



Précis Paper

Relational Analytics

A discussion about relational analytics, a tool developed to measure the internal and external relational capital in organisation and the ways in which relational analytics can be used to promote business success.

Discussion Includes

- The importance of relationships in business
- Measuring Relational Distance
- Relational Analytics and Law Firms
- The link between relationships, wellbeing and work performance
- Culture
- Survey Findings
- Relational Analytics vs traditional measurement tools
- How can law firms action the analytics?

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Relational Analytics

1. In this edition of BenchTV, Raj Kanhai (Principal, Finity Consulting - Sydney) and Hadyn Bernau (Principal, Finity Consulting - Melbourne) discuss relational analytics, a tool developed to measure the internal and external relational capital in organisations and how relational analytics can be used to promote business success.

The importance of relationships in business

2. It has become a common trend for companies to drain the relational capital to fund their short term profit. For example, by offering deals to new clients and not extending the same to existing clients.
3. In order for businesses to better understand this relational capital, there needs to be a way to measure the relational capital, that is to measure the relationships. Relational Analytics is a way to do this.
4. For an average company in Australia, around 40% of its total value is in relationships and relational capital. Therefore, around 40% of their mission outcomes and their profit is determined by their relationships.
5. In the 1950s, the average company had around 80% of its value in tangible assets; that is property, plant and equipment. Presently however, around 80% of the average company has its value in intangible assets.
6. In the last 5-10 years various measurement techniques used to measure relationships have become prevalent in business, such as the use of the net promoter score to measure the external client relationships.
7. Internal relationships within an organisation are often measured by employee engagement and satisfaction surveys.
8. The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry noted a deterioration in social capital. This is even so the case in the instance of the big banks, who held high net promoter and employee engagement scores prior to their problems arising. This indicates a failure of these current measures to adequately reflect the relationships and conduct of these institutions.
9. These measures have proven to be backward looking indicators, whereas relational analytics is a forward looking indicator.
10. It is arguable that the root cause of these problems is not the conduct or behaviour of the organisations as the conduct and behaviour of these organisations over time has been reasonably consistent.
11. It is more probable that the business models which have been introduced to businesses have created more relational distance into these organisations.

12. As a result of this relational distance, if an issue or conflict arises within an organisation or with its stakeholders, it is much more difficult to rectify without the mutual understanding and respect gained through good relationships.
13. Where there is a proximate relationship between stakeholders, when a conflict arises, it is much easier to work through the issues. This incites the question, is the root cause of business conflicts and issues, relational distance?
14. In the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry one of the issues that was explored was a lack of trust between stakeholders in an organisation.
15. A lack of proximity in relationships or a lack of focus on the relationships would lead to mistrust and conduct risks and issues emerging.

Measuring Relational Distance

16. Relational Proximity measures relationships across five elements.
17. The first element is the communication between the two parties. Where the communication is face to face, open, honest and transparent, it generates proximity in a relationship.
18. The second is story. If there is a long back history together, where the parties have been through something meaningful together and where there is a planned future to move toward, momentum and proximity is created.
19. Third is around information. That is, how well the two parties actually know each other and whether it is in a narrow context or whether they understand each other's motivations and drivers.
20. The fourth is around power or parity. There is often a power imbalance within institutions and law firms and the question is how is that power used. That is, whether there is still mutual respect and fairness between the parties, and a sharing of influence.
21. Fifth is alignment, commonality or purpose. That is, to what extent do the parties have a common purpose, are aligned, or have common values?
22. High levels of these five elements, creates proximity. If there exists low levels of these five elements relational distance is created. More proximity creates the conditions for trust, empathy and commitment.

Relational Analytics and Law Firms

23. The better the internal relationships within law firms, the better the wellbeing of the staff. This leads to more productivity and less turnover of staff.

24. A law firm also depends upon its client relationships. The more proximate those client relationships are, the longer law firms will retain these clients and therefore, the more profitable the firm will be.
25. Recent surveys conducted have indicated that junior lawyers often find it very difficult to establish themselves within their profession. They find it difficult to develop firm relationships, tend to be overworked and have indicated high levels of bullying and harassment within law firms. This seems to be a rather systemic issue within the legal industry.
26. The focus of law firms tends to be on billable hours and generating revenue. Relationships tend to take a secondary importance to this primary goal.
27. The more challenging the environment, the more important relationships become. High pressure, high performance environments relationships are needed for the wellbeing of staff.
28. The problem which tends to arise however, is that in these environments there tends to be the least time to invest into these relationships.
29. There is a strong correlation between a person's overall life wellbeing and their relationships at work. This suggests that an investment into building work relationships, will contribute to building wellbeing and mental health.
30. Bullying is often more prevalent where there are weaker connections between people.
31. Therefore, it is worthwhile for law firms to find out where any weak links between relationships exist as they can have a disproportionately large negative impact across the firm.
32. Another important aspect firms need to look for are the blind spots between different groups within the firm. This is where one group perceives the relationship as strong and the other perceives the same relationship as weak.
33. A traditional satisfaction or engagement or promoter score would be a one way measurement in terms of what a certain group thinks of the firm, whereas relational analytics is a two way measurement.
34. Relational analytics looks at the two parties to the relationship and questions what certain individuals think of the relationship between themselves and another group
35. This delivers two perspectives on the same relationship and as a result allows the gap, or the blind spot to be measured.
36. In law firms, there is often a blind spot between the partners and the non-partners. Partners tend to rate their relationship strong whilst the non-partners tend to rate it as moderate.
37. Relational proximity and strength has a strong correlation to wellbeing.

