

Managing for Profitability

Maximizing the money-making potential of your firm's workforce requires more effective utilization of paralegals within your organization.

BY JOYCE Y. MCGUINEY AND LYNN GRASSBY



These are uncertain times. The news is filled with stories of the failures of established financial institutions, the layoffs of thousands of workers in the manufacturing sector, the restructuring of large multinational corporations to avoid bankruptcy and insolvency, and the tightening of budgets in all sectors of the economy.

The legal community is not exempt, but rather caught in the fray. It is, therefore, more important than ever to look at maximizing the profitability of your existing workforce – and that includes more effective utilization of paralegals within your organization.

Paralegals, Profitability, and the Future of Your Law Practice, authored by Arthur Greene and Therese Cannon, both of whom sit on the Advisory Board of the International Paralegal Management Association (IPMA), and published by the Law Practice Management Section of the American Bar Association (available at www.ababooks.org), remains the definitive text on the topic. In the book, Greene and Cannon write, “If a fixed fee is established for a specific transaction, the lawyer’s profit is directly related to his or her ability to

integrated into lawyers’ practices, profit potential will not be maximized.

- Firms are still reticent about moving away from the billable hour toward alternative fee structures, such as fixed fees. Efficiencies gained by employing state-of-the-art technology, by having up-to-date precedents, and staffing projects with paralegals, to name a few, are not fully rewarded with increased profits if alternative fee systems are not in place.

Getting the right work to the right people, right away, and at the right price lowers costs and increases profits. If this is not happening as expected in your practice, perhaps your paralegal program is not being managed as well as it

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operate efficiently. ... Every hour of work that can be performed by a paralegal rather than by a lawyer lowers the cost invested in the project. Every hour of work that can be shifted effectively to a paralegal increases the firm’s profits.”

This concept is not new, but is it working? Are profit margins growing? Not always. The following points may help to explain disappointing results:

- Although lawyers are generally aware of the benefits of working with paralegals, delegating to paralegals is still too often an afterthought, and a costly one at that. Having to bring a paralegal up to speed in a deal at the last minute can eat into, rather than augment, anticipated profits. Unless paralegals are *effectively*

could be. Perhaps you have not invested in a Paralegal Manager or have not exposed your Paralegal Manager to adequate training opportunities.

A paralegal manager’s role is to build a competent team of paralegals, ensure quality services, add value to the lawyers’ practices, meet clients’ demands for cost-effective services, grow the business, and do so at a profit to the employer. A savvy paralegal manager knows how to connect all the dots and is a vital participant in managing for profitability.

PARALEGAL RESOURCES

The profitability of a firm’s paralegal program hinges on the ability of the paralegal manager to recruit and manage

the right mix of resources. The team should not be too top-heavy, but neither should firms attempt to reduce costs by hiring too many juniors.

In *Paralegals, Profitability, and the Future of Your Law Practice*, the authors point out that, “In most cases, the lawyer can justify billing an experienced paralegal at double the rate of an entry-level paralegal. Even if the firm pays an experienced paralegal twice as much as the entry-level paralegal, under normal circumstances the profits generated by the experienced paralegal will be greater. It is the overhead costs that make this true, since they will be nearly the same for both paralegals.”

The following illustration is given:

	ENTRY-LEVEL	EXPERIENCED
Salary	\$ 30,000	\$ 60,000
Fringe Benefits and Overhead Costs	\$ 32,500	\$ 40,000
Total Costs	\$ 62,500	\$ 100,000
Hours	1,500	1,500
Hourly Rate	X 50	X 100
Potential Revenues	\$ 75,000	\$ 150,000
Less 10% Uncollectible	<u>\$ 7,500</u>	<u>\$ 15,000</u>
	\$ 67,500	\$ 135,000
Less Costs	\$ 62,500	\$ 100,000
Profit	\$ 5,000	\$ 35,000

While paralegal salaries have increased significantly since the book was written, particularly in areas such as intellectual property law, the ratios between entry level and experienced paralegals remain consistent. (See the *2008 Annual Compensation Survey for Paralegals / Legal Assistants and Managers*, produced by the IPMA and Altman Weil Publications Inc. and available at www.paralegalmanagement.org.) In a well-managed, tiered team where senior paralegals can supervise and delegate to juniors, and juniors can benefit from mentoring and on-the-job training by the seniors, everyone is allowed to stretch and learn. Such a work environment fosters strong motivation and job satisfaction. This positive mind-set helps to curb the high cost of dealing with disgruntled employees, or replacing them, and stimulates a contagious sense of pride and commitment that translates into increased profits.

