fairfax INSIGHTS

Does Benchmarking Measure Up?

"What are other firms doing?" It's a question we hear frequently. Lawyers have a strong inclination to look to other firms for sources of legitimacy when it comes to the practice of management. This preference has intensified since the onset of the financial crisis, which has raised the stakes for leaders who are under more pressure than ever to compete as firms cope with new demands unheard of by their predecessors.

It is not surprising, then, that in a market where growth and profitability cannot be taken for granted, leaders are paying more attention to best practices. This interest has fueled a cottage industry of law firm surveys measuring everything from pricing practices to staffing trends to compensation levels. As consultants, we are often looked to as a source for understanding how other firms are handling the thorny issues posed by the post-economic crisis environment. Firms are interested in this information in part because they are looking for straight-forward remedies. Who can blame them?

Benchmarking brings key benefits…

The interest in benchmarking, we believe, is generally a positive step forward. More and more firms are using data to drive—or at least inform—decision-making about key organizational and strategic issues. This development is in sharp contrast to the traditional "finger in the wind" approach to law firm management where custom and whim played a more important role in determining leadership action than informed perspectives.

Effective benchmarking, where valid data are collected and put into perspective, can lead to better and more thoughtful decision-making. While there is often no definitive right answer, there are answers that are more right or more wrong when it comes to managing people, strategic action and financial hygiene. Through effective benchmarking, leaders can learn vicariously through the successes and mistakes of others who are similarly situated.

But beware of dangers of inappropriate benchmarking…

When done correctly, benchmarking can bring many benefits to firms. However, sometimes firms use benchmarking data in ways that can be less helpful. This often happens when firms look to benchmarking data for easy solutions to complex questions and do not stop to consider the lessons that live behind their peer firms' decisions.

One of the biggest ways that we see firms mishandling benchmarking data is by focusing narrowly on individual variables that should really be viewed in the context of a greater system. In other words, knowing that many firms utilize origination numbers to drive compensation, for example, without understanding (1) whether that system is actually working for these firms and (2) if it is, how it aligns with their strategies for attracting clients and talent, means that one is looking at only a part of the picture. One might assume that simply adopting a compensation philosophy that is more focused on origination will make the firm more competitive without appreciating the need to align this approach with the firm's strategy, people and culture.

A more subtle way that benchmarking can cause problems in firms is by strangling innovation. A firm that lives and breathes through benchmarking data will almost certainly be developing a culture that discourages new thinking and innovation. When new ideas emerge in these cultures, they are questioned and compared to other firms' approaches; when it is discovered that the idea is truly novel, it is shut down. It's no surprise then that the industry can be slow to change.

Despite the challenges posed above, there is value in understanding how and why firms make decisions and take action on key issues facing the profession. How can we effectively use benchmarking to learn from the experiences of others while avoiding the pitfalls?

First, focus on context. Because context is messy and hard to measure, it is not easily conveyed in typical surveys. Firms would be well-served by studying objectively written case studies about other firms' stories, visiting with other leaders and talking to them in-depth about what they have found helpful, or working with thoughtful advisers who have deep understanding of their clients and informed methods for applying concepts to different situations. During these conversations and analyses, leaders can push themselves and their colleagues to ask not just *if* something has been adopted, but *why* it has (or hasn't) worked.

Second, use benchmarking as a tool for informing and shaping thinking about the competitive environment, not a pure formula for success. Benchmarking is most useful when either firms are quite homogeneous or key firm attributes and characteristics are straight-forward and well observed. Unfortunately, many law firms do not currently live in this kind of world. Given the challenges in obtaining true apples to apples comparison data, benchmarking data is best used as one input into a much broader data gathering and analysis project, particularly when making potentially high impact decisions.

The job of law firm leadership is harder than ever. Their legal training has taught them to look for precedent and learning from peer firms seems like a good approach to finding solutions. And yet when a market is changing rapidly, this is exactly when firms need to look beyond benchmarking of the past to identify the best approaches for moving forward. A careful and considered analysis that looks broadly at the reasons behind successes and the implications for the future is a firm's best defense.

London

Principal: Giles Rubens
giles.rubens@fairfaxassociates.com
44 (0)20 3633 3943

Washington

Principal: Lisa Smith
lisa.smith@fairfaxassociates.com
202.365.4180

California

Principal: Kristin Stark
kristin.stark@fairfaxassociates.com
415.215.9294