ACCOUNTABILITY FOR PERFORMANCE MANAGEMENT (COLUMN 3)

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In my two previous columns on performance, I introduced our perspective of accountability and then talked through some example objective and subjective criteria. We pick up our conversation in this column more specifically about partner accountability and the goal setting process.

The first point is … setting up an "accountability and goal process" always sounds much easier than it actually is to implement. So for those who already think this process would be painful, just know that you still are probably underestimating the agony which you are about to subject yourself to. This leads us to the standard question, "If this is so awful, why would anyone do it?" The answer is both simple and abstract. The simple part of the answer is, "Anytime you can get all of your key people working as a team towards the same objectives, your chances of getting where you want to go and achieving the success you desire are infinitely better." The abstract view of this is usually expressed by this sort of comment: "If all of my key people are conscientious, hard-working, and we share a common vision, shouldn't we be able to get to the same place without all of this extra administrative hassle?" The answer is … "Generally speaking, **No**." To be clear, in our experience, you won't get where you want to go consistently without this extra administrative hassle, especially as you grow larger. Recognize that this change in required administration oversight is a function of success because you will outgrow the honor system of performance self-assessment and self-alignment.

The most difficult piece of this process to buy into, (and for many it takes years of trying to improve performance every other way), is that this is not about getting your people to work harder. Or, this is not an effort to find a way to clone all of the partners in the image of one or two of the founding owners. This effort is simply about ensuring that all partners, and often senior managers, operate above a minimum performance expectation, that each has a self-development plan, and that the sum of all of these senior people's efforts are tied together to culminate in the achievement of the firm's strategy. This is the quintessential process required to take a firm to a higher level of performance.

So, you ask, "If performance management produces such a positive change and success, why would anyone balk at committing the effort to do it?" The answer is pretty straightforward. Most senior people in a firm are successful because they are self-motivated, self-driven and self-directed. Please pay particular attention to the "self" part of this. Having a set of goals and someone to report to who is assessing your realization of those goals is perceived by most as a loss of freedom, privilege, and flexibility. And for many, this increased level of scrutiny is not worth the trade-off for greater accomplishment. These self-driven people commonly respond with the same message we just covered above, "If we are all working hard, are conscientious, and our efforts are directed toward the same strategy, we will end up in the same place." No matter how many times someone states this, and no matter how emphatically this idea is expressed, please know that it is rarely true. It is not even true for sole-proprietors. Here is an organization run by one person, who does whatever he/she wants, and you would expect to see alignment with strategy in this scenario since the strategy is about sole owner. And certainly you would anticipate the highest level of performance. But again, it is rarely true. That is why it is so beneficial for a sole proprietor to have an outside coach, or create an advisory group. Why? The sharing of expectations, and someone to report to, even when you are the sole decision maker, consistently creates a higher level of performance.

Life poses new challenges every day. Our to-do lists get longer and longer. And we often find ourselves getting to a point where we are spending all of our time just re-spinning plates on a stick to ensure they don't fall rather than resolving anything or making progress. Having defined goals helps you stay focused and gives you a decision process to decide which plates should be allowed to fall off the stick and break. This is a big benefit of the accountability and goal setting process – to help you decide what "Not" to do or what "To Walk Away From."

Another significant benefit of the process is "clarity of the specific actions desired." For example, let's say we have three owners and all three of them agree that is it essential to grow the business. At a quick glance, it sounds like we have synergy in strategy and everyone's efforts should be in alignment. Once again, not likely (based on experience by the way)! I recall a case (actually there are many we can describe with similar disconnects) where the first owner wanted to grow to maximize his retirement pay, which was based on the revenues of the business. To him, all business was good business because revenue was the driver of his benefit calculation. The second owner wanted to grow the firm to make room for his family members. In this case, he was interested in adding people to create opportunity for his kids (son and daughter) to work for the organization and then find a place in management. His vision was for his kids to eventually take over the business. The third owner just wanted to make more money. He liked the high-life and growth to him was all about "take home pay." Each owner, based on the "business growth" objective would work hard, be conscientious and keep the firm strategy in mind, yet each would end up making significantly different decisions as to what was the best use of their time, effort and resources. This doesn't even consider the fact that one of the owners was dead set against family members working together in his business. Now this example is pretty obvious how the owners' disconnect regarding strategy was destined to create confusion, expectation gaps, and eventually conflict. But trust us when we tell you that even when a firm's strategy is clearly articulated in detail, allowing everyone the luxury of interpreting for themselves the best use of their time, effort and resources has no chance of consistently producing the same high results as compared to establishing annual goals and reviewing them one-on-one with partners often.

