

Thomson Reuters Market Insights.

A podcast for tax, legal and compliance professionals around the globe.

Episode title: How law firms can address their legal talent issues in 2022

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Bill Josten: The first half of 2022 has unquestionably been marked by challenges related to talent and hiring regardless of the industry that we're talking about. Call it the "great resignation", the "great reshuffle" whatever term you like, there's been a new host of challenges for employers of every shape and size. The legal industry may be less affected by the resignation part, but undoubtedly we've been part of that reshuffling of talent. Starting even in the middle of last year, increasing competition for talent was marked by rapidly increasing salaries and massive amounts of lateral movement from both partners and associates, typically moving in search of those higher salaries and we've seen ripple effects being felt throughout the legal industry. Moves by the largest law firms have impacted recruiting and retention for smaller firms in regions where they normally wouldn't reach. We're seeing firms in the southeast being impacted by hiring trends in New York and Chicago. We've seen global impacts as associates leave places like South Africa, Australia, Continental Europe, Canada in pursuit of positions in major markets like London and New York. And sometimes they're doing that without even actually physically relocating. This is all unprecedented territory for the legal market. Corporate legal departments as well have been impacted as the draw of higher salaries and the prestige of big law firms has made recruiting and retention harder for our corporate legal buyers as well. Now there are some indications that this trend may have started to plateau, but that doesn't mean that the threat is over, and it's certainly something that depending on the next salary move or the next little flip in the overall industry, it could fire this trend right back up. Legal talent questions have been a huge area of focus for the Thomson Reuters Institute this year. Going back to March of this year, we released our Dynamic Law Firms report, which, while intended to be a report that focuses on sort of the business structure of successful law firms, those law firms that have done the best job of finding growth, that was impossible to divorce from talent questions. This year we released a new report in April of this year called Law Firms Competing for Talent and it's something that we colloquially refer to as our Stay-Go report. Sort of looking to answer the question of what makes attorneys stay versus what makes attorneys go. So, that's not a report that we felt we needed to do at this time last year, and now it's become absolutely indispensable because it's become such a key issue. And this is an issue that we've been watching, and we will be continuing to watch because it's so hyper-focused in the market. With that idea that we're still doing new research and coming up with new findings, I've invited my friend and colleague Jen Dezso to share the results of some of our latest research into what is driving talent trends and how the lawyers themselves are feeling about today's legal market and workplaces. Jen is the Director of Client Relations for the Thomson Reuters Institute. She joined the institute as part of the acquisition of Acritas at the end of 2019. For the past 16 years, Jen has used a data-driven approach to identify exactly how clients think about their law firm relationships and pinpoint the best opportunities to build more loyal and profitable clients. Jen draws on direct research with corporate legal buyers and her deep experience in the legal industry to help law firms grow by developing high impact client feedback programs, training professionals in client acquisition and growth, and delivering strategic consulting to organizations looking to improve performance and develop more business. Jen, thanks for joining us. It's great to speak with you again.

Jen Dezso: It's always great chatting with you, Bill. Thanks for having me today. I'm excited for this.

Bill Josten: I'm looking forward to it too. Now, you and I, we get a chance to chat about a lot of these issues with some frequency and there are always great conversations, but today is sort of special because we're basically inviting our audience from the Market Insights Podcast to more or less eavesdrop on what is usually just sort of a follow up conversation from some other teams' meeting that we're on.

Jen Dezso: Absolutely, I'll be sure to clean up my language for this conversation.

Bill Josten: So, before we really get into what the research is showing, it's probably helpful, you know, we probably don't want to start from the assumption that everybody listening to the podcast knows exactly what it is that we do within the Institute from a research perspective, so why don't you give us just a little bit of background on what this research is and how it's structured?

