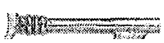
REAPING REWARDS: UNDERSTANDING **THE INTER-PLAY OF ANALYZING, PLANNING AND MANAGING YOUR** PRACTICE **TO** MAKE YOU HEALTHY, **WEALTHY** AND WISE

December 2005

HELLO & WELCOME

TODAY'S PRESENTATION

- STEP BY STEP ASSESSMENT OF YOUR PRACTICE
- HOW YOU CAN DEVELOP ALTERNATIVES
- IDEAS ABOUT HOW TO MAKE SMART CHOICES
- TIPS ON HOW TO KEEP YOUR CHOICES UP TO DATE



THE KEY IS TO HELP YOUFIND WORKABLE, EFFECTIVE WAYS TO CONDUCT *YOUR* PRACTICE.

THE IMPORTANT PERSON HERE IS *YOU!*

INTRODUCTION

This presentation and these materials have been created as a commonsense tool to help you find workable and effective ways to conduct your practice.

The materials have been consciously organized to have you work through a planning and management exercise for your office and to allow you to do that step by step.

There are some foundations upon which we have built this presentation and these are:

- The important person here is you. You need to have a level of comfort with your practice and that comfort can be measured in money and in other ways. Sometimes discomfort in one area of your practice can lead to or be related to discomforts in other areas.
- Whatever systems or protocols you develop have to work for you. If they don't fit your personality then it will be harder to sustain your use of them over time.
- There are Rules and Regulations that you must meet in order to conduct your practice.
- However, there are some alternative ways to do things. It is important to look at the alternatives *before* you commit to a decision.

This planning and management exercise has been divided into a series of steps for the purpose of inviting you to look at each segment separately.

It is really important that while segmentation is good for the assessment function, you should not make any choices or commit to any action until you have worked through all of the steps.

The premise of this approach is that you have to make all the pieces fit and work together.

In order to achieve what is called "the flow" your note keeping - filing - time keeping - bookkeeping systems have to work together and must function for all the members of your team.

As we work through the assessment steps we'll look at the elements of each step and some considerations that will help you to develop possible alternatives.

For our purposes there are 10 steps or segments that need to be looked at separately and then put together to create a flow from start to finish.

These 10 steps are:

1. Who is on my team
2. What are my resources
3. A potential client walks in ....
4. Taking instructions
5. Opening and building a file
6. Keeping the file going
7. When is a file finished
8. Making smart choices
9. Using your financial statement as an ongoing assessment tool
10. Doing "air traffic control" on my finances

LET'S BEGIN!

WHO IS ON MY TEAM?

OBSERVATION	(ONSIDERATIONS
➢ WORK PARTNER(S)	➢ HOW DO I INVOLVE THEM EACH EFFECTIVELY
➢ LIFE PARTNER	
) ➢ EMPLOYEE(S)	➢ CAN I EXPAND THE TEAM
➢ FAMILY	
) ➢ PROFESSIONALS I KNO	➢ HOW DO I ACKNOWLEDGE THEIR PARTICIPATION AND INPUT
) ➢ OTHER LAWYERS	
➢ OTHERS	

)CONCEPT: EFFECTIVE DEVELOPMENT OF YOUR TEAM IS A KEY INGREDIENT TO EFFECTIVE DEVELOPMENT OF YOUR PRACTICE.

STEP 1

STEP 1: WHO IS ON MY TEAM?

Through these observations identify who your team members are and the role each plays.

The considerations are designed to get you thinking about possible improvement alternatives.

For example, there may be a human resource who is not now on your team but could be or should be.

The flipside of considering the role that each team member plays is to assess your role in the work of the office relative to the work of the other team members.

A theme throughout this planning exercise will be to assess the impacts of your management decisions on the other members of your team.

Are you doing things that make the jobs of your partners and employees not as satisfying and productive as they could be?

WHAT ARE MY RESOURCES?