Once the decision has been made that systematic changes will be made to hold partners accountable to specific performance expectations rather just relying on everyone to put in a self-proclaimed "good day's work," then next battle ground is who will be holding whom accountable. As we have said, everyone likes the idea that "I" will hold "me" accountable. But few like the idea of "anyone else" holding "them" accountable. So, the discussion always shifts to "let's have a group of people, like a compensation committee, hold us accountable." The reason is simple … if I get crossways with one person, I will pay a penalty for that action. As I add more people to the evaluation process, it is easier to find a friend or ally who will be willing to overlook my infractions and fight for my benefit. Just for the record, anytime we hear that performance assessment will be a group function, if we had a loud aggravating buzzer, we would be sure to set it off.

A group or compensation committees make a lot of sense for firms in specific roles. It is not a question of whether you should have a compensation committee; it is more the question of its charge. First, remember that a compensation committee, if formed, is a committee of the Board of Directors (or Board of Partners, etc.), not a committee that has unique dictatorial authority. In our opinion, compensation committees should be charged with:

- Development of the firm's compensation system philosophy or framework to be approved by the Board,
- If there are base salaries or guaranteed portions of salaries involved, the committee should recommend adjustments to those salaries to the Board,
- Establishment of objective metrics and firm-wide incentives that will support the accomplishment of the firm's strategic plan,
- The review and evaluation of the overall performance of each partner and recommend the compensation for performance pay to the Board based on each partner's achievement as compared to the approved compensation framework and metrics being monitored.

Notice that the compensation committee does the heavy lifting on determining base pay and general incentive pay based on the compensation framework and metrics, but the final recommendation still should be approved or ratified by the board.

Now, what is not clear in the description above is the managing partner's role in this process. The general compensation framework guides all partners. However, because each partner has strengths and weaknesses, and each partner has different responsibilities and job duties, there needs to be a customizable set of goals assigned to each partner based on:

- Leveraging strengths,
- Improving weaknesses,
- Meeting minimum standards of performance across all competencies, and
- Accomplishing those tasks that are uniquely the responsibility of a particular partner.

For this, management by committee, yes – compensation committee – is a bad idea. Why? The most significant and success-driving job of the managing partner is to manage the partners. If he or she directs a partner to accomplish something specific or change a behavior or attitude, without a material compensation stick to reward achievement or punish failure, there is virtually no way for the managing partner to consistently hold the directed partner accountable. The most common argument is that the managing partner can work through the compensation committee to affect the same outcome. There are situations where this works … not because the system is designed to work, but because the specific people on the compensation committee and the managing partner have such respect for each other that they can overcome the dysfunction of the system in place.

It is essential for the long term success of firms to put governance systems in place designed to succeed, regardless of who occupies the various roles, rather than build systems around specific people that quickly fail when there is a shift in talent filling those roles. To put this in very clear terms:

The managing partner needs a compensation stick that he or she alone determines for each partner regarding the specific individualized goals set out for each partner.

Please recognize the difference between governance rights and privileges, and common sense. For example, a managing partner should:

- Set clear goals for each partner,
- Outline the goals at the beginning of the year,
- Meet with each partner to discuss those goals, provide a current assessment of accomplishment and offer guidance as to where to focus additional attention to achieve the goals, and
- Meet regularly enough to provide the partner with insight as to their performance with time to make course corrections so that they can achieve those goals, which would be at a minimum quarterly, often every other month, sometimes in high change times monthly.

The managing partner's job is to help the partner achieve his/her goals, not just sit in judgment of them. And a managing partner shouldn't do what we sometimes find, which is:

- Use their power for personal gain instead of what is best for the firm,
- Use compensation to manipulate partners to vote a certain way, drive a wedge between certain partners or fragment the firm into factions

When a managing partner is not following all of these common sense values and objectives above, it does not mean that you should dilute the power of the managing partner's position. Do not turn over the powers a managing partner requires to be effective to a compensation committee just because you have an incompetent managing partner. Rather, install a managing partner that will do the job as outlined.

It is one thing for a compensation committee to evaluate performance regarding objective criteria -- those metrics that are approved as the compensation plan each year. It is entirely another to have a compensation committee assess a partner's individual performance against customized goals which are often qualitative in nature. It is not the job of the compensation committee to meet with each partner quarterly and assess progress. That function belongs solely to the managing partner. It is not the job of the compensation committee to regularly coach partners in behavior and developmental transitions; that function also belongs to the managing partner. Therefore, it should clearly NOT be the job of the compensation committee to control all performance funding because some amount needs to be reserved for the managing partner to make clear that his/her assessment of individual performance throughout the year has enough meaning for partners to pay attention to those communications.

We will pick up in our next column with how the managing partner should approach the goal setting process.