

# Measuring for success

**Max Mosenthal** discusses a new performance measurement framework and how it can help you better manage your firm in difficult times

The effects of the banking crisis and the recession are starting to be felt across all areas of the business world. Law firms, whatever their size, geographic spread or strategic focus will feel the impact of clients who, at best, will pare back their legal spend budgets, or at worst, sit back and do nothing until the storm has passed. Law firm managements need to concentrate on those critical aspects of their businesses which will ensure not only survival, but the chance to prosper when the up-turn arrives. This article looks at the performance measurement framework we have developed, which will allow firms to adapt better to the current financial climate and to create an environment for growth in the future.

## Background

In 2007, the senior management at Allen & Overy llp (A&O) asked Bridge Consulting to review and explore alternatives to profit per equity partner figures (PEP) as a single measure of success and as a tool to compare law firms. Subsequently, Bridge carried out further research on how other professional service sectors and other industries measured performance. From this, we developed an approach that used balanced scorecards and strategic mapping techniques to demonstrate how the complex aspects of law firm performance could be measured. The framework we arrived at was first presented to the profession at a seminar in the A&O Business of Law series in November 2007. Based on the feedback we received following this event, we have further developed the framework and subsequently presented it at Law Society seminars in March and October 2008.

## The performance measurement framework

The essence of the framework is that successful sustainable financial performance in a professional service firm is driven by six key aspects of the business:

- firm strategy;
- reputation and social capital;
- clients;
- innovation;
- people;
- operations / infrastructure.

Within each of these aspects of a firm's performance, the framework addresses fundamental questions which define the drivers of successful performance. For instance, in "firm strategy", these include whether the investment pipeline is aligned with the firm's strategic objectives and whether the strategy is well articulated and understood. Whereas for "clients", we test whether the firm's client portfolio is balanced, how strategic risks are mitigated, and how responsive the firm is to changing client needs

Based on similar questions in all six areas, we developed detailed breakdowns of the critical areas that govern performance, and which therefore need to be measured. These are summarised in the table below.

Each of these areas can be further analysed to a level where performance can be measured. So within the "people" area, "employee engagement" is considered in the light of how well employees understand and buy into the firm goals; how well management communicates with the staff; the perception and reality of

Firm strategy	Reputation / social capital	Clients	Innovation	People	Operations / infrastructure
Leadership and governance	People investment	Client portfolio	Innovation environment	Employee engagement	Operational efficiency
Practice mix	Marketplace engagement	Client relationship strength	New services innovation	Workforce management	Process innovation
Client portfolio	Community engagement	New services innovation	Process innovation	Partnership strength	Technology and infrastructure
Geographic profile	Environmental responsibility	Marketing effectiveness	Use of technology		Risk and quality management
Risk profile	Marketplace image				

employees' workloads; and the effectiveness of the performance appraisal, coaching and employee development programmes that management have put in place.

Success in the six areas will not be measured in the same way but we have identified three general types of measure. Firstly, some indicators lend themselves readily to measurement; a ready measure of employee workload would be "hours worked per period per employee". Other indicators, however, will require periodic surveys of staff, suppliers or clients to understand performance; for instance, employees' clarity of organisational aims and congruence with their personal goals could be assessed in a periodic staff survey. The third group of indicators are those that require management to make a value judgement, such as on the effectiveness of the coaching and mentoring systems and programmes they have put in place.

Having identified appropriate measures, we can look at the inter-relationships between them. For example, if as a result of a deliberate change of strategy, employee hours worked were being increased, management might want to bolster the mentoring and coaching systems to maintain the balance of employee engagement. We can represent these inter-relationships using multi-dimensional tools, such as web diagrams, to help to understand how changes in one aspect can impact performance in other areas.

The performance measurement framework not only allows periodic comparisons within an organisation, but also between different organisations. Inevitably, there will be judgemental elements in these metrics, but that does not necessarily negate the value of the comparative analysis.

Overall, the framework allows the impact of changes to be measured across a business and helps management decide the actions they need to implement. Moreover we believe that the introduction of comprehensive performance measurement frameworks generally within law firms will significantly improve firm management across the profession.

### Using the framework

In our discussions about the framework with law firm senior management, one of the questions that we are frequently asked is: "Is this only applicable to the big city firms?" We believe that the framework is as valid for a small high street firm as for one of the Magic Circle. The approach adopted for collecting, analysing and reporting the information might be very different, but the six critical areas are equally applicable whatever the size of the firm. Similarly, the management solutions to the problems that arise will differ between firms, but the framework highlights the issues, and provides insights into how different approaches might achieve different outcomes.

### The performance measurement framework in the recession

The business press is awash with articles giving advice to businesses on what they should do to overcome the challenges that they are facing during this recession. Broadly speaking, the advice is the same for law firms as it is for all other businesses. They should ensure that:

- their strategic goals are still valid in the changed business environment;

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- customer relationships are jealously maintained;
- they are not left behind by innovations by their competitors;
- costs are tightly controlled;
- the assets of the business are utilised economically, effectively and efficiently; and,
- their processes and procedures are streamlined and appropriate to their operations.

These points mirror exactly the six elements of successful sustainable financial performance discussed earlier.

For instance, in relation to the "firm strategy", the framework in the table identifies practice, client, risk and geographic portfolios together with leadership and governance as being key to sustainable performance. In the current business environment, firms might therefore want to consider whether they have the right management in place to lead them in a recession – the management team that was able to grow the firm in the good years might not be the right people to lead in the lean years. Also, a firm that is over reliant on one particular practice area, one client industry sector, or a small group of clients will be vulnerable to unexpected changes, whereas those firms that have counter-cyclical practices or clients will be more robust.

Similarly, the firms that are able to balance some of the "softer" aspects of the management of their people, such as employee engagement, with the "harder" measures of productivity and managed attrition will be better able to weather the storm.

In order to sustain a high performance environment, a firm needs to consider all six aspects of their business. Unless there is a comprehensive performance reporting system addressing all these aspects in place, they are unlikely to be well understood, well controlled and well managed.

### Developing the framework

The next stage of development of the framework is a project which we are leading, in conjunction with the Law Society, to discuss with firms of varying sizes the detailed measures that we have defined and understand the implementation complexities that they are likely to encounter. Based on that research, we will then develop data capture, analysis and reporting tools to allow firms to implement the framework.

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