

Six Simple Reasons Practices Fail

BY JUDD KESSLER

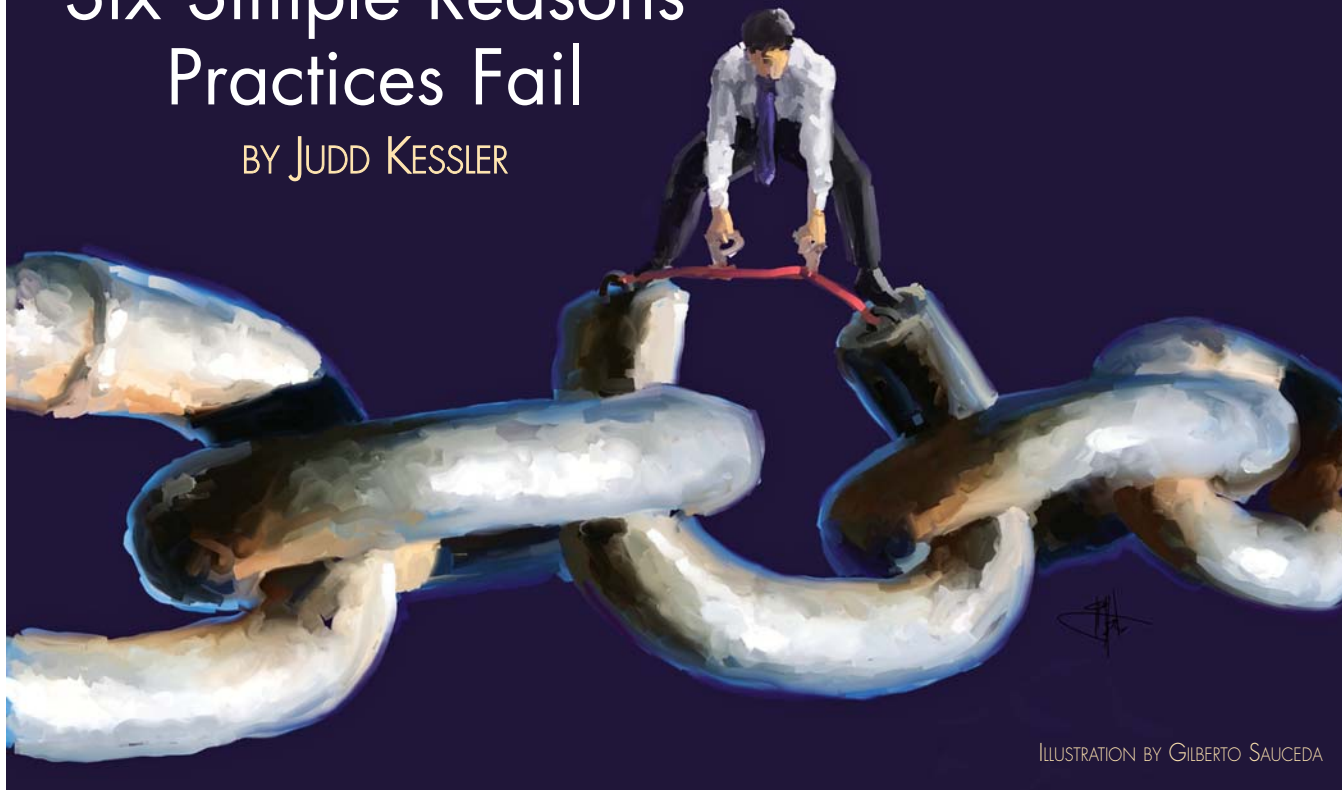


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With the current economic downturn, a high level of law firm dissolutions have taken place and will likely persist. Firms that were able to disguise their vulnerabilities during better economic times now must come to grips with why their practices are struggling and prepare for the worst. The silver lining to the current crisis may be the opportunity to identify weaknesses and turn them into assets by emulating the characteristics of successful firms — an effort that will benefit a firm immediately by lowering the risk of failure and providing the long-term benefits of more predictable growth and profitability.

There are six primary reasons practices fail: poor financial planning and money management, inadequate investment in technology, lack of effective leadership, ineffective guidance of staff and associates, inability to prepare and execute effective marketing plans, and difficulty ensuring client satisfaction. In order to have a successful practice you must take hold of all of these things — and now is the perfect time to do so.

Mismanagement of firm finances is the number one reason firms fail. Successful firms are far more likely to have their financial house in order. With all of the fraud and embezzlement scandals rocking law firms recently, you want to be sure to know where your money is going. Poor financial planning activities include excessive borrowing to pay for expansion or to compensate partners, shouldering high levels of debt due to insufficient capitalization, and not preparing detailed cash flow budgets and projections. If you are spending too much money on practices that don't bring in new clients and are not keeping track of these finances, you are constantly putting your firm in a dangerous position. Prepare detailed cash flow budgets and projections in order to track your expenses properly.

