

What is One Person Worth?

Employee Turnover Costs More Than Firms Care to Admit

BY ED POLL

The cost represented by people – the monetary investment it takes to find and hire them and then continue their skills education, and the loss of that investment when people leave or are terminated – is the largest and least understood expense at any law firm. This is as true for firms with hundreds or even thousands of lawyers and staff as it is for the small firm or even the sole practitioner with one staff person.

The issue is not whether the costs of hiring and turnover are too great; it's that firms don't know what these costs are, have no idea what goes into them and how to calculate them, and have no idea what the impact is on the bottom line. And, of course, there is the seldom-considered morale issue for those who remain. Each firm's experience likely is different in some way, but these specifics are not enough to prevent a realistic look at what they typically involve.

THE HIRING RATIONALE

Lawyers and law firms still need people. Even with today's technology, no lawyer can do it all. The successful practice truly requires a team – even if that comprises only one attorney and an assistant who can handle the work that doesn't require the attorney's skill and personal attention. The principle of delegation is essential because it allows the lawyer to do the work only he or she can do – serving existing clients and marketing the practice to potential new ones.

Yes, hiring staff or an associate does cost something. But, realistically, you are leveraging skills of others at a cost of \$X and charging that work out at the lawyer's \$Y billable rate. The profit is substantial (\$Y-\$X), and it allows the generation of more income from existing and potential new work.

THE HIRING PROCESS

Hiring is difficult. Recruiters and law firms may use psychological tests, but ultimately these are guides only. Tests imply that there is "perfect" employee with a 100 percent score, and such people simply do not exist. What firms really need is the "ideal" employee – one who is competent, highly skilled, congenial, and has growth potential.

Because most firms have neither the time nor the resources to find such people on their own, they typically use employment agencies and recruiters – which typically charge 25 percent to 40 percent of the new hire's first year pay as their fee. The fee is probably worth it because the outside agency has the best contacts, the best screening process, and the best knowledge of employment law to make sure the hiring process is done right. Another strategy could be to offer bonuses to



Many law firms don't know the true costs of employee hiring and turnover and the impacts on their bottom lines.



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people already in the firm who can recommend good candidates. Ideally, the firm administrator and the lawyer should be involved only at the end of the process, to gauge the candidate's fit with the firm culture.

To make the hiring process more efficient, define what you need by asking yourself what you do now that could effectively be delegated, and to whom you could delegate it. Then list the characteristics of your ideal candidate. If it's a secretary, you should have precise standards for document and file management, technology and software literacy, communication skills, and professionalism. If it's a paralegal, you should define the precise areas to be handled (intakes, pleadings, research, deposition summaries) and the skills required to handle them. Knowing what your needs are and what it takes to meet them is essential to finding the ideal or "optimal" employee.

THE COST OF RECRUITING

The recruiting of new lawyers is a special cost situation because the firm's current lawyers often are directly involved in the process. Consider this hypothetical example. New lawyer "A" is earning \$160,000 per year. He was hired via an "executive search" firm whose fee is 25 percent of the first year's compensation package: in this case, \$40,000. Assume further that the firm is somewhat progressive and does have an education program that helps the lawyer new to the firm assimilate into the firm culture. In this case, the training time is 100 hours for the associate at his billable rate of \$200 per hour, or \$20,000. And don't forget the cost of the partners doing the training: 100 hours at their rate of \$500 per hour, or \$50,000. Assume still further that partners spent some time recruiting and interviewing this lawyer to the tune of 50 hours at

their billable rates of \$500 per hour, or an additional \$25,000 in costs.

For the moment, don't consider additional items, such as reduced productivity when the lawyer new to the firm gets started and the cost to the firm of disruption, retraining, and client concern/nervousness when another lawyer is assigned to his or her matter in the "middle of the stream." Even without these, the cost to the firm at the beginning of this lawyer's employment is \$135,000, and at the end of the first year of employment it's \$295,000. This is hugely expensive – and becomes a total loss if the lawyer leaves soon after being engaged by the firm; the shorter the stay at the firm, the less opportunity the firm has to amortize or recoup these costs.

THE COST OF TURNOVER

The loss of a staff person or lawyer is a worst-case scenario that a firm should avoid whenever possible. This is not meant to be altruistic or sentimental. Given the cost of termination, far less money would need to be spent to create better retention mechanisms, including better hiring practices.

Consider these recent estimates concerning the cost of terminating people:

- The Society for Human Resource Management estimated that it costs \$3,500 to replace one \$8-per-hour employee when all costs (recruiting, interviewing, hiring, training, reduced productivity, etc.) were considered. This estimate was the lowest of 17 nationally respected companies that calculate this cost.
- Another organization provided this estimate: Termination costs equal 30 percent to 50 percent of the annual salaries of entry-level employees, 150 percent of middle-level employees, and up to 400 percent for specialized, high-level employees.

Consider the example of a secretary who earns \$40,000 per year, and use the lower end of the calculation mentioned above: 30 percent. Multiply 130 percent times \$40,000, and you get \$52,000 as the cost to replace one secretary.

Apply these numbers to lawyers and accept the 400 percent premium noted above. That means four times an annual salary of perhaps \$150,000 (the starting salary at a large New York City law firm), or \$600,000 in cost to the firm for the lawyer to leave! And that is an associate, not a lateral partner. Take into account the cost to recruit another lawyer, and the figures become truly mind-boggling.

THE REAL SOLUTION

Despite the quantification presented here, it's virtually impossible to determine the exact cost of employee turnover. Most firms don't measure these costs, underestimate them, or think they are unavoidable. If firms measured the costs of termination and replacement, particularly where lawyers are concerned, I believe they would find

more measurable metrics than they care to admit. Additional examples include:

- training costs, including orientation and training, plus compensation, benefits, and lost productivity while the new person is trained;
- client service costs, including client dissatisfaction, reduced or lost business due to increased workload, lost productivity, and stress; and
- direct termination costs, such as exit interviews, severance, and other administrative costs.

The most effective way to increase profits is to hire the right people and to provide extensive education for those people to improve their skills, and then to purchase the technology that will enable them to do what they need to do more efficiently. ✱

about the author

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