

# Goodbye to just “getting by”: enhancing performance in volatile times.

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A Grant Thornton white paper for professional services firms

## What you don’t know can hurt you.

**In today’s turbulent economy, professional services firms are under extreme pressure to continually improve performance. Regardless of your size or sector, one thing is clear: your margin for error is shrinking. Gone are the days when you could “get by” without knowing your core focus areas, exact costs and the extent of your excess capacity. Now, your firm’s performance—and indeed profitability and success going forward—hinges on your ability to articulate a compelling strategy, identify clear priorities and motivate your people to reach measurable targets.**

The good news is that most professional services firms have access to a vast amount of information that can help them both identify emerging opportunities and get early warning if their performance is slipping or moving off strategy. The bad news is that the critical message they need is often missed—buried in volumes of accumulated data that has been contorted by shifts in management, systems or organizational priorities.

This inability to effectively access, track and evaluate key information can result in much more than lost time and effort. It can make your firm slow to react to pending threats or opportunities. This can be particularly destructive in today’s highly regulated market and volatile economic climate where mistakes can be fatal. Now, more than ever, it is critical to set clear



objectives and support their achievement with performance measures that enhance your management’s decision-making abilities. Defining your Key Performance Indicators (KPIs) is a crucial place to start.

## The symptoms of underperformance.

KPIs have been much in the news lately as organizations scramble to enhance their business management. To succeed in this effort, professional services firms must do more than articulate a solid strategy. They must also clearly identify the priorities for executing that strategy, set measurable targets for achievement and motivate people to reach those targets. Fundamental to this exercise is the establishment of metrics that rapidly provide stakeholders with the information they need to do their jobs effectively. This is what setting KPIs is all about.

To determine if your firm would benefit from establishing KPIs or from revising your existing KPIs, ask yourself if any of these situations sound familiar to you:

- Your leadership is frustrated because the firm is not meeting its stated goals.
- There seems to be resistance to changes in behaviour essential to performance improvement.
- Your staff and partners have trouble executing on your internal and external goals or cannot find a good balance between service delivery and billable hours.
- Staff development and coaching are considered low-priority activities.
- Your management team cannot easily tell if the firm is under- or over-performing.
- There is no common agreement on your firm’s top priority for the next 12 months.

If your firm is experiencing any of these symptoms of underperformance, it may be time to consider establishing effective KPIs to drive performance improvement.

## Developing effective KPIs.

Although the concept behind KPIs is simple, the development and adoption of effective performance metrics can be complex. While the process your firm adopts to set KPIs will differ depending on your industry focus, your management structure and the maturity of your current performance measurement framework, there are some best practices you can follow when establishing KPIs.

At the same time, keep in mind that you must clearly define and communicate your goals to have any hope of achieving success. While every firm will take a unique approach to strategy development, most professional services firms should include objectives for a target client base, talent recruitment, retention and development, service delivery and profitability.

**Table 1. Selecting KPIs: common metrics**

Financial metrics	Employee metrics	Client metrics
Return on capital deployed	Employee morale / satisfaction	Client satisfaction
Gross profit margin	Turnover rate	Client acquisition costs
Operating margin	Profit per employee	New client gains
Net profit margin	Cost per hire	Client churn / losses
Liquidity ratios	Percentage of high performing employees	Client lifetime value
Financial leverage or gearing ratios	Total compensation expense as a percentage of revenue	Retention rate
Cash flow	Training metrics	Client profitability
Internal rate of return	Effectiveness of various recruiting sources	Client referrals
Income per partner	Quality of hires / competency gaps	Client complaints
Productivity per partner/staff	Leverage per partner	
Utilization		

### Choose KPIs that address all areas of your business strategy and objectives.

The most successful KPIs help you connect your underlying actions with specific results. Rather than simply providing you with a final score, they allow you to assess the decisions you made to arrive at that score—enabling you to change the score by changing your actions. To develop these types of KPIs

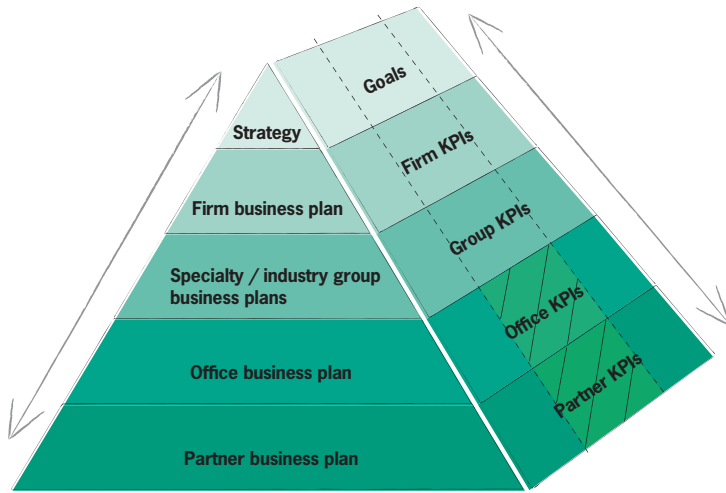
- identify the priority performance areas your firm needs to achieve its goals,
- establish measures to assess performance in each priority area, and
- relate those measures to the attainment of specific targets.

By remaining focused on your chosen KPI targets, you can align actual performance with your metrics to help ensure all your team members are working towards common—and measurable—goals.

Your KPIs should reflect all these objectives and speak to all stakeholders. They also should align with your firm’s management structure. For instance, if your firm is organized into service function groups and/or industry sector groups, your KPIs should break down performance expectations by group so every member of your firm understands their personal targets. Figure 1 on the following page depicts the connection in a hypothetical firm.

