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THE KPIS HAVE IT

GRAHAM MOORE, THE DATA GURU

You have KPIs, but are they the right ones? And how do you work out what 'right' is? In my experience the top two key performance indicators for most law firms are some measure of billing (typically fees billed) and some measure of time recording (usually chargeable time recorded). But are these the right KPIs? Maybe, but maybe not.

To answer that question, we first need to take a step back from the KPIs themselves and be clear about the overall objective we're trying to achieve.

Performance is not an absolute concept – measurements of performance are only valid when compared to a target or objective. If a firm's high-level objectives are clear, then the KPIs should flow from those. They should be chosen to monitor all aspects of progress towards those objectives. For a firm whose primary objective is simply revenue growth, then revenue (fees billed) should be the number-one KPI. However, if the objective is defined as profitable growth, maintaining a gross margin of 50%, then the two primary KPIs are likely to be revenue and gross margin.

It's also important to recognise the interrelationship of different measures and to remember the old adage: "You get what you measure." Too narrow a focus on one measure of performance (for example, fees) may well result in achievement of targets – but at what expense? Client satisfaction, gross margin, net profit, staff turnover? This is where KPIs need to be carefully selected as a set of measures, which reflect a very clear definition of the firm's objectives.

> *"A good set of KPIs will measure at least four different aspects of business: clients, finance, process, people."*

One of the main questions I've been asked by law firm managers, more than once, is: "How many KPIs should we have?" The first answer I would always give is to focus on the word 'key'. Not all performance indicators are key, but there needs to be a broad coverage of all aspects of a firm's operation.

It's also important to recognise that different KPIs may well apply to different areas of a firm, and also that all areas of a firm need KPIs. It's easy in a law firm to focus on the traditional time and billing KPIs for lawyers, but neglect the fact that overall business performance is also highly dependent on successful delivery of marketing, IT, HR and other objectives.

To provide a complete, rounded view of the performance of an organisation, a good set of KPIs will measure at least four different aspects of business: clients, finance, process, people. Note in my list that client KPIs come before finance – not just a personal opinion, but an indication of relative importance in achieving overall business goals.

So, how to define the right KPIs for your firm? Firstly, start with clearly articulated objectives – if these use the Smart formula (specific, measurable, assignable, realistic and time-related) then you are halfway there with the measures and timescales already defined. A review of those objectives to determine the adverse outcomes you want to avoid (unhappy clients), as well as the positive outcomes you are striving for (more income) should complete the set of performance indicators you need. LPM