Fear of Profitability Systems

By Thomas E. Young
T.E. Young Consulting Group

Most companies outside of the professional service industry have implemented profitability systems for many years. These analytical tools have been used to provide management with important and indispensable information about sources of profits. Management often uses this information for strategic planning and resource allocation purposes.

Many professional service firms, primarily larger firms, have likewise implemented profitability systems. These firms recognize the importance of having a reliable system that tracks the profitability of both timekeepers and clients.

Why are some partners in professional service firms afraid of profitability systems? Why is uttering the "P" word (for Profitability) a good way to start a mutiny or, at a minimum, a reason to be totally ignored?

Some partners fear that information from profitability systems will be used for compensation purposes. Even with management assurances that the primary purpose is to improve firm-wide profitability and to assist in making more informed decisions, some partners will be skeptical. Ultimately, any system that has the potential to provide negative information about their performance is clearly a target for attention.

So how can management convince partners to accept a profitability system? First, it is important to start with a fundamentally sound profitability system. A profitability system is not an exact science. Estimates used must be reasonable and fair to all partners. While some partners will never accept any profitability system, management must convince the majority of the partners that the system does not favor any individual partner or group of partners.

Management must clearly outline the intended uses of the system, and more importantly, not vary from the intended uses without communicating with the partners. If management's use of profitability information varies, those partners who already are skeptical will never accept a profitability system. Management's creditability will be severely damaged, maybe even fatally. Disenchanted partners may vote out current management at the next election.

In all firms there are partners who are key to the success of the firm. Some may be senior partners who provide leadership while others may be significant rainmakers. Management should meet individually with key partners to communicate the reasons and intended uses of the system. Key partners need to “buy in”. If management obtains their concurrence, then other partners may be more willing to accept the system.

If the firm suspects difficulty implementing the system, it may be advisable to proceed slowly. For example, management may introduce the firm-wide statistics rather than practice area or individual timekeeper or billing attorney statistics. Cost per billable hour on a firm-wide basis may be less devisable than billable attorney profitability information. Other information can be introduced at a later date when the firm is more likely to accept it.

Change in professional service firms is not always easily implemented. Some partners may fear a profitability system because they perceive the results may negatively affect their compensation. Management must anticipate resistance and take the appropriate steps. Communication and an effective implementation strategy will ease the process. After all, professional service firms need analytical tools like a profitability system in order to ensure continuing success.

About the author……
Thomas E. Young is the owner of T.E. Young Consulting Group, a firm providing administrative and financial services to the professional service industry.

Visit teyoungconsulting.com for additional information about T.E. Young Consulting Group and other articles.

Telephone: 708-645-0284
e-mail: teyoung@teyoungconsulting.com

August 10, 2003