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OVERWATCH:

# HOW TO RUN YOUR LAW FIRM LIKE A BUSINESS

Lawyers are fantastic at substantive law practice. They should be. They spend the entirety of their law school and bar exam preparation experience on the topic. If you come out of law school, and you're not good at practicing substantive law, something has gone terribly wrong. But, you know what you've probably never said: "Wow, that lawyer reminds me so much of Steve Jobs!" And, that's because lawyers don't operate as business managers with anything like the precision they exert over their substantive legal work. That's not entirely on the attorneys, though.

Lawyers are not trained to be business managers; and, the vast majority of managing attorneys don't pick up the business management skills they need over time, either. The average attorney cranks away, head-down, on billable hours, every workday, because that's what they understand, and that's what they're good at. Meanwhile, their businesses crumble slowly around then; they're fiddling with .6s while Rome burns down.

If managing attorneys instead operated their businesses with the same precision they researched precedent, or conducted witness interviews, or defended criminal clients, this script would flip entirely. The reason lawyers fail as business owners is because they do something in running their businesses that they would never do in their substantive case work: they guess, all the time. Imagine an attorney making an assumption about a particular case disposition without looking it up. Impossible, right! But, managing attorneys do that all the time in managing their businesses.
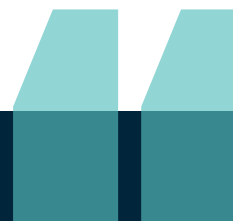
> **The reason lawyers fail as business owners is... they guess, all the time.**

Lawyers make ad hoc choices all the time, when they're making business decisions. They operate on hunches, and gut instincts, which are often wrong. But, when they do that, it's a lot like ignoring case precedent in writing a brief — because the information that would allow a lawyer to make a better-informed decision about her practice management choice is available to modern practitioners. When a lawyer takes a shortcut on a substantive law matter, he's risking malpractice; but, when a lawyer takes a shortcut on making a business management choice, he loses money. Both of these outcomes should be deterrent enough; yet, only one is.

A lawyer's reliance on gut decisions is particularly vexing in this modern age, because better decision-making strategies exist — and, those improved decision-making strategies can provide attorneys a discrete differentiator in the hypercompetitive legal market that now prevails. A modern attorney should almost never have to guess about business management processes. The data exists; the technology tools are here. So, let's spend some time talking about how lawyers mess this up, and then address how they can fix it.

TRIPLE THREAT

There are three categories of business process management, in which lawyers are definitely not masters of their domain: **financial management**, **case management** and **staff management**. So, let's look at each in turn.

FINANCIAL MANAGEMENT

Ask any managing lawyer for her client list, and she won't be able to tell you where to find it. This kind of information should be at the fingertips of any managing attorney. And, it only gets worse from there. Many small law firms don't have a fixed budget of any kind. They may not have a rate sheet — outside of the numbers they maintain in their head. Additionally, law firms don't make revenue projections for the practice as a whole, or for individual practice areas. Of course, the ability to make such projections is hampered by the fact that law firms neither have a good a handle on total revenue numbers at any time, nor a solid idea of revenue per practice area, both of which metrics would inform projections. This also makes it difficult for law firms to spot trends; because, if you can't identity which practice areas are rising and falling, you may be losing swaths of your revenue, without understanding the root cause — and, without that understanding, it's very difficult to reverse such a trend. Not to mention the fact that lack of verifiable revenue data means that it's very difficult to build revenue projections. And, if you can't make effective revenue projections, it's next to impossible to assign sensible revenue goals for the law office.

If you're not assigning revenue goals as a businessperson, you'll never hit them; and, oftentimes, the alternative is to stagnate, and to then wonder why you can't achieve the growth you want. Add to this melting pot of a 9th grade math teacher's fever dream the fact that lawyers are saddled with accounts receivable, aged beyond a reasonable degree, that they can't keep up with collecting — even if they nevertheless try to work their collections staff to the bone. The fact of that matter is that every law firm should be working extremely hard to reduce or eliminate accounts receivable, because the plain truth of the situation is that, every day you're not getting paid, you're less likely to get paid, like ever. The longer in the teeth an invoice becomes, the less likely you are to ever see that money; so, if you can't eliminate accounts receivable, keep them from aging to overripeness.
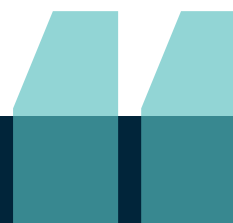
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CASE MANAGEMENT

