

## Law Firm Administration A Special Report

# Bill Collection Simplified

Getting clients to pay up means setting policies and enforcing rules.



BY JAKE KROCHESKI

**W**hat kinds of collections problems is your firm experiencing? Whatever its size, it's the rare law firm that does not experience some difficulties.

The types of problems depend on a variety of factors, including the firm's size, practice mix, client profile, management style, and culture. Receivable issues, however, typically are compounded as firms grow. Though smaller firms have receivable issues that require attention, management, and strong collection efforts, the problems tend to grow exponentially for larger firms that are bound by a more institutional approach. And though larger firms often require the most outside help, smaller firms, too, need to plan so that they can minimize their collections problems.

Law firms are starting to make real progress in understanding the need to have the proper management structure, personnel, and technology tools. They are developing business infrastructure to address accounts receivable issues. This includes empowering the billing and collection committee or finance committee (or, in smaller firms, giving senior lawyers the task of receivables oversight) and designing clear policies and procedures.

More firms are purchasing collection software and hiring or promoting administrative staff as part of the management team to manage and collect receivables. Also, firms are talking about the difficult questions concerning client intake issues and their effect on how clients pay their bills.

Lawyers today realize that receivables can be collected in a friendly, professional manner, one that will not hurt client relationships. As a result, they are beginning to see the need to contact their clients about outstanding bills sooner rather than later and seeing such efforts succeed as clients pay their bills.

Although many firms have built a framework for managing and collecting receivables, they have not instituted a real working program, nor have they focused their attention on how to reduce aging receivables.

## ISSUES TO TACKLE

There are many examples of progress, but there are still big issues that need to be tackled:

- Firms are paying more attention to accounts receivable issues. But, all too often, this does not necessarily translate to better or more successful collections. Individual lawyers still have too much autonomy concerning how and when receivables are collected. Also, many firms believe that open dialogue between management and the attorneys will ultimately result in effective collection efforts, yet they have not enforced accountability guidelines to measure success.

- Firms are spending time revising and revamping their collection policies and procedures, but doing so before they understand what it takes to implement these rules. For effective policies and procedures, firms must hold their attorneys accountable. Too often, policies and procedures are not effective because the leadership of the firm gives the attorneys too much professional courtesy, allowing them to use the rules at their leisure. It is one thing to commit procedures to paper, but it is quite another to ensure that the attorneys have accepted and are following the new rules.

- Firms regard an increase in revenue as an indication that their collection efforts are working. But they are not collecting or dealing with issues that prevent timely payments, particularly for those receivables of more than 90 days. Typically, these receivables are more of a challenge to collect and take more time. For example, clients who are having cash-flow problems require more time to pay and different payment arrangements, or they may use their own internal guidelines to decide when to pay their bills, or wait until their work is completed before they pay.

- Firms are beginning to recognize that intake is a vital aspect of receivables management. All too often, law firms will look at the back end of their older accounts receivable and acknowledge they have a collection problem instead of realizing that collec-

tion problems often start at client acceptance, before they even begin the work. But intake remains a key problem that firms have difficulty addressing. Far too often, receivables become a problem because the firm takes on work that it shouldn't—for example, when a client is new to the firm and does not have substantial references. Attorneys are often given too much latitude in determining the clients they bring in.

Firms are just beginning to research the different types of credit or scoring reports that are available to investigate the financial background of clients. Certain clients require credit checks, which can be a helpful tool in detecting payment problems.

- Firms are establishing billing and collection committees or designating senior lawyers to oversee accounts receivable. But the committee members frequently do not understand their duties or are not held accountable for the committee work they do. As a result, if the committee members are not held accountable for doing their job, they most likely are not holding the billing attorney accountable for following the firm's collection rules. Committees need to take a roll-up-your-sleeves attitude to ensure that receivables above a specified balance and age are addressed regularly. Their job is to ask questions, get answers, and resolve issues that prevent receivables from being paid.

- Firms are hiring more collection managers or promoting them internally. But those promoted internally often do not have the expertise to collect and reduce aging receivables. They may be well suited to perform other duties, which led to their promotion, but that does not mean they are qualified to do the job of managing the collection of receivables.

### **MANAGER'S ROLE**

The manager needs to recognize the different collection issues the firm faces by servicing clients within the legal profession. In addition, the manager needs to be aware of the different practices within the firm, and the different types of clients, and then must perform collection work accordingly. He or she should be able to design effective collection methods for both institutional and non-institutional clients.

Most important, the manager must recognize differences from the corporate world. In corporations, poorly paying or nonpaying clients typically stop receiving products or services, and

efforts are focused on collection. On the other hand, in the legal world, a past-due client is still a client who will expect continued legal representation.

The manager may be asked only to generate reports, mail reminder statements, and perform duties at the attorneys' request, rather than to deal with the real bottom line: getting the bills paid. On the other hand, those who have been hired from outside and are new to the legal profession may have difficulties understanding the nuances of client/attorney relationships and the complications of getting clients to pay their bills. And their lack of experience within the legal profession may make it difficult for them to understand law firm culture.

- Firms have seen the need to have collection software in place. Good, cost-efficient software options are available to them. But many are not using the software correctly. Information captured in collection software can be very useful in measuring and analyzing receivables data, but it can only be used if a firm has someone with the proper knowledge to manage and operate the software.

The software has the capacity to generate meaningful reports. But many firms are not asking the questions necessary to generate the right reports.

- Although firms are tracking their receivables better, they are failing to recognize the warning signs that a bill will not get paid: (1) the client cannot guarantee prompt payment, (2) the client does not have an individual who can assure payment, (3) the client is disputing claims that could damage their solvency, and (4) the client is new to the firm and does not come with substantial references. And firms remain hesitant to accept the fact that some receivables need to be written off in situations where, for instance, the client has no assets or cannot be located.

The actions firms have been taking to tackle their receivables are steps in the right direction, but it is vital that firms not stop halfway. There has been significant progress, but the race is far from over. There's plenty more that firms must do before they can rest on their laurels.

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*Jake Krocheski is president of Client Connection, a Plano, Texas-based consulting company that focuses on accounts receivable management issues in the legal industry.*