Inadequate investment in technology hurts firms on a variety of fronts, including productivity, flexibility, employee morale, firm image, competitiveness, and customer service — all critical issues for firms. However, the greatest single peril of underutilizing technology is risk, a sig-

nificant predictor of failure for small firms. Successful firms generally invest wisely in technology to ensure all office activities are streamlined with minimal risk exposure. Calendaring errors are the No. 1 cause of malpractice claims that are filed against law firms. The American Bar Association estimates that nearly 20 percent of all malpractice claims involve missed deadlines or administrative errors. Because of this, many insurance carriers require firms to invest in electronic calendaring and docket control software systems and will not write premiums for companies who do not have these in place. Others offer discounts on premiums to those who use practice management software because it greatly reduces the risk of malpractice suits against your firm. Other poor technology practices include being careless with data backup, not using firmwide phone messaging software, performing conflict checks manually or depending on memory, and relying on trust accounting software not designed for law firms. (These don't offer strict safeguards against overdrawing

client funds and commingling accounts.)

Implementing practice management software is a surefire way to combat poor practices. It allows you to take control of your practice by eliminating double entry and significantly reducing the risk of manual errors, all helping to lower malpractice risks. Practice management software allows you to eliminate paper files and consolidate all of your office software: calendaring, case management, document management, document and form productions, billing, and accounting. This leaves you spending less time on administrative tasks and more time on billable projects.

It is especially true for law firms that flawed leadership greatly increases the likelihood of failure. Conversely, leaders who promote a common purpose, common goals, and shared culture generally preside over successful firms. Stephen Covey said, "Management is efficiency in climbing the ladder of success; leadership determines whether the ladder is leaning against the right wall." Poor leadership practices include alienating associates and staff with an autocratic style, not establishing a clear and powerful direction for the staff, not keeping staff well informed, and not reconciling incompatible goals among partners. When employees do not know the long-term goals of a firm, it leads to ineffective communication in day-to-day interactions.

For every associate who leaves, the typical firm loses between \$100,000 and \$600,000. Firms with high turnover rates in associates or key staff members are far more likely to fail than firms with a stable and content workforce. Allowing a culture of inadequate or ill-received partner contact, not spending sufficient time on mentoring and employee development, and not offering a healthy balance between work and personal time contribute to dissatisfied employees. Successful firms make a commitment to consistent and skilled employee management and therefore enjoy a high level of staff satisfaction and retention.

Running a law practice is above all else a business. Firms that focus too little on successfully running and growing their practices have a higher probability of failure. The inability to prepare and execute an effective marketing plan means you are not establishing a brand that builds awareness, loyalty, and trust. You should keep track of every marketing dollar you spend to be sure your return on investment is high enough for you to continue using the marketing channels you are investing in. Differentiate yourself from the competition, otherwise people will have no reason to hire you over the next guy. Successful firms exhibit their skills in effective marketing even when they are not actively seeking new clients.

Incorporating new marketing techniques is a great way to reach more potential clients. Social media sites such as Twitter, Facebook, and LinkedIn allow lawyers to market their services to potential clients by striking up casual conversations to get to know them on a friendly basis. The use of new marketing channels is a great way to keep your firm current and in the know.

Clients don't generally express their discontent. They often feel intimidated and avoid complaining directly. Yet dissatisfied clients are often the undoing of a healthy practice as repeat business declines, receivables go down, negative word of mouth swells, referrals fall, and most dangerously, ethics complaints are issued. Poor client service practices include not updating clients as to their case status, not interacting with clients to sufficiently gain their trust and build rapport, and not listening to their complaints.

For successful firms, excellent client service provides a significant competitive edge. One practice of excellent customer service is answering your phone — like showing up, it is 80 percent of your success. People want to feel important, so if you don't return their calls promptly, they will feel as though you are not giving them your full, undivided attention. It is important to keep communication

open with your clients and send them an email or give them a call when something on their case changes. Practice management software makes this fast and easy since all emails, phone conversations, matters, and documents are stored together and attached to each client's name. Being organized is key to keeping clients happy and in the loop.

Lawyers can implement many common practices to help turn this economic downturn into a time of great opportunities. Although painful, critically evaluate your practice and come to terms with what ails you. Transforming your weaknesses into strengths may not be an easy or quick process, but it will allow you to sail through financial upheavals that will knock down the less prepared firms — and make you more successful in the long term.



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