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## How Law Firms Are Achieving Billable Hour Success

*The support firms provide can encourage buy-in from both clients and employees.*

An alternative fee arrangement (AFA) — most often, a flat fee — is now used in [nearly a quarter of law firms' work](#), according to Bloomberg Law. Yet billable hour-based pricing is still going strong.



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A 2023 Association of Corporate Counsel [report](#) found more than three-quarters of firms charge outside counsel standard hourly rates for their services, and 8 in 10 legal departments pay a discounted hourly amount for law firms' work.

Provided firms have robust enough data to accurately estimate costs, AFAs can be a good fit for practice areas that involve repetitive processes, such as intellectual property and labor employment, says Robert Kamins, Principal and Founder of Vertex Advisors, which provides financial and other management consulting services to law firms.

However, while some firms may assume their clients, regardless of matter type, would typically prefer an AFA over hourly billing, that's actually not always the case, Kamins says.

“At the end of the day, they’re looking for more efficient legal spend,” he says. “Many clients don’t necessarily love knowing they may have overpaid. Increasingly, what they want more than value is transparency, so they’re paying for the actual work performed.”

Homing in on a few specific operational aspects can potentially help law firms ensure the billable hour process is a favorable experience for clients — and also produce optimum results internally.

## CULTURAL CHANGES

The mental health concerns a heavy workload can present have become an increased focus in the legal industry; in a 2021 [report](#) that noted attorneys cited billable hours as cause of stress, the New York State Bar Association recommended law firms cap billable hour requirements at 1,800 hours annually.

The same year, public interest law firm Sanford Heisler Sharp increased salaries — and reduced its billable hours minimum from 180 to 160 hours a month. The firm arrived at that number, according to Chairman David Sanford, because trimming 10 hours didn’t seem like it would be enough.

“We don’t want to burn people out,” Sanford says. “We want to make this a sustainable practice and have people be happy with sustainable lives. The thought was everyone would receive a 20-hour reduction as being significant; and we wanted it to be significant.”

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A few factors contributed to the decision to reduce the billable hours target. For one, the firm hoped the new policy would contribute to employee satisfaction and retention. They also factored in efficiency gains achieved through technology enhancements and decreased commute times when working from home during the COVID-19 pandemic.

“You’re always thinking about ways of holding onto your best talent,” he says. “[Firm members] decided to work for us because they’re committed to social justice and civil rights, and they’re willing to make economic sacrifices because the work is meaningful and rewarding to them personally — but you also want to compensate your people as much as you possibly can. We thought it made sense to reduce the pressure and the target minimums, and people have appreciated it.”

While attorneys may still log long hours when work requires it — leading up to a trial, for example — the firm encourages them to take time off afterward. If some months an attorney works 300 hours, Sanford says, balancing that out with a more relaxed schedule during less busy periods should in theory help balance their average hours to 160 or so a month.

Since the pandemic, Sanford Heisler Sharp, like a number of firms, has also embraced a hybrid work structure. Employees might be in the office some days, and off-site for the rest of the week.

“People think about work-life balance differently because of the pandemic,” Sanford says. “They think about being able to be home, work remotely and take care of things during the day from a personal level that, in the past, they weren’t able to do as easily because they were expected to be in the office. That’s not to say they aren’t expected to make up that time; if they take off three hours in the middle of the day, they may have to work in the evening or the weekend — but they have flexibility.”

## AUGMENTING BUSINESS RESOURCES

Administrative and business development tasks, while important, can chip away at a law firm’s utilization rate — which represents how much of an attorney’s eight-hour day is spent on billable work. Currently, nearly two-thirds of their workday is underutilized, according to a [Clio report](#).

To maximize hourly billing’s profitability, having strong time-tracking and other internal systems in place is crucial.

Technology use has helped 30% of legal professionals finish tasks in less time, according to Bloomberg Law’s survey. Almost all firms (91%) have a timekeeping solution in place, and 42% use practice management tools.

“Firms are really spending time looking at their financial and hours reporting,” Kamins says. “Many firms are using dashboards or other data visualization tools to have a great sense of how busy their people are — both individually [and at] a practice, client and matter level, as well — to work efficiently.”

