

# Career Paths and Labor Markets

Georgetown Center for the Study of the Legal Profession

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# Three Future Realities of Career Paths & Labor Markets

- The war for talent will return
- Law firms need to be on the cutting edge of talent management & new ways to work
- Culture & environment will become more important for firms to distinguish themselves
  - compensation will be less of an enticement to recruit or retain talent

# Mismatch of Career Paths, Labor Markets & Law Firm Structure

## 1. Generational Shifts – Different Needs & Talent Gap

- Boomers (76 million born 1946–1964)
  - Comprise 70% of law firm partners
- “Gen X” (46 million born 1965–1980)
  - Face work/life issues on both ends (aging parents & young children)
- “Gen Y” (80 million born 1980–2000)
  - Different expectations in how they will work
  - Building a Better Legal Profession
  - 2008 NYU Law Survey, male & female students’ biggest concern (72% of men & 76% of women were “very” or “extremely” worried about work/life balance)

## 2. Current Billable Hour Model Unsustainable

- Attrition in good economic times
  - 78% of law firm lawyers leave by their 5<sup>th</sup> year
  - Long hours are an important factor in why lawyers leave
- Layoffs in down market
  - According to Law Shucks, about 5,000 lawyers were laid off at 138 firms last year
  - Legal sector has lost 42,700 jobs since 12/08 – 1/10

## 3. Acute Work/Life Challenges Facing Female Attorneys

- Women have comprised 40-50% of law school graduating classes for 25 years yet they comprise only 16% of equity partners
- 42% of women lawyers leave, independent of maternity leave



# Boomers' Retirement & the Talent Gap

- Among AmLaw 200 firms in 2007
  - 64% of firms, mandatory retirement about 65 – 70
  - 36% of firms, no limits on age
  - At 69% of firms, 20 – 39% of equity partners are 50 or older
  - At 23 % of firms, more than 40% of equity partners are 50 or older
- August 2007, ABA adopted NYSBA report - firms end mandatory retirement
  - Challenging succession planning & opportunities for junior partners
  - Impact on lateral hiring
- Phased retirement trend
  - 2007 Altman Weil poll plans to retire, 27% before 65; 29% at 65; 33% after 65 or never
- Opportunities
  - Phased retirement
  - De-stigmatize flexible & reduced hours
  - Increased mentoring
  - Flexible, individualized retirement packages with waivers of caps available
  - Senior partners as specialists /niche positions
  - Individual pay packages with financial incentives to hand over relationships





***Making the Economic Link Between Productivity,  
Profitability & Work/Life Balance***

While billable hours are still viable, firms can increase their overall firm profits & profits per partner by decreasing hours & salaries & reducing layoffs/attrition

Increased earnings for firms can translate into increased savings for law departments

Firms can align attorney hours & lifestyle needs with economics

**Founding Partners**

**PETCO Law Department**

**Flex-Time Lawyers LLC**

**North American South Asian Bar Association**

**Association of Corporate Counsel, San Diego**

**[www.balanomics.net](http://www.balanomics.net)**



## Application of Association of Corporate Counsel (ACC) NERA Economic Model

NERA economic model allows data input of 7 variables,  
calculating profits over 5 years

1. law firms' size and expected growth (including associate layoffs/attrition)\*
2. annual billable hours\*
3. billing rates
4. salaries\*
5. rate of recovery
6. recruiting costs
7. overhead costs

\*Only variables changed



## Three Profitability Reports

### **Profitability Report 1 – Layoff/Attrition Model:**

- Increase associate layoffs/attrition from 5% to 10%
- Overall firm profit range, \$491,198,232M in base year & \$755,502,987M in year 5
- Profit per partner range, \$1,158,486M in base year to \$1,519,312M in year 5