Jen Dezso: Fair enough, and it's a great question because especially with what we're going to be talking about today there's a lot of different sources of data that we're really drawing on for some of this latest research. So, as you mentioned, I came into Thomson Reuters as part of that Acritas acquisition. The Acritas organization had been benchmarking and really researching the legal industry for about 15 years and how they had traditionally done this was through in-depth telephone interviews with general counsel, corporate law departments, really understanding the legal market from the perspective of the buyer. Now, this is a really wide scale study. We interview more than 2100 of these legal decision makers every single year, this is on an ongoing basis, we still do this research today. As part of that conversation, we ask those legal buyers to tell us if there's any law firm lawyers that they work with who are really standouts in their eyes, they're really differentiating themselves from all of the other lawyers that they work with in the marketplace, and we asked for that. We get those names. In turn, we then go out and interview those lawyers. That research is what we call our Talent Insights research and the study itself is called Stellar Performance. So, you'll probably hear Bill and I kind of refer to those two data sources interchangeably, so those are our two main core bodies of research. Now, as you mentioned, Bill, as you were doing the introduction talent is something that has really become just front and center for a lot of law firms in particular over the past, you know, six months we do a lot of conversations with managing partners, law firms leadership, so that we can make sure that our research is always aligned to what's most top of line for those top of mind for those firms and just the overwhelming conversation was kept leading back to talent, and in particular what's going on with maybe younger generation lawyers, associates who are coming up through the ranks. And because that came through so loud and clear, we actually launched another study this past year. Our Associates Insight study where we went out and we interviewed about, I think again, another 1500, maybe closer to 2000 law firm associates to get a perspective of the market through their eyes as well. So, we're going to draw on all of these different research sort of sources that we have as well as Financial Insights, which is going to look at this as you mentioned from the financial and operational perspective of law firms because that's where we're able to start really crunching the numbers in interesting ways to not even just look at what's the scope of the issue, but more importantly, how do we start tying that into what can we really be doing different as an industry? Because everything we talk about is going to apply to both corporate law departments, law firms, I would say any professional services organization, quite frankly in terms of not just how big is this problem, but what can we do to reverse the trend that we're seeing.

Bill Josten: Yeah, and, you know, you mentioned all the various sources of research that we have. That's one of the things that I, you know I love about what we get to do right is we get to look at all this information and combine these different things and build these insights that that are really helpful for the market. So, with all that, that sort of context laid out, what are the big takeaways from the latest research that you've seen?

Jen Dezso: Yeah, it's so many. We obviously, I'll skew a little towards this idea of retention because it's obviously the most top of mind issue that we're hearing about and what was really interesting in what you were saying in the introduction and as you so kindly mentioned, I've been doing this and in fact your bio is probably a little out of date. I've been doing this closer to 20 years at this point, so I need to get you some updated information there, but retention's always been a bit of a pain point for law firms. There's always a little bit of movement that goes on between those, but what we're seeing now is flight risk is really starting to become a much more prevalent in the research. So, one of the things that we saw is that flight risk with our Stellar Performance that those lawyers who are nominated by clients, it's at about 21%, so 21% of those lawyers are saying within the next two years they're highly likely to somewhat likely to leave their law firm. And in fact, if I were to take a more pessimistic view, I'm a data nerd, obviously, as you know, so I like to kind of look at what's all the scenarios. If I widen that out to people who are also unsure or even somewhat unlikely to leave their firm, that number gets a lot closer to about 40% of that standout talent. So, these are lawyers who have really strong relationships with clients. Obviously it would be a huge loss for a law firm to lose these types of lawyers, so we have these really much lower levels of attorney loyalty. And that's just kind of the law of averages. That's the big picture. As you start going into certain segments of lawyers, you'll see different pictures emerge, right? So, typically with our over 60 age bracket you're going to see much higher levels of loyalty. They're far less likely to move law firms. However, as you start going down in age brackets, even if we look at those lawyers who are in the 40 to 50 age bracket, we start to see that really starts to tick up where more than half of them say they're likely to move firms. And then as we started at the very beginning when you start adding in the associate layer, that's where we really start to see those flight risks jump pretty substantially. So, you know, it's maybe a take away that everybody knows about in terms of yeah, we feel this on a day to day basis, but it really was substantiated in the interviews that we did with all of the lawyers, I think more interestingly, and I won't give away kind of all the answers 'cause I bet these are going to be part of the questions that you have, which is in terms of what's driving some of the flight risk it's not always the obvious answer, it is less to do about compensation, not to say that compensation doesn't pay, play into this and pay into it. That was definitely a Freudian and slip up, but you know it, there's a lot of more subjective pieces to what lawyers are thinking about today in terms of culture and what does my actual career and purpose look like? Those really playing into what lawyers are thinking about and frankly, some things that law firms have not in the past ever tackled head on. So, lots of interesting things from that perspective. You know, I'll let you ask some more questions before I just kind of rattle on for an hour and everyone wondering why I'm still talking.

