

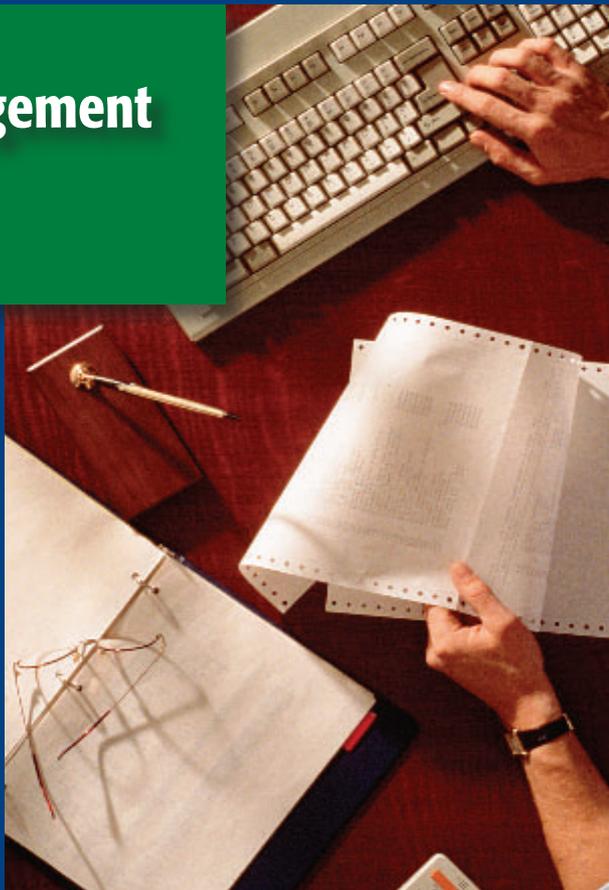
Business Competency for Lawyers

**A LawBiz Management
Special Report**

by **Edward Poll**

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Section 1:

Understanding Business Competency

Smith and Jones began their litigation partnership nearly a year ago because they had complementary practices and thought they could be more successful by combining their strengths. They soon realized that, while they were serving more clients individually and collectively, they had no real understanding of what more business meant to their combined finances. Billings, collections, budgets—they had given none of those topics much thought, and didn't know where to turn for guidance. What should they do now?

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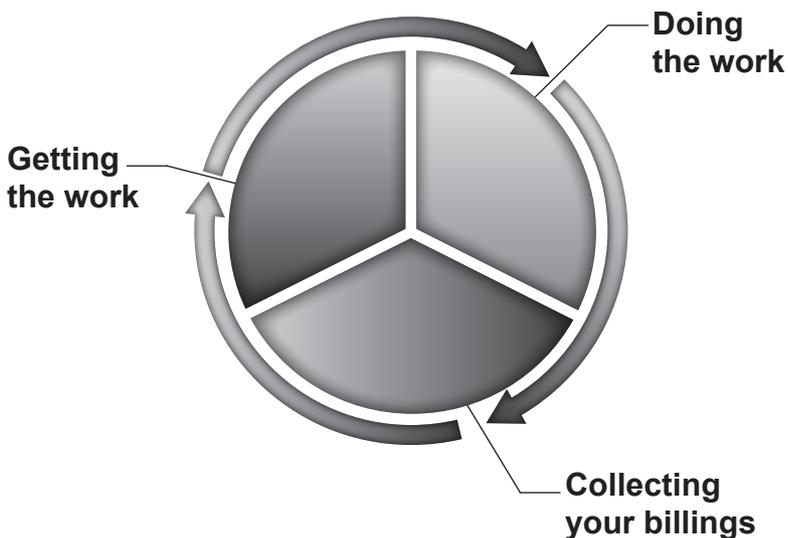
Introduction and definition

Good business judgment requires lawyers to understand the business context—for their own firm and for clients—within which legal advice is delivered. Put another way, lawyers should be *business*

literate. Business competency does not involve mastering all the details of management jargon. For a lawyer, it is simply about mastering the three-part cycle that drives any business:

- ▶ Win the business (the sales and marketing function).

The Work Cycle



- ▶ Do the work as effectively and efficiently as possible (the production function).
- ▶ Get paid (the collections function, which is inseparable from basic finance).

These three functions are distinct and separate. Most lawyers are familiar and capable in the sales and production function, but they do themselves a disservice

by handling the collection function personally: The client who owes money is uncertain whether the lawyer is calling for production or collection reasons, and likely will not call back at all. However, for the lawyer personally, understanding the process of getting paid is the core of necessary business competency.

The business-competent lawyer understands the

“Law is subject to the same laws of economics as any other business. Having a great product is not enough.”

*—Tower Snow, Chairman (2001), Brobeck, Phleger & Harrison
San Francisco corporate law firm*

operation of the firm as a business (budget, collections, profit, loss), the firm’s billing structure, how each attorney determines firm profitability, and the importance of clients and their own businesses. This LawBiz special report addresses such basic business facts. It is not intended to be a comprehensive or technical treatment of the subject. Instead, it is a practical starting point to help attorneys understand the essential ways in which their practice is a business as well as a profession.

Importance of business competency

Running a law firm in a businesslike way improves the professionalism of the practice of law. The purpose is not simply to get more money for the lawyer; it also benefits the client. A profitable law practice is much more likely to avoid such ethical problems as dipping into client trust accounts, either as direct fraud or as a stopgap “loan.” Moreover, a law firm run as a business will also approach client service more efficiently—returning phone calls promptly, creating and adhering to

a budget, providing sufficient details on clients' invoices, etc. You can't truly be a professional service business until you understand The Business of Law®.

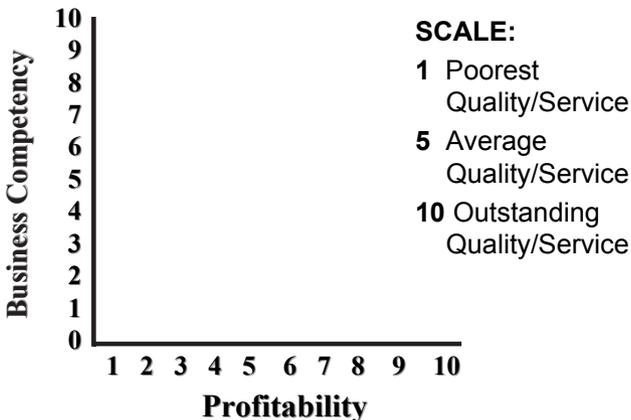
Business competency and the unique law firm environment

All organizations, large and small, law firms and non-law firms, have one thing in common: a finite limit to discretionary spending.

- ▶ Non-discretionary (mandatory) spending is that spending required by your current structure and by law: debt obligations, insurance, Social Security and federal income tax payments.

Business Competency

Rate yourself or your firm
on the basis of quality and service



- ▶ Adjustable spending is that spending that is important but can be modified (such as lease terms and staffing).
- ▶ Discretionary spending is that spending that could be prevented if you had to.

What is unique to law firms is the impact so many individuals have directly on spending. In many law firms, individual partners, even lawyers generally, have the ability to direct discretionary resource consumption, from purchasing new office furniture to charging the firm with personal meals and travel. Instilling business competency is a way to control this spending, run the firm more professionally, and make it more financially successful.

All law firms must provide value to their clients. And they must be profitable in order to open their doors the following day. The firms whose attorneys understand these two truths in the context of business competency will ensure their long-term future and success.

“Law is not a profession at all, but rather a business service station and repair shop.”

—Adlai E. Stevenson, Senator