The link between relationships, wellbeing and work performance

- 38. Good relationships lead to better financial performance and effectively increase the value of a business.
- 39. There is research which shows that productivity is higher and maintained, sick leave is lower and retention is better if wellbeing is higher.
- 40. There is also a link between staff wellbeing and how well they are serving clients.
- 41. The Australian Legal Practice Management Association conducted a survey and found that over 70% of respondents reported that attracting and keeping talent is a real issue.

Culture

- 42. Relationships are the carriers through which culture flows in an organisation.
- 43. If an organisation wishes to change its culture, it will only flow through an organisation if relationships within the organisation are strong.
- 44. If relationships are weak, the changes to culture will not get passed down the hierarchy or across the business units.
- 45. Senior management will only find out about the areas where culture is weak in their organisation if there are strong relationships enabling the organisation to carry that news back up to them.
- 46. Once an organisation starts focusing on relationships, they build relational awareness and relationship skills within the organisation.

Survey Findings

- 47. The study into relational analytics and law firms conducted by Hadyn Bernau had a number of interesting findings.
- 48. A strong link between wellbeing and relationships was found to exist.
- 49. Generally, it has been found that the relationships within the partner group are reasonably strong and it was they found that generally, the relationships between non-partners are reasonably strong.
- 50. The study found that between partners, the weakest relationship element is communication, whereas in the non-partner to non-partner relationship, the information domain is the weakest. That is, that solicitors are reporting that they really only know their colleagues in a narrow, work context and do not actually know them as a person.
- 51. In the partner to non-partner relationship, the partner tends to view the relationship more strongly than the non-partner tends to.

- 52. Information is a weak area in the relationship between partners and non-partners from both party's perspectives.
- 53. The study also found that the perception gap is particularly large in the purpose dimension. Partners believe that themselves and non-partners are aligned in their goals and objectives, where the non-partners report not feeling this alignment.
- 54. However, the study found that there is a strength in law firms in the partner to non-partner relationship in the power dimension.
- 55. The analytics report that despite the power imbalance, the partners are using their power in what is perceived to be a fair way and the non-partners feel that they have some influence in their relationship with the partners.

Relational Analytics vs traditional measurement tools

- 56. The Net Promoter Score and employment engagement surveys are quick and easy to do. They can be done in large numbers and monitor the results constantly.
- 57. It is valuable as a real time tracking tool for an organisation.
- 58. Relational Analytics on the other hand, is an occasional, strategic deep dive into an organisation's relationship to diagnose what is happening at the foundational level of a relationship.
- 59. Relational Analytics is not interested in transactional thinking around 'how well have we served you. It is a forward looking tool, whilst the service based transactional tools such as net promoter score and employment engagement tend to be more backward looking.
- 60. Relational Analytics is also a two way measurement of two perspectives of the same relationship and the same relational analytics metrics can be used to measure both internal and external relationships .
- 61. Relational Analytics can then allow an organisation to compare and determine whether they are doing better at their internal relationships or their external ones, whereas it is difficult to compare and draw the same conclusions from employment engagement and Net Promotor Score.
- 62. Often, it is found that simply by starting the process of measuring relationships within an organisation, even just through providing the survey to individuals it invites people to begin to think about relationships at work. Further, if the same relationships are measured a day or two later, the relationships have already been found to have improved.
- 63. This shows that improvement can be made within an organisation through creating relational awareness and developing new relationship thinking.

How can law firm action the analytics?

- 64. It is worth tying relationships to some other business problem by looking at what is happening in the relationships to drive or cause the problem.
- 65. Relational Analytics diagnose the particular areas the relationships are breaking down or struggling.
- 66. Having the data to back up the root cause of the issues means that it becomes a strategic priority for businesses to develop initiatives.
- 67. There is a shared interest between stakeholders in building relational capital as strong relational capital provides value both ways.
- 68. Relational Analytics also provides insights in relation to perception gaps to allow for a plan on how to address them into the future.

BIOGRAPHY

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Raj is a Principal at Finity and leader of the CTP practice. He is a lawyer and senior insurance claims manager and specialises in the management of long tail claims liabilities including policy design, benchmarking and performance improvement. Raj works closely with some of Australia and New Zealand's leading insurers, regulators and businesses.

Hadyn Bernau

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Hadyn is a Principal of Finity in the Melbourne office with experience across corporate, government, regulatory and not-for-profit settings. As an actuary, his traditional work is in understanding and strengthening finances. More recently, he has become a pioneer in the field of understanding and strengthening relationships in Australian businesses, Government departments and educational institutions, using a global tool called Relational Analytics.