

# Grabbing the Reins: Taking Charge of Accounts Receivable Management

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**W**ithin law firms, many people play vital roles in ensuring that accounts receivable are collected. However, much of the success of receivable management efforts is dependent on the direction from firm leadership itself.

Leadership sets the tone, sets the agenda and has the ability to keep the entire team focused on those priorities. If leadership makes it clear that developing and implementing better methods to manage and collect receivables is vital, it can be accomplished. However, if through its words or actions, it communicates the message that receivables management is not a priority; those charged with making it happen on a day-to-day basis will not make it a priority either.

**An accounts receivable program starts – and ends – at the top, and it is up to the firm’s leadership to get it going.** Leadership needs to evaluate and understand where it stands with collections. Start by determining whether the firm met its revenue expectations for year end. The next step, and a crucial one, is to ascertain the answer to three related questions: (1) which receivables were not paid by year end, (2) why were they not paid, and (3) what is the likelihood that they will be paid in 2011. Firms delude themselves into a false sense of progress if ageing receivables are still outstanding, if the firm does not know why it did not receive payment or what it could have done better throughout the year or at year end.

Firms can no longer accept that ageing receivables are simply a part of doing business. In the best of times, there are many reasons why clients do not pay their bills on time (or at all). Now is **not** the best of times, and there are that many more reasons. Still, cash flow remains the leading problem for both institutional and non-

institutional clients. Firms must begin to pay close attention to cash flow problems, and track the progress of payments.

Leadership needs to ask: do we truly have a good program in place, or are we just kidding ourselves that what we are doing is working?

**‘Firm culture’ can be just an excuse for inaction.** Far too often, firms allow themselves to be handicapped by individual attorney autonomy or firm culture to keep from addressing what needs to be done. Firm leaders must work towards building a results-oriented accounts receivable management program that rises above individual attorney prerogatives.

The harsh reality is that many firms are losing revenue by giving attorneys plenty of leeway in making sure bills get paid. When, we wonder, will firms stop tolerating “good clients” who just don’t pay their bills? Whatever the relationship, and however long it has lasted, a client is not “good” if it continues to defer payment. Ensure that it is the firm rather than the client that dictates terms of payment.

**We recommend that you, as firm leaders, take the following steps:**

## ***Put the Right People in Charge:***

Place the right people in leadership positions, people who will roll up their sleeves and work as part of a team to achieve success. They need to have the ability to tell attorneys to address their collections, and to use the firm’s resources to help them achieve results. Demanding real accountability is tough, but it’s easier than pursuing payment of ageing receivables.

## ***Give Your Attorneys Less Autonomy:***

Speaking of accountability, are you holding your attorneys accountable for holding their clients accountable? Professional, consistent follow-up is vital to ensure that clients

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understand that their unpaid invoices are being monitored. If an attorney cannot make the time to monitor payment status, the firm must have the right support in place to monitor it for them. The attorneys are vital to assess the clients' ability and inclination to pay. They do not necessarily have to be the ones getting them to do so.

**Think About Your Clients:** Understand the challenges they are facing in this economy and figure that into your approach to managing your receivables. If you are unhappy with the results you are getting, try something different. Remember the definition of insanity: making the same mistake time after time, hoping for a better result.

With each account receivable, ask two questions: (1) Are we doing everything we can to get the account paid? (2) If the bill cannot be paid, why not?

**Focus on Receivables Starting Early:** Don't make the mistake of waiting until 90 days to be concerned about your receivables. When looking at ageing receivables, many firms will see collections problems. The reality is that they had such problems sooner, but did not do anything about them. If the work has been satisfactorily performed, the client should pay within 30 days. If you are not seeing payment by that point, you have the first sign of a collection problem. Clients conclude that if the firm waits several months to collect unpaid bills, they need not rush to pay.

**Gather the Right Information:** Don't just gather information on your receivables; make sure it's the information you need. Know if an account is being pursued actively and its payment status; who is pursuing collection and what success they are having; why clients are not paying; and

what steps can be taken to get them to pay. Are you getting the information from your collection software to help you determine if receivables are collectible. If so:

- When can you expect payment?
- What are the chances you will get paid?
- Are the receivables problematic?
- Are they simply not collectible?

**Employ Best Practices:** Frequent contact with clients and an open dialogue are essential. Quickly determine if clients have the means and commitment to pay their bills.

**Address the Real Issues:** Many firms have created accounts receivable leadership programs, but many of those do a poor job of setting attainable goals and measuring and evaluating the success of their efforts. Take a step back to evaluate your objectives, and the policies, procedures and personnel you are using to achieve these objectives.

Sometimes the collections infrastructure has ballooned into an inefficient bureaucracy with lots of committees and attorneys who are focused on issues that do not lead to collections. This can be exacerbated when the firm hires or promotes administrative staff to perform collections, but is not judging their performance by their collection results.

**Don't Count on the Past to Predict the Future:** While past performance should not be ignored, in these times, it may be less useful for forecasting purposes. Recognize that you are doing business in a different world, and make adjustments accordingly.

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**Client Connection assists law firms of all sizes by furnishing accounts receivable management services, developing practical receivable programs, training law firm staff in effective accounts receivable management methods and executive placement of professional collections managers.**