Bill Josten: Yeah, some of the things you said there, Jen, really jumped out to me. You know, you talk about the retention really being a key focus and I think that's really true. I'm sure you're seeing in conversations you're having, I know I am, where there's far more firms out there that feel like they're at risk of bleeding people as opposed to really being in a position to do massive amounts of recruiting 'cause there's only a handful of those firms that are at the top of the market, setting salary scale and just bringing in as many people as they can get. A lot more firms out there are concerned, and frankly this is

true for corporate legal departments too, they're concerned about the people that they're going to lose rather than the number that they can recruit, so it's not surprising that retention is going to be that key focus, and frankly whether and when you talk about, you know, you said roughly 40% flight risk, obviously that's an average. Some firms are going to have much higher percentages of flight risks. Some are going to have much lower, but it really doesn't matter to a certain extent whether a law firm has, you know, a high percentage of flight risk or low percentage of flight risk. The managers of those law firms, the leaders of those firms and again for the legal departments too, they're concerned about every single person that they lose because the costs of replacement have gotten so high. It takes so long to find new people. It's very expensive to bring them in, so yeah, I think retention it really is that that key focus. And I totally agree from the standpoint of compensation, not necessarily being the key driver, right? When we look back at the report the competition for talent report from April, what we found there is competition isn't necessarily going to be enough to get people to stay, but it might be enough to get people to leave. As you look at the necessity versus sufficiency, you know, if there's nothing else keeping people there, compensation will pull them away, so you know, I, I'm as we unpack some of these things, you know, some of these retention drivers talking about OK well, if compensation is not going to necessarily be enough to get him to stay, what is? One of the first things that comes to mind is working styles. The impact of working styles, you know, coming out of the pandemic, I imagine that we're seeing a lot of changes in working preferences that lawyers are looking for in terms of remote versus in person and the flexibility of those arrangements. What impact are we seeing based on the research that something like that? The working styles and working arrangements? What is that having on retention and satisfaction?

Jen Dezso: Yeah, it does have an impact. And what's really interesting so, so we asked folks in the course of this study, you know, what their current working patterns really are in today's market, right? Like what are they doing right now? It's a big question that everybody is trying to answer. What's the best approach? Large majority are in a hybrid working environment. Very few, and when I mean large majority, we're talking about somewhere between 65% to 80% of firms are working hybrid, and so you've got, you know, the very classic bell curve with the two extremes on the other of everybody, either fully remote or fully in office, a little bit of variability when you look across different regions, different regions have handled it differently, but for the most part you know it is largely that hybrid environment. Now what's interesting you referenced the what we call internally should I stay or should I go report which I of course love as a Gen Xer, what we were finding when we looked at those lawyers who were more likely to stay versus more likely to go, those lawyers who were more likely to go definitely had more of an emphasis on that flexible work style. That is something that they were really looking for. They didn't want to be as prescriptive as they had been in the past in terms of, you know, time in the office and which hours they're actually working. I think that's a piece that a lot of folks overlook when we start talking about hybrid. We've kind of drilled down to the only talking point being about are you in the office or are you not in the office? And actually, what we hear about in the research is also about the flexible hours of can I spend some time in the morning, you know, I they're bringing my kids now that you know in in the US, at least, we're in the summer. So, can I bring my kids to camp in the morning and spend a little extra time with them? It's also about that shifting of hours of how they're working, and we definitely see for those lawyers who are looking to go that they want that really incorporated into their lifestyle. A lot more intentionally, I guess is the best word that I would use to describe that, so I think I think that's a really great point that you make.

