ANDREW HEDLEY, DIRECTOR, HEDLEY CONSULTING

Aligning performance management with strategic objectives

'What gets measured gets done' is a universal truism that law firms regularly ignore when designing and implementing their performance management and reward systems. It is crucial that everything is aligned with the organisation's strategic objectives.

Many firms have moved (or are moving) towards using a series of interrelated metrics that are combined into a 'dashboard' that drives investment priorities and forms the basis through which individual performance is measured. For an effective approach, the starting point is to decide what to measure and to ensure that these factors will deliver the desired strategic outcome.

In practice, this is more challenging than it might appear. While some appropriate measures will be clear from the outset, others will be more obscure. Defining the ingredients is one aspect, but putting together the appropriate mix is key.

Measuring performance

The most critical aspect of this design process is the ability to project the combined impact of delivery against these metrics on the future performance of the business. This can be as much an art as a science; changes will need to be made within the firm's unique cultural context and management structures.

Traditional measures tend to be lagging indicators – they track performance that has already happened and monitor it against predefined targets or plans. They flag up divergence and allow corrective actions to be implemented, but there will always be a lag between the issue occurring, being identified and being resolved.

Typical accounting measures such as time recorded, fees rendered and recovery rates fall into this category. Technology can now make these measures only hours (or even minutes) behind real time, but they are lagging nonetheless. Such indicators will form a key part of any performance management system but, in themselves, will not give the whole picture.

In terms of driving future results, leading indicators can be very informative, but it is more challenging to define, measure and foresee their impact with confidence. These are the indicators of likely future success – predicting what will come next rather than measuring what has just passed.

> **"Predict what will come next rather than measure what has just passed"**

As an example, a leading indicator of future revenues might be the number of sales meetings held, the number of tenders in progress or the number of presentations being made (all of which form part of a sensible sales funnel). A rise in these leading indicators increases the likelihood of improved sales. But, just how much will the top line increase and how quickly?

The answer to this question is multi-factorial and will depend on competitive issues (the number of other firms tendering and pricing, the best fit between the service offer and client demands), the general economy, client-side factors (such as the urgency of the assignment and price sensitivity) and the firm's own business development and sales capabilities.

Nonetheless, indicators that measure performance at key points of this pipeline can be extremely useful in highlighting which critical events drive success. They can also identify weak links in the chain, allowing focused and prioritised corrective actions to be implemented.

Weighting metrics

It is both inevitable and desirable that performance measurement modifies behaviours, focuses efforts and increases emphasis on the factors that will drive success. Taking this thinking to the next stage, it is also important to agree what weighting should apply to each factor. This will serve to further ensure that efforts are prioritised in the right areas.

However, if these metrics have the unintentional effect of motivating effort and improvement in areas that do not optimise performance, but are easier to track, a huge opportunity is lost and limited resources are wasted. Worse still, one needs to constantly monitor for unintended consequences or 'gaming' of the system by those intent on maximising their scores. This not only sub-optimises performance but also takes the firm backwards in inadvertently promoting the wrong types of behaviours.

How accurate measurement will be made should feature in the planning stage, as well as in the way in which reporting or feedback is conducted. Ultimately, the firm needs to be committed to using its performance indicators as a central part of its appraisal and management system. It needs to link career progression and rewards to them. Without this link, the true impact of any initiative will be lost.

Implementing such a programme will also highlight the often high-status people who occupy the 'maverick zone' in the belief that the rules apply to everyone but themselves. Such behaviour can be hugely disruptive unless dealt with quickly, firmly and unequivocally by the management team. There should be no exceptions if long-term success is to be achieved.

A holistic approach is needed to put in place the necessary systems and processes, as well as to deal with the cultural challenges. This will ensure the effectiveness of efforts to align performance measurement with strategic objectives. mp

Andrew Hedley has been advising law firm leaders on strategy and change management for more than 15 years (www.hedleyconsulting.com)