

MATTER ECONOMICS

When the Economics of a Matter Change

— PREPARED FOR FIRM LEADERSHIP

By **Jonathan Freeman**, Founder & CEO, Yavardi

ORIGINAL PLAN

CHANGED REALITY

THE ECONOMIC QUESTION

When the economics of a matter change, how much time does the firm have left to influence the outcome?

THE ECONOMICS OF A CHANGING MATTER

The Financial Adjustment Has a History

Pre-bill write-downs are a familiar part of law-firm economics.

Before an invoice reaches the client, recorded billable value may be reduced to reflect fee arrangements, billing requirements, commercial concessions, or other circumstances.

The amount of the adjustment is visible in the firm's financial records. Its causes may be more difficult to establish.

A matter begins with expectations about the work required, the resources needed, and the commercial terms of the engagement. Those expectations may change as the work progresses. New facts emerge, priorities shift, and work that was not originally anticipated becomes necessary.

When that happens, the legal team must respond to the demands of the engagement. The firm must also consider what those developments mean commercially.

The timing matters because each additional commitment of professional time can reduce the options available to manage the economic consequences.

During an active matter, the responsible partner may be able to reconsider staffing, discuss revised expectations with the client, or adjust the planned work. During pre-bill review, the work has already been performed.

WHILE WORK IS UNDERWAY

The firm may retain meaningful options.



ONCE THE WORK HAS BEEN COMPLETED

The remaining choices often concern how to treat costs already incurred.

The question behind the write-down

An annual write-down total can be financially significant without establishing how much of the amount could have been preserved.

The relevant inquiry begins by separating deliberate adjustments from those potentially influenced by earlier decisions about changing work.

That distinction matters at portfolio scale. Even a limited addressable share of substantial annual pre-bill adjustments may merit investigation. Establishing whether an earlier commercial decision could have changed a result requires examining the matter's history.

The adjustment reveals the financial result. Understanding how the matter reached that result requires looking further back. That is the starting point for understanding what happened while the matter was changing.

THE RECONSTRUCTION TAX™

Two Economic Consequences of Responding Too Late

When the commercial implications of changing work remain unresolved until substantial work has been performed, the firm may experience two related costs.

Realization Leakage

Realization Leakage concerns recorded billable value that does not fully convert into invoiced revenue, with later revenue and collection effects identified separately where relevant.

The relevant economic exposure is the portion associated with consequential changes whose commercial implications might reasonably have been addressed earlier.

A scope expansion does not automatically create recoverable revenue. Fee caps, engagement terms, billing requirements, client expectations, and professional obligations may constrain the firm's options.

Capacity Leakage

Late commercial review also consumes professional and operational time, as partners, attorneys, and finance teams reconstruct what occurred. Capacity Leakage concerns the incremental reconstruction effort associated with commercial questions that could reasonably have been resolved earlier.

Its value requires a defensible economic basis. Recovered time may support additional profitable work where demand exists or reduce overtime and administrative expense.

An attorney's billing rate is not automatically the value of recovered capacity.

HOW THE TWO LOSSES CONNECT

When the commercial implications of changing work remain unresolved until substantial work has been performed, the firm may face financial consequences that earlier decisions could have influenced.

Some recorded billable value may be written down. Partners, attorneys, and finance professionals may also spend additional time reconstructing what changed, why it changed, and how the matter reached that point.

One affects realization. The other consumes capacity.

WHY THE DISTINCTION MATTERS

Realization Leakage
measured independently

+

Capacity Leakage
measured independently

=

Reconstruction Tax™
combined only after attribution

FINANCIAL VISIBILITY AND THE DECISION INTERVAL

Knowing a Matter Is Changing Is Only Part of the Question

Financial visibility alone does not establish whether consequential changes in legal work reach the people responsible for their commercial implications while meaningful decisions remain available.