Of course, the paralegal manager must also facilitate the ongoing training and development of paralegals in areas such as best practices, legal knowledge, timekeeping,

technology, and client service. Competencies and efficiencies must be top-notch in managing for profitability.

PARALEGAL UTILIZATION

In *Paralegals, Profitability, and the Future of Your Law Practice*, the authors write, “To the extent that well-qualified paralegals can take on a larger portion of the work, the lawyer can justify a higher hourly rate for a more limited role, without increasing the cost to the client.” The following illustration is given:

Lawyer-Intensive Staffing

40 lawyer hours at \$200	\$8,000
16 paralegal hours at \$90	\$1,400
56 hours	
Amount of Bill	\$9,400

Paralegal-Intensive Staffing

16 lawyer hours at \$250	\$4,000
48 paralegal hours at \$90	\$4,320
64 hours	
Amount of Bill	\$8,320

By being able to justify an hourly rate of \$250 instead of \$200, the lawyer can produce significant additional revenue, as shown below:

1,500 hours at \$250	\$375,000
1,500 hours at \$200	\$300,000
Increased billings	\$ 75,000
less 10% for uncollectibles	\$ 7,500
Increased revenues per lawyer	\$ 67,500

As the authors point out, a lawyer who dedicates an average of 40 hours to each file can handle 37 files a year, whereas a lawyer who dedicates an average of 16 hours to each file can handle 93 files a year. So, by shifting a larger portion of the work to paralegals, the lawyer is able to handle an increased volume of legal work at a higher hourly rate. Perhaps even more important in the current economy, the lawyer’s freed up time can be used to develop new business.

By applying the same strategy in a tiered team where an experienced paralegal is able to handle more files at a higher rate while the juniors handle lower-level work, the paralegal manager further maximizes revenues.

Training attorneys on the economic benefits of paralegal utilization, and getting buy-in on matters such as defining the scope of paralegal work, relinquishing that work to paralegals, involving paralegals at the outset of a project, as well as other best practices, are critical roles for the paralegal manager.

FEE ARRANGEMENTS

In their book, Greene and Cannon note that fee methods, other than hourly rate billing, should be considered when evaluating a paralegal's profitability potential because the lawyer receives the rewards for any improved efficiencies. Alternative billing methods include fixed fees, retainers, contingencies, or some combination of these.

Consider the simple example below, which assumes that the lawyer spends an initial half hour with a client; the client requests a will, which can be drafted in an hour, regardless of who drafts it; the lawyer spends another half hour with the client to execute the will; and the fixed fee for the will is \$450. The advantage to a firm using a paralegal is a profit of \$125, or about 28 percent. The details:

Timekeeper/Hourly Rate	Task	Cost Based on Hourly Rate	Fixed Fee Revenue	Profit or Loss
Partner/\$250	Meetings	\$ 250	\$ 450	(\$ 50)
	Drafting	\$ 250		
		\$ 500		
Partner/\$250	Meetings	\$ 250	\$ 450	\$ 60
Associate /\$140	Drafting	\$ 140		
		\$ 390		
Partner/\$250	Meetings	\$ 250	\$ 450	\$125
Paralegal/\$75	Drafting	\$ 75		
		\$ 325		

The paralegal scenario is the most profitable because the fee has been set correctly, the costs of delivery have been kept low, and the players were efficient. The absence of any or all of such criteria could be disastrous.

Channeling work to the right person, establishing appropriate fees, monitoring productivity, and ensuring proper recording of fees are key responsibilities of the paralegal manager.

TECHNOLOGY

The integration of new and vital technology into the practice of law grows exponentially each year. The most

obvious example is, of course, the importance of electronic discovery to the litigation practice, but many firms are also adopting the latest innovations in firm intranets for knowledge management and communication, transaction databases for the effective in firm management of mergers and acquisitions, and software programs for effective docketing of time and evaluation of employees.

