Let Information Be Your Guide:

How Accurate Reporting and Analysis
Can Improve Your Firm's Performance

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Introduction

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We've all been there before. Sitting in front of a PC, you type in one or more key words to initiate an Internet search for some analysis you are doing, and in an instant 1,687,439 hits are returned. You scan through the first several pages of returns, drilling down here and there. Then you glance at your watch. It's been 30 minutes and you are no closer to understanding the problem at hand.

It's no different in countless situations for owners and partners of small and midsized professional services organizations (PSO) trying to gain visibility into their company's operational and financial performance. Data is not the problem – there's lots of data. But which data will provide the insights you require? And how can you get at it? How much time must you spend building reports from scratch? And, almost as frustrating, how long do you spend taking bits and pieces of current company management reports to get at what's most important to you?

The challenge? To build a universally understood and accepted system that provides the right data in the right way to help people across the firm make good decisions. Much work has been done over the last decade to address these critically important shortfalls in management reporting. These types of systems have been called many things by differnet people. For the purposes of this paper we will use the term business intelligence (BI) to describe the art and science of capturing data to provide business advantage to the firm. But what is it exactly and how does it work? Why should professional service organizations be interested and what are the best practices around implementing and using BI? In this paper we answer those questions by equipping you with the knowledge to get your arms around business intelligence and to stop wasting your valuable time searching for decision support data.

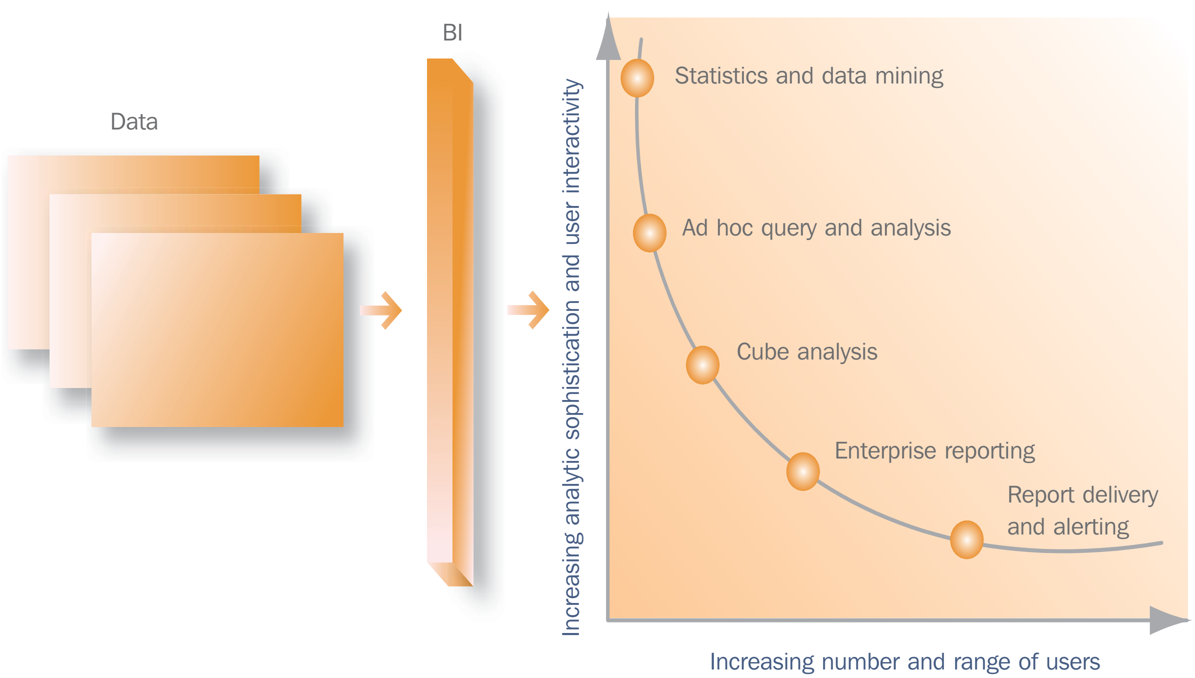
Why Haven't I Heard of BI?

The term "business intelligence" (BI) was coined in the early 1990s. For the most part, however, the term has been limited in its use to the vendor community and to those who follow the technical side of data management. The need for BI, however, has been part of the business landscape for years, developed in step with the proliferation of data generated so easily these days.

So perhaps we should start with a simple definition. ***BI is a comprehensive way of capturing data to support decision making across the organization.*** Correctly designed and built, a BI system can provide the tools necessary to facilitate analysis and decision making at all levels of the organization and across functions. In this sense, it is not a technology tool per se but rather is meant for nontechnical people within the firm to harness data in such a way as to help them make decisions.

