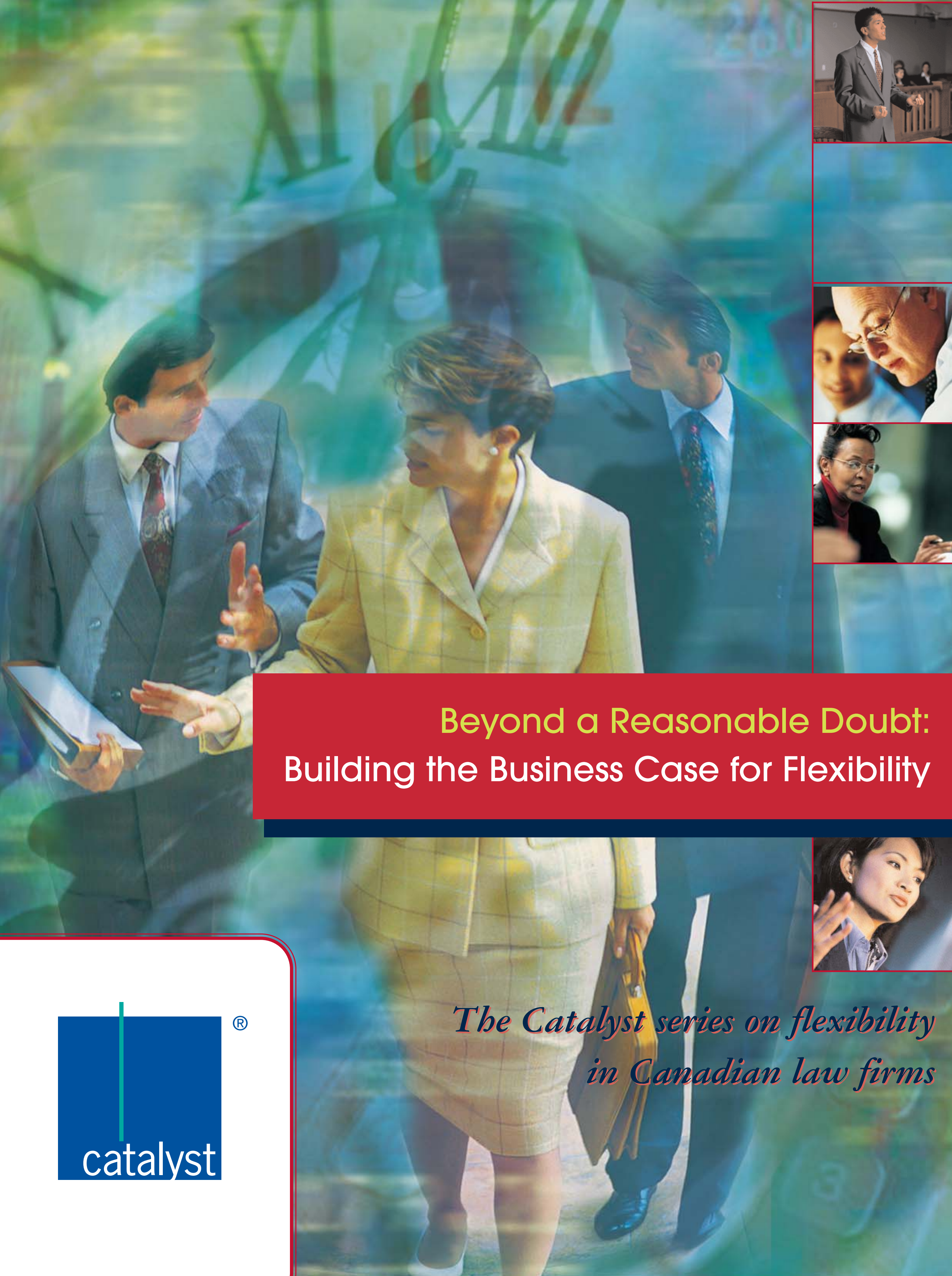

Beyond a Reasonable Doubt:
Building the Business Case for Flexibility

The Catalyst series on flexibility in Canadian law firms

catalyst®

ABOUT CATALYST

Catalyst is the leading research and advisory organization working to advance women in business, with offices in New York, San Jose, and Toronto. As an independent, not-for-profit membership organization, Catalyst uses a solutions-oriented approach that has earned the confidence of business leaders around the world. Catalyst conducts research on all aspects of women's career advancement and provides strategic and web-based consulting services on a global basis to help companies and firms advance women and build inclusive work environments. In addition, we honor exemplary business initiatives that promote women's leadership with our annual Catalyst Award. Catalyst is consistently ranked No. 1 among U.S. nonprofits focused on women's issues by The American Institute of Philanthropy.

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INTRODUCTION

In 2001, Catalyst released *Women in Law: Making the Case*,[1] a study exploring the lack of women in leadership positions in the legal profession, and how legal employers can fully capture the talent of