Bill Josten: Yeah, so that brings up another question that you talk about the differences in some of these attitudes. When we look at these findings from the perspective of different lawyers, you know, associates, senior associates, sizes of firms' sort of segment. How do the findings change based on those different segments of lawyers that we that we look at?

Jen Dezso: Yeah, a lot is the answer and this is one of the things that I'm always when I work directly with law firms on building something like a retention program or even just running an employee or talent engagement survey, it is so much more important to look at the segments because they can vary very widely in terms of what people are looking at in different steps along their career path. So, putting working preferences aside because actually, we didn't see as dramatic as a difference in those working preferences as you would expect, especially maybe by like age, you know, I think when the pandemic was first shutting down operations everyone improperly presumed, oh, the older lawyers are going to have a harder time with this. That actually didn't pan out. That didn't turn out to be the case. It was actually the younger lawyers who were saying I need to be in the office because that's how we learn and that's how I, you know, develop the relationships I need within the firm to career, you know, do my career progression. So, they were really feeling the crunch of it and we're pushing to get back into the office faster than some of your older generation lawyers were. Where I think that, and that's starting to level out a little bit where we're seeing a little bit more consistency across those age groups. Where you do see some bigger differences is what really drives lawyer engagement with the firm. So, what's driving satisfaction, which of course the higher or lower satisfaction is going to be, the lower is going to be your risk for flight risk, and so for those younger lawyers that's where you really see the career progression becomes, you know, front and center as one of the more strongly "tied-to" satisfaction attributes that they're talking about, right? They really want to make sure that there's a clear path. Interestingly, and we didn't necessarily probe on this, but we've done a lot of conversations and I know that you've had similar conversations, Bill, with managing partners who, quite frankly, are surprised at the level of associates who are no longer looking to be on a partner path, right? So, they're looking for alternative ways to grow progress at a firm, but that may not fall within that traditional partner program. So, there's now being put a lot of pressure on firms to figure about what do different career paths look like? How do we put those in place? What? How do we respond to this folks not wanting to have just what we've done for the last, you know, hundred, 200 years in terms of how you really elevate your yourself at a law firm. When you shift over to maybe some of your older generation lawyers it does actually turn more into that working life is a stronger driver of their satisfaction, so you start to see a little bit of a different influence when you go into maybe different segments by gender or even by ethnicity. Again, you'll start to see some of those different areas shift in terms of what's more important to them. So that's we're doing this type of research we just, I mean again, I'm a data nerd. I find whole data fascinating, but for me in particular I really love when you start to see for this group it's this because that's the more specificity you get in this type of research, the better is the plan that you can build out to react to it, right? Like that's why you do the research in the first place.

