

# LAWYERS JOURNAL

L A W P R A C T I C E M A N A G E M E N T

## ‘Realizing’ profit from your associate attorneys

By Keith Cameron

When it comes to your associate attorneys, your primary objective is to ensure that they develop exceptional legal skills and use those skills to best serve your firm’s clients. Secondary to the development of their legal skills is that their work contributes financially to your law firm.

Profit from your associates’ work is fundamental to your firm’s financial success. When your partners establish a standard billing rate and an expected number of billable work hours for your associates, do you already know how much of that work will be billed, and how much of the amount billed is eventually collected? You should! This article will introduce an easy method to enable you to monitor what happens at the billing stage with each of your associates’ hours worked.

**What is realization?** Most firms set hourly billing rates for associates, which we’ll refer to as “standard” rates, and they set an annual, or budget, number of hours to be worked. The partners’ expectation is usually that the revenue billed for every associate will be close to the expected hours times the standard rate, with the difference being occasional write-downs when their work is billed by a billing partner. In practice, the amount of your associates’ work that is billed is usually much less than their standard rate times their hours worked. Measuring the difference between hours worked and billed is known as billing “realization.” It’s the percentage of an attorney’s billable time worked that is billed. As an example, associate Smith’s hours worked on a client times the associate’s standard billing rate one month is \$20,000. The billing partner decided to bill that work at \$15,000. The billing realization rate for that associate regarding that client is 75%, or \$15,000 divided by \$20,000.

You expect write-downs for less experienced associates as they make mistakes and tend to need extra time, but they learn in the process. You should also expect much higher realization from more experienced associates. However, a common issue that gets insufficient attention is an associate whose realization continues at a level lower than their experience. Some associates may be written down so significantly that they are earning no profit for the firm; in other words, the revenue from their work is less than the cost of their compensation, benefits and overhead.



Keith Cameron

**Monitoring associate realization.** Most firms don’t regularly review their associates’ billing realization. Others review it once a year, such as when the new budget is being prepared. This infrequent review can alert you that there may be a problem, or show an opportunity if corrected, but it seldom leads to the type of concerted effort needed to ensure that your associates’ contributions to the firm’s revenue are as high as possible.

A pattern of write-downs, or special rates which are lower than standard, for an associate will often continue until the causes are addressed, which brings us to the real purpose of this article: You can’t fix what you don’t see. If you want to improve low realization with your associates, you must first recognize that it’s occurring, determine why it’s occurring, and then take action to improve the associates’ billing realization.

Other law firms have found the following simple approach beneficial to monitor their associates’ billing realization monthly. It’s an easy and effective way to identify opportunities for improvement and serves as a guide to the corrective actions to take.

Refer to “Exhibit A” pictured along with this article, which is an example of a report to monitor realization monthly. Most law firm accounting systems have standard reports which would generate the billing realization percentage, or the dollar value of the time worked, and amount billed, so it would take little time each month to add the new data. Present such a report monthly at your executive committee meeting. Your discussion of the report might focus on several comparisons you can readily recognize, such as the following: 1) What are the changes from month to month and are they trending upward or downward? 2) How do the associates compare to each other? 3) Is every associate improving over the previous year’s realization, or are they holding steady (if the realization is already high)? 4) If an associate’s realization decreases significantly in one month, what are the details, such as who was the billing partner and who was the client? Each firm sets its own objectives for the associates’ billing realization percentage, but it is realistic to achieve at least 95%, especially for experienced associates.

Consider the following illustration to imagine how significant the benefits could be from improving your associates’ realization. You could replace the following numbers with

your firm's data to see your potential to convert the write-down amount into revenue for your firm.

- Number of Associates: 3
- Average Standard Hourly Billing Rate: \$250
- Average Monthly Number of Hours Worked: 140
- Average Billing Realization: 80%
- Annual Dollar Value of Hours Worked: \$1,260,000
- Amount Written Down at Billing: \$252,000

**Conclusion.** As a recommendation, monitoring your associates' billing realization can begin with a one-time review just to see if you think there are improvement opportunities. As previously noted, preparing a report of the data would take very little time – maybe less than an hour – and could have a tremendous upside. The shortage of qualified associates in the current job market is driving competitive salaries to very high levels. Improving your associates' realization may offer some assistance in covering those increasing costs. Additionally, realization improvements are normally continued in subsequent years.

Note that this monitoring report could also enable you to improve by setting an annual realization goal for each associate and following that progress.

Achieving an acceptable level of billing realization does not happen automatically for associates as they develop their legal skills; in fact, it is often outside their control. Fortunately, billing realization is easy to measure, easy to monitor, and is correctable! ■

EXHIBIT A													
Associate Realization Tracking Report													
Associates	Billing Realization Rate for 2021	Billing Realization Rate for 2022											
		January	February	March	April	May	June	July	August	September	October	November	December
AAA	61.4%	77.9%	101.7%	75.6%	75.1%	81.6%	82.5%	88.8%	82.4%	81.0%	78.1%	88.7%	
BBB	77.0%	76.2%	71.0%	80.0%	81.8%	79.8%	79.1%	86.2%	88.7%	91.7%	89.3%	99.2%	
CCC	61.4%	77.9%	101.7%	75.6%	75.1%	81.6%	82.5%	88.8%	82.4%	81.0%	78.1%	88.7%	
XXX	78.9%	90.3%	97.8%	90.3%	81.1%	87.3%	91.0%	93.6%	84.5%	92.9%	91.2%	87.3%	
ZZZ	97.4%	98.2%	93.8%	94.0%	96.3%	98.6%	97.7%	96.2%	91.2%	90.0%	81.5%	91.4%	