

The Benefits of Paying Creditors Promptly

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When I started off in law firm leadership and management some thirty years ago, I wondered at the time what the general approach should be to paying the firm's creditors – on invoice, after 30 days, or even after 60 days or more?

After talking to my colleagues in other firms, I realised most firms tended to delay payment – some for many months – but still seemed to expect good service from their providers. I was in South Africa at the time, and our country was subject to sanctions, very high interest rates, high inflation rates and a tough exchange rate, so it was a very challenging environment in which to practice. Probably unsurprisingly, everyone in business and professional practice seemed keen to delay payments, including clients. The approach seemed to be '*Let the other guys be our interest-free bankers*'.

Ever since, and to this day, I come across firms that adopt this approach, or a variation of it. Instinctively I was always uncomfortable with it, but initially I also went along with it.

One of the first things we did in our firm in those early days was to tighten up all our financial management systems, policies and practices. Partners became responsible and accountable for individual and team fee budgets, debtors, and attending to queries on invoices promptly. All commonplace today, but back then this was rather unique as most firms and partners seemed to have the luxury of adopting an almost laissez-faire approach to billing and collecting fees.

The results of our efforts were phenomenal; very soon (within a few years) our productivity, cash flow and profitability doubled, trebled, then quadrupled, while our debtors shrank, simply by getting virtually everyone in the firm 'doing the right things' in regard to financial management. Following this, partner incomes rose significantly, and it was clear that we could well afford to pay creditors in a timely manner, if we wanted to.

By this time, I knew most of our major suppliers quite well and talked to them from time to time. It became clear that one of their biggest bugbears was how long their law firm clients continued to delay paying their bills. It was also obvious that they were not being treated with respect by the firms concerned.

Differentiation

Early on in my management life I had realised how difficult it was for law firms competing in the same areas of practice or industry sectors to differentiate their firms from one another. I came to the view that everyone was delaying payment and not treating their suppliers very well, so we could differentiate simply by not following the herd. Soon after, I advised our finance manager that in future, I wanted incoming invoices from suppliers to be paid on receipt. He was surprised and shocked and

naturally queried the decision, which I explained to him. I said to him we would in future use this new policy as motivation to ensure our own finances were in order, particularly cash flow and debtor management.

Initially, this new policy caused us some grief, as it exacerbated cash-flow challenges, but slowly but surely, we got it right – and felt a lot better for it. The most noticeable thing though was seeing the reaction from creditors; there was improved responsiveness, turnaround and quality of service from them. They wanted our work and started recommending other non-competitor top-notch suppliers they knew with whom they felt we may wish to do business. Dealing with suppliers became a pleasurable experience for our staff.

Ethical considerations

Aside from differentiation, there is also the ethical aspect to this. It just seems fair, reasonable, and good human and business practice that when someone has committed resources to doing something for one's firm, and done a good job of it, they should be paid promptly – ideally, right away.

Implications for brand

In the early 2000s, I started taking an interest in the concept of 'brand', and read as much as I could about it. Fortunately I came across Marty Neumeier's *Brand Gap*, which provided just the framework I was after; it was succinct, made sense, and would work in the professional-services realm. The key principle he enunciated was that your brand is the aggregate of the thoughts and feelings ('gut feelings') that other individuals have about your organisation.

I realised that suppliers would fit this definition and obviously had strong thoughts and feelings about the law firms they dealt with. They talked amongst themselves and serviced many other law firms as well. They also provided services to many of our clients. It became very clear to me that they were an important and influential group in relation to perceptions of our brand, and should continue to be treated with the respect they obviously deserved and to be paid promptly. Here was another strong reason for our approach to this issue.

I have advised many clients over the past decade or more to consider adopting this practice, and many have done so – not always, it has to be said, with immediate success, but over time most have come to realise the benefits and fairness of this approach. I strongly recommend it.

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