Your firm's paralegals may well be the best human resources in the firm to be trained to use the technology for maximum profitability. By extension, the paralegal manager, working with the firm's IT department, may also be the best resource to ensure the continuing training of the paralegals and other support staff on the technology, to research and determine the effectiveness of new technology, and to assess the ongoing viability of existing technology to the firm's practice.

PRO-BONO AND GREEN INITIATIVES

A law firm's pro-bono and green initiatives are becoming increasingly important in the recruitment and retention of the best employees, and they're critical to the firm's public

profile for client development. While the support of and contribution to such initiatives by the firm's partners and associates are vital, more and more paralegals are handling such initiatives. In addition, the paralegal manager is taking an important role in identifying the best candidates for and acting as the coordinator of such projects, thereby increasing the firm's visibility and social responsibility, without sacrificing the profitability of its most essential timekeepers.

LOOKING AHEAD

According to Greene and Cannon, the role of the paralegal will continue to expand and evolve as part of a major

paradigm shift in legal services during the next 30 years. They see a greater role for paralegals in the area of client relations, noting that clients are less deferential to the idea of the lawyer controlling information and are especially savvy to the cost-saving aspects of paralegals serving as the conduit for communication.

This is good news. If effective management of paralegal resources boosts the firm's bottom line, then it follows that expanded use of these resources will further enhance the profitability of the law practice.

One of the most satisfying roles of the Paralegal Manager is to groom paralegals to take a more active part in client relations and developing business. Working in tandem with lawyers, paralegals can be instrumental in cross-selling and bringing new business to the firm. ♦

about the authors



Joyce M. McGuiney is President of the International Paralegal Management Association (IPMA) and Manager, Transaction Services, for Blake, Cassels & Graydon LLP in Toronto, Ontario, Canada.



Lynn Grassby is Secretary-Treasurer for the IPMA and Director, Corporate Services, for Stikeman Elliott LLP in Montréal, Québec, Canada. Contact them at info@paralegalmanagement.org.

ABOUT THE INTERNATIONAL PARALEGAL MANAGEMENT ASSOCIATION



The International Paralegal Management Association (IPMA) was founded in 1984 as the Legal Assistant Management Association.

It promotes the development, professional standing, and visibility of paralegal management professionals.

The Association's primary goals are:

- To be the primary provider of information and educational resources on paralegal management.
- To promote the participation of paralegal managers in forums that deal with the legal profession.
- To advocate the paralegal manager's viewpoint on issues affecting the legal profession.
- To promote the value of the paralegal manager's role in the delivery of legal services.
- To establish a strong communication network within the association and with the legal community.
- To ensure the IPMA's vitality as a professional association

The IPMA has more than 600 professional members who are directors or managers of paralegal services in law firms, corporate law departments, and governmental agencies throughout North America, with additional members in Europe, Asia, and the Caribbean. Additionally, about 75 companies are sustaining members for legal staffing, court reporting, electronic discovery, translation services, and other service providers to the legal community.

IPMA's Member Benefits and Services

Among the key features offered to IPMA members are:

- *IPMATalk* Online Discussion Groups
- *Paralegal Management Magazine*
- *Annual Compensation Survey for Paralegals / Legal Assistants and Managers* – produced in partnership with Altman Weil Publications Inc.

- *IPMA Paralegal Utilization Survey*
- Chapters in more than 25 locations throughout the United States and Canada
- Paralegal Manager and Paralegal Job Bank
- Annual Conference & Expo
- Skills for New Managers Workshop
- Paralegal Management Webinars
- *IPMA Service Provider Directory*
- Printed and Online Membership Directory
- *Manager's Manuals Series*
- Mentoring Program
- Speaker's Bureau

Learn More

The IPMA is a dynamic community of professionals committed to each other's success and to the advancement of the paralegal management profession. Contact us:

International Paralegal Management Association
 P.O. Box 659
 Avondale Estates, GA 30002-0659
 Phone: (404) 292-IPMA (4762)
 Fax: (404) 292-2931
 E-mail: info@paralegalmanagement.org
 Web site: www.paralegalmanagement.org
 Executive Director: Michael J. Mazur, Jr.