

## Measuring Performance

Ask any of the PMS vendors in to show you their products these days, and one of the things they are guaranteed to spend some time on is pretty graphics showing ‘Key Performance Indicators’ or KPIs for short. Partly, this is because in any complex system, it is nice for the salesman to have something visual to show you, and partly because it is a major feature that was probably missing from the previous system you are replacing. What the salesman won’t tell you is what indicators you should be using for performance measurement, and why. There are several consultancies out there who will be able to help you, but in this article I will try and cover what they are for.

### **“If you can’t measure it, you can’t manage it”**

This is a well known quote, but it does have the advantage of being well known for good reason. Whether it has been taken to heart by law firms however is a different matter. Firms are very good at recording information, even if there are often problems with both the accuracy and the currency of what is entered. Gathering the information is only half the story though. In order to make use of it for the management of the firm, the information needs to be processed and the key elements pulled out for comparison. This creates the indicators needed for the effective running of the firm at all levels.

There is so much going on in a law firm on a daily basis, and so much information that can be made available that it is important to try to create some key measurements that can be monitored easily. These will not be the same for everyone, as different people have different responsibilities, and they will certainly need to be chosen carefully for each individual firm, as they will reflect the issues that firm is trying to address, and the style with which that firm operates.

It is worth noting that the key indicators tracked in most firms, for obvious reasons, are those that relate directly to the distribution of profits to the partners. These may not relate to the best indicators to track for managing the firm, which may in itself highlight issues with how partners are remunerated, but that is a topic for another time!

### **Currency of information**

All information loses value over time, as it relates to a point further and further in the past. For many reasons, law firms have tended to manage their information on a month by month basis, with some performance indicators only being calculated quarterly or even at year end. It is far better when using performance indicators as a management tool, to have this information available at all times. For most purposes, this means a daily calculation of the figures for each performance indicator. All successful retail companies get a complete breakdown of sales daily, in order to keep ahead and deal with problems as they arise. Law

firms do not move in quite such a fast moving market, but similarly do not have nearly the volume or complexity of information as a retail business, so there are no real reason why it cannot be done. It does no harm to have up to date figures which ensure issues can be dealt with early.

One of the key problems with getting daily updates on figures for any firm is the fact that almost everything seems to start with the work in progress. In other words, the hours worked by the lawyers, entered through the timesheet, whether electronic or on paper are the basis for much of performance monitoring. Unless this starting point can be addressed and lawyers persuaded to enter time daily, many other statistics are difficult to get updated any faster.

Having said this, it is not an excuse for not providing daily figures in many other areas direct to the people who need to see them. Even daily WIP figures where timesheet entry is erratic can be useful, so long, as with all other KPIs, it is clear what the figure actually is, i.e. recorded as opposed to actual time.

### **Comparative figures**

Performance indicators only make sense when compared with other figures. From a management perspective, the message you are trying to get across is this figure should be bigger/smaller. This is why the PMS systems almost always show them graphically. To most people, the absolute figures are not actually required, and a graph or even a traffic light display conveys the relevant information easily and succinctly.

There are a number of different types of comparison that can used with performance indicators, which will affect how they are presented.

#### *Targets*

Every lawyer knows about targets, as they try to meet those set for chargeable hours or billing. Target setting is a useful exercise to ensure overall performance is met, or to encourage change. In the absence of any of the other comparisons below, a target must be set for a KPI to be compared against, otherwise it becomes a meaningless figure.

Targets based indicators are also one of the most important to monitor in real time, or at least as close to that as is possible. Targets as a management tool cease to be effective if people are only told that they have missed it when it is too late. How much might the billing be improved if partners' billing figures against target were available to them every day rather than only a week or so after month end. If these targets are set annually, think about a performance indicator showing how the target is being met against a cumulative weekly or even daily figure, rather than the monthly often used.

Target based KPIs are often expressed as a percentage, which lends itself to a simple graphical display. If an annual target is being tracked against a figure increasing daily, a

simple traffic light showing whether you are ahead, on track or behind may be all that is required.

### *Comparison with equivalent figures*

There are several ways of comparing equivalent figure within a firm. The obvious one used in all industries is with the same period last year, for example comparing November billings one year with the previous November. These are more useful as indicators for senior management to spot problems, but less useful for individuals managing their own work, and hence less useful as a management tool. Some work is always needed to drill down through the information to find the underlying cause, which should be done for both good and bad figures, to see what should be addressed to improve performance, which makes these better for very top level statistics.

More useful comparisons on the ground are one client against another, or one partner against another. These types of indicators are invaluable, as they put the information fee earners have into context. As any knowledge management expert will tell you, information plus context is the *definition* of knowledge. These are also the most sensitive types of comparisons, and as such underused or ignored by firms who struggle with the reality of explicitly ranking partners performance. Everyone in a firm *knows* which partners bill more than others, and whose recovery rates are lowest, but without the measurements to back this up, it is difficult to address this until it becomes a major problem. The ideal situation is that people take responsibility for themselves, and improve any areas where they are falling behind.

So how do we give fee earners, and partners in particular, quality comparisons on their own performance without giving them the figures for the rest of the partnership? One way is to use targets, as outlined above, but this is a bit of a blunt instrument and requires a lot of effort for management, and this normally means the Director of Finance, to look at the figures and set effective targets to address the known problems. A better way to do this is to show people their rank. If cash collection is figure being focussed on, then showing someone they are 53<sup>rd</sup> out of 100 partners (either in terms of cash collected, or percentage of cash collected, remember it is very important to define your performance indicators carefully) may encourage them to improve. If you want to be less definite about it, you could quote quartiles instead, but you have to remember lawyers are not statisticians, and the comparison may actually mean less to them.

