The Reporting Data that Law Firms Need for Financial Success

Chelsea Huss May 20, 2021

When you think about the function of a law firm, your thoughts probably go straight to the provision of legal services. But law practice administrators must recognize that their firms are also revenue-earning businesses that need money to operate. For this reason, it is imperative to keep tabs on financial performance. They need to know whether the firm is bringing in enough revenue, as well as whether strategies and expenditures benefit or hurt the firm.

With regular reporting, firms can track metrics that provide valuable detailed financial analysis. This blog will take a closer look at some of those metrics, including what data they provide and how often firms should review them.

Financials

As the name suggests, these reports provide a detailed look at the firm's finances, including how much money is coming in, how much is on hand, and how much is being spent. To gain a complete view of a firm's financial status, administrators can consider the following reports:

- Bank Account Journals – These reports should be generated for every firm bank account on a weekly basis. They list every transaction that took place within the account, along with the ending balance.
- Accounts Payable (AP) Report – This report lists all items paid out by the firm during the preceding week. It provides a valuable layer of transparency regarding the signing and authorization of firm checks while also illustrating the impact of expenditures on firm cash flow.
- Accounts Receivable (AR) Report – AR represents the total amount of outstanding debt owed to the law firm. These are invoices sent to clients that have not been paid. Weekly AR reports help law firms with their collection practices and the prevention of excessive, difficult-to-collect debts.
- General Ledger Review – Ledger details should be reviewed on a monthly basis for accuracy and completion. By looking over these records on a monthly basis, law firm administrators can confirm that expenses have been posted within the correct accounts. They can also catch errors and prevent budget overages.
- Budget Checkup – Administrators should compare the firm's actual income to its budget. These monthly checkups help firms stay within their spending budgets by identifying potential overspending before it becomes a larger problem. These reports may reveal the need to reduce spending in one area in order to accommodate an unanticipated need for additional spending in another area. By reviewing this data on a monthly basis, administrators can keep the firm on track to meet and even exceed annual profit goals.
- Bank Reconciliations – Law firms need to conduct monthly bank reconciliations to promote

transparency and ensure proper adherence to industry standards. For instance, states have specific rules about the handling of client trust accounts. Monthly account reconciliations can alert administrators to the types of discrepancies that can prove detrimental to a law practice. Trust account reconciliations are best handled with financial software that is specifically programmed to handle the nuances of legal trust accounting.

Firm Productivity

Law firms need to keep an eye on the productivity of the firm in order to promote efficiency, cost savings, and maximized profitability. While we tend to think of productivity as the pace of work being completed, there are a number of additional factors to consider within a law firm environment:

- Billable Hours – Law firms need a weekly reporting of the month-to-date billable hours generated by the firm. With weekly data, administrators can catch issues affecting billable hours and correct them before they become profit-stealing problems.
- Nonbillable hours – To truly maximize efficiency and productivity, law firms should also keep an eye on the number of nonbillable hours being generated on a weekly basis. Monitoring nonbillable hours gives a full picture of how all law firm time is being spent on a weekly basis. This data helps administrators promote greater productivity. It may also alert to unreasonable amounts of time being spent on nonbillable tasks.
- Timekeeping Procedures – According to industry studies, law firms can lose up to 30% of billable time due to inadequate time capturing. Law firms need procedures in place that mandate concurrent timekeeping. In addition, weekly reports can help administrators identify timekeepers who are not adhering to these firm policies.
- Matter Timelines – Monthly reporting on the status and timelines of firm matters can prove extremely valuable in evaluating firm productivity. With this information, firm administrators can identify matters that have been sitting for prolonged periods of time and address the cause of the delays.
- Billing Processes – At the conclusion of every billing cycle, firms should take a look at their billing processes to evaluate the amount of time that elapsed between the completion of a task and the provision of an invoice to the client. Untimely invoices can result in client distrust and dissatisfaction, which can lead to late payment of bills. With regular evaluations, administrators can fine-tune the firm’s billing procedures to maximize client payments.
- Attorney Profitability – Law firms should prepare these reports a few times each year or, at the very least, as part of their attorneys’ performance evaluation. This data calculates the year-to-date profitability of each firm attorney. The industry standard dictates that a lawyer’s direct compensation should not exceed 40% of the receipts on the attorney’s time. Regular monitoring of this data allows firm leaders to identify potential problems along the way instead of waiting until the conclusion of the year. Issues such as inadequate training or incorrect time capturing can be handled quickly when identified in a timely manner, so it’s important to run these reports on a consistent basis.
- Client Retention and Referrals – Client retention reports speak volumes about the productivity and effectiveness of a law firm. Happy clients bring their repeat business to the firm. They also refer their friends, family, and colleagues. By creating an internal system for tracking retention and referral data, administrators can gain valuable awareness about firm performance.

Marketing

Many law firms pour extensive amounts of money into their marketing strategies with little understanding about the effectiveness of their efforts. The following marketing performance indicators need to be part of a law firm's regular reporting process so that administrators can evaluate what approaches are working and what needs to be tweaked:

- Source of new clients – When securing new clients, law firms should track data about how the client learned about the firm. Whether it is through the firm website, a social media post, or a referral, this information provides valuable insight into the firm's marketing techniques. This reporting should be reviewed on a bimonthly basis so that necessary adjustments can be made.
- Website Conversion – This reporting should be done three to four times a year to evaluate the effectiveness of the firm's website. It provides various data about the activity of website visitors, including:
    - How long they stay on the site
    - Which pages they view most
    - Which pages have the highest bounce rates (visitors leaving the site)
    - How many visitors convert to leads
- Return on Investment (ROI) – Law firm revenue growth provides a general look into the effectiveness of firm marketing efforts. Administrators can compare the amount of increased revenue with marketing costs. Many businesses use an ROI formula of subtracting marketing expenses from sales growth and then dividing the balance by marketing costs. Administrators should remember that it can be deceiving to directly attribute sales growth to a marketing campaign, but this monthly reporting does provide some insight into the firm's ROI.

Practice Area Performance

Law firms often build their practices around a single niche or a few specific practice areas. But societal changes can result in evolving needs among potential law firm clients. For example, the pandemic brought about a surge in such practice areas as bankruptcy, health law, and employment law.

Firms should take a look at the performance of their practice areas at least annually to determine whether they are still performing at a profitable level. This data can be collected externally from legal industry reports and studies, as well as internally from practice area comparisons of new matters and revenue generation. The information can then be used to make crucial decisions about the firm's practice area direction.

Law Firms Need Regular Reporting to Stay Financially Healthy

These are only examples of the numerous types of reports that help law firm administrators evaluate the viability of the practice. It's important that administrators identify metrics that specifically speak to the health of their firms and take steps to monitor them on a regular basis. With weekly and monthly reporting, administrators can promote what is working and make timely changes to address what is not.