Balancing Your Legal Scorecard − Part 2

By Richard Hall

Balancing Your Legal Scorecard − Part 2 by Richard Hall

Balancing Your Legal Scorecard

A Performance Management Tool
For The Legal Department

The Balanced Scorecard Perspectives

The four perspectives of the Scorecard provide a balance between short term and long−term objectives, between desired outcomes and drivers for those outcomes and between objective and subjective performance measures.

Many measurement frameworks advocate a balanced range of measures. The Balanced Scorecard is prescriptive about this range, and about how one perspective defines the drivers for the next.

Financial Perspective:
The Balanced Scorecard encourages legal departments to identify their specific financial objectives as relates to the financial objectives of the entire organization. Thus, the legal department embraces the organizations financial strategy. As such, the financial objectives serve as the focus for the legal department's objectives and measures of the other three perspectives.

Every measure should be part of a cause−and−effect relationship that culminates in improving long−term sustainable financial performance. The Balanced Scorecard is an illustration of the strategy, starting with the long−term financial objectives of the organization and then linking them to other initiatives such as the operational processes of the legal department and its investment in employees, systems and outside resources that combine to produce the desired economic performance.

Clearly it is important to get the `right' measures. Although it is people, decisions and actions that change performance, measures set the goal, and the old adage "what gets measured gets managed" is still true today.

Leading organizations are now finding new financial measures, as well as the non−financial measures. Rather than simply considering the obvious financial measures of revenue, profit, share value or dividend cover, consideration is being given to a recently developed measure: Economic Value Added. This expresses the amount of value added by the efforts of each department (the legal department for our purposes) in the organization and how those efforts help the overall financial objectives of the organization.

The Organizational Perspective:
One of the key drivers for an organizations success, except in a few rare cases, is organizational efficiency and cost effectiveness. As such, how an organization performs from a bottom line point of view is clearly a top priority for management.

With that in mind, all organizations have their marquee departments, the ones that deliver the maximum contribution to the specific type of financial measure that matters most to them. All organizations also have their average departments and the departments that cost them lots of money, but that they just can't operate without (many times the legal department, which is seen as a drain on the bottom line).

To maximize financial return, it is the operational efficiency and cost effectiveness of the `marquee' department that should be addressed. Departmental measures that reflect the issues that really matter to the organization need to be developed. From these, the key objectives and measures for how the other departments (such as legal) should operate can be established.

In this way an even more powerful link can be established between organizational focused objectives and improved financial performance.

The Legal Department Perspective:
Delivering added organizational satisfaction can be achieved through the operational activities of the legal department. Through the Balanced Scorecard framework organizational focused measures can be supported by measures of the legal management processes that are most critical in meeting the organizations expectations. The objectives and measures for this perspective thus enable a focus on maintaining and improving the performance of those processes that deliver the objectives established as key to satisfying the organizations financial objectives, which in turn satisfy stakeholders.

With this approach, the Balanced Scorecard offers a vehicle to focus on a complete value chain of integrated business processes. It is this that represents one of the major opportunities for the benefits that the Balanced Scorecard can provide over traditional departmental performance measurement systems.

This top−down value−chain process can reveal entirely new areas, within the legal department's business processes, where an organization can gain additional advantage.

The effect can be phenomenal; a reduction in process costs of 1% when combined with an identical reduction in wastage can typically deliver an increase in profits of over 15%.

The Innovation and Learning Perspective:
The adage "our people are our greatest asset" has been honored more in breach than the observance in all too many organizations. It is an issue managers cannot afford to ignore, however. The operations of the organization are undertaken by the people within it. The ability, flexibility and motivation of staff are the foundation of most financial results, organizational objectives and departmental activities that are measured in the other quadrants of the scorecard.

Organizational expectations are always changing and legal departments are, as a consequence, required to make continuous improvement. This relies heavily on the department's ability to innovate, learn and improve, which collectively delivers better results for the whole organization.