As with targets, this reduces the information to two figures, which can easily be displayed graphically. In this case, a line from first to last with 'you are here' marked on it would get the message across, but just providing the numbers may appear less confrontational!

Another approach, which is probably simplest is to simply give their own figure and the firm average, and let them interpret the rest for themselves. Most people can work out that 'below

average' is not a classification they want and will try and do something about it. Comparisons of individual figures against the average is also useful as it is a moving target (as the people at the bottom improve, so the average also rises), and helps with continuous improvement. Letting people work against an average figure will also tend to decrease the standard deviation, or spread, of the figures, which will result in the firm becoming much more consistent in its delivery of whatever that particular KPI is measuring.

A graphical representation of this approach is actually going to be misleading in many cases, so these comparisons are best delivered as figures. There is probably some benefit in colour coding above and below average though, to reinforce the message!

### *Trend analysis*

As performance indicators exist and change over time, this change can be analysed to identify any trends. Trend analysis is one of the most powerful of the methods of monitoring your performance indicators as it is the one that can be used to predict the future. This future is the one that will occur if everything carries on as it is now, so you have time to try and change it. Analysing trends also helps remove random or seasonal variances in figures, and can show highlight small changes that may not show up in a direct comparison of two figures. As an example, figures for recoverability may seem to be broadly in line month to month, sometimes a bit higher, sometimes a bit lower. Looking at the trend over a year or more may show up a definite downwards slide that needs to be addressed. They can similarly be used to look at more specific data, say fees from a major client, to see if they are heading up or down, so that things can be addressed early, or you can create 'seasonally adjusted' figures if you have enough historic data.

While some figures may show up a trend by simply plotting them directly against time, in many cases a formal statistical method will need to be used to add a trend line to the information. While mathematically complex, the computer can do this easily, and is not necessary to understand the maths behind it to make use of the resulting information.

It is probably worth noting though that all KPIs should be defined by someone who both knows the information and understands the statistical analysis of information, in order to make sure you are looking at the right figures. In many cases it will be quickest and simplest to get outside help as you set up KPIs from someone with experience of the analysis side, in conjunction with the experts on the business from your own firm.

Trend figures obviously lend themselves to being displayed as a graph, with perhaps predicated values shown as estimated figures. They are complex however, and it is not advisable to have more than one or two that are reviewed daily, if that.

### *External comparison*

These are probably some of the most entertaining figures to look at for most people, as well as being the least reliable and probably the least useful overall for management purposes. Well known indicators are published such as turnover, profit per partner etc, and firms can see how they are doing against their competitors. As you cannot vouch for the accuracy of many of these figures, and more importantly you cannot drill down to learn from the underlying information, they deliver little value except in the broadest sense to the management of the firm.

The various inter firm comparisons that many firms subscribe to for particular areas are a good way of getting more useful information, but the same limitations apply in the lack of any ability to drill down from these figures.

These figures are almost always presented in league table form, and the detailed information that can be purchased may give some background. The main ranking tables have the advantage of familiarity, so can easily be interpreted and understood by most people reading them.

### **Monitoring and alerts**

We have assumed so far that these figures are being presented at regular intervals, if not daily, to those people who need to see them. The advantage of a computerised system is that this does not actually have to be the case. There are two simple ways of reducing the amount of information that people have to deal with on a daily basis.

#### *Threshold or exception reporting*

Where the same indicator is measured for a large number of items, for example current WIP per matter or per client, it is possible to set a trigger value which causes an alert to the relevant person. This can help a lot with catching issues early, as it allows a much greater amount of monitoring, in terms of the number of KPIs, to take place.

Indicators used with a threshold should almost always be set on information at the next level of detail than an indicator that is being monitored directly. For example, if a partner is monitoring overall billing against a target, then some trigger value set on the same billing indicator on a per client basis is likely to be helpful, as it will immediately allow them to focus in on problem areas even if the main figure does not yet appear to show a problem. If the threshold is set at a much more detailed level, it is likely to produce too many alerts to be helpful.

#### *Top ten reporting*

Where a performance indicator is being monitored closely, and it is expected that the more detailed information will almost always show that action is required, then Top ten type reports are more useful. For example, a list of the top outstanding bills will always show you the one to chase next.

These types of reports also work well for senior management where partners have been giving a ranking or against average indicator as you can report on, in this case bottom ten, who either require assistance or need dealing with in some other way.

### *Management reports*

An important aspect of these two ways of simplifying data are in the figures monitored by senior management. In almost all cases, these will be a higher level view of individual performance indicators monitored by individual lawyers. To this extent, it would be expected that the senior management view of the figures being watched by partners would be from top 10 lists or where values clear a pre set threshold.

### **Key Performance Indicators today**

So where do Key Performance Indicators fit into a modern law firm? This can probably be summed up as follows.

- If you want to manage it, measure it. Make sure you have Key Performance indicators in place for any part of the firm where you want careful management, especially if you are trying to instigate change. Without them, you are much more likely to fail.
- KPIs are *current* figures delivered to the people who need them, not month/quarter/year end figures calculated after the event
- It is very important to choose the right KPI and make sure it is correctly defined to make sure you are managing in the right way.
- Performance indicators should be made available to those people with the ability to affect them, not just those with responsibility for them. Those with responsibility should have summary figures and reports on problem areas.
- Indicators should be monitored at varying levels. Senior management should view the high level figures, individual partners their own information, and the computer can be left to monitor the next level of detail down.

While it may seem like a mundane back office function, management of a firm is fundamental to its existence. Provision of legal services has been shown to no longer be a differentiating factor, as clients assume you can do the work. Firms who can demonstrate they are in tight control of their own business, and hence the costs passed on to the clients will have a competitive advantage.