BY JAKE KROCHESKI

Recognize – and avoid – the 10 biggest mistakes

law firms make in managing their accounts receivable.

The demands of an ever-growing legal profession require law firms to have forward-thinking management strategies to address clients' needs. Although lawyers' main priority is – and must be – to deliver quality service, law firms must also build their organizations to support their clients' evolving demands, by taking steps such as opening international offices, embracing new technologies, and developing new areas of practice.

As a result of this growth, law firms will face high overhead and growing compensation demands from their professionals. Meanwhile, firms will be squeezed from the other side by clients who have high expectations yet, at the same time, scrutinize their bills.

During the course of a year, many firms find it difficult to judge how well their collection efforts are faring and how this could impact their financial pictures. Lawyers have been conditioned to take a relaxed attitude in their collection efforts, largely due to a mindset among attorneys that grants clients the benefit of the doubt and a view among clients that making payments is not a priority. Attorneys also fail to realize that clients will take advantage of their professional relationship. Thus begins a vicious cycle. Lawyers are not vigilant in getting their clients to pay and the clients, as a result, are not quick to pay. The lawyers, then, are reluctant to press their clients. And so on.

SHORTCUT

Legal administrators should take the time to honestly evaluate their firms' receivables collection and management efforts. By understanding – and overcoming – some fundamental mistakes, lawyers can far more effectively manage their receivables and boost their firms' bottom lines.

The business of buying legal services does not lend itself to such strict purchase and payment rules. It often involves complicated transactions, equally complex business relationships, and disputed resolutions that require many hours of work at high billing rates, resulting in high bills to clients. Stopping work because a client does not pay is sometimes not an option because of ethical obligations.

The reality is that problems with collections within the legal profession are not a financial management issue. It's all about effective practice management, which requires attorneys and law firms to manage their accounts receivable proactively. However good the firm's financial staff may be, attorneys are ultimately responsible for the success – or failure – of collection efforts because they who steer the relationships with clients.

When it comes to receivables, law firms fall victim to 10 common mistakes:

1. Attorneys believe that aging receivables are not an indicator that collection problems exist. Actually, if bills have not been paid within 90 days, you have received the first sign that you may have a collection problem – and, if it is not resolved quickly, they could age further and be virtually uncollectible. Only 50 percent of receivables over 120 days will be collected, and the likelihood drops precipitously after that. Clients reason that if the firm has waited several months to try to collect unpaid bills, they can wait to pay those bills. They assume, and with good reason, that they are in better position to negotiate discounts. The longer a law firm waits to collect unpaid bills, savvy clients realize, the more likely the bills will end up being discounted or written off altogether.

2. Law firms fear they will damage client relationships by asking clients to pay their bills. The fact is that law firms lose clients by doing poor work or by failing to deliver client service, not by asking clients to pay their bills. Efforts to manage receivables will not hurt the relationship, as long as it is done professionally. Actually, most clients are perfectly willing to pay their bills, although many are dealing with cash flow problems. Also, clients fall victim to "sticker shock," which happens when a client expects to receive a bill of a certain size and gets a rude awakening when larger invoices arrive.

3. Lawyers avoid addressing problems by depending on the mail to communicate with delinquent clients. Postal mail is slower and far less effective than using the telephone to address delinquency issues. A conversation allows you to have a dialogue about the bill. Besides, letters and reminder statements are easily misplaced and avoided. If the client continues to receive reminder statements after 60 days and still does not pay, chances are there is an issue preventing payment. Even a brief, non-confrontational telephone conversation should communicate to the client the urgency of your need for payment and allow you to learn quickly if there are any problems or concerns – and what it will take to get the bill paid.

4. Firms believe that accounting and collection software will cure all that ails them. Software can be an excellent tool to manage receivables, but it is only as good as the people using it. Many law firms have developed policies and procedures to better manage their accounts receivable, but many have not properly utilized their software to help implement new systems. It takes time and specialization to fully grasp how the software can help a firm's collection efforts. Law firm staffs are often responsible for many day-to-day tasks that leave them little time to explore and make maximum use of the functions that software offers.

5. Firms embrace alternative payment arrangements too quickly. Complex transactions may not lend themselves to a regular payment schedule, and they may cause confusion as to appropriate payment if the deal does not come to fruition. Furthermore, risky deals sometimes fail, leaving a trail of unpaid receivables.