Bill Josten: Yeah, and as I'm listening to you and obviously you know we've had some of these conversations before, but listening to what you're saying now and the conversations I've had with managing partners, what's becoming more and more evident, at least in my eyes, is whatever the solution is it has to be tailored. You know, that the idea of one size size fits all solution to this. There's not going to be any one solution that's going to work for every law firm or legal department. You know, where we can say this is the magic formula. That's certainly not going to be a thing. Even, you know,

within a particular firm there's not going to be a one size fits all solution for that firm, as we think about differences in preference and career path. The work that needs to be done on the part of the law firms and the legal department says employers is really understanding what is that goal that the person they're trying to retain wants to fulfill, and then how do we create a path for that? 'Cause you know we we've seen that in some of our other research as well that career path is a huge driving factor, but that's not necessarily get with the program, lockstep compensation for eight years, partnership model up or out. You know that sort of attitude is long gone. It's much more about tailoring, and you know, Jen, I think you and I were on the same meeting last week talking with a couple of managing partners, when one of them talked about how they have to sell the idea of partnership more than they ever have before, which is a really interesting concept, but you know, I saw some wisdom in that right? Where let's talk just about, well, of course you want to be partner, because that's you know, partner is what partner is partner, of course, you'd want to be a partner like it's not just an assumed thing anymore. What are the benefits? How does this tailor into your goals, your values, your purpose for being with the firm, how you're able to serve your clients, the flexibility that partnership can bring? You know that all of that that was really eye opening to me and as I'm listening to you talk today, it's just reinforced over and over again that firms that really want to focus on retention have to focus first on the people they want to retain and how do they do that? Not in terms of a block policy, but in terms of an individual person, right? What is this person still and how do we do that?

Jen Dezso: Oh man, yeah. Well, and I think what's really eye opening I, I mean, everything you said is 100% correct and then I would take it a step further, which is historically retention is one of those areas that isn't necessarily assigned at the firm right? And we in fact have asked this of managing partners, which is who at the firm is actually accountable for retention? And it's really telling when they're they kind of were like, well, I don't even really get the question. What do you mean? Every everybody is all the partners are responsible, but to your point, if we are suddenly going to have an environment where you really need to look at individuals you know and this is not a new idea necessarily, right? It's kind of like the mass personalization. There's going to be some big picture themes that will apply to certain groups like we've been talking about. Like when we segment this, there's differences. There are differences by age, by gender, so you are able to find kind of big pushes for certain groups, but that still doesn't get us back to who owns this at the firm. And that's one of the things that we're really starting to work with firms on is how do you build a plan where there are people accountable for making sure this is a priority because as you rightly said at the start, it's expensive. It's really expensive. To not just lose a person and have to hire a new one and then you have to spend that time training the new person in. They have to fit in with the culture before they're, you know there's the lag between when they come and what their true earning potential is. There's always, you know, how much of the book of business did they bring over with them, which that's a whole another conversation that we have data on that we probably don't have time for today, but so this idea of ownership is really interesting, and there's quite a few firms that I've been talking to all anecdotally, let me say that as my massive caveat here, where they are starting to tackle that and so one firm I was talking with the other day, they have a career counselor that they've brought in full time position at the firm that they are bringing in to work with lawyers to say, let's talk about what it is you are looking to achieve from a career perspective too. You mentioned this word and I always love going back to it, 'cause we've done a lot of research around the idea of purpose, right? So how do we align what you're doing to what you see is your purpose in society which, you know, it always sounds a little soft when you bring this into kind of the legal context. But people do people get into legal because they've got, you know, it's usually not for the money at the

end of the day, they're getting into it because they feel really drawn to certain issues that they want to help make better in the world. So how do we make sure we're bringing that in at the start of the conversation, because those as you mentioned are exactly what's tied to retention and to keeping people satisfied, so I think we're starting to see some shifts. Some firms really tackling this head on, but if they don't start doing this, I think with a little bit more persuasiveness, we're never going to see that that flight risk number go down, because these are the things it's not just a money issue. If money is always kind of the short-term solution, we, you know, we see this on the financial insights side all the time, if we're even just looking at this from a billing perspective, right? Yes, you can raise rates, but how sustainable is that? At what point do you, you know, raise your rates, and then your demand goes down? Same is going to be true on the compensation side, right?