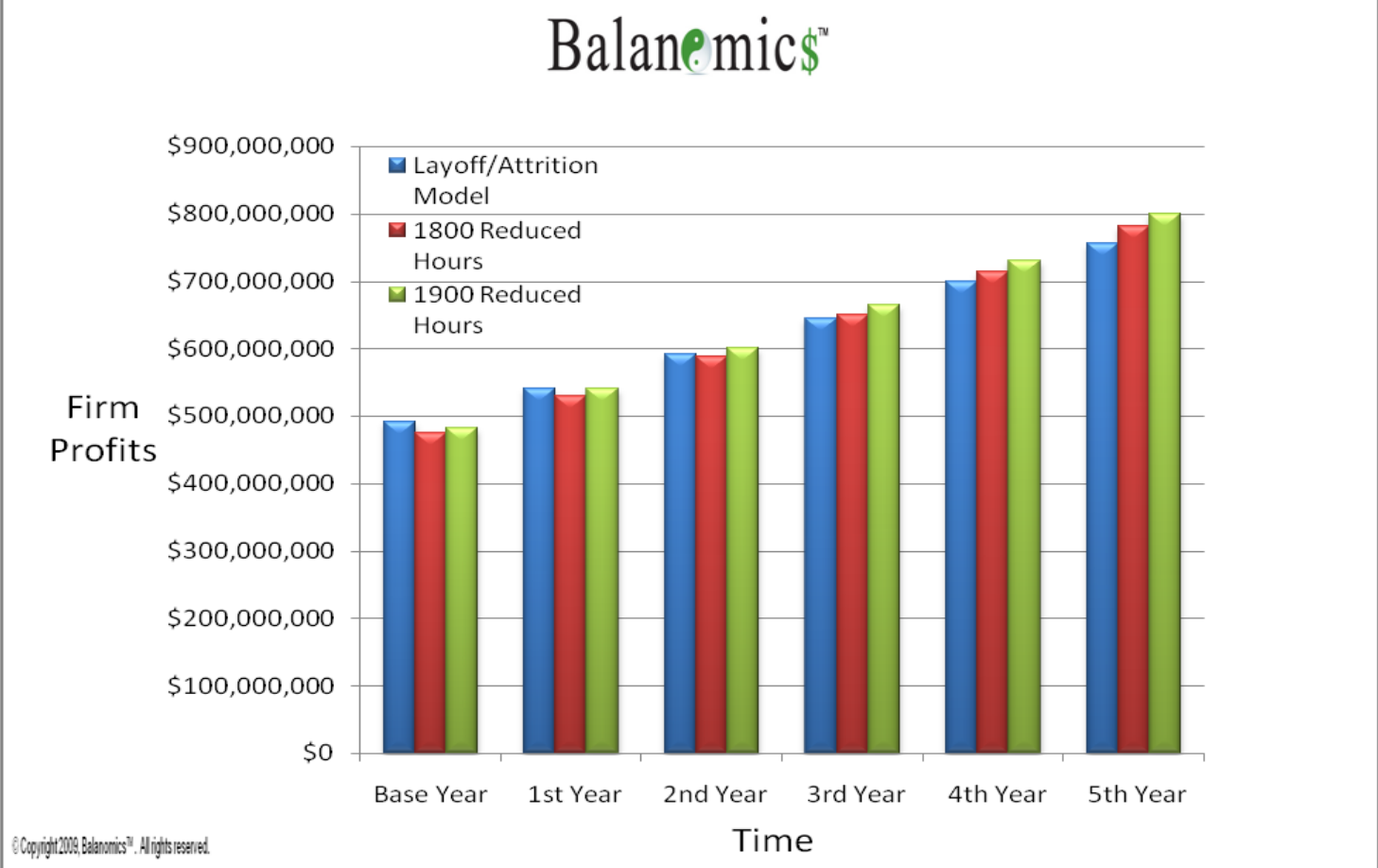
### **Profitability Report 2 -- 1900 Reduced Hours/Reduced Salaries Model:**

- Decrease associate billable hours from 2,000 to 1,900 per year and decrease associates' lockstep salaries by 5% (since 100 hour reduction is 5% change)
- Layoff/attrition rate remains at 5%
- Overall firm profit range, \$483,016,707M in base year to \$800,676,115M in year 5
- Profit per partner range, \$1,139,190M in base year to \$1,582,401M in year 5
- More profitable than Layoff/Attrition Model as of year 2
- \$45,173,128M more profitable in Overall Firm Profits, \$63,089 in Profits Per Partner as of Year 5