The idea that everything else eventually depends upon the staff of an organization could suggest that the ultimate single indicator of long−term sustainable success, if there were such a thing, would be the speed at which the organization can learn to do new things successfully. Used in this way, the Balanced Scorecard framework gives consideration to the importance of investing for the future. Not just in traditional areas of investment such as R&D, but also in the human infrastructure of the

organization - creating a `learning organization' - if ambitious long term financial success objectives are to be achieved.

In short, there is no doubt that the effective development of staff can have a direct impact on the bottom line and can also directly affect all of the increases in profit possible through operational improvements. Simply increasing staff efficiency by 1% can often have the effect of improving profitability by twice as much.

Linking The Balanced Scorecard To Strategy

The objective of any measurement system should be to motivate managers and staff to implement the organization's strategy. By translating strategy into measures within the Balanced Scorecard, objectives and targets can be communicated to everyone. They can then focus on the critical drivers and align initiatives and actions to the meeting of strategic goals.

Why is it important for a Scorecard to communicate the strategy?

·It describes the organizational vision to all departments
·It ensures that the meeting of performance targets contributes to achieving strategic objectives
·It focuses effort on the key objectives and measures

How can we build a Scorecard that translates a strategy into action?

·By establishing cause−and−effect relationships between measures
·By creating a framework against which underpinning objectives and actions can be assessed, valued and prioritized
·By ensuring that cause−and−effect paths link through to on−going financial strength

An effective Scorecard enables an organization's strategy to be inferred simply from the cause−and−effect links between measures. Outcome measures signal the ultimate objectives of the strategy and performance drivers indicate actions or initiatives that are required in order to create future value. Ultimately, the Scorecard retains a strong emphasis on outcomes and financial outcomes in particular.

Benefits Of The Balanced Scorecard

The Balanced Scorecard's prescriptive approach to performance measurement requires performance measures defined in each of the non−financial perspectives to be linked to each other and to the financial measures, ensuring that the organization's ultimate goal; that of continuing to be successfully in existence, remains paramount.

The extent to which business results can be improved by decisions taken based on a Balanced Scorecard view of the organization is significant. Furthermore, these business results tend to be very sensitive to minor improvements in performance in key areas (such as the legal department). The following table illustrates the point:

Balanced Scorecard Perspective	Potential Impact	Typical Profit Impact (*)
Organization	Decrease in legal costs	7%
Legal Department	Reduction in wastage	2%
Innovation and Learning	Improved efficiency and identify best practices	5%
TOTAL	Increase in profit	14%

(*) Based on historical LexTech,Inc. figures

Information Systems To Support The Balanced Scorecard

Information systems play an invaluable part in assisting managers to analyze beyond the summary level Balanced Scorecard measures. When an unexpected signal appears on the Balanced Scorecard, managers need access to underlying data to investigate the cause of any problem or to analyze trends and correlations.

If the information system is unresponsive, however, it can significantly impact the effectiveness of performance measurement.

Such an information system must then incorporate all of the following features:

·At−a−glance exception alerting
·Rapid access to summarized data
·Drill down to successive levels of detail
·Easy to follow dependency paths to identify the causes of performance

·Reporting initiative, objective and process information
·Reporting of impacts of underlying objectives upon Scorecard measures
·Reporting of the impacts of objectives upon each other
·Graphical creation and modification of objectives, measures and relationships
·Support for dynamic re−planning for change
·Integration with other office tools
·Inclusion of rich text information
·Graphical trending and tabular representation of data
·End user configuration and analysis options
·Integration with existing organizational data sources - with support of additional direct entry of values and annotations

Solutions

To meet the challenges ahead, legal departments need to develop a perspective on the role of the legal function in both qualitative and quantitative business terms. They may use a Balanced Scorecard of metrics that integrates the law−department's short−term actions with long−term organizational objectives. Effective solutions should meet this criteria:

·Be specifically designed to support the implementation and ongoing evolution of a Balanced Scorecard measurement system, alone or integrated with other performance management approaches and initiatives, such as Six Sigma, process review and benchmarking.
·Be backed by expert consultancy for strategy and training
·Implement services without the need of additional staff or technology.
·Enable corporate legal managers to put into every day use the best practice recommendations that in the past may have seemed impossible to achieve, with minimal additional overhead, time or other resources.
·Maximize the benefits to be attained from existing performance measurement and management.

