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Measuring partners' performance--best practice

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Practice Management analysis: How important are key performance indicators (KPIs) for partners and how should they be developed? Mark Jones, partner at Addleshaw Goddard LLP and leader of Addleshaw Goddard's Professional Practices Consultancy, and Peter Scott, principal of Peter Scott Consulting and former managing partner of Eversheds' London and European offices, discuss best practice in this area.

What is the importance of determining KPIs for partners? What are they meant to achieve?

Mark Jones (MJ): In the words of James Belasco, '[...] what gets measured gets produced [...] if you can't measure it, forget it.' The partners are the leaders and owners of the business. What they do will both be key in determining whether the business achieves its objectives and setting the example for everyone in the firm. A professional services firm succeeds or fails on the effectiveness of teamwork. KPIs for partners will not only ensure that all partners are focused on the goals the firm requires of them but will also ensure that everyone is acting as a team and not duplicating or, even worse, competing with, the efforts of others.

Peter Scott (PS): A law firm is nothing without its people and so performance by the people in a law firm is the key to a firm gaining competitive advantage over rivals. In particular a firm's partners will need to know what it will take for them to succeed, including:

- the key areas in which their performance will be measured
- their performance goals
- how their performance rates in relation to those goals, and
- how their performance will be rewarded if those goals are achieved

What are key financial and other performance indicators?

MJ: Benjamin Disraeli said that 'There are three kinds of lies: lies, damned lies and statistics'--that was never more true than with KPIs for professional services firms. Some indicators are so susceptible to manipulation that they are of little probative value. The classic example of that is profit per equity partner (PEP). If you want to double the PEP you can achieve that by de-equitising half the partners, but in the process you could do serious damage to the culture of the firm. The two indicators that I have always attributed most value to are:

- firm-wide profit margin (expressed as a percentage of turnover) which can speak, among other things, to the efficiency of the business and the quality of work done, and
- and income per fee earner which can speak, among other things, to the efficiency of utilisation of the fee earners and again to the quality of the work done

Indicators that relate to culture or behaviour are important too--an example would be staff turnover rates. A rate that is too low indicates that the business is not being managed effectively. A rate that is too high indicates that the business has problems with staff retention.

Indicators that look to measure important issues or challenges for the business are also important--an example would be the measurement of cross-site teamworking in a multi-site firm that is competing with single-site firms.

PS: Performance indicators to measure performance should follow from what a firm is seeking to achieve and so should be aligned with a firm's strategic goals. They are therefore likely to cover the following areas:

- financial management
- people management
- client relationships, business development and marketing
- commitment and contribution
- commitment to learning and best practice
- leadership and management

How can these best be put in place and monitored?

MJ: Ensure that these six rules are adhered to:

- make them SMART--specific, measurable, attainable, realistic and timely
- make sure that they are agreed and understood as between the firm and the individual
- write them down
- put in place the measurement and monitoring tools necessary to track them
- review them on a regular basis, and
- most important of all, act upon what they are showing you

PS: The fundamental requirement if these are to be put in place and used to build higher performance is for the partners to first recognise that their performance needs to be effectively measured. This can be a significant hurdle in many firms.

The next requirement is to gain a consensus as to how this is to be done. Performance criteria need to be developed and, to achieve that consensus support, a firm will need to involve its partners in clarifying those criteria. This will:

- enable the partners to feel that they 'own' the process
- help to focus on what will help the firm to achieve its goals
- provide greater transparency for future partners

To monitor performance there will need to be put in place an evaluation process involving feedback. This has traditionally been 'downward' feedback (from those to whom partners report) but increasingly this form of feedback is coming to be regarded as ineffective and 'all round' feedback (360 degree) is gaining ground because it is regarded as more constructive, better received by partners and more effective to enhance performance or change behaviour. This will involve confidential feedback from:

- those you report to
- your peers
- staff who report to you

to provide an all-round perspective of performance and to provide each partner with an agreed and actionable performance development plan and serve as a basis for reward. This can then be built into an on-going performance management process and reward cycle.

What are the main mistakes that can be made in determining and monitoring KPIs?

MJ: Not doing any or all of the six things I listed above and also, not ensuring the indicators are embedded in the culture of the firm. When people know that indicators will be used rather than ignored, they will value them and therefore make the effort to deliver them.

PS: Focusing only on personal billings rather that determining what areas of performance are going to help a firm achieve its strategic goals. There needs to be a balance found between short term financial gains and longer term strategic needs (the balanced scorecard approach). Trying to impose performance criteria on partners instead of involving them in their design is a mistake. It does not build into the evaluation process a degree of trust, confidence and transparency for the partners, without which a performance management system in a partnership is bound to fail.

Interviewed by Diana Bentley.

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