

## **Defining Success – Associate Lifecycle**

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With law firms facing financial pressure like never before, firm managers are working even more diligently these days to manage the business of law. They increasingly are embracing the wise adage that “you can’t manage what you don’t measure.” To this end, there has been an expansion of the functions measured by firms. As times have toughened, more managers are showing an interest in measuring the effectiveness of recruiting and development activities.

At the Redwood Think Tank, our objective is to help firms manage by fact rather than by gut. Recently, we conducted a study in response to industry leaders seeking to understand whether particular attributes can be associated with successful lawyers. We call these “success factors.” We approached the project in two stages. First, we determined who fit into the population of “successful” associates. Once we identified which associate populations could be considered successful hires, we examined the attributes that were disproportionately present among this group—i.e., the success factors.

As we undertook our study, we realized the first stage was not as simple as it sounded—before determining who could be considered successful, we would have to define what it means to have a successful tenure at a law firm.

### **Extreme Success Definitions**

What is success at a law firm? We heard varying definitions from managers, and realized there was risk of defining “success” both too broadly and too narrowly. We first examined two definitions of “success” on either end of the associate life cycle continuum.

One way to define recruitment success would be to count all of those who achieved partner status—aka those who “won the tournament.” But that definition is too narrow. Law firms depend upon leverage to make a profit and therefore intentionally hire more associates than are expected to make partner. Typically only between 10 percent and 20 percent of an associate class makes partner, so measuring recruitment success by this achievement sets up a firm for failure.

Without question, associates who go on to make partner at a firm can be viewed as successes—but the 80 percent to 90 percent who do not make partner are not all failures.

A second approach to measuring recruitment success would be to gauge whether the firm achieved a return on its investment (ROI) for new hires. This approach, however, is too broad. Though many contend it takes a long time to achieve a return on the recruiting efforts for associates, we disagree. Believe it or not, firms almost always make back their initial hiring investment.

Law firms operate on a model dependent upon a high-profit margin, paying their professionals one-third of what they can produce. Hence, they are able to reap returns fairly quickly despite their significant initial outlays.

Take, for example, a large law firm with an annual hiring class size of 50, and apply some generous assumptions:

- The firm spends \$50,000 per hire in hard recruiting costs (summer program, campus visits, etc.).
- Compensation for dedicated recruiting FTE's costs another \$10,000 per hire.
- The largest opportunity costs of the hiring process are that 50 partners lose two weeks of productivity, at which they could have billed at \$500 per hour.
- Associates take an average of six months to get up to speed, to where they are working at an annual rate of 1,800 hours (although our preliminary data indicates that it takes most associates only three months).
- The new associate billing rate is \$200, which is discounted 10 percent.
- First-year associate compensation is \$200,000 (although not many places, anymore).

Even given these liberal assumptions, the firm in this example would begin making money on its new associates by month 13. Because the assumptions we applied were on the generous side (particularly in terms of associate compensation), most firms can expect to begin reaping a return on their investment in new hiring within the first year that associates come on board.<sup>1</sup>

Since firms nearly always realize a return within the first year of new hires, measuring ROI would result in nearly 100 percent success rate in hiring—too broad a definition to be meaningful.

### **Refining the Definition**

So what then is a “successful” associate? The Think Tank members came to a consensus that success is relative, based on a combination of three variables: tenure, quality of work, and the next career move made by the associate—their destination following associate tenure.

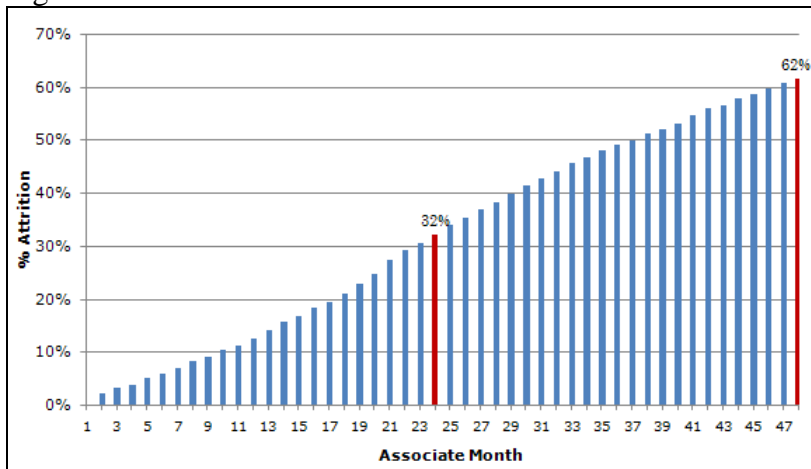
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<sup>1</sup> We didn't account for overhead because in most cases, overhead does not increase when a firm hires a new associate; the firm does not rent more space, hire additional IT people to support them, etc. If a firm is hiring a group of associates for growth purposes, this should be considered under a separate business case, not in analyzing recruiting ROI.

