

The Link Between Knowledge Management and Profitability

Did you know there is a direct link between [Knowledge Management](#) (KM) and Profitability for law firms? In addition, did you know that this link exists right at the top of the profit pyramid, where the impact on profitability is the greatest? I've heard this link mentioned before, but haven't heard the reasoning behind it. Here are my thoughts on this very important concept.

So, what is behind the link between Knowledge Management and Profitability?

First, it's generally recognized that increasing Rates can have the biggest impact on profitability. As [David Maister](#) states in his book "[Managing the Professional Service Firm](#)", you can increase rates through specialization, innovation and adding value. *The use of properly developed KM systems can significantly increase rates in all three of these areas.*

KM systems organize the information that lawyers need to develop and maintain their specialty practice areas. KM systems also allow lawyers to innovate the way they provide legal services to clients. Finally, KM systems add value to legal services delivered to clients. See [here](#) for further information from KM experts such as Ann Bjork of Virtual Intelligence VQ in an article from KIM Legal magazine.

I've always believed that the use of KM systems has the potential to make law firms extremely profitable. For example, the reuse of past legal work product can dramatically cut the cost of legal services and allow law firms to recover the true value of the legal knowledge they are imparting to clients. This is done by value billing without regard to the number of hours being spent on the legal task at the time. It's not unethical to value bill for KM if you let the client know what you're doing up front and give them the chance to "buy in" to a new way to dramatically reduce their overall legal spend. At the same time, this allows law firms to expand their own profit margins by increasing effective rates dramatically. It truly is a win-win situation for the law firm and the clients who embrace this way of doing things.

KM provides clients with exactly what they want - lower overall legal costs - while allowing law firms to increase effective rates on the legal products and services they are providing to clients. KM allows law firms to turn legal knowledge databases into products that can be reused over and over. This allows law firms to invest for the future like other businesses, and not just build fiefdoms of partners who are only in the enterprise for their own gain. This is where most KM initiatives usually fail, as many partners can't get past the short-term impact to their numbers by compensation systems which are driven by short-term results at many law firms. It takes some work to convince partners that the KM initiative will truly benefit them in the long run. Forward-thinking Managing Partners and Compensation Committees will take into account these long-term investments of legal knowledge by partners who contribute to the development of great KM systems. Firms can start small and simply bonus partners who provide significant contributions to the KM initiative. See the article from KIM Legal article magazine noted above for further ideas on how to approach the KM contribution/compensation issue.

KM contributes significantly to greatly increased profitability in law firms by driving and supporting higher Rates, which is the factor that has the biggest impact on law firm profits. I

believe that once law firms truly understand this, you'll see many law firms revisiting the KM concept. In combination with the drive for alternative billing models which clients are clamoring for today, law firms should be able to utilize KM to help clients reduce their overall legal costs while driving their own profits higher. In this way KM truly can be "the missing link" you've been searching for to dramatically increase law firm profits.

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