Why One Law Firm Abandoned The Billable Hour

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Law360 (June 14, 2019, 5:15 PM EDT) - In an effort to focus on building profitability, one law firm has done away with the billable hour as a measure of success when determining partner compensation, according to the firm's chief executive officer, who spoke at the Legal Marketing Association's P3 conference in Chicago on Friday.

The billable hour was not an effective way for 70-attorney Levenfeld Pearlstein LLC to measure partner success, and it was an even poorer way for the law firm to encourage behaviors that would lead to a more profitable law firm, explained CEO Angela Hickey.

"If you want to think about a change, think about [eliminating the billable hour as a measure of success,] and it really opens up a world of possibility into value," Hickey said.

Hickey has been with Levenfeld Pearlstein for two decades and is in the fairly unusual position of sitting on the law firm's executive and compensation committees as a voting member even though she is not a lawyer. She is a certified public accountant, has a background in accounting and holds a master's degree in business, a background she says she has been able to use to bring to Levenfeld Pearlstein a business strategy that many law firms lack.

In order to reach one of the law firm's strategic goals of increasing profitability, the law firm focuses on finding out what its clients want and what they truly value and then shaping the law firm's systems around that, Hickey says.

"Value is in the eye of the beholder, it's in the eye of the client," she said. "Everything we do revolves around the experience our clients are having."

One thing that grew out of that perspective was the decision about a decade ago to do away with the billable hour as a method of measuring equity and income partner performance, she explained.

Hickey said partner performance at Levenfeld Pearlstein is measured in three broad categories: revenue generation, profitability and personal contribution. But each of those categories has a number of subcategories measuring things like how many existing and new clients a partner has served, how much cross-selling they did, time spent on business development, their markdowns and write-offs, professional development of others, and firm leadership, among other measures of success.

"All of these things make a difference. We drill down, we don't stop with the top number," Hickey said.

Of course, those lessons didn't come easy, Hickey said. Making the change to a new way of determining partner performance took three years to fully implement and was a "herculean" task, she added.

"The most challenging obstacle has been and remains the mindset of what I call scarcity, which is very different from the mindset of possibility," Hickey said. "Lawyers are trained to identify what could go wrong, to not take risks. Businesspeople are trained to manage the risks and see what's possible. What is needed, really, is a shift in mindset."