The Balanced Scorecard, with a comprehensive information system to support it, provides a means to make a real difference throughout the legal department, and organization as a whole, from individual team member satisfaction right through to significant improvements in the bottom line.

Balancing Your Legal Scorecard − Part 1

By Richard Hall

Balancing Your Legal Scorecard − Part 1 by Richard Hall

Balancing Your Legal Scorecard

A Performance Management Tool
For The Legal Department

Introduction

Every organization recognizes the importance of measuring performance. It provides the means of monitoring the achievement of the organization's strategy. As such, it is a vital means of motivation.

That, at least is the theory!

However, in reality, many organizations have yet to implement a performance measurement system that adequately fits the bill, especially in the legal department. They, instead, focus their attention on "after the horse is out of the barn", like outcomes and financial performance. Thus, these organizations pay the price:

·Most legal matter indicators and financial indicators are backward looking - it has been likened to "steering the ship by watching the wake"
·Legal department performance and financial performance tends to be measured over the short term and induces short term `fixes'
·Legal department measures and financial measures alone cannot communicate the organization's strategy and priorities to its managers and staff

Although, the following approach may be applied to many departments within the organization, this article focuses our attention on the corporate legal department. As we have found that it is disparagingly referred to by senior management as a "necessary evil".

With that said, corporate legal departments are now being required to do more than win cases and manage costs. They have a dual mandate, which includes adding value to the corporation while providing successful, cost effective legal work to their corporate client. Adding value includes qualitative as well as quantitative measures.

As such, what corporate legal managers increasingly need is a performance measurement capability that supports a long term, forward−thinking strategic view. They need a performance measurement framework that provides a view across a range of measures that encompass all of the key issues for the continued financial success of their organization. A framework that itself helps improve performance by changing what people do, one that:

·Communicates priorities and direction
·Focuses on improving processes, not functions

·Aligns operational activity with strategic goals
·Provides the necessary leverage for change

The benefits of such an approach can be financially dramatic. It has been estimated that the impact of adopting a balanced approach to measurement (in the legal department alone) is a profitability increase of between 15% and 25% for a typical Fortune 500 company.

The balanced Scorecard (R. Kaplan and D. Norton, Harvard Business Review 1992) is one such a framework.

About The Balanced Scorecard Methodology

The Balanced Scorecard methodology, developed by Robert Kaplan and David Norton, translates an organization's business strategy into an understandable action plan. Using the Balanced Scorecard technique, an organization can clearly define strategic concepts like value, quality and satisfaction. The Balanced Scorecard then becomes a framework for implementing the strategies related to those concepts. This range of uses makes the Balanced Scorecard an integration hub for strategic management.

With the balanced scorecard, corporate legal managers can measure how outside entities and individuals create value for the department and the organization as a whole. They can determine what the department must invest in or take away from to improve that performance. While maintaining an interest in financial returns, the Balanced Scorecard reveals the non−financial drivers of superior, long−term value creation.

In addition, The Balanced Scorecard enables legal managers to view the well being of the organization from four important perspectives or quadrants. Each quadrant of the scorecard reports performance measures in the form of key performance measures or indicators (KPI). The Balanced Scorecard is a mechanism for translating an organization's vision and strategy into a coherent set of objectives and performance measures. It uses measurement to communicate the drivers of current and future success.

Read about Balanced Scorecard Perspectives in Part 2 of "Balancing Your Legal Scorecard"


naturaPause
The Natural Hormone
Solution
For Men And Women
DELUXE 6-CD SET