OBSERVATION	CONSIDERATIONS
➢ MONEY AS CASH	➢ NOW AND 6 MONTHS FROM NOW
➢ MONEY AS CREDIT	➢ AT HOME OR ELSEWHERE
➢ MONEY AS RECEIVABLE	➢ SUITABILITY AND USER FRIENDLY
➢ OFFICE WORK SPACE	➢ AM I STUCK WITH ANY OF THESE RESOURCES OR CAN I CHANGE THEM
➢ FURNITURE FIXTURES EQUIPMENT, SUPPLIES	
➢ LIBRARY, RESEARCH, PRECEDENTS	

CONCEPT: UNDERSTAND YOUR NEEDS BEFORE YOU COMMIT RESOURCES

STEP 2

STEP 2: WHAT ARE MY RESOURCES?

The observations column are obvious suggestions.

What other resources can you identify?

Do you want to include an ongoing marketing strategy or preferred practice area considerations as resources?

If you have already developed a particular practice niche you may want to keep that in mind as you assess the performance of your record keeping, filing, billing and accounting systems in the steps that follow.

You may want to particularize the information you get from these systems in order to assess on an ongoing basis the effectiveness of a marketing strategy or preferred practice choice you've already implemented.

Concept: understand your needs before you commit resources.

This must be emphasized.

For the most part the resources you acquire and employ should be dictated by other decisions - but - a related question I pose for you to consider: am I stuck with any of the resources I can identify? For example: am I into a lease contract I can't get out of?

Likewise ask yourself: will the resources I choose be capable of handling future needs?

YOU ARE IN YOUR OFFICE
A POTENTIAL CLIENT WALKS IN:

OBSERVATION	CONSIDERATIONS
➢ METHOD OF GREETING ➢ INTERVIEW LOCATION AND SURROUNDINGS	➢ "OFFICE LANGUAGE": WHAT MESSAGES ARE YOU SENDING? ➢ WHAT MESSAGES ARE THEY RECEIVING? ➢ WHAT ARE THE VARIABLES

CONCEPT: UNDERSTAND WHAT OTHERS SEE. IS THIS WHAT YOU WANT.

(GET INPUT FROM YOUR TEAM)

STEP 3

STEP 3: A POTENTIAL CLIENT WALKS IN ....

This is an example of where you can effectively use input from others as part of your assessment and development of alternatives.

Get friends, family members and/or employees to help you critically assess the approach to your office, reception and interview surroundings.

How does your "office language" suit your practice.

Review whether you use a format that's

- "Across the big desk"
- "Around the table"
- "peek-a-boo around the files"
- suitably private
- are interruptions allowed

Try to understand what others see and what messages they receive from your "office language".

Consider some alternatives that could be improvements.

Consider what instruction or training needs to be given to employees who may receive people.

Reception could be in person or by telephone.

TAKING INSTRUCTIONS

- WHAT AM I TO DO

  BY WHEN

  HOW WILL I BE PAID

  BY WHEN

CONSIDERATIONS

- AM I SATISFIED THAT THE CLIENT HAS THE SAME UNDERSTANDING OF THE WHAT, WHEN AND HOW?

- DO I UNDERSTAND THE PROBLEM WHEN I'VE FINISHED THE INTERVIEW?

- BY WHAT METHOD DO I MAKE A RECORD OF WHAT HAS BEEN DISCUSSED AND WHAT THE UNDERSTANDINGS ARE?

- DO I RECORD MY TIME? HOW? ALWAYS? FOR ALL FILES? WHY?

- WILL MY RECORD PROPERLY REPRESENT THE ACTIVITY?

- WILL I (OR SOMEONE ELSE) BE ABLE TO GO BACK LATER AND UNDERSTAND MY NOTES.

- IS THE TIME RECORD GOING TO ALLOW EFFICIENT TRACKING OF W.I.P. AND BILLING.

STEP 4

<u>STEP</u> <u>4:</u> TAKING INSTRUCTIONS

This could be the subject of a day long discussion and some interesting role-play work!

For this assessment and planning exercise lets strip away the details. You should review how you generally conduct interviews to take instruction. You can assess whether from the outset of a file you have identified

- what am I to do?
- by when?
- how will I be paid?
- by when?

