

# Keeping Accounts Current

## Five Ways to Keep Your Accounts Receivable from Showing Their Age

BY JAKE KROCHESKI

Many firms tend to regard managing their receivables as an aspect of financial management. It is, after all, about money; you can touch and feel the dollars.

However, receivables management is just as much a function of practice management as financial management. It is not just about numbers. Behind most receivables more than 90 days past due is a story about why the account has not been paid – cash flow problems, complicated transactions, and many more reasons. Understand those stories and get to the bottom of them, and you will have a better understanding of how to get paid.

Firms find themselves facing a dilemma. On one hand, they want to embrace institutional thinking and function as a business, putting structures and procedures in place and holding people accountable. On the other, they are reluctant to hold the individual attorneys accountable and deprive them of their autonomy because of the different circumstances that exist that impact payment from clients. The two attitudes create an uneasy balance. It is hard to have clear-cut procedures while poking holes in them and making exceptions.

The truth, though, is that you must. Everything is not black and white. Your firm needs to make it clear to its attorneys and staff, as well as your clients, what your policies and your expectations are. Yet, there needs to be a fair amount of latitude for decisions based on individual client relationships. It will be important to layer your firm wide efforts, to take into account both formal collection procedures and practices and the informal, individual efforts that exist in practice to service clients.

Accounts receivable management requires a very hands-on approach. The reality is there are a number of unsettling circumstances in today's economy and firms must be willing to change their approaches to receivables management if they are going to be successful in pursuing ageing accounts. Now is an appropriate time to focus on these issues, before getting into the mad rush of year-end. To ensure that your receivables do not get the opportunity to enjoy a ripe old age, take these five steps:

1. **Start Managing Your Receivables Rather Than Simply Expecting Payments to be Made.** We have all learned that strategic planning is most effective when times are good, instead of waiting until times are hard. In such times, law firms start turning over every stone to find sources of revenue. What better stone to look under than unpaid receivables. Law firms are accustomed to looking at receivables financial data only on a superficial level,



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instead of spending time looking beneath and beyond the numbers to determine if payment can be made. Step up to the plate; you will be surprised by what you discover.

- 2. Determine if You Have the Appropriate Governance Structure in Place.** Effective receivables management starts from the top. The firm needs to put the right people in leadership positions. These individuals need to have the ability to tell attorneys to address their collections. Demanding real accountability can be tough, but pursuing payment of ageing receivables is much tougher – and it greatly reduces the chances of getting paid.

The harsh reality is that many firms are losing revenue by giving attorneys too much individual autonomy in making sure bills get paid. When will firms stop tolerating “good clients” who just don’t pay their bills? When are they going to stop permitting clients to pay slowly without asking why? When will they be the ones to dictate the terms of payment, rather than the clients?

Attorneys are also given too much leeway in dealing with their clients during the first 11 months of the year, only to have their feet held to the fire during the year-end stretch. With many firms having millions of dollars well over 90 days past due, the traditional culture of forgiveness need to be replaced with a culture of high expectations to increase revenue through better collection efforts during the year.

There are no quick fixes in receivables management. Even the best governance structure cannot quickly collect itself out of

collection problems. This is a roll-up-your-sleeves job that requires spending time going over collection efforts for certain balance levels. The right people must be in place from top to bottom, people who will devote the necessary time and perform the requisite follow-through when working with attorneys who bill.

- 3. Focus on Best Practices. Direct relationships, frequent contact and an open dialogue are the most effective way for law firms to get paid.**

The best strategy to ensure payment is to quickly determine if a client has the means and the commitment to pay their bill. Yes, while there are clients that pay like clockwork, there are many that, if offered an inch, will take a mile. The number one reason clients do not pay their bills is cash flow problems, especially in today’s economy.

Remember, managing collections in a law firm is a process that must be monitored very diligently. Clients will not be offended when a friendly, professional contact is made to inquire about the status of payment. They will notice that the firm is closely monitoring their payments with direct one-on-one inquiries.

In addition, firms need to make a candid assessment of who inside or outside their organization can most effectively contact clients. There are reasons to give this responsibility to the attorneys themselves: They have a professional relationship with their clients, and they understand their issues and transactions. However, they are very busy and don’t make getting paid for their work a priority. They often do not like asking their

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clients for payment and they are not inclined to have timely management of their receivables.

When firms enlist their support staff to help contact clients, they should have the desire and training to do this work. Their priority is to determine payment status, and clients frequently prefer speaking to someone other than their attorney about payment issues, someone who has the experience, know-how and personality that represents the attorney well with their clients. The best collection staff, which combines tenacity and professionalism, earns the trust of the attorneys with whom they work. They must be given the directive to ask clients to pay their bills, and they need to have direct contact with the clients to do so effectively.

If the firm and attorneys make decisions to have staff contacting clients directly, the staff must not have too many other responsibilities keep them from dedicating themselves to contacting clients about payment. Too frequently staff find that their job has become a diluted clerical function in which they assist attorneys in sending meaningless letters and reminder statements.

**4. Gather the Right Information.** You may be gathering a lot of information about your collections, but determine whether you are getting the *right* information. At a minimum, you need to know if an account is actively being pursued and what is the payment status, who is pursuing the collection efforts and whether they are getting results, why clients are not paying and what needs to be done to get them to pay. At a minimum, categorize receivables:

1. Are they collectible? If so, when can we expect payment?
2. Are they problematic? How good are the chances we will get paid?
3. Are they simply uncollectible?

Also, help your efforts by creating reports that will show when payments can be made and frequently update information on where collection efforts and payment status stand. If you have collection software, understand how to use it to gather this type of information.

**5. Project Realistic Timeframes for Collecting Older, More Difficult Receivables.** Be aware that receivables over 120 days have a 50 percent chance of being collected, and the rate continues to drop precipitously as receivables age. If you have any hope of getting paid, these accounts must be pursued diligently. Don't wait for a client meeting or a letter. Some of these accounts may be difficult to collect if only because no one has made the effort in the past to contact the clients. Work with the attorneys and your staff to figure out if the clients need to be pursued and, if so, how.

The focus of a firm's accounts receivable program must be a sooner-rather-than-later attitude. Accounts receivable for law firms is not what we are going to do tomorrow, but what we should be doing today. It's the fourth quarter; do you really know where your receivables are? ✱

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*about the author*

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

