

# The 10 Most Frequently Asked Questions about Accounts Receivable Management

Dear Clients and Friends:

Every law firm is different, but nearly all of them share common accounts receivable challenges. To help firms address their collection problems, we have compiled a list of the questions we hear most frequently from law firms, and offer our answers:

**Question 1: *How should we evaluate our firm's accounts receivable management needs and strategy to ensure we are making progress?***

**Answer:** Ask yourselves – are we doing the right job, or do our processes, policies and procedures exist only on paper or in theory? All firms should take the time and effort to evaluate if they have A/R management best practices in place. The key questions to ask are:

- Do you have the appropriate governance and leadership structure in place?
- Do you have meaningful reports and information?
- Do you have a good understanding of how the attorneys are managing their A/R and if they are spending enough time on their collection efforts?
- Do you have the right administrative staff in place, and are they doing the right work the right way?
- Are you measuring their performance by results they are achieving?
- Is the firm regularly collecting its older, difficult A/R?

**Question 2: *What role should our firm leadership play in A/R management and collection efforts?***

**Answer:** Effective receivables management needs to start from the top. Leadership needs to have the ability to tell the attorneys to address their collections, but also understand the need to use other resources to help them achieve results. To begin, firm leadership needs to perform a self-evaluation to figure out what the firm is doing right and what you could be doing better. It needs to do a thorough self-assessment of the firm's A/R management practices and procedures. Take stock of what you are doing – and why – and evaluate what is and is not working. Look at everything, including how your firm historically has managed its receivables, to determine where changes need to be made based on today's legal profession and how clients pay. An important aspect of this is assessing whether you have the right people, with the right skills, in place to do the job. This involves two groups – attorneys and A/R staff. Understand that everyone managing receivables must be held to high standards of accountability to ensure progress is being made.

**Question 3: *We have policies and procedures for our attorneys to follow. Why are they not working?***

**Answer:** This is a difficult dilemma for many law firms. While the financial management sector of a law firm wants to have strong black-and-white procedures that are common in most businesses, they are often challenged because there are so many complicated transactions and relationships that do not lend themselves to black-and-white procedures. All law firms should have written procedures in place concerning accounts receivable

management, and communicate their expectations on collections to the attorneys. However, the procedures need to be workable, and for those receivables that must have exceptions, these exceptions should be monitored closely and not be seen as a way to avoid firm collection policies and rules. Giving too much individual autonomy to the attorneys is often the root of a firm's A/R problems.

Also, firm leadership must step in to help attorneys understand what specific actions they must take to ensure payment, give them a time frame for getting accounts collected, and provide the right professional support to help them.

**Question 4: *How can we best overcome the backlog of our older, difficult A/R?***

**Answer:** These receivables must be actively pursued until they are paid or determined to be uncollectable. But lawyers should not delude themselves into thinking that they are going to be paid without effort on the part of the firm. There must be dedicated, consistent efforts, with status reports going to the leadership of the firm to ensure progress is being made. Typically, firms focus their efforts on those clients that pay timely and avoid working with older accounts because they take time and are often not pleasant to deal with. Consistent follow-up efforts are the key to making progress with these types of accounts. Law firms are making a big mistake if they think these types of receivables will be paid without working closely with clients and letting clients know their account is being monitored.

**Question 5: *We have a variety of information regarding our accounts receivable, but the information doesn't help us determine what we should do and what problems we should address. What kind of A/R management information should we be looking at?***

**Answer:** A/R reports have to give firm leadership real, actionable information; they need to show that collection activity is moving forward and progress is being made on each account. Detailed reports should provide information on whether accounts are actively being pursued, what the payment status is, who is pursuing collections and what success they are having, why clients are not paying, and what steps are being taken to get them to pay.

**Question 6: *How should we evaluate administrative staff dedicated to managing and collecting our A/R?***

**Answer:** The staff should not be evaluated on how well they keep the attorneys happy by getting them copies of bills and reports; anybody can do these types of administrative work. Rather, determine what age group of receivables are they working: Is their success with good-paying clients that just need reminding, or are they making collecting older, difficult accounts the focus of their efforts? Also, determine how many direct contacts they make daily with clients and how many accounts they are handling. Most importantly, determine how many actual dollars they are collecting, especially the older, difficult accounts that continue to age. If your staff is handling e-bills, identify how many of these accounts they are handling and how long it is taking to resolve these issues.

**Question 7: *We are reluctant to put an A/R management program in place at our firm because our attorneys don't want to hurt their client relationships. How can we respect their concerns yet put one in place?***

**Answer:** You need to educate your lawyers on various techniques and strategies for contacting clients that will keep their relationships strong. The best place to start is pursuing those older, difficult accounts. Law firms lose clients by doing poor work or by failing to deliver client service, not by asking clients to pay their bills. Managing receivables will not hurt the relationship as long as it is handled professionally. In today's economy – and in the face of changing law firm economics – it has become a best practice to contact clients about unpaid bills. Also, to help ensure success, firms should not be reluctant to hire professional staff with experience in accounts receivable management for the legal profession.

**Question 8: *How can we help clients understand payment expectations and train them to pay timely?***

**Answer:** The business environment has evolved – mindsets have changed and so have business practices of all types. Because law firms are doing business in a different world and making adjustments accordingly, it also requires that they routinely communicate with their clients about unpaid bills to ensure timely payment or resolve problem issues. While past collections experiences should not be ignored, in these changing times it may not be entirely useful as a guide. Although some clients have set rules of when payments will be made, firms must institute regular, steady, professional follow-up of unpaid bills to secure dates of when payment can be expected to help guide future follow-up. By showing clients that the firm is regularly contacting them and monitoring their payment status, they will learn that you are well-aware of their bills and that you expect payment. However, sometimes it becomes the attorney's problem because he or she is uncomfortable about asking for payment and grants too much leeway about timely payment.

**Question 9: *What are the main problems law firms are experiencing with the slowdown in payments?***

**Answer:** Cash flow problems and clients hoarding cash (both institutional and non-institutional clients) are the main reasons why clients do not pay or pay slowly. They understand that they can ease their cash flow problems by delaying payment or not paying at all. They may claim that they are not satisfied with the services provided or are unhappy with the results. Further exacerbating the problem, clients may experience "sticker shock" when they expect to receive a bill of a certain size and are surprised when a much larger one arrives. Also, the growth of e-billing and the greater length of time needed to resolve e-bill issues with clients has caused many firms to re-evaluate their collection issues by sorting out e-bill collections from non-e-bill collections.

**Question 10: *How do we make our collection efforts a priority throughout the year instead of waiting until the last couple of months?***

**Answer:** Too many law firms continue to think collections is an easy process – all you have to do is remind clients to pay and they will pay. But more and more, clients are more savvy and smarter about their payments, and many take considerable time before they pay. Throughout the year, firms must stop tolerating "good clients" who just don't pay their bills. Although waiting until year-end may work for some institutional clients that typically pay at year-end, many clients require much more effort throughout the year. Measure monthly revenue projections, but more importantly, be realistic about whether the firm is underachieving in its collections goals and if the firm has developed bad collection habits. Help your lawyers understand that when they see problems with older and difficult A/R later in the year, many of these problems actually started early in the year – but there was nothing done about them.

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Client Connection assists law firm of all sizes throughout the United States by furnishing accounts receivable management services and developing practical receivable programs.



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