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A time to take stock of partners' performance

Many law firms are now at the beginning of their new financial year and it should be the time when they analyse last year's financial performance to identify the lessons that need to be learnt from last year in order to achieve higher performance and profitability this year and in future years.

Some firms often lose sight of the fact that how a law firm performs financially is usually a direct consequence of how partners and other fee earners perform and behave across a broad range of other (non – financial) disciplines and in particular how well (or badly) they are managing their client relationships, their people, their work and themselves, and whether they are themselves prepared to be managed. And even if the last year's financial results can be regarded as 'good', firms should still ask themselves how much better the results would have been if the performance of partners across a range of performance criteria had been higher.

The primary task of law firm managements is to understand what it is that will improve a firm's competitiveness and then organise all of a firm's resources, structures, systems and support processes to achieve that improvement.
Above all, a firm's performance is substantially an accumulation of the skills, experience, capabilities and motivation of its ***people*.**

Accordingly, firms should consider the following questions **in relation to each of the areas of performance and behaviour listed on the following page** –

1. *What does each partner do well?*
2. *How should each partner improve?*

Commercial awareness
focuses on profitability as well as billings
manages WIP and debtors effectively
strives to find ways to increase income for the firm
uses resources (self, colleagues, technology and money) efficiently
understands the commercial imperatives for clients and the firm
has a sound understanding of the market for legal services
Client relationships and business development
manages client expectations effectively
demonstrates value to clients
client service is a top priority
a good rainmaker for the firm
regularly refers work to other parts of the firm
positively contributes to business development
Managing staff relationships
has built an effective team
gets the best from staff
sets a good example
praises effort and good performance
deals effectively with under-performance
treats staff with respect
supports and coaches staff
Contribution and commitment
is highly motivated and has a strong desire to achieve results
spends majority of working time on high priority actions
is passionate to develop the firm
goals and values are aligned with those of the firm
adapts well to change and takes a lead where appropriate
influences and negotiates effectively at all levels

If every partner in a firm is able to improve in each of the above areas then a firm is likely to strengthen its overall performance, and in particular its financial results. There are also a number of ***specific initiatives*** which a firm should take following its year - end to improve its financial performance for the future. For example -

1. **Financial analysis**

An analysis of last year's profitability, carried out with issues of performance and behaviour in mind, will indicate where the problems lie and the underlying causes of low profitability. Having carried out that analysis and identified the areas where improvement will need to be made, a firm should consider making higher profitability a **strategic** aim and adopting the following as an objective:

- *'Next year* ***we are going to*** *achieve Profits per Equity Partner (PEP) of £[ ]';* and

- *'Every decision we make will be considered and judged in the light of how and whether it assists / detracts from achieving this objective"*

This will bring into clear focus the plans (or lack of plans) and performance of each part of the firm and each partner and can provide a much needed financial benchmark for testing strategic initiatives.

If linked with a clear and agreed ***profit improvement plan*** concentrating on building the 'top line' (revenue), a clear focus for future performance and behaviour will be created and by reference to which performance can be measured and managed.

2. **Focused training and development**

An example of a profit improvement plan combined with a learning and development programme might include financial education and training throughout the firm so that all fee earners (including partners) understand the key factors and behaviours which drive profitability. This should focus in particular on the importance of

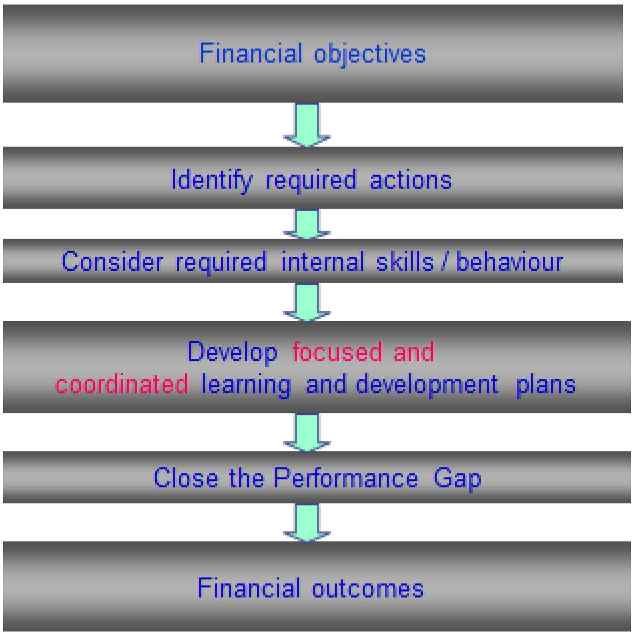
- Pricing and managing work to a price to achieve desired profit margins

- Capturing of ***all*** matter related time
- Improving the recovery (or realisation) rate by controlling the write off of WIP

Unfortunately, some firms are continuing to spend large amounts of money and time on ineffective training of their people, with no measurable outcomes. Often there is no coordination to such training between those responsible for managing Finance, HR, Business Development, Training, Knowledge Management, Risk and IT, so there is no 'joined up' learning and development process. Such matters will however soon need to be addressed given the requirements of the ***Statement of Solicitor Competence*** which has an increased focus on soft skills.

The result is often that not only are desired performance levels not enhanced but the uncoordinated nature of the initiatives does not permit anyone to have an overall view of performance in relation to every aspect of a firm. As a result the ability to build higher performance in a way which helps to drive not only a firm's financial performance but also its strategic goals is severely diminished.

Compare the approach illustrated in the flow chart below -



Adopting such an approach will enable a coordinated initiative to be taken to build higher performance across a range of skills, by identifying what partners should be doing to achieve agreed outcomes. Focusing on specific objectives leading to measurable outcomes will mean that failure to perform will soon become apparent to everyone.

An approach as outlined above will bring to the surface many of the underlying hurdles to change that may be preventing law firms from making real progress. In particular, firms should ask some of these questions -

- *Do you know how much underperformance is costing you (not just in direct financial terms but in the cascading damage that can be caused throughout the firm)?*
- *Have you agreed with your partners the performance criteria and levels of performance required of them?*
- *Do you have in place a process of feedback and appraisal to manage performance and if so, is it effective in building high performance?*
- *Are all your partners prepared to be managed?*
- *Are there sanctions on someone who refuses to comply?*

How is your firm planning to outperform its rivals this coming year?