Ask yourself these questions about the extent of your instruction:

> "if I am unable to look ahead all the way - what is my next step toward understanding the problem and moving toward organizing a solution?"
>
> – and -
>
> "Can I break the work down into progressive pieces?"

The considerations noted identify some of the tests you can apply. With those in mind look at your opening interview notes on the last 10 files you opened. How was that working? Did you deal with the 4 What, When and How questions above?

There are many aspects to consider when thinking of taking instructions effectively. As part of your assessment, please review

- Safe And Effective Practice, Cote and Vogel, CLiA pages 83-95
- The CPLED Competency Profile

OPENING AND BUILDING **A FILE**

- AT WHAT POINT DO I OPEN A FILE
- HOW IS THAT FILE IDENTIFIED
- DOES MY FILE IDENTIFICATION WORK TOGETHER WITH MY BOOKKEEPING AND ACCOUNTING SYSTEM
- WHAT ARE MY PROTOCOLS FOR RECEIVING AND FILING NOTES, CORRESPONDENCE, DOCUMENTS
- HOW ARE NOTES, CORRESPONDENCE AND DOCUMENTS ORGANIZED AND PRESERVED ON THE FILE
- IS THE FILE EASY TO ACCESS
- IS THE FILE READABLE
- CAN OTHERS ON MY TEAM FIND IT AND USE IT

TEST QUESTION:

IS ALL OF THE ABOVE EASILY TEACHABLE TO OTHERS?

STEP 5

STEP 5: OPENING AND BUILDING A FILE

There are many different file recording and organizing systems used by offices across the country. Some work. Some don't.

For example, having a small number of general files loosely organized seems easy at first; but this type of organization makes it very difficult to track the 4 What, When and How basics.

From a technical point of view, a very general system makes it more and more difficult to pass muster on your reporting / audit requirements.

Once you have developed a system stay with it and be consistent. Then if you find it's not working or needs changes use this same assessment - develop alternatives - make smart choices - format to institute required improvements.

The test question noted at step 5 invites practical considerations. If you are the only one who can understand the intricacies of your file system (Steps 5, 6, 7) and your system is hard to teach to partners, associates, employees - then those are signals that the system is impeding rather then increasing "the flow". You will want to develop other alternatives.

As you create your possible alternatives you may look at different numbering systems, color coding or even a combination.

The questions posed at this step are designed as tests to apply when you begin to consider which alternatives or combinations will work for your practice.

After you have done all the steps of the assessment you will want to design your file system paying close attention to the interplay between this step and the related considerations at step 6 and step 7.

KEEPING THE **FILE** GOING

- ➢ HOW DO I DO IT

- ➢ HOW DO I COVER THE WHAT, WHEN, HOW FOR THE CLIENT AND FOR ME

DIARY SYSTEM: A METHOD OF TRACKING AND REVIEWING A FILE TO ENSURE THAT IT IS MOVING FORWARD IN A TIMELY FASHION

THE 2 FUNDAMENTALS ARE:

- ➢ WHEN A FILE GOES INTO THE CABINET
- ➢ WHEN IT COMES OUT

- ➢ WHO IS RESPONSIBLE

- ➢ WHAT IS THE REGULARITY

- ➢ HOW DOES ALL OF THIS RELATE TO WHAT HAPPENS WITH INCOMING/OUTGOING CORRESPONDENCE AND DOCUMENTS

- ➢ HOW DOES MY DIARY SYSTEM HELP ME WITH THE "AM I PAID AND WHEN" PART?

STEP 6

STEP 6: KEEPING THE FILE GOING

The two questions "How do I do it" and "How do I cover the what, when and how for the client and for me" will focus you on identifying what system you have now.

The two boxed definitions emphasize basic components of any system you devise.

The four last questions direct your attention to things you should consider as you work on your alternatives.

Pay attention to the interplay between your considerations at this step and your considerations at step 1.

Mechanisms to keep the file going are among those that are most easily delegated to employees.

Perhaps full time employees are not required. Review the comments about resources at step 2: understand your needs first - then develop and commit resources.

For example, if you are able to do document preparation yourself you may consider an assistant for regular but short work days to keep "the flow" going.