### Develop clear summaries and reports.

Even when information relates to your priority areas, it cannot help managers make more informed decisions if they must resort to data mining to understand the reports. To be effective, your reports must present information in a way that allows readers to quickly pinpoint both positive and negative trends. Incorporate a dashboard or summary that allows management to see highest priority, and



**Figure 1. Aligning KPIs**

highest value, information first. Ensure the volume of information does not require excessive time to review. And avoid the mistake of attempting to understand performance by measuring and tracking as many indicators as possible. If your reports arrive in reams of papers and stacks of binders, chances are you'll miss the one or two key indicators that could alert you to danger or opportunity.

As with so many other areas of business, KPIs should be governed by the 80/20 rule. The trick is in identifying the 20% of indicators that give you visibility into 80% of what you need to know. Be bold! Don't produce information just because it has always been available or everyone else has it. If the information is not relevant, don't clutter the desk or overload the schedules of professionals who could better use their time to manage and grow the business.

**Cover all time dimensions.**

Effective KPIs don't only report history; they also indicate where future trends are tracking. To assess trends, identify the comparatives (benchmarks, other offices or particular service areas) you must track, as well as activities that are generally precursors to results (i.e., sales pipeline volumes, total business pitched, etc.). To identify future-based metrics, look for indicators that tend to lead profits, such as the link between client satisfaction and client churn, or between proactively managing billing and collections and reduced financing costs.

**Connect metrics to specific actions.**

After prioritizing your critical performance areas (such as new business development, staff productivity, billing/collecting and talent development), try to identify specific behaviours that will help you succeed in those areas. By determining which behaviours you want to encourage, and which you want to avoid, you can begin to narrow down the measures that should be tracked and reported. At a minimum, aim to specifically measure the results of the activities most fundamental to success, such as utilization rates, new client wins or leverage ratios.

**For a young firm, financial metrics generally trump all others because cash flow and profitability pressures dominate. However, as the business matures, your priorities extend to longer-term objectives—such as staff development and brand building. This is when it gets harder to know what to measure.**

**Ensure managers understand the actions that influence results.**

Before your managers can achieve their targets, they need to understand how individual decisions influence specific

results. A final score is not enough. For instance, while a department's utilization statistics may provide insight into overall performance, they cannot help guide decision-making unless the information drills down to the level where decisions take place. To ensure each level of management is aware of the actions that influence these results, you need the additional ability to measure results at the staff level, by client/work team and by individual staff member.

**Broaden your definition of KPIs.**

For many professional services firms, KPIs are considered only those metrics that can be tracked on a monthly basis. By limiting your definition of KPIs in this way, however, you risk missing critical results that may be measured only periodically or annually. A classic example is performance ratings. Given the role performance scores play in measuring staff's achievement of their individual goals, it makes sense to include these annual metrics in your KPIs.

**Stay current.**

Just as your business strategy evolves over time, your KPIs must do so as well. Rather than approaching the development of KPIs as a one-shot project, it makes sense to integrate them into your overall management practices so you can update your metrics as your competitive environment shifts or your business grows. In addition to ensuring your KPIs remain up-to-date, this practice allows you to make changes to your targets, performance criteria or timelines if you veer off track.

**Link performance with firm-wide goals.**

In today's increasingly competitive environment, the professional services firms most likely to succeed are those that best differentiate themselves from the competition and deliver greater value at lower cost. To reach these goals, every member of your firm must have a clear understanding of where to focus their efforts on a daily basis and the ability to concentrate on those areas.

KPIs can help you lay this groundwork by focusing your staff's attention on the activities that matter most and reducing the distractions and inefficiencies caused by large volumes of irrelevant information. However, KPIs alone will not deliver the results you seek—particularly if your managers and professionals become so focused on individual KPI results that they neglect to link their actions to firm-wide goals. In essence, you need to connect your KPIs to all key performance goals and targets. If you say you want your staff to do X, but all you measure is Y, don't be surprised if all they do is Y.

**“Not everything that can be counted counts, and not everything that counts can be counted.” ~ Albert Einstein**

To avoid this pitfall, it's important to provide your stakeholders with quantitative and qualitative measurement techniques, management tools and customizable processes that ensure both individual and firm results remain aligned. Some strategies for achieving this include

- linking KPI performance to compensation
- making senior individuals accountable for results, not only intent
- mapping out practitioner accountabilities for meeting specific targets—and taking action when people fail to meet those targets
- ensuring consistency among firm and personal business plans

- providing the training and tools required for success

As the effectiveness of your KPIs improves, there is potential payoff in enhanced performance, greater firm alignment, adherence to a shared vision and the ability to attract and retain new clients and staff. By ensuring your team understands what should be measured and why, you can create a direct connection to overarching firm goals. By looking for insight and not just numbers, you can manage by exception to accelerate your decision-making. By picking up on trends and direction, not just history, you can more quickly pinpoint what's working well and what's not. By addressing the needs of your managers and other users and involving all stakeholders (HR, IT, Accounting/Finance, etc.), you can improve consensus and align action across every level of your firm. And by keeping information to a manageable volume, you can empower your team rather than handicapping them. The key lies in untangling the information web that prevents you from gaining easy access to the measures of your current and future success.

Admittedly, the initial establishment of these types of KPIs can be challenging. Numerous hurdles can arise and roadblocks to change are often erected. To avoid these pitfalls, many professional services firms can benefit from working with objective advisers who possess a knowledge of best practices and have access to proven processes. By aligning with third-party specialists to establish more effective

KPIs, you can potentially reduce costs and increase revenues. Most critically, you can unlock your firm's ability to further refine other critical tools, such as your compensation models, staff competency definitions, divisional assessments and acquisition criteria. In the final analysis, this enables you to do more than simply attract and retain the best clients and staff. It also frees you up to delegate decision-making so that you can work smarter—not longer.

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