Bill Josten: Yeah, for sure. So, boiling some of this back to, sort of, the root of the issue. I imagine for a lot of firms, probably the first step, you know, we're talking about tailoring things into individual preferences and understanding what those goals are and, and you know, what's really driving the decisions that your people are making. The first step for this is probably doing the work to figure out what that looks like, right? I mean, it's not going to be the same for every firm, so it's probably taking that internal look to figure out where do we stand now and where do we want to be?

Jen Dezso: Absolutely, I cannot urge enough for people to do a similar a study to what we do widely. Take that internal to your organization because not knowing is just, you can't fix what you don't know is broken, right? So, you have to ask, sometimes some difficult questions. One of the things that we didn't touch on is firm leadership strategy and direction of the firm also very strongly tied to lawyer satisfaction and engagement, especially as you start getting into that 40 to 60 age frame. So, lawyers who now have an established book of business, who, if they were to leave really make a big impact on the firm. That's what they're looking at, so sometimes it's uncomfortable to maybe have to face the answers that you get back from asking that type of question, but if you don't know where the gaps are you're not going to be able to fix them and a lot of the times I will say the gaps are more communication related. You know, how are we communicating strategy to the firm as a whole rather than they're you know, not being a strategy. So, and that's again another area that we work on with firms is how do we make sure that the message we're putting out internally is resonating with lawyers in a way that they feel like, oh, I understand and now I see what my role is and how I fit into this wider firm strategy. So, 100% you gotta unfortunately kind of rip the band aid off to see what's going on underneath.

Bill Josten: And I will say from my conversations, having done this for a long time as well, I'm seeing more of a willingness to be very honest about status, if you will, and I don't mean you know prestige status. I mean where are we in terms of in terms of how we're doing on things? I'm seeing a much higher propensity to be honest about, you know, we might be big law firm, but we still have issues, and we want to understand what those are. That that sense of wanting to be honest with yourself, I think has really grown in the last few years, and that's very encouraging.

Jen Dezso: Yeah, there are two words that I have heard more in the last year than I have heard in my 20 years doing this is authenticity and transparency. Those are really two words that whether it's managing partners, whether it's just partners at the firm, whether it's the folks the business professionals at a firm, so finance, marketing, and business development, all talking about, there's just such a push and desire for the firm to be more authentic in what they're saying, and being more transparent about what's going on at the firm. You know, as we said, this ends up being a very kind of individual do I fit with where

you're going? You're going to find somebody where the fit is absolutely correct, so the quicker you are, and the more vocal you are about who you really are and where you're trying to get, you're going to get the right people on board to really get you to that next stage that you're looking to achieve.

Bill Josten: Yeah, well Jen, you and I obviously could sit and talk about this for hours, but then we'd probably have to start, you know, leaning towards a cocktail hour for this. And then we may as well be in person so, I will sort of wrap it up by saying anyone who's been listening to this and is interested in finding the latest research anything that we've published, obviously, thomsonreuters.com/institute. The institute's website everything housed out there, so anybody who wants to go and find the latest or go back and look at things that we've trended over time. It's all available there and I know you and I are fairly easy to find on Google, so folks would be able to reach out to us that way, but you know, at any last parting thoughts that you want to leave folks with?

Jen Dezo: No, I think this has been a great conversation and as Bill said it, this is one of those ones where it's easy to start talking about this for an hour because there is so much nuance to this particular set of data, so you know, as he offered, I would also offer. Reach out. You can tell, I would gladly talk anybody's ear off about all of this data in a lot more detail. So, if talent is something that firms who are listening to this, or like I said, corporate law departments because this really does encompass lawyers as a big picture. Reach out, let's talk about you know the situation that you're in. The types of lawyers that you may have, that that you're managing, and you know we can start picking away at some of this. And hopefully give you a little more insight about what's most important to that talent so that we can reduce those flight risk numbers.

Bill Josten: Jen, thanks so much for your time today. It's always fun chatting with you.

Jen Dezo: Thanks for having me. I hope we get to do it again.

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