As always look to develop systems that you will sustain until you identify that they need to be improved.

I have seen offices where the filing system has no mechanism to bring the file forward - except when a fire breaks out – in the file I mean!

I have seen offices where an elaborate diary system was of no value because the files were never put away!

STEP 6 cont'd:

If you are resisting the design of a system that can meet the criteria and considerations set out in step 6 you will need to assess why that is so.

You know by now that a premise of this presentation is that all 10 steps inter-relate and are co-dependant, however, step 6 considerations merit special interest.

While an office that is struggling may have trouble at any or all steps I would say that the greatest number of problems, complaints and insurance claims directly relate to issues arising at this point in the movement (or lack of it) of a file.

A vital consideration at this stage, as well, is to develop office communication protocols that include and update your client about what's happening on the file.

WHEN IS A FILE FINISHED

- IDENTIFY THE END RELATIVE TO THE WHAT, WHEN AND HOW AT THE OUTSET

- HOW DO I FOLLOW UP ON COMPLETING MY BILL AND COLLECTING IT

- DO I HAVE A FILE CLOSING PROTOCOL

e.g./ -THE WORK IS DONE

-THE FILE HAS BEEN BILLED

-THE BILL HAS BEEN PAID

-NO OUTSTANDING UNBILLED DISBURSEMENTS

-NO OUTSTANDING TRUST MONEY

-ARE THERE ORIGINAL OR OTHER DOCUMENTS THAT SHOULD GO SOMEWHERE

-HAVE I COVERED OFF FUTURE OBLIGATIONS ABOUT THIS MATTER, IF THERE ARE ANY

- THEN, WHERE DOES THE FILE GO

- CAN I EASILY RETRIEVE IT

STEP 7

STEP 7: WHEN IS A FILE FINISHED

Oddly, many practitioners cannot decide when a file is complete. As a corollary problem, they cannot decide what to do with it - so such a file is left to linger in the cabinet, clutter a desk and generally cause discomfort.

The example closing protocol provided at step 7 identifies a basic checklist to help you decide.

The very first question: "Is the work done" sends us squarely back to step 4 - "what was I to do?"

Step 7 is the time to review what you had noted at step 4 and to consciously judge whether the "what" has been met.

Sometimes you will find a leftover title registration that needs to be done or undone, an assignment that must be acknowledged or a stake holder that must be informed.

Billing the file and collecting what's owed to you are obvious benefits.

Outstanding trust money is a signal that a review is mandatory. Remember that lingering trust balances not resolved will show up on your annual audit and will generate questions.

It is more efficient to identify and properly resolve any outstanding money issues when they are fresh rather than later when they have aged.

This applies equally to your accounts receivable: if you don't collect them soon you are not likely to be able to collect them later!

The last 2 questions at step. 7 will focus you on considerations about client service - accessing precedents - protecting yourself.

MAKING SMART CHOICES

- WHO HAS A STAKE IN THIS?
  - THE CLIENT
  - MY TEAM MATES
  - ME
  - THE LAW SOCIETY

- ORGANIZE YOUR PROBLEM IDENTIFICATION, PROBLEM SOLVING AND DECISION MAKING

2. what exactly is the problem?	3. what are all of the possible solutions?
1. what are the problem symptoms?	4. pick the best solution!

) WHY?

TEST YOURSELF

- WILL THIS IMPROVE THE FLOW?

  DOES THIS WORK FOR ALL STAKEHOLDERS?

STEP 8

STEP 8: MAKING SMART CHOICES

The objective of this step is to have you proceed with your decision making in a progressive and methodical way.

As you look at each of the previous segments (1-7) and when you look at the following segments (9 & 10) try breaking down your review into the quadrants identified:

Quadrant 1: what are the problem symptoms.
As you work through steps 1-7 you will identify how your office works now.
As well, if you cannot adequately meet the tests and considerations identified at each step presumably this shortcoming will cause some discomfort.

Quadrant 2: apply the question "why" to clarify what exactly is the problem.

Quadrant 3: use the concepts, considerations and questions noted at each step to develop alternatives that might work - and will work together.

