CALCULATING THE TRUE COST OF TURNOVER

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I am frequently contacted on the Hot Line by law firms struggling to meet staffing demands. The common question asked is something like "What do we have to do to find a quality [attorney / secretary / paralegal / IT manager etc.] who will stick around?" Many times there is much to be done to improve the recruitment process, or retention strategies at the firm. But the real problem is now occurring before the candidate even gets into the door for the interview. In reality, there is a real shortage of quality candidates for all positions, and fasten your seatbelts, folks, because it's going to get a lot worse.

Human resource and staffing experts predict that employers will face one of the worst labor shortages ever within the next five years. In fact, according to a 2000 Bureau of Labor Statistics report, by 2010 there could be as many as 10 million more jobs available than there are employees in the United States. The average length of tenure, that is how long people will stick around, is also decreasing rapidly. Demographics has a lot to do with it.

Baby boomers are slowing down and preparing to retire. This will have a major impact on law firms in both the professional and staff ranks. There is also a significant decrease in workers aged between twenty-five and thirty-four. In law firms in particular, some additional trends will worsen this impact.

The first trend which will significantly alter life as we know it in law firms concerns the decreasing availability of experienced or talented (e.g. trainable) legal secretaries. Women—those who have historically filled these positions—are no longer aspiring to legal secretarial careers in any significant numbers. An obvious indicator is that schools which traditionally offered training in secretarial skills have now transitioned to training in IT and paralegal areas, in order to survive this change. Now that women attorneys and paralegals are readily accepted in the law firm environment, women who have the financial means and academic credentials are now seeking higher status roles. Large numbers of women are choosing to become individuals who will require secretarial support—rather than provide it—which further exacerbates the staffing shortage.

The second trend concerns the quality of applicants for all positions. Those who apply for entry level secretarial positions, for example, do not have anywhere near the skill set law firm employers desire. Attorneys, law firm administrators and human resource managers all seem to be in agreement about the new generation of tomorrow's legal secretaries: they can't spell, they can't proofread, their grammar is deplorable, they have 9 to 5 attitudes, and an "entitlement" mentality. Your required investment to bring them up to an acceptable level of performance will increase dramatically in the years to come. That is, if you have the intestinal fortitude to wait it out while they inch their skills along.

Young attorneys are another source of concern. Generational differences are creating despair and dismay in baby boomer partners, as they struggle to understand young associates who may be satisfied being just “employees”, without desire to some day own and manage the firm. Finding a young attorney who has “fire in the belly” to self-motivate rainmaking and achievement is a daunting task. For small firms which find it impossible to compete with the $100,000+ initial salaries of the largest firms, it becomes an insurmountable task; an exercise in futility.

The good news is that you’ve survived a lengthy economic downturn. Well, some of you have. Many firms imploded, exploded, or were acquired or merged as a result of the economic downturn we have just gone through. The rest of you did what you had to do. You tightened your belts. Many of you terminated staff, and some brave firms even terminated less productive partners. The staffing shortage bubbling under the surface was largely mitigated for small and mid-size firms by layoffs and downsizing elsewhere. It was overcome at large firms by throwing dollars at the problem. But as the economy improves and firms return to growth or stability mode, the impact of the staffing shortages will become significant, both in terms of productivity and client service, and especially to the bottom line.

The simple fact is that turnover is expensive on many levels. We’ll deal in a minute with the actual impact on the bottom line. First, let’s deal with all the hidden costs of turnover. New employees can be disruptive to the smooth operation and teamwork of any organization. As new employees struggle to become familiar with and ingrained in the culture of the firm, they have a tendency to negatively impact productivity and morale of those they come in contact with. Departing employees continue to drain resources, and also work at a sharply decreased level. New employees divert time of those who must support, train and orient them, from the other work those employees perform. And finally, during periods when a position is vacant, productivity is lost, often higher up the food chain.

For many years firms have tolerated those partners who are lacking in “emotional intelligence”. These are the individuals who go through staff like a hot knife through butter. They publicly eviscerate associates. They chew up staff and spit them out for the slightest errors. You know who they are at your firm. You’ve bitten your lip while they’ve carried on. You’ve silently watched as they demand and expect a cattle call of new recruits to be paraded before them whenever their temper causes the loss of yet another employee. And no one seems to be aware of the actual cost to the firm for this behavior, both in real dollars, in psychic energy, and in damage to the culture of the firm. But time has come to pay attention and speak up, or the firm may become literally crippled in an attempt to service clients during the severe labor shortage looming in our immediate future.

Actual costs associated with turnover include many of the following:

- Severance pay, pay for accrued vacation and other time off
- Increases to unemployment taxes
- Costs of benefits continuation
- Advertising and/or recruiter fees
- Interview expenses which can include airfare, hotel, meals, mileage
- Assessments
- Criminal checks, reference checks, credit checks
- Temporary or contract employee expense to fill the gap
- Overtime costs to fill the gap
- Relocation expenses
- Signing bonus
- Orientation materials
- Formal training programs including materials and course fees
- In-house training materials

If these were the only costs, they would be significant enough. But turnover has a lot of hidden, soft costs which also impact the bottom line of the firm. These soft costs can include many of the following, depending on the status of the departing employee:

- Administrative costs for processing the separation, involving benefits, payroll, IT security, notifications to insurance carriers, filing unemployment forms and so forth
- Lowered productivity for peers, the employee who is departing, and supervisors and subordinates
- Time spent in exit interviews and transition meetings, tracking file dispositions, documenting file status, procedures, etc.
- Resume screening and interviewing time (multiple interviews)
- Creating of advertisements, job descriptions, and placement of same
- Loss of clients or increased activity to retain clients
- Notifications to clients
- Disrupted department operations
- Salary of those performing orientation and training roles
- Missed deadlines
- Loss of institutional information (For example, at one firm the departure of the receptionist inadvertently led to a three year period in which no conflicts of interest were performed!)

- Lower morale of those remaining due to overwork, or feelings of loss
- Additional undesired turnover as a result of the perceived manner in which the employee was terminated, or because those remaining become unsure of their job security or less sure about the quality of their environment compared to other opportunities

Experts agree that the true cost of turnover is equivalent to somewhere between 1.5 to 2.0 times the annual salary of the exempt departing employee, and averages about .75 times the salary of a non-exempt employee. In the legal environment, I believe that these are overly conservative estimates. That's because the pool of candidates is more limited, the requirements for relative expertise is higher, and the possibility of damage to or loss of client relationships is very real.

There are web sites devoted to calculating the cost of turnover at your firm. For examples, take a look at the web sites of Bliss & Associates (www.blissassociates.com) or Advantage Hiring (www.advantagehiring.com). Or do a Google search on "cost of turnover". This, coupled with the impending severe labor shortage, should be your firm's wake-up call.

I suggest you read the article in the upcoming Jan/Feb issue of The Pennsylvania Lawyer entitled *What Makes a Law Firm a Good Place to Work?* And contact me on the hot line for assistance in developing strategies to assist your firm with its recruiting and retention, as well as deployment of technology to help you become less dependent on staff. Trust me when I tell you that it's no fun practicing law when your firm has a "revolving door" through which your associates and staff come and go. So the next time you prepare to bite your lip in silence as your

partner commits another human resource atrocity, reconsider your strategy and instead speak up by saying, loud and clear, "This is unacceptable behavior!" Your ability to plan now for the upcoming labor shortage may well determine the financial viability of your firm. At the least, it will determine the quality of your life at the firm as you strive to service client needs with finesse.

A version of this article originally appeared in the October 4, 2004 issue of the Pennsylvania Bar News

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