THREE VIEWS OF THE SAME MATTER

Matter economics can begin to diverge when three perspectives stop matching:

What the client expects.

What the responsible partner believes the work requires.

What the team performing the work is actually encountering.

PROGRESS AND BUDGET CONSUMPTION

A matter phase may be estimated at 50% complete after consuming 75% of its budget.

Work complete  50%

Budget consumed  75%

The difference is a signal for investigation, not proof of financial loss.

WHILE OPTIONS REMAIN VS. AFTER COSTS ARE COMMITTED

While the Matter Is Active

The firm can evaluate a consequential change, adjust staffing or scope, and discuss commercial expectations with the client before further costs are committed.



After the Work Is Performed

The costs are already incurred. The firm must decide how to bill the completed work, potentially resulting in write-downs and time spent reconstructing earlier decisions.

Financial oversight tells leadership how matters are performing. Matter Governance examines whether consequential changes are reaching accountable commercial decisions while those decisions can still influence performance.

MEASURING THE ECONOMIC OPPORTUNITY

Exposure Is Not the Same as Recoverable Value

A credible financial case must distinguish three levels of analysis.

1 Economic Exposure

What recorded billable value was reduced before invoicing, and what professional or operational time was consumed in retrospective reconstruction?

2 Avoidable Exposure

What portion of that exposure arose from consequential matter changes whose commercial implications could reasonably have been addressed earlier?

Determining avoidability requires considering the circumstances of the matter, the firm's obligations, and whether earlier commercial action was realistically available. An earlier opportunity must be supported by evidence.

3 Realizable Financial Benefit

Of the avoidable exposure identified, what portion could realistically be preserved or recovered through improved Matter Governance?

Potential benefits may include increased collectible fees, reduced administrative expense, or capacity that can be redeployed profitably. The estimate must account for implementation costs, practical adoption, and overlapping financial effects.

THE SAME FINANCIAL OUTCOME CAN HAVE DIFFERENT CAUSES

A matter that exceeds its economic assumptions may reflect several contributing conditions:

Scope expansion

The work required materially increased.

Budgeting assumptions

The original estimate understated the resources reasonably required.

Inefficient execution

The expected work consumed more time or resources than necessary.

Knowledge or judgment gaps

The team duplicated prior work, failed to apply available institutional knowledge, or devoted substantial effort to issues that did not materially affect the desired outcome.

These conditions can overlap and require different management responses.

A write-down shows the financial result. It does not, by itself, explain what produced it.

THE LARGER FINANCIAL CONTEXT

Strong Financial Performance Does Not Eliminate Matter-Level Exposure

Law firms have demonstrated substantial pricing power, but market research also points to continuing pressure on the conversion of recorded work into financial results.

7.3%

WORKED-RATE GROWTH

Thomson Reuters Institute and Georgetown Law reported average worked-rate growth of 7.3% and average law-firm profit growth of 13% for 2025.^[1]

13%

PROFIT GROWTH

96%

RAISED HOURLY RATES

BigHand's 2026 Annual Law Firm Finance Report found that 96% of surveyed firms had raised standard hourly rates, while 89% reported increased write-offs.^[2]

89%

INCREASED WRITE-OFFS

These figures describe different aspects of financial performance. They do not establish that consequential matter changes caused the reported adjustments.

They do reinforce why pricing strength and financial realization deserve separate management attention.

A SECONDARY OPPORTUNITY

Improving the Next Matter

Historical financial data shows what the firm recorded, billed, collected, and wrote down. Matter history can add another layer: what the work actually required, where estimates proved inaccurate, where scope changed, how staffing performed, and which decisions affected the final economic result.

Over time, that information can improve future scope assumptions, budgets, staffing decisions, pricing, and phase-level estimates. Better information about how matters actually perform can also strengthen future pricing decisions, including the evaluation of alternative fee arrangements.

The immediate opportunity is better management of active matters. The longer-term opportunity is making future commercial decisions with better information.