Quadrant 4: use the 2 test questions to identify for each segment in this planning exercise (and all segments together) what the smartest choices are.

The most common difficulty people have in decision making is to create the separation just described. As a result one will often see a decision making process that jumps from quadrant 1 to quadrant 4 and, really, the best solution is the one that got away!

USING YOUR FINANCIAL STATEMENT AS AN ONGOING ASSESSMENT TOOL

- ➢ EVERYTHING WE HAVE TALKED ABOUT SO FAR WILL BE REFLECTED IN YOUR FINANCIAL STATEMENT

- ➢ DISCLAIMER & LIMITATIONS

WE'LL TALK ABOUT THE BITS YOU NEED TO KNOW TO USE YOUR FINANCIAL INFORMATION EFFECTIVELY

<u>FOR</u> <u>EXAMPLE:</u>

<u>CASH</u> <u>FLOW</u> (HOW MUCH $ DID YOU HANDLE)	C/W	<u>PROFIT</u> (HOW MUCH DID YOU MAKE)

* TEST WHETHER YOUR FILE MANAGEMENT SYSTEMS ARE WORKING

* DOES THE PRACTICE FEEL BETTER- FEWER TAXATIONS, INSURANCE CLAIMS, COMPLAINTS

STEP 9

INCOME (MONTH)

FEES	$10,000.00	THIS IS STATED ON THE ACCRUAL BASIS: IT IS NOT CASH. IT IS THE TOTAL OF YOUR FEES BILLED.
OTHER	$ 0.00	
TOTAL	$10,000.00	REALLY - MEASURES PRODUCTIVITY

EXPENSES

SALARIES	$X.XXX.XX	THIS IS CASH (EXCEPT FOR DEPRECIATION ENTRIES)
RENT	$X.XXX.XX	
UTILITIES	$X.XXX.XX	
TELEPHONE	$X.XXX.XX	
SUPPLIES	$X.XXX.XX	
ACCOUNTING	$X.XXX.XX	
LIBRARY	$X.XXX.XX	
INSURANCE	$X.XXX.XX	
ETC.	$X.XXX.XX	
TOTAL	$ 5,000.00	

NET INCOME $5,000.00

RESULT: YOUR NET INCOME FIGURE IS NOT CASH BUT IT IS THE FIGURE YOU WILL PAY TAX ON.

YOUR CASH POSITION MUST TAKE INTO ACCOUNT:

THESE 2 ITEMS ARE YOUR ACCOUNTS RECEIVABLE	* HOW MUCH $ YOU HAVE OUT IN DISBURSEMENTS UNBILLED * HOW MUCH $ YOU HAVE OUT WHERE CLIENTS HAVE BEEN BILLED BUT HAVE NOT PAID

STEP 9

STEP 9: USING YOUR FINANCIAL STATEMENT AS AN ONGOING ASSESSMENT TOOL

Underpinning your entire approach to building, conducting and managing your practice is money.

The practice of law is a profession. It is also a business. The challenge is to make these two elements work well together.

There are a significant number of practices which operate with a disconnect between the conduct of a file and the financials.

A common statement by lawyers is "oh I don't look at the financial statements - that's for the accountant. I just know I'm always behind in my taxes and I worry about money."

This is not the forum to turn everyone into CA. equivalents; but we do propose that you can and should use your financial information as an ongoing managing and assessment tool.

The notes put forward identify the comparison between cash flow and profit. They are related - but generate different considerations.

To highlight the point: one may have good cash flow and no profit; or high profit and no cash.

Sound familiar?

There are many accounting principles applied to the creation of your financial statement but what we will want to look at here are only the bits you need to know to use your financial information to manage your practice.

STEP 9 cont'd:

The second page of step 9 sets out a simple format for a monthly statement and identifies the components.

You will need to read the statement for what it tells you:

Fees 10,000:	if you do that every month you'll gross $120,000/year. Because this figure is not *cash in* it is a measure of your ongoing productivity and your potential income figure.
Expenses 5,000	if you spend this every month your expenses (other than depreciation) will be $60,000/year.

