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## **10 reasons why time recording limits your firm's potential**

**Resistance to dropping timesheets could be costly for firms with regard to their culture, productivity and the satisfaction of their lawyers, writes John Chisholm.**

In my previous article, I suggested that the legal profession must stop confusing billing with pricing and that it would be better if all forms of retrospective billing were, if not eradicated completely, at least substantially limited.

In this article, I suggest that the billable hour's partner in crime, the timesheet, is holding back law firms from not only better pricing but also a better culture and a more sustainable future.

The adverse effects of the billable hour on law firm culture, the quality of life for lawyers and their relationships with clients have been well documented in recent years. Even so, resistance to change is deeply entrenched, and time-based retrospective billing remains the preferred choice for most law firms and their clients.

### **Quick fix**

Notwithstanding time-based billing still dominating, surveys show that other forms of pricing – especially fixed fees – are increasing year on year as law firms and their clients become more competent and confident in offering up-front pricing.

For an increasing number of firms, the discussion has moved on from “Do I continue to bill solely by time?” to “How do I offer clients a range of billing and pricing options, including time-based billing?”

This represents progress, but in my opinion, it's still the wrong question. While I strongly encourage and support firms that offer a range of pricing options, none of these need to include time-based billing. There is now overwhelming empirical evidence that firms can be successful and profitable without any time-based billing, nor time recording.

The reasons often espoused for the retention of timesheets have been debunked, both from a theoretical perspective and by the real-world experience of professional firms. Listed below are some of the reasons I think time recording limits a firm's potential.

### **1. Timesheets keep firms mired in time and focused on inputs and activities**

While some firms are making the transition to a timeless practice, they still retain their timesheets like a security blanket. But most of the firms that have successfully kicked the hourly habit will tell you they regret that they didn't kill off their timesheets sooner.

They ultimately realised that as long as the firm retained timesheets, it was extremely difficult not to relate everything they did, every price they set, somehow back to time. This, in turn, often led them to charge lower fees than they might have in some cases, and to turn down profitable work in others.

The late Dr Michael Hammer, one of the world's foremost business thinkers, once said: "A professional is someone who is responsible for achieving a result rather than performing a task." Time-based billing reduces everything any lawyer does to a series of tasks and inputs instead of focusing on what clients want – outputs and results.

### **2. Timesheets send a mixed message to your lawyers and team**

It's demoralising at worst and confusing at best to tell the world your firm sells value while telling your lawyers that their time matters so much that they need to track it in six-minute intervals.

### **3. Timesheets discourage innovation**

Can you point to even one really innovative organisation in the world that makes their people account for every six minutes of their day? I can't.

Recording time discourages the kind of creative thinking that creates real value. In contrast, you only have to ask the firms that have ditched their timesheets, and they will tell you the creativity unleashed when you go off the clock can be astounding.

### **4. Timesheets are inaccurate, non-transparent and tempt otherwise ethical lawyers to act unethically**

With the best will in the world, it is virtually impossible to record time accurately. Mostly,

we record what we think is time spent or should have been spent. Time recording is not transparent and until chips are inserted in our brains (which may be sooner than we think) to show to clients what we are thinking, as distinct from what we are doing, this will remain so.

It is unsurprising that timesheets foster a culture where lawyers sometimes face substantial ethical dilemmas and anxiety over recording the time they really spent on something, or recording time to meet their expected measurements and rewards.

## **5. Feeding the time machine is expensive**

Think about how much you invest in your practice to feed the beast. It is estimated that between 7 per cent and 12 per cent of a firm's gross revenues is spent supporting the time-recording system. I think that figure may be conservative.

Even if those numbers are in the ballpark, you could, in theory, ditch your timesheets and give your whole firm a month's vacation with no loss of profit. Or better still you could invest all of it in education, training, technology, business development and other initiatives that would make a real difference to your practice.

## **6. Timesheets do not predict your costs**

A timesheet is just the timekeeper's best effort at recording the time spent on some activity. Even if one rigorously tabulates and analyses historical timekeeping data, this tells you very little, if anything, about how much time future matters might require (let alone what the price should be).

As opponents of flat fees love to point out, legal matters are very unpredictable – even with similar fact patterns, two cases or transactions may take wildly different paths.

## **7. Timesheets do not reveal anything about what a legal practice needs for sustainable success**

No amount of timesheet data can tell you the quality of your work or how the client regards your service. Timesheets can't tell you how to improve professionally.

Most importantly, perhaps, for some – timesheets can't tell you how much more a client might have been willing to pay.

## **8. Time spent recording time is wasted time**

There is absolutely no economic or accounting justification for treating time as a cost. Salaries are a cost. Rent is a cost. Paperclips are a cost.

Time is not a cost; it's a constraint, but rarely a binding constraint. Defenders of the timesheet often claim to use them to measure costs, but in my 35 years in the legal profession I am yet to see or experience a law firm that genuinely uses timekeeping data to measure or project costs. They use them to bill, to punish or to reward.

## **9. Timesheet-based costs are misleading and arbitrary**

Dividing an arbitrary subset of your largely fixed costs by an arbitrary number of hours to be worked by an arbitrary subset of your people gives you a deceptively precise – but still arbitrary – number.

## **10. Timesheets build silos and are a disincentive to collaboration**

Firms that maintain timesheets encourage an 'I, me, mine' culture. If I have to fill my timesheet, I'm going to be less likely to share work with a colleague. This leads to lawyers thinking about their 'personal books of business' and the portability of their clients.

I am not suggesting for one moment that it is easy to stop recording time. There is much we have to unlearn. We have been doing it for decades; it is profitable for most firms; it forms the basis of most firms' measurement and reward incentives; your practice management system is solely or largely built around time; it is an acceptable form of billing for most clients; and most of your competitors are doing it. It does indeed take courage, foresight and leadership to change this business model and be different from most of your competitors, but it can be done and is being done.

Despite all the deleterious effects of time recording mentioned above, for firms that bill time, timesheets remain a necessary evil. However, for the increasing number of firms that truly understand the value of their services and their costs, timesheets are but a costly distraction that stands between them and their real potential.

This article is part of a series on pricing in the legal profession. The next column will discuss billing and pricing options.

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