The data firms are gathering may be able to help them strengthen their hourly billing-related processes — including meeting client requests for detailed information about the employees who perform matter-related work, according to Joseph Samarco, Director of Revenue Operations at Hogan Lovells. He’s also a member of ALA’s Professional Development Advisory Committee.

“Clients look at diversity a lot more now and the law schools attorneys went to,” Samarco says. “They want to know how much experience the attorneys have. You have to have all the necessary information prior to submitting an invoice [or] the system won’t allow it through. This is not 1998 or 1999, when you could send out a bill and just say services rendered, and the client paid it.”

“Clients are really seeing the value again in the service that’s provided, and not just the dollar. It’s a slow process; depending on the level of income they have or revenue they make, they do want to get the best value — but they understand people have to be paid for what they do.”

Relatively minor format changes could potentially have a positive impact on billing. Clio’s legal trends survey, for instance, found law firms that included an itemized outstanding balances summary on invoices, with an embedded payment link, to follow up about unpaid bills had 26% higher realization rates — representing the percent of billable work that gets invoiced — and 5% higher collection rates than firms that didn’t.

Some law firms have invested in personnel to analyze productivity and address issues that occur because bills aren’t compliant with clients’ e-billing systems — a major cause of payment delays, according to a 2024 [report](#) from Citi Global Wealth at Work and Hildebrandt Consulting.

Between 2017 and 2022, 78% of firms added pricing specialists, and 76% increased the number of project managers they employed. Nearly all large firms (95%) invested in data scientists.

All three roles are expected to continue to grow within the next two years — data scientists by 86%; pricing specialists by 70%; and project managers by 60%. A 52% increase in billing and collections professionals is also predicted.

While smaller firms may not have the budgetary resources to add all those functions, having someone — potentially an attorney, staff member or external consultant — examine how time is being spent can be key, Kamins says.

“You don’t need to necessarily hire a pricing [or] legal project manager,” he says. “But you do need somebody who’s focused on the numbers — who wants to get under the hood and understand the mechanics of what it takes to do a matter.”

## THE CASE FOR CHARGING BY THE HOUR

A billable hours structure can provide several notable benefits. There’s less risk of revenue loss if work-related time estimations are off. A number of firms also use hourly billing to gauge achievement and compensation levels.

“Largely, the systems that are core to law firms have been built around the billable hour,” Kamins says. “One measure of performance for an attorney, besides quality, is quantity. It’s a unit many firms have [used to gauge] the firm’s values about how many hours, especially supporting attorneys like associates, or income partners, should be working each year.”

Hourly requirements, he says, frequently also play into firms’ financial planning.

“A law firm’s economic model is really most often hours spent, times your rates, times the number of people you have doing it,” Kamins says. “That is how a firm that isn’t using purely fixed-fee model, that does use billable hours, in essence has to budget. It’s a unit not just of compensation for the individual, but for the accrued revenue of the organization. One of the reasons it’s so entrenched [in law firm operations] is that it factors into every conversation and most data reports that firms look at.”

To ensure the information firms are drawing compensation and revenue planning conclusions from is accurate, firm leadership may, Kamins says, want to consider enhancing their data tracking practices — for instance, using task and activity codes for all matters.

“There are standard ones in the industry; firms have more specific ones, sometimes clients have specific ones,” he says. “That will give you better insight into what things actually cost — which helps you not only manage matters more efficiently but understand your business and have better communication with your clients about what the range of work can cost to really establish trust.”

Thorough training and guidance can help ensure attorneys, paralegals and other firm members understand how to track and code their hours.

“If people are not properly recording their time, or they’re doing things such as large block billing, as opposed to individual time entries — or generic entries [that] are not descriptive enough to understand what actually occurred and have to be revised later — all of those elements challenge the effectiveness of the billable hour,” Kamins says. “It’s really important, as an organization, to make sure everybody’s on the same page about how to do it.”

When pitching their services, law firms may, at times, suggest either an hourly or AFA billing structure — based on factors ranging from how research-intensive the work will be to whether associates, instead of partners, can complete it at a lower rate.

Some clients, regardless, might still push for alternative billing options for certain types of matters; Samarco, though, says he’s seen in a shift within the industry over the past year.

“Clients are really seeing the value again in the service that’s provided, and not just the dollar,” he says. “It’s a slow process; depending on the level of income they have or revenue they make, they do want to get the best value — but they understand people have to be paid for what they do.”



## About the Author

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