Law Firm Profitability Analysis

PARKER
A N A L Y T I C S

Agenda

1. Profitability Model

2. Profitability and Race/Ethnic Diversity

3. Characteristics of Diverse Firms

4. Diversity and Firm Culture

A statistical model can explain what factors drive law firm profitability: Average Partner Compensation = Firm Factors + Macro Factors + Error

Firm Factors

- Diverse Ethnicity Attorneys %
- Geographic Concentration
- HQ Headcount
- International Headcount
- Leverage (Non-Partner/Partner)

Macro Factors

- Fiscal Year
- HQ Market Geography

The analysis uses data on 3,674 Am Law 200 firm-year observations between fiscal years 2000 and 2020
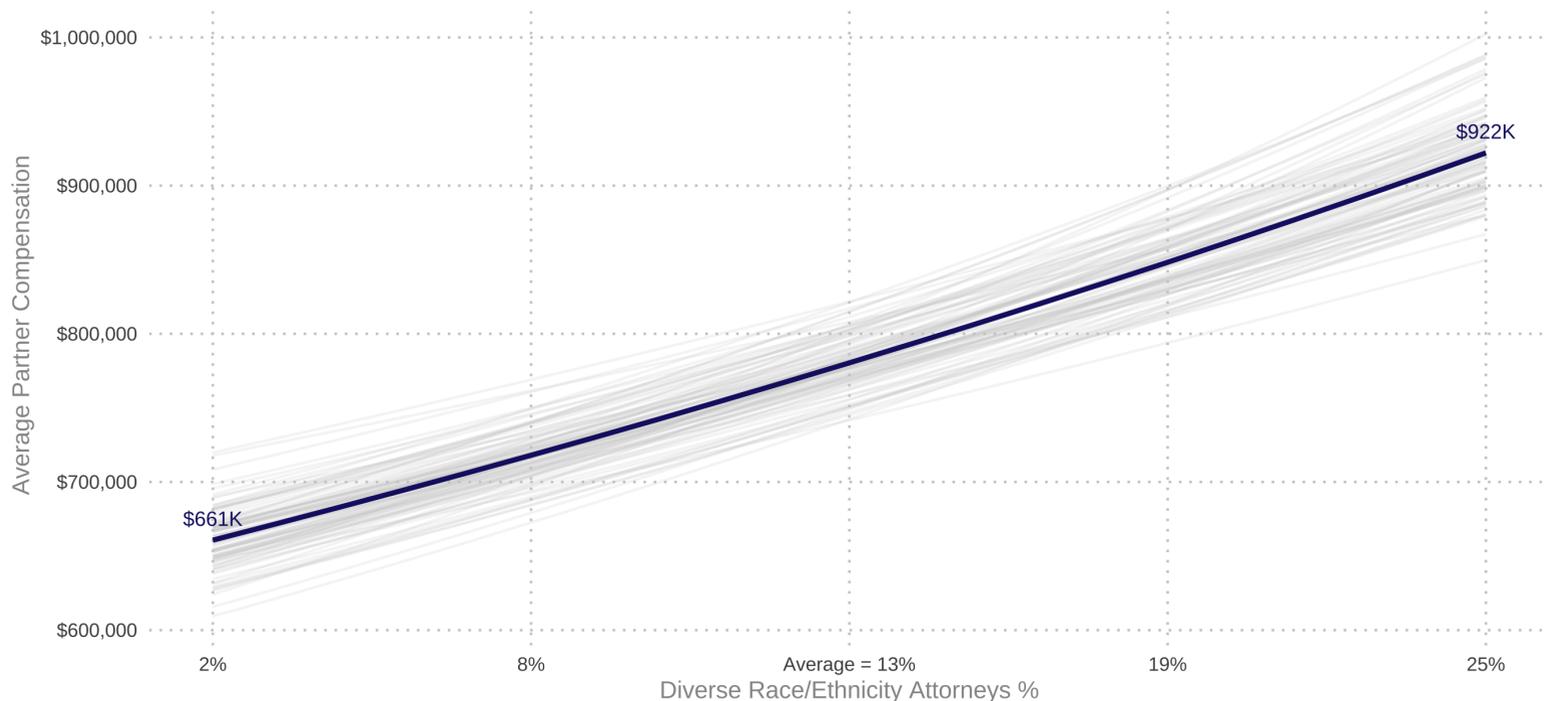
Profit Drivers