While financial management miscues may be one of the biggest issues facing law firms, and while financial matters touch upon most aspects of law firm business management, attorneys suffer from a significant lack of control over their cases, which are the lifeblood of any law firm. Managing partners generally have trouble keeping track of cases, and because of this, they oversee tedious, repetitive and lengthy meetings that serve as glorified status updates. They have to do this because filing and process management oversight on cases is so poor, that these lawyers feel compelled to deal with such matters with an iron fist, since missing even a small detail in a legal matter can lead to a malpractice claim or ethics board investigation — neither of which you want.

Under this regime, it makes sense that lawyers would become some of the worst micromanagers imaginable if they are unable to figure out a viable method for reviewing case status without hovering, you better believe they're going to be all up in your business to protect their own business. It's not an ideal situation; but, without a cognizable alternative, many attorneys feel like it is their only option for protecting themselves. This recurring lack of oversight bleeds into other areas of the practice, too. It means that law firms unable to track progress can't create case budgets, which turns their overall budgeting methodology into high-wire guesswork. And, in many cases, the disorganization trickles down to law firm clients, who become frustrated with their law firm's lack of organization and communication. After all, how can you communicate effectively with your clients, if you can't develop any effective internal communications platform?

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STAFF MANAGEMENT

As alluded to above, managing lawyers aren't great at holding useful meetings, because they usually know less than they let on. They literally can't host efficient meetings, because they have no available method for accessing a viable agenda. And, that means that the average law firm meeting is a series of status updates, hinging on random spelunking across various case files. It's a fishing expedition, in other words. Certainly, that's not setup to inspire confidence in colleagues, associates and staff. Ham-and-egging cases without any real notion of process means that errors will be made — some merely flesh wounds, some much more serious. And, that means more work in cleaning those errors up, And, if the design is flawed, whose fault is that: the designer or the operator? And yet, these problems create issues on all sides of interoffice relationships. In addition to missed assignments and finger-pointing, there can be bristling over imbalanced workloads.

If law firms can't effectively budget and streamline case management, how can they be expected to assign the appropriate amount of work to individual employees, who are ineffectively tracked to begin with? Furthermore, without a focus on staff productivity, law firm managers can't determine who is pulling weight, and who is being pulled; and, that makes it next to impossible to make intelligent hiring and firing decisions.
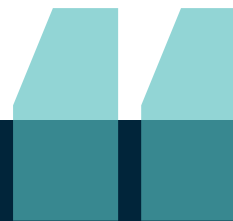
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I know, that sounds like a lot to deal with, right? Switching gears now: let's talk about how to resolve all those issues in the affirmative.

RULE OF 3

So, let's talk about three things that will help you to better manage your law firm moving forward. Let's take the guesswork out of law firm management.
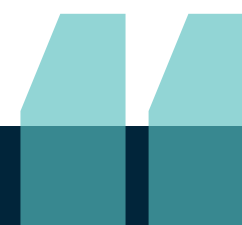
1 DATA

Most of the talk surrounding data respects the notion of 'big data'; but, big data's become sort of a played-out concept, because everybody's been talking about it so much. (If you want a real treat, there's a Twitter account that swaps in 'Batman' for 'Big Data' in popular tweets -- it's quite delightful.) And, in terms of taking a first step to improving the management of your law practice, you're far better off focusing on 'small data' and, by that, I mean the internal data that you are already capturing about your law firm.

If you can access time and billing information for each timekeeper, you'll be better able to set case budgets, define work performance and reduce your accounts receivable -- by collecting more time that you work, billing more time that you collect and collecting more of the time that you bill. Increase the size of your net, and you'll get more fish. Similarly, if you are able to capture budgeting data more accurately, having a baseline overhead number will allow you a better sense of what sort of money you have to play with. Deciding whether you can actually fund the run-up to a medical malpractice case may be entirely dependent on how much money you expect to have left on a monthly basis after covering your budget line items. Lastly, accurate financial data within your law practice can allow you to make more accurate predictions about the future of your law practice.