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6. Lawyers fail to recognize the point at which they should stop doing work rather than continuing to amass unpaid bills. Sometimes lawyers become so wrapped up in their work that they do not pay sufficient attention to bills that are not getting paid. By the time they realize clients are not paying, they have put in plenty of additional time. Someone – and perhaps the attorney is not the right person – should be monitoring payment so work does not far out-pace payment.

7. Accounts receivable management reports are not providing the right information to measure progress. Accounting departments are churning out a lot of reports concerning receivables. But are these reports answering the key questions that will allow the firm to maximize its collections? Why is the client delinquent? Is delinquency habitual for this client? What can the firm do to facilitate payment, both in the short and long terms?

8. Law firms are not analyzing the right reports to manage accounts receivable. Most firms still use generic financial reports that have too much extraneous information to target problem offenders. Instead, firms need to generate more useful information. For instance, firms need to know if an account is being actively pursued and what the payment status is. They need to know who is pursuing the collection efforts (the attorney or the collection staff) and whether they are getting results. They need to categorize their accounts in order to know the reasons clients are not paying, such as cash flow problems, disputed fees and services, or third-party responsibility. They need to know where the problem accounts are in order to determine a plan of action to get the bills paid.

9. Law firms are not spending enough time focusing on older, aging receivables. As a result of the growing legal profession, most firms continue to

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ALA Resources

These titles are available through the ALA Bookstore at *www.alanet.org/bookstore*:

- *Collecting Your Fee: Getting Paid from Intake to Invoice*, by Edward Poll
- *How to Draft Bills Clients Rush to Pay*, by Jay G. Foonberg and J. Harris Morgan

The following are accessible via ALA's Legal Management Resource Center. Visit *http://thesource.alanet.org*. Type keywords "**accounts receivable**" in the search engine.

- "Past Due!: A Debt Collecting Manual for Collections Professionals Accounts Receivable Personnel Small Business Owners"
- "Positive Cash Flow: Powerful Tools and Techniques to Collect Your Receivables, Manage Your Payables, and Fuel Your Growth"

The following article is available in the *ALA Management Encyclopedia*℠ (ALAME), *www.alaencyclopedia.org*.

- "A Cost Accounting Tool to Enhance Profitability for Law Firms"

The following article is available in the Publications section of ALA's Web site at *www.alanet.org/publications/pubindex.html*:

- "Collection Cures: Best Practices for Getting Clients to Pay Your Firm's Bills," by Lawrence M. Kohn and Jan C. Gabrielson, November/December 2006 issue of *Legal Management*

On the Web

- Altman Weil, "Bring Home the Bacon – Delinquent Accounts Can Create Cash Flow Problems for Firms"– *www.hildebrandt.com/Documents.aspx?Doc_ID=572*
- RJH Consulting, "Accounts Receivable Collection" – *www.rjhconsulting.com/legal_consultant_article_Accounts_Receivable_Collection.htm*
- *Law Practice Today*, "Getting Paid: A New Look at Fee Collection" – *www.abanet.org/lpm/lpt/articles/fin09061.shtml*

On the Shelf

The following titles are available for purchase or download through many online retailers, including *www.amazon.com*.

- *Collect Your Money: A Guide to Collecting Outstanding Accounts Receivable for Your Business*, by Cody Flecker bring in new business while maintaining strong realization and focusing on more current accounts receivable. Firm management may be so busy building the firm for the future that it is ignoring the reality that a lot of receivables are slipping through their hands. They do not fully realize that increasing collections with payments from aging receivables is a fast and effective way to put more money into the partners' pockets.

10. Law firms are not making collection staff or departments accountable for producing results. Many law firms fail to evaluate their staffs' performances in collecting aging receivables. The collection staff is, therefore, left with little guidance as to what its collection responsibilities should be – and this does not necessarily include addressing and pursuing older, more difficult accounts. Collection staffs often end up being responsible only for monitoring payment of ongoing clients, sending reminder statements, or providing accounts receivable reports to attorneys. Although these duties are important, they do not address the more fundamental issues concerning collecting for complicated transactions and for client relationships that require more individual attention.

Take the time to honestly evaluate your receivables collection and management efforts. By understanding – and overcoming – some basic mistakes, lawyers can become far more effective in managing their receivables. ❉

about the author

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