



## Using the Recession to a Law Firm's Advantage

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With the economy in its current state, and the legal industry perhaps not as recession proof as previously thought, law firms are looking into ways to cut costs in order to improve profits. Previously I suggested ways to improve margins through cost cutting and other options, but another point that has been getting a lot of press is first years' salaries.

Where they currently stand, first years' salaries are probably higher than they should be. Law firms are not getting value out of their new recruits at current salary levels. Their costs are high, and the revenue they bring in is low – largely due to inexperience. First year associates do not have the knowledge or expertise to produce the same quality of work as a senior lawyer.

To top it off, first year associate rates are often much higher than a client is willing to pay. From what I have seen in working with law firms, in many cases a first year associate's work is being discounted heavily at the time of billing, or is being written off. Clients do not want to pay for second rate work – they come to big law firms to get the best talent and legal services; first years do not have the ability to produce the work that the clients would expect from the rates they are being charged.

So why do firms' pay first years such high starting salaries? I have heard many different reasons as to why these salaries are justified: associates have a great amount of debt from law school, a law degree has earned them the right to make £xxx,xxx, salaries are in line with comparable law firms, etc. However, compensation (not just for first years) should be based on the value a lawyer can bring to the firm – whether that is revenue, new client generation, or fulfilment of a strategic initiative of firm. A lawyer should NOT be compensated based on reaching a certain milestone (or behaviours of other law firms), but on what they are actually "worth" to the firm. You can put your house on the market for £1 million, but it's only "worth" what someone else is willing to pay for it.

Compensation is not just salary. Everyone wants to make more money (at least I know I do), but we all do what we do because we enjoy it to some degree. That could mean working for a law firm because it is located in a city you like, it gives you the ability to work in a certain industry, or you like the values, ideals, and environment the law firm provides. Just because other "like" law firms are paying lawyers a certain amount does not mean every firm will follow suit over time. A firm that offers work-life balance will attract lawyers – even if the starting salary is lower than other comparable firms.



It is also important to remember that first years' salaries were not always this high – much of the increase in starting salaries over the last five years can be attributed to the large growth the legal industry has experienced. Most law firms were facing booming times, and in order to attract and keep the best talent (to continue that growth), they offered higher salaries. Each law firm was competing for the top talent; it was a buyer's market. Law students had their pick of firms, and when one top law firm raised starting salaries, the other firms followed to ensure they did not fall behind in terms of talent.

Today, times are different. When once the legal industry was thought to be recession proof, the last year has proven that this is not the case. Law firms profits have dropped, and many firms have decided to reduce headcount, delay start dates, and cut first year (and more senior) salaries because of the drop in production. The market has swung from a buyer's market to a seller's. With that being the case, it is the perfect time to lower starting salaries while minimising the negative impact associated with talent recruitment.

In today's economy, it is not the best time to be coming out of law school. Over 4000 lawyers have been laid off this year, never mind the newest law school graduates; lawyers are fighting amongst themselves for each job. So instead of keeping starting salaries at their current level, let the economy (market forces) help drive the price down.

Now not everyone will say it, but many think it – first years salary are above where firms would like to have them, and while market forces are helping drive the change, it is up to law firm leaders to seize that opportunity and take advantage of the less than ideal economic times to position your firm for greater profitability down the road.