61%

of surveyed general counsel considered greater use of value-based billing or alternative fee arrangements a medium or high priority.^[3]

Thomson Reuters Institute

The central opportunity remains improving decisions during active matters, when those decisions can still affect current financial performance.

ESTABLISHING THE FINANCIAL BASELINE

What Leadership Needs to Know

Most large firms can identify their aggregate write-downs and evaluate matter profitability.

The more difficult question is which financial outcomes were influenced by consequential changes that received commercial attention too late.

Yavardi's **Baseline Assessment** investigates that question through an agreed sample of actual matters and produces three principal findings.

THREE PRINCIPAL FINDINGS

1

Quantified Reconstruction Tax™ Exposure

An estimate of relevant Realization Leakage and Capacity Leakage within the reviewed sample, reported separately before any supported combination.

The analysis distinguishes observed financial adjustments from estimated reconstruction costs and identifies where exposure is concentrated.

2

Root Causes and Avoidability

An examination of what changed, when its economic implications became apparent, what commercial alternatives were available, and whether earlier action could reasonably have influenced the outcome.

It distinguishes necessary work and deliberate commercial choices from exposure that earlier action could reasonably have reduced.

3

Prioritized Management Findings

An assessment of where management attention may produce value based on financial significance, avoidability, existing practices, and operational feasibility.

Some findings may support improvements within current systems; others may warrant changes in coordination, commercial responsibility, or management processes.

A firm-specific investigation

Observed results, modeled costs, and scenario assumptions are distinguished in the findings, and any extrapolation beyond the reviewed sample is identified separately.

The scope, data access, confidentiality safeguards, privilege considerations, and security requirements are agreed before review begins.

The result is an independent financial diagnostic. It does not require a prior commitment to implementing new technology.

Leadership should emerge with a clearer understanding of where exposure exists, why it developed, what portion may be avoidable, and which improvements merit investment.

FROM EVIDENCE TO MANAGEMENT ACTION

The Financial Question Worth Answering

Complex legal matters will continue to evolve. The economic consequences depend partly on how the firm responds when its original commercial assumptions no longer match the work required. Matter Governance concerns the connection between changing work and the commercial decisions that shape its financial outcome.

THE RELEVANT QUESTION FOR FIRM LEADERSHIP

Are consequential matter changes receiving informed commercial attention while meaningful choices remain available?

The answer should come from the firm's own evidence.

BEGIN WITH AN ESTIMATE

Reconstruction Tax™ Calculator

Yavardi's calculator provides a preliminary estimate of potential Realization Leakage and Capacity Leakage using stated assumptions.

Results are illustrative and do not determine avoidable losses or forecast expected financial benefit.



calculator.yavardi.com

ESTABLISH THE BASELINE

Yavardi Baseline Assessment

The Baseline Assessment uses actual matter information to quantify relevant exposure, examine contributing causes, and identify where management attention may produce value.

[Discuss a Baseline Assessment →](#)

contact@yavardi.com

THE STARTING POINT

A firm's financial results tell an important story about the work it has completed. Understanding the decisions made while that work was changing may reveal what could have been different.

The objective is to establish that opportunity before committing resources to pursue it.

REFERENCES

- [1] Thomson Reuters Institute and Georgetown Law. *2026 Report on the State of the US Legal Market: Peak Prosperity and the Fault Lines Below*. January 2026.
- [2] BigHand. *2026 Annual Law Firm Finance Report: The Inflection Point in Law Firm Profitability*. January 2026.
- [3] Thomson Reuters Institute. *2025 State of the Corporate Law Department Report*. March 2025.

METHODOLOGY NOTE Reconstruction Tax™ is Yavardi's analytical framework for relevant Realization Leakage and Capacity Leakage associated with consequential matter changes addressed after the fact. Industry findings provide market context and do not establish firm-specific exposure or Yavardi-related outcomes.