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EXERCISING LEADERSHIP

Building Better Accountability Into Your Firm

By Ray Kogan, AIA

When the CEO of a midsize A/E firm recently reviewed yet another in a long series of disappointing financial metrics, he complained to the principals, "You agreed to do what is necessary to meet your goals, and I can't understand why you didn't!" Each of the principals—competent professionals all—had a new "story" to explain their failure, pointing once again to factors allegedly beyond their control or isolated projects or incidents.

This CEO had worked with the principals to establish each of their group's performance goals. After all, he couldn't expect them to perform to an arbitrary or unreasonable standard or one that was forced upon them. But he had failed to set out meaningful consequences for their performance, either positive or negative. Worse, having previously distributed another annual bonus not linked to positive results, he had again missed the opportunity to create a culture of accountability in his firm.

Benevolent cultures. Architects and engineers are, as a rule, nice people, and their personalities tend to be reflected in their firms' often benevolent cultures. As desirable as it is to maintain an employee-friendly culture, a lack of accountability can take many forms and may ultimately destroy a firm's business, because of:

- principals who fail to carry their weight and set a poor example,
- market leaders who do not meet their sales or profitability goals,
- project managers who habitually carry project write-offs,
- commitments and deadlines not being met,
- easygoing attitudes toward aging receivables,
- slumping hours worked and utilization among staff,
- uniformly given—not individually earned—salary increases and bonuses, and
- a growing sense of entitlement among the staff.

In the end, a firm's culture that lacks accountability drags down revenue, profit, and morale and drives up overhead and potential liabilities.

Accountability is best defined as an "if … then" statement: If there is performance (good or bad), then there will be consequences. In other words, you can see accountability in action whenever performance leads to consequences. Consequences are not inherently bad; when someone is accountable, their behavior can lead to good consequences: rewards, promotions, and career development. When someone's performance does not meet that individual's goals, the consequences should be commensurate with that performance: additional training or retraining, no earned bonus, repositioning, or ultimately, termination. In any event, the consequences must be understood by everyone and must be applied fairly to all employees at every level, including principals and owners.

For accountability to work, everyone in an organization should be (and feel) accountable to (which usually means reports to) someone. This concept applies to individuals as well as to groups—a business unit such as a department, division, or studio within a firm. No matter what the group, the leader is ultimately accountable for its performance.

The group can also mean the entire firm. For example, any company—including an architecture or engineering firm—is ultimately accountable to its shareholders. In the wider world of non-design firm businesses and publicly traded companies, reading that the CEO left the company to "pursue other interests" often means that they had been held accountable for the company's poor performance.

When people in a firm underperform, it may be either because they cannot do their job—or because they will not do their job. But too often, they underperform simply because they lack a clear understanding of what is expected of them. This is why a system of performance metrics and evaluations is crucial to fostering a culture of accountability in any company.

Metrics are crucial. As the old saw says, "What gets measured gets done." The more performance can be measured, the more readily accountability can be infused into an individual or group. Everyone in every position in a firm should have a few key expectations and metrics by which their performance may be gauged. Individuals may be measured based on their productivity, utilization, or quality of work, among other items. Project managers may be measured based on the profitability of their projects (looking at historic trends is particularly useful) as well as their client satisfaction ratings. Business unit leaders may be measured based on their revenue generation and profitability.

Regular performance evaluations are the ideal forum for reviewing the employee's progress toward meeting expectations and metrics, as well as discussing the consequences of failing to meet them. Managers are often caught up in their day-to-day priorities and may use their "busy-ness" to avoid potentially awkward confrontations. Nonetheless, performance feedback must be direct and timely, not only because it is fair—to the individual, the supervisor, and the firm—but also because timely feedback allows people to act on it and provides an opportunity to change.

Because accountability means clear guidance—rewards for good performance and constructive confrontation for subpar performance—managers must be prepared to deal individually and directly with their staff. This means that performance evaluations are not just an obligation at annual salary increase time, but rather a time to discuss goals, plan how to achieve them, and give feedback on progress.

Jack Welch says ... Former General Electric CEO Jack Welch, widely known as a "take no prisoners" leader, advocates annually assessing all employees' performance to develop a forced ranking that places every employee into one of three categories: top 20 percent, middle 70 percent, and bottom 10 percent. The company commits to generously rewarding the top 20 percent, working with the middle 70 percent to help them move into the top 20 percent, and asking managers to justify why they continue to employ the lowest 10 percent.

Managers in design firms typically do not have problems with the top 20 percent, although a few are reluctant to recognize and reward the top performers due to an ill-founded and counterproductive fear of offending lesser performers. Firms should offer training and development to the middle 70 percent to improve their skills, but always with specific goals and deadlines.

Finally, if there is any silver lining to our industry's current economic downturn, a diminished revenue stream means that many firms are no longer held hostage to a constrained recruiting pipeline, making the lowest 10 percent of our firms more expendable than before.

Accountability for principals. Principals—as the highest compensated employees in a firm—should feel an even greater personal sense of accountability for their performance. In fact, the more heavyweight the principal, the more apparent it is when he or she isn't pulling their weight.

For anyone in a management role, so-called 360 degree reviews may be especially effective at removing individuals' blind spots about their own performance. That's because employees tend to feel inhibited speaking openly to managers, especially about the manager's own performance. In a 360 review, a key individual's performance is evaluated by people positioned above, parallel to, and below them in the organization. Some firms also bring in one or two key clients or outside partners of the firm in the review.

On a regular basis—at least semi-annually if not quarterly—managers should meet individually with their direct reports and ask, "How can I do a better job for you?" This question may be uncomfortable to ask, awkward to answer, and the responses may be difficult for the principal to hear and digest, but it is basic to continuously improving individual performance as well as building trust between a manager and staff.

Addressing subpar performance in a principal is a delicate matter. Fellow principals may have cofounded the firm and in the process shared career risks and become friends. What is harder than confronting a friend about his or her performance? But no firm can afford a situation in which the cost of employing a principal exceeds the benefit the firm receives. It is easier to overlook underperforming principals during a booming economy. But—especially in a downturn—a firm simply cannot afford to have a large leak in its bucket.

One firm we know deals with principal performance with a "three-strike" system of institutional accountability:

- *Strike one* brings mandatory training to address the issue;
- *Strike two* means a loss of title and potential bonus and salary adjustments; and
- *Strike three* results in more stringent financial penalties and possibly termination.

Acting directly to tackle a low performing principal brings several positive results: It liberates and motivates co-workers, many of whom have no doubt wondered when (and if) the firm would take action, and it sends a message to the rest of the staff underscoring accountability for performance as part of the firm's culture.

In a worst case scenario, when a firm has to terminate a principal, the process is often described (after the fact) as cathartic: unpleasant in the short term but beneficial for the greater good of the firm in the long run.

That's as true for all examples of accountability.

Ray Kogan AIA, heads Kogan & Company, a management consultant to design professionals (McLean, Va.; 703-533-8077).