

NOT MY JOB:

How Law Firms Give Responsibility – Or Fail to Give Responsibility – for Accounts Receivable Management

At most law firms, everyone shares responsibility for accounts receivable management. Which, of course, means that no one, ultimately, has complete responsibility. Attorneys' idea of managing receivables commonly involves not doing anything at all, casually mentioning them to clients or writing a mildly worded letter when they happen to have a chance.

Ask many law firms, and they will tell you that it is the attorneys' job to contact their clients. While it's true that the attorneys are given some support in these efforts, typically that support is too little and too unfocused.

What about making accounts receivable management the responsibility of the controller or chief financial officer? They have many other responsibilities, which will not permit them to focus the needed attention on accounts receivable. In addition, the reality is that accounts receivable are more a question of practice management than financial management.

Perhaps the practice head should be responsible? While many firms do require practice group leaders to take responsibility for managing the receivables in their group, these leaders often give too much professional courtesy and latitude to the billing attorneys to handle collections their own way.

What about the billing and collection or finance committee? Many such committees exist in name only. Sometimes the committee members do not care to serve on them. Typically, they lack focus and direction. They have no game plan and insufficient information on which to act. They are not well-positioned to demand accountability. Even when they are equipped to act, too frequently they concentrate on analyzing problem accounts or offenders and give short shrift to taking decisive action.

Taking Responsibility

Following are some clear-cut actions your firm should take to get its arms around its accounts receivable:

- 1. Understand the status of all your receivables.** Classify them. Consider these five categories:
 - Collection efforts being pursued with the assistance of the firm's accounts receivable manager
 - Collections efforts being handled by the responsible attorney
 - Problem/doubtful accounts in which receivables are very unlikely to be collected
 - Receivables that are in bankruptcy
 - Collection efforts being handled by an outside third party
- 2. Focus on collection efforts being handled by the attorney.** If an attorney chooses to take personal responsibility for collections, understand why – and what actions that attorney will take to ensure the bill is paid. Hold him or her accountable – that is, if you determine that the firm's culture and management style allow for true accountability. It is just as much the firm's responsibility to make sure the attorney does what he or she says as it is that attorney's responsibility to do it.
- 3. Establish a real working billing and collection committee,** and give it the authority to make decisions and compel action. The committee must meet monthly, at a minimum, and committee members should be assigned specific responsibilities and asked to report back to the committee. The committee should be headed by a true firm leader,

preferably a member of the management committee, someone who can and will hold the partners accountable for their actions (or lack thereof). The committee must be given all the information that is classified in (1), above.

4. Understand what obstacles are preventing collections.

You might be surprised to discover how many bills go unpaid by clients for simple, logistical reasons, such as invoices lost in the mail. In the case of institutional clients, there may be no contact person listed or the individual responsible for approving the bill has left the company. There may be insufficient explanation of the services rendered, and the client needs clarification, or bills are sent without cover letters explaining payment terms. For non-institutional clients, there may simply be cashflow problems. Don't assume that if an invoice is unpaid, the client is unwilling to pay it. Also important, however, is recognizing that some of the obstacles preventing collections are the individual attorneys themselves.

5. Be proactive, not reactive.

More often than not, little attention is focused on collections management until the last couple of months of the year. It is important that the effort be year-round. Some firms pride themselves on just how well they do even though the majority of their collections take place at the end of the year. We say: imagine how much better they could do if money is coming

in all year long. Even if you are unlikely to change old clients' habit of paying at year end, teach new clients that they are expected to pay timely. During the year, educate your attorneys about the vital nature of collections to the firm's success, and the role they play in collections. Keep attention on collections throughout the year. Receivables start to age because the firm, and its attorneys, are not acting assertively and timely.

6. Purchase accounts receivable management software to organize and analyze data and generate practical reports.

Learn how to use it effectively and fully. The right software can be tremendously helpful in allowing the firm to get its arms around its receivables. Keep in mind, however, that while software serves many purposes, it is ultimately the responsibility of the individual – not the software – to actually collect and manage the receivables.

7. Educate the attorneys early in their careers about the expectations the firm has for them in managing their receivables.

Teach them that it is a normal part of doing business, not something they should be embarrassed to discuss with clients. Educate them before they can develop poor management skills.

8. Write off accounts if they are not collectible.

Understand your receivables portfolio. It is far more productive to recognize uncollectible receivables and deal

with them than to hold out false hope that they will be collected.

9. Keep management reports about accounts receivable simple yet meaningful.

The information you should be reviewing is: reports by classifications listed in (1) above, reasons why the accounts are in a particular category, balance due, last payment made and how much work in process still remains unbilled.

10. Change the firm's attitude towards collections management.

Decide that it is a firm priority to do a better job managing receivables. Recognize that this priority has to be felt, and communicated, from the top. If the firm's leaders don't feel it – and demonstrate their commitment through their actions – no matter how many systems, reports, software packages and committees exist to deal with the issue, nothing will improve.

Do you have a question regarding your receivables? Please send your question via e-mail(clientc@earthlink.net) and one of our professionals will respond, free of charge. At Client Connection, we know how to manage receivables, and we would be happy to share a little of our knowledge with you.

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

CLIENT CONNECTION
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