What's your year-over-year revenue? Is it sustainable? Does it need to accelerate at a more rapid pace? Again, when working off of a baseline number, it's easier to make educated guesses. And, while I know that finance is often the opposite of inspirational, creating revenue projections with more accuracy means that your goals are more achievable -- both the regular ones, and the big, hairy ones. If you know where you've come from, you'll have a better idea of where you're going.

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2 DELEGATION

Data allows you to make better business management decisions; delegation allows you the time and space to think about, and to implement, the next stages of your business. Law firms are inefficient, in large part, because the work is a melting pot. If you think of legal work as a giant, bubbling fondue pot, where everyone in sticking their fondue forks in at random times and intervals, you've got the law firm management picture about right. But, for a law firm to be truly efficient, and for you, as the managing partner, to feel like you truly have control over your firm, and not like you're in danger of losing your license to practice every moment of the day, everyone should have a role, and each should know when and how to intervene.

In order to derive effective workflows for your practice, you'll need to access the following two-step process: (1) Create a specific set of tasks, in order of performance, for each case type you manage; (2) Break down each of those subtasks into the following categories — administrative, substantive that can be performed by non-attorneys, substantive that can only be performed by attorneys. At that point, for each case type, you'll know what task needs to be done, when and by whom. That's a much better way to run things. And now, you're meetings are no longer glorified status updates, forking randomly like a Robert Frost road. The idea is that everyone will be consistently and continually updated, that anyone (even you) who wants to know the status of a case in the moment, can just check the workflow, to see what has been completed, and what still needs to be done. Meetings will now be reserved for thorny issues outside of workflows, or within workflows, that need to be resolved. You could also discuss (*gasp*) matters of business management!

" **Delegation allows you the time and space to think about, and to implement, the next stages of your business.**

3   TECH

That all sounds good, right? But, it begs the question: Where do you get all of this information? That's where the technology comes in. (You didn't think we weren't going to discuss that, did you?) One overriding issue for law firms is that their data remains heavily siloed. Ask the average lawyer where their data resides, and they'll likely give you nine different places case files could be found. Well, it's no wonder then that lawyers have difficulty collecting and managing data. Better to have one source of truth, from which you can access all data points. And, the rise of cloud technology and associated API and integration features, makes it possible to access all of your important data via one place. Using a law practice management system allows you the opportunity to aggregate all of your most important law firms data, and to apply workflows to it. Want to know what's happening in your case? Open the matter in your law practice management software, and review the workflow. Like magic.

To render law firm data more effectively, modern relational databases, like case management systems, offer visually appealing dashboards and robust reporting tools – which allow you to break down your numbers like never before. Once you've mastered dashboards and reports, the logical next step is to bring to bear KPIs (like realization rate and collection rate) that'll bring your data analysis to the next level.
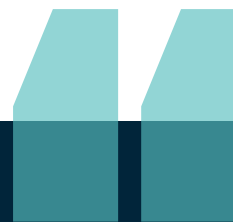
> **Better to have one source of truth, from which you can access all data points.**

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**When you know your numbers,
it's like you've hit the lottery.
Every damn day.**

ABOUT THE AUTHOR

Jared D. Correia, Esq. is the CEO of **Red Cave Law Firm Consulting**, which offers subscription-based law firm business management consulting and technology services for solo and small law firms. Red Cave also works with legal institutions and legal-facing corporations to develop programming and content. A former practicing attorney, Jared has been advising lawyers and law firms for over a decade. He is a regular presenter at local, regional and national events, including ABA TECHSHOW. He regularly contributes to legal publications, including his column, 'Managing,' for Attorney at Work, and his 'Law Practice Confidential' advice column for Lawyerist. Jared is the author of the American Bar Association publication 'Twitter in One Hour for Lawyers'. He is the host of the Legal Toolkit podcast on Legal Talk Network. Jared also teaches for Concord Law School, Suffolk University Law School and Solo Practice University. He loves James Taylor, but respects Ron Swanson; and, he tries to sneak Rolos when no one is looking.