Figure 1 shows conceptually how BI takes disparate data generated throughout the organization and places it in a value-adding report structure. This report structure ranges from high-level, big picture, enterprise reporting to very detailed statistical analysis.[1] Cut functionally, BI spans the organization from finance to human resources, from line manager to product specialist. Consequently, a properly conceived and developed BI system provides great flexibility for its users.

Figure 1. How BI Supports Decsion Making Across the Organization



Source: Kennedy Information, Inc. and Microstrategy

BI: The Science and the Art

Armed with high-value data with which to make practical business decisions, the firm may be smart to remind itself, "Be careful of what you wish for, as you might get it." There are clearly two sides of BI to address. On the one hand, acquisition of meaningful data in a report format that is easy to use and widely accessible is largely *a technical challenge*. There are software solutions from large multinational software vendors and smaller niche players alike. Additionally, very small PSOs may decide to create a homegrown BI system whose investment is commensurate with firm size.

Implementing a BI system should not be seen simply in the context of technology, however. It takes high levels of *senior management commitment* and a disciplined approach to make it work. Moreover, the organization must make the investment in time and effort to determine *what is important to measure* and *what kinds of behaviors it wants to encourage*. BI helps people make informed decisions; the firm must be clear on what its strategic objectives are so that decision making is aligned with that strategy.

How the Right Data Helps Herd Cats

Knowledgeable managing partners are aware that the strategic use of data is critical to bringing about change in PSOs. Capable leaders measure everything related to the kind of behaviors they want to promote. What gets measured gets done, goes the adage. For example, if you want the accountants (or lawyers, or consultants) in your firm to get their bills out faster, measure in real dollars what it costs the firm when they submit late bills. Or if you want to reduce write-offs, show the impact on firm income of matters that yield high realization and those that result in constant write-offs. Leaders must also quantify the costs of bad time keeping, inadequate associate feedback, and dissatisfied clients, among other metrics. According to James Durham of the Law Firm Development Group,[2] "To guess is cheap, but to guess wrong is expensive. If you want results, you must gather data, communicate the findings, create accountability, and develop reward structures to support the desired goals."

For instance, ask 10 partners for their opinions on measuring either individual or practice group profitability and you'll get a range of passionate responses. Some owners see that kind of analysis as crucial to the success of their firm. Others contend that the analysis furthers an eat-what-you-kill mentality and pits partner against partner, since big business generators are given "evidence" to strengthen their positions of power and influence within the firm. If the firm's values are built around total firm performance, such profitability analysis may focus too much on individual partner performance.

What's In It for PSOs?

BI sounds great. But you say to yourself that there may be considerable investment in time and effort. Furthermore, your firm isn't overly complicated anyway. As a PSO, you keep a close eye on the productivity of your people and the overall profitability of the firm.

However, recall how we defined BI: a comprehensive way of capturing data to support decision making across the organization. Put another way, BI helps everyone make decisions that support the strategic and tactical initiatives of the firm. There are forces at work — which you are undoubtedly feeling — that make arming everyone across the firm with improved performance data quite a compelling prospect.

Consider these trends affecting most PSOs:

- Engagements are getting smaller. Clients, particularly those working with consultants, have been very careful with spending money on what might be considered discretionary activities. Large IT projects are now being broken down into phases, with follow-on work being given the green light only after earlier phases have shown expected returns on investment. Consequently, PSOs have been working on more projects just to stay in place. Those who have been able to grow top line revenues have done it by running faster than ever before. This has increased complexity in managing projects, billing and collections (cash flow), and financial accounting.

- As a result, revenue per account has shrunk, forcing most PSOs to manage a larger portfolio of clients. Customer relationship management (CRM) tools are an effective way to deal with this added complexity, but unless they become a part of a comprehensive BI system, their full benefit may not be realized.

- With the slowdown has come intense competition from other PSOs. In the soft economy experienced over the last several years, there have been fewer transactions driven by mergers, acquisitions, intellectual property derived from new product introductions, etc. Whereas work seemed to just walk in the door prior to 2000, it now comes only with concerted marketing, branding and selling efforts. This has added additional layers of nonbillable activities to already busy schedules. The success of these kinds of activities is very hard to measure without high value, continuous streams of performance data.

- Competition has also put downward pressure on fees, which directly affects margins. Without tight operational management of resources and cost management of the firm's fixed and variable costs, margins — and partner pay — suffer. Owner/partners need much better visibility into both operational (utilization, realized rates, etc.) and financial (revenues, expenses, cash flow, etc.) performance at the individual, practice, and firm levels, in order to compensate for such fee pressure.