*Tenure.* The length of time an associate works for the firm obviously affects how much time the individual has to make a contribution. This is the case both in terms of the actual revenue generated for the firm (the R in ROI), as well as the contribution the associate makes toward building the firm’s reputation as a quality service provider.

According to our research, 32 percent of associates leave by the end of year two and 62 percent of associates are gone by the end of their fourth year. (See Fig. 1.) All things being equal, firm profits and client relationships are strengthened by keeping associates longer. Hence, firm managers should consider a hire who stays for three years to be a greater success than one who leaves after two years.

Fig. 1



This analysis highlights why it’s so important to develop quantitative approaches to recruitment and retention. When a senior associate leaves, partners tend to feel a greater sense of loss than when a more junior associate leaves. The sentiment often expressed is, “We’ve invested so much time in this individual. We’ve allowed them to have so much client contact. Now that effort was wasted.”

By sharing the firm’s analysis on retention, managers can help partners understand that keeping associates longer equates to greater success—even for those not destined to become partner.

*Quality.* While judging work quality is somewhat subjective, one interesting revelation that came to light through our study is that quality is highly correlated to quantity. Associates who are requested to work on large and/or numerous matters often are those perceived to produce high-quality work. The corollary is that associates who are underutilized often are perceived to have quality issues associated with their work.

Managers shouldn’t allow the subjectivity of the nature of quality to be an excuse not to measure it. There are multiple metrics that can be used by firms to assess quality—including a variety of performance evaluation “scores” and less “soft” numbers such as hours of written-down work. And given the afore-mentioned correlation between quantity

and quality, using billable hours as a proxy for quality may be a good place to start for some firms.

*Post-tenure destination.* The third factor our Think Tank members agreed is an important indicator of recruitment and retention success is the career path taken following associate tenure at the firm. The ultimate level of success for this metric would be to achieve partner status. There are other success indicators as well. For example, associates who go in-house may become firm clients, and those who go to other firms may become referral sources.

On the other hand, an alumnus who moves to another firm but speaks negatively of their experience at their prior firm hurts the likelihood that the firm will receive business as a result of the relationship, and potentially damages recruiting efforts.

A note regarding destination. Think Tank members agreed that next destination is an important variable for measuring success. Yet, though some firms try to keep in touch with alumnus on an informal, social basis, post-tenure destination it is not something that is systematically tracked. The Think Tank recommends firms do quantitatively measure this data. It's never too late to start tracking something that is important. Firms that begin tracking the destination of associates who leave this year will have valuable information to bring to the analysis in a year or two.

### Putting it Together

We believe there are three factors to consider when measuring associate success: tenure, quality of work and post-tenure destination. Firm managers may wish to weight these factors differently, but a good argument can be made that the three are of equal importance.

A sample scoring mechanism is illustrated below. See Fig. 2. In this simplistic example, a very unsuccessful associate would score 0, and the most successful would score 6. "Success" then could be defined by those who score at least a 5, and associates meeting this threshold would be evaluated to identify the "success factors" they have in common.

Fig. 2

Tenure	Quality	Destination
< 2 Years	0 Some issues	0 Negative
2-5 Years	1 Good	1 Reference
> 5 Years	2 Excellent	2 Partner

Bear in mind that this is a simple example. The scale could be changed, more levels could be added, and weightings could be applied. Additionally, firms that don't track post-tenure destination can leave this criteria out of the scorecard until that data is available for a material number of associates. Remember that it's never too late to start tracking information for future use.

At the Think Tank, the task of defining success proved to be a more time-consuming exercise than originally anticipated. But it was an important and enlightening process. Our analysis illuminated the subtleties that firms should consider when measuring the success of their associate talent. The methodology we developed became the foundation leading to the next step of our project—identifying success factors. Results from this portion of the study will be published in the near future.

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Kris Satkunas is the Director of the Redwood Think Tank, a division of LexisNexis. She leads dedicated research efforts in studying and formulating solutions to law firm management issues. Her commitment is an unbiased, structured approach to research that expands the ability of law firms to move forward in managing the business of law.