That means you make $60,000 but then that figure will be adjusted according to decisions you make, for example, on depreciation claimed and accounts written off.

At the end of the year your net income - adjusted as mentioned will be the figure you pay tax on.

As an exercise get out your monthly statements for the last year.

Look at the following bits of information for each month:

Fees billed:

Expenses:

Net:

Unbilled disbursements:

Client bills unpaid:

if you can not identify all these bits consider what needs to be added to your accounting system.

How does your individual file record interface and lead to the comprehensive numbers reflected in the financial statements.

Consider the ideas generated at steps 1,2, 5,6 and 7.

DOING "AIR TRAFFIC CONTROL" ON MY FINANCES

ALL ELEMENTS ARE VARIABLE

- WHAT IS THE % RELATIONSHIP BETWEEN INCOME/EXPENSE (50/50 IS THE INDUSTRY BENCH MARK)
- HOW CONTROLLABLE / MOVABLE ARE THE EXPENSES
- LOOK AT ACCOUNTS RECEIVABLE
- LOOK AT "THE NUMBERS" ON A REGULAR ONGOING BASIS TO PREVENT CRASHES

STEP 10

	JAN	FEB	MAR	APRIL
FEES BILLED	$1 5,000.00	$15,000.00	$12,000.00	$5,000.00
EXPENSES	$7,000.00	$7,500.00	$7,000.00	$7,500.00
NET	$8,000.00	$7,500.00	$5,000.00	-$2,500.00
UNBILLED DISB.	$1,500.00	$2,800.00	$3,800.00	$4,500.00
CLIENT BILLS UNPAID	$2,000.00	$5,000.00	$8,500.00	$10,500.00

MAY TO DEC:

- WHAT ARE THE VARIABLE FACTORS THAT NEED TO BE LOOKED AT TO PROJECT THE YEAR END RESULT
- HOW DO I KNOW WHICH WAY THINGS ARE HEADED?
- WHAT CAN I DO TO MANAGE THE CIRCUMSTANCES?

- WHAT ARE THE TRENDS?
- WHAT MANAGEMENT ISSUES ARE PRESENTED?
- WHAT ARE WAYS TO HANDLE SUCH ISSUES?

STEP 10

STEP 10: DOING "AIR TRAFFIC CONTROL" ON MY FINANCES

This segment is to help you develop the skill to look at the information in your financial statement, identify patterns, predict movements and make ongoing management decisions.

The air traffic control analogy comes from the fact that a controller coming on duty spends the first hour (for example) sitting with the one going off duty in order to establish a baseline of information. Once the baseline is established the one taking over is able to identify patterns of change, make decisions and give directions.

Likewise, by doing the exercise suggested in step 9 (reviewing your own financial statements) you will have developed an understanding of your essential baseline data.

By looking at your previous 12 months you will also have been able to identify changes or patterns.

Now you need to develop the habit of checking "the numbers" weekly.

Many practitioners only look for information

- at the end of the year when it's too late to make course corrections
- when they have no money -i.e. After a "crash" has occurred.

Regularly looking at the salient bits of information in your financial statements will allow you to anticipate moves you need to make.

For example: one would regularly want to look at billings (productivity) c/w expenses - the industry standard is 50/50. How are you doing?

Billings (productivity) c/w accounts receivable - unpaid client bills - unbilled disbursements.

STEP 10 cont'd:

If you see a pattern developing where you have a slow billing month and ongoing expense this will be reflected in your cash on hand later.

If that pattern persists for several months (as can happen) you will want to focus your attention on

- getting unpaid client bills collected
- recovering unbilled disbursements
- identifying your work in progress priorities
- are there files which could properly be interim billed?

And, again, your ability to deal with each of these matters is interrelated to how well you have set up your files and kept them going (steps 5 & 6).

The fundamental concept here is that practice is not static; your financial information is not static; and identifying patterns and changes in your financial picture is information which is more important to you than the actual figures on any given day.

The last page of step 10 offers a simple exercise to get you looking at the relationship between some bits of a financial statement. If your practice looked like that could you make your house payment in August?