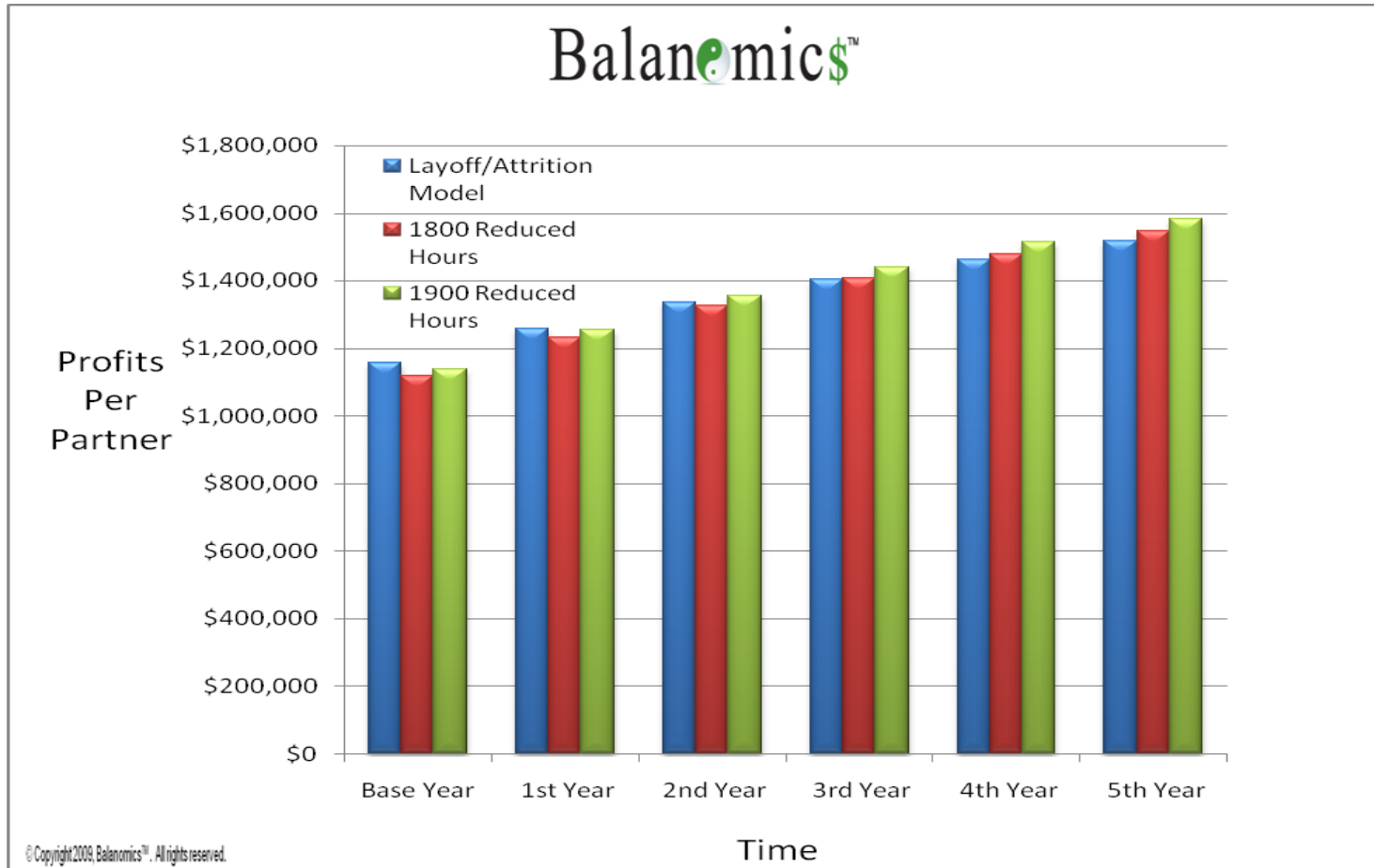
### **Profitability Report 3 – 1,800 Reduced Hours/Reduced Salaries Model:**

- Decrease associate billable hours from 2,000 to 1,800 per year and decrease associates' lockstep salaries by 10% (since 200 hour reduction is 10% change)
- Layoff/attrition rate remains at 5%
- Overall firm profit range, \$474,835,182M in base year to \$782,361,678M in year 5
- Profit per partner range, \$1,119,894M in base year to \$1,546,206M in year 5
- More profitable than Layoff/Attrition Model as of year 3
- \$26,858,691M more profitable in Overall Firm Profits, \$26,994 in Profits Per Partner as of Year 5

# Graph 1: Overall Firm Profits for Layoff/Attrition vs. Reduced Hours/Salary Models



# Graph 2: Profits Per Partner for Layoff/Attrition vs. Reduced Hours/Salary Models



# Manipulating the Billable Hour Model

1. Run the numbers & conduct profitability reports
  - Norton Rose firm
2. Implement multiple billable hour targets
  - “Target Hours” - the “T” in FACTS
  - 4 - 6 different sets of Target Hours
  - E.g., 1200, 1500, 1700, 1800, 2000, 2200 hours
3. Capitalize on the flexibility of the billable hour
  - No revenue impact in where you bill
  - Create a framework for formalizing flexibility
    - Greenberg Traurig office redesign
    - Cleary Gottlieb full-time flex-time policy



# Alternative Fees as an Opportunity for Women

- Alternative fees - focus on efficiency, value & results, not time
- Women will benefit – not as successful competing over time
  - 65% of women law firm lawyers with children work flexible or reduced hours at some point in their law firm careers
  - 73% of current reduced hour law firm lawyers are women
- Flexibility offerings increase productivity
  - BOLD Initiative study - flexibility increased productivity 5-10% at 10 companies
- Firms will benefit – no longer underutilizing ½ of the talent pool





## For More Information

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