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## **Preserving Your Assets**

By Susan G. Manch

To paraphrase, these are times that will try lawyers' souls (and their wallets). The bears are chasing the bulls from Wall Street. Technology stocks made millionaires, then paupers. The presidential election rocked our complacency, as well as foreign markets. As the economy slows and interest rates rise, the boom that could not end is doing just that. Don't get me wrong—the economy is still strong and there is no shortage of legal work, but the runes have been thrown and the message is: *Prepare to meet the future.*

Firms have already seen the warning signs: Corporate counsel are fussing about associate salaries and exerting pressure to reduce fees; corporate mergers have interrupted long-term attorney relationships; and ambitious law firms have raised the competitive stakes for obtaining new business.

The legal world is starting to look topsy-turvy. In the recent salary wars, formerly top-tier firms fell behind and upstarts with deep pockets rocketed into the upper ranks. Once-venerated firms are struggling to stay alive, while firms tagged as “regional” in the past are becoming global powerhouses. Midsize and suburban firms are being swallowed by more profitable megafirms.

Whether sitting on top of the market or trying to scrabble up from the bottom, the challenge shared by all firms in these uncertain times is the need to carefully manage their greatest asset—attorneys. To examine the baseline factors that shape the current state of firms' attorney assets, consider the following statistics:

- The National Association for Law Placement reports figures that show first-year salaries rose 30 percent in firms of 250 or more attorneys and 18 percent in smaller firms. During the same period, partner or shareholder compensation rose only 4.6 percent, according to the Altman Weil report, “Compensation Systems in Private Law Firms.”
- The latest statistics reported on average annual rates of attrition in the NALP Foundation's “Beyond the Bidding Wars” show that for every 100 associates hired, 15 left. The average cost of that attrition per associate is around \$225,000, exclusive of salary paid.
- The Law School Admissions Council reports show that applications to law schools decreased from a high of 93,500 in 1990 to a low of 61,300 in 1998. The “ABA Guide to Approved Law Schools, 2001 Edition” reports that fall 1999 enrollment increased by less than 1 percent. Seventeen of the top 20 law schools decreased the size of their first-year law classes in the 2000-2001 academic year from the previous year.
- Women represented 48.7 percent of the incoming class in 1999. Among the top 20 law schools, nine have student populations in which women represent more than 50 percent of the total, and in 14 schools minorities make up more than a quarter of the student body, as reported by the National Association for Law Placement. NALP figures on

associate attrition show that attrition of women is almost 2 percent higher than it is for men, and minority attrition is more than 6 percent higher than that of men overall.

### **Protecting the Attorney Asset**

Because compensation and related benefits are almost always a firm's largest expenditure, the challenge of managing the attorney asset in uncertain times requires careful planning and execution. Firms must make strategic decisions on compensation that will allow them to compete yet remain profitable. Amid frantic market demand, they have to attract enough talented attorneys to do their clients' work—preferably only those attorneys who are likely to be satisfied with the firm's work and environment. Once they have hired them, the firm must be ready to train, develop, manage, and evaluate these attorneys. Consideration of the unique needs of women and minorities must be made.

And finally, opportunities for advancement must be made available. Achieving these objectives will require a strategic approach that both protects and enhances the attorney asset.

Prudent strategies for protecting the attorney asset have to begin with recruiting. Many firms are taking a hard look at their attorney recruitment plans and making adjustments. Smaller summer programs are becoming common for many firms, with the focus shifting toward an emphasis on lateral hiring.

Recent statistics bear out these trends. Employment reports provided by the National Association for Law Placement show that the increases in entry-level hiring have slowed over the past three years. After the hiring frenzy of the mid-1990s, many firms have begun to reassess hiring practices. While demand for entry-level associates is high, it is outstripped by the demand for lateral associates to fill slots opened by high rates of attrition. Though also exhibiting a pattern of slower growth, lateral hiring remains strong.

Interesting anecdotal results to note are that smaller summer associate programs yield higher levels of satisfaction and more acceptances, and lateral retention rates almost always exceed those of attorneys hired out of law school.

Here are some other strategies to consider:

- Before you hire, be certain that all current attorneys are fully engaged.
- Provide attorneys with the opportunity to retool their practice specialties.
- Consider hiring part-time or contract attorneys to address short-term attorney shortages.
- Offer flexible working options to attorneys in practices that are not strong at the moment.
- Delegate routine work to paralegals and law clerks.
- Review the assignment process to be certain that work is distributed equitably.
- Introduce a minimum retirement age for partners.

### **Enhancing the Attorney Asset**

Firms are recognizing the need for a comprehensive approach to attorney training and development. When asked, law students rank evidence of a strong commitment to

attorney development as one of the top three factors considered in choosing an employer. Lateral associates usually rank it as the No. 1 factor.

Firms have approached this challenge in many different ways, but there appears to be evidence that firms employing a developmental approach to attorney management lose fewer associates. In the recent report by the NALP Foundation for Research and Education, "Beyond the Bidding Wars," firms that had mentoring programs; alignment of assignments, training, and evaluation; and benchmarking of performance standards saw increased rates of retention among associates. Forty-nine percent of the largest firms now give partners credit for associate-development hours recorded according to IOMA's [Institute of Management and Administration, inc.] "Law Office Management Survey 2000."

The following suggestions may also prove useful:

- Appoint a committee or partner who will be charged with oversight of the professional development planning and evaluation function.
- Build a foundation for all attorney management practices by identifying the skills, behaviors, and personal qualities valued by the firm.
- Integrate the training and development program with the process of performance appraisal and progression to partnership.
- Survey associates on perceived developmental needs.
- Look beyond substantive training to provide associates with opportunities to build skills in managing their practices and their careers.
- Recognizing that attrition among women and minorities is higher than the norm, strengthen the focus on individual mentoring by senior attorneys for these individuals.

Managing the attorney asset has never been easy, but these days the challenges are magnified. Firm leaders faced with the responsibility for protecting and enhancing this asset must take a creative look at current attorney management practices. Involving the firm's associates in discussions and, ultimately, in the planning efforts is a predictor of success. Creative strategies abound, but to preserve the firm's unique culture, it is critical to implement only those practices that are representative of the firm's shared values.

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