you can see what we learned about AFA marketing strategies at seven large and mid-sized firms: Adams & Reese, Butler Snow, Crowell & Moring, K&L Gates, Perkins Coie, Tucker Ellis, and Warner Norcross.

The third AFA benefit named in the survey is also quite relevant to LPM: increased billing realization.

Anyone who has been involved with law firm finances knows the importance of the realization rate, the percentage of billable time that is actually paid for by clients. Unpaid hours come straight out of the bottom line, and the problem has been growing.

According to the Thomson Reuters 2012 Q2 Peer Monitor Index Report, which was released last month, "Realization has now been falling fairly steadily for more than three years…Realization reached another new all-time low, with net collected realizations falling just below 84%."

This is a very important problem. If a firm with annual revenues of $200 million could increase realization by just 1%, it would immediately increase profits by $2 million. LPM can accomplish this in a number of ways, including reducing cost disputes through improved communication and budget management.

The most interesting approach to improved realization which I have seen was developed by Stacy Ballin at Squire Sanders. In her role as the Litigation Group Business Partner, Stacy is responsible for approving discretionary litigation write-downs for this 1,300-lawyer global firm. As part of our Certified Legal Project Manager® program, Stacy reviewed all 2010 litigation write-downs over $10K, identified a few partners with high write-down rates, and interviewed them about the reasons. She then used these findings to coach these lawyers and others with similar write down patterns, and found that coaching did indeed improve their realization rates.

"I am finding that building awareness of the need for better project management is best achieved through coaching individual by individual," Stacy recently told me. "While that may seem less efficient with respect to time, it works much better than global education."

Given these recent observations, what do I think is the most important benefit of LPM to law firms? Is it increased realization? Increased new business? Reduced risk? Something else?

You tell me. The answer depends on what you are trying to achieve.

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