- Much larger organizations can support separate overhead positions devoted to the firm's marketing, selling and, in some cases, management activities. However, for small and midsized businesses, billable professionals typically do this work. We all know how more and more responsibility has been packed into the owners' or partners' week, all while utilization expectations have remained steady or have even been raised. There is no time to hunt for data that helps you make the right business decisions. It needs to be available in real time and presented in a way that is immediately useful.

- Last, PSO organizations have become more complex. In response to client preferences, many PSOs now have broken out service delivery into specialty practice areas. Most prominent has been the move to organize around client industries. In addition, many small and midsized PSOs have multiple offices, sometimes in geographically diverse locations. Responsibility is often — and correctly — put in the hands of practice leaders and office leaders. Consequently, the firm is no longer viewed as some amorphous entity but rather a bundle of key responsibility areas that must be tightly managed and integrated.

For these reasons, PSOs, particularly small and midsized firms, should look at how BI systems can lift the burden of managing increasingly complex organizations in a very competitive environment.

Should You Invest in BI?

Efficiency, profitability, strategic planning, partner harmony, and a range of other factors may be inhibited by a lack of useful financial and operational data. Even when the data exists (and quite often it does) the inability to access it or to see it in a way that supports decision making creates the same limitations.

According to BNA research, partners continue to confide that they want to receive financial information:

- Earlier
- In a manner that isn't too aggregated, detailed, distorted, or irrelevant to their everyday decision making
- Expressed in understandable accounting terms
- Structured around real performance and areas of vulnerability
- Focused on problem solving
- Showing all increases or decreases in the firm's "value"

In short, they want financial information presented in a manner that enhances their management insight. If your reporting system is not meeting these basic needs, you should consider the impact that further investments in BI would make.

Not sure how to proceed in order to determine where the deficiencies lie and what to do about them? Try these practical steps:

- **Survey** all those who receive financial and operational reports on what information and data they think is most relevant. Ask what use they make (or would like to make) of the information, what decisions they believe should be predicated on the data that is distributed, the objectives of the information, and, especially, which areas of the current reports they find obscure, misleading, confusing, or incomplete.
- **Involve** the appropriate partners, administrative staff, and outside professionals in any changes from beginning to end. For most PSOs, the best way to do this is to form a committee of users. Remember, BI is not for the benefit of the IT staff; this is about getting the right information to partners/owners and other nontechnical decision makers throughout the organization. And remember to provide complete updates frequently to all concerned parties.
- **Consider** the value of creating parallel reports whenever appropriate or helpful. IRS, bank, and other outside requirements must be met, but don't let other constituencies dictate how you distribute information in-house. For instance, consider, redesigning your internal reports to help partners monitor actuals against budgets, projections, prior periods, and so on. The design should make relevant information quickly comprehensible, yet not watered down by generalities.

Baseline Reporting

Once you decide that a holistic approach to reporting is warranted, PSOs should think about what types of output the BI system should cover at a minimum.[3] It can and should be used as a:

- Basis for evaluating the productivity of individuals and practice groups by billable and non-billable time
- Marketing and decision-making tool
- Helpful analytic check on the breakdown of revenues (billed and collected) by client, individual, practice group, matter type (in the case of attorneys), and the like

- Snapshot of receivables by age and realization rates by billing partner, department, client, etc.
- Ready means to determine the firm's liquidity and cash status, including highlights of future needs or potential shortfalls as well as the historical source and application of funds
- Source of insight on firm borrowings and liabilities
- Indicator of accrued increases or decreases in worth not reflected in realizable financial terms, such as probable value of unbilled work or work in process, value billings, etc.
- Check on actual costs and expenses, highlighting trends and important variances from budgeted or historical figures
- Quick view of changes in key ratios and rankings
- Source of data on partner distribution status and forecasts
- Resource for education and motivation so that all partners can contribute more to the firm as required.

Conclusion

BI is a powerful approach to harnessing the wide-ranging data that the typical professional services organization is capable of producing. Building a strong BI system has been made easier with the availability of software written for this purpose and a growing body of BI expertise in the consulting and vendor communities. Rather than concentrating solely on the technological challenges of developing BI, however, savvy firms start with the end in mind. By first identifying the financial and operational measures that most closely align with firm strategy, capturing and massaging data into clear, actionable reports is made easier. Thus, implementing a BI system is as much art as it is science. Good data drives good decisions. The behaviors that are most desirable must be the ones the BI system supports. For small and midsized professional services businesses looking to achieve greater leverage of their billable time, an appropriately funded BI system may serve as a great investment toward achieving greater performance and improved profitability.

About BNA

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[1] *The 5 Styles of Business Intelligence,* Microstrategy, Inc., McLean, VA., 2002.

[2] James Durham, as presented at the Association of Legal Administrators' 2004 Annual Meeting, and referenced in IOMA's *Partner Report*, July, 2004.

[3] IOMA's *Management Library*.