Dots reflect weights assigned to Firm/Macro Factors based on statistical model. Factors further to the right of the orange line reflect drivers that more strongly separate the most profitable AmLaw 200 firms
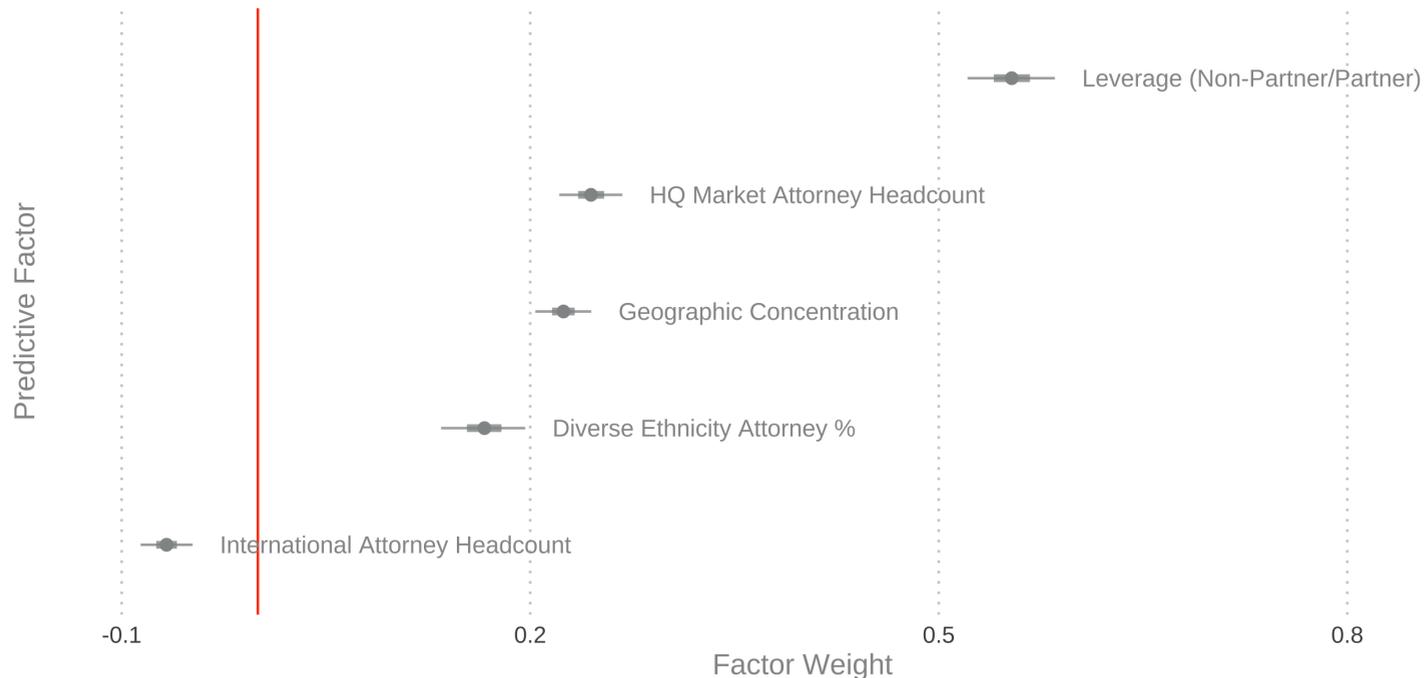
Data Source: ALM Legal Intelligence; Analysis by Parker Analytics
Dots reflect weights assigned to firm/macro factors per the algorithm
Adjustments for HQ Market, Fiscal Year, and COVID-19 shock not reported

Profitability and Diversity

The profitability model indicates that firms with higher shares of attorneys from diverse race/ethnicity backgrounds are significantly more profitable, from $660,735 for a low % share (-2 standard deviations below the 2000 to 2020 average of 13%) to $922,109 (+$261K) for a high % share (+2 standard deviations above the average)

Diverse Law Firm Characteristics

- A statistical model of diversity % as a function of firm characteristics indicates several are differentiators. A comparison of model-predicted attorney % shares at +/-2 standard deviations from average on each characteristic reveals diverse firms have (1) higher leverage, (2) higher gross revenue, (3) more non-equity partners, (4) lower geographic concentration, and (5) less equity partners

    1. High Leverage = 10.9% more diverse ethnicity attorneys
    2. High Gross Revenue = 4.3% more diverse
    3. High Non-Equity Partner Headcount = 1.4% more diverse
    4. High Geographic Concentration = -2.1% less diverse
    5. High Equity Partner Headcount = -3.5% less diverse

Diverse Firms and Overall Culture

- A second model of diversity % uses FY2018 diversity data and Glassdoor Ratings to measure overall firm culture (1 to 4 scale). Results indicate there is a small yet statistically meaningful connection between diversity % shares and culture ratings. At Am Law 200 firms with high culture, the model predicts about 4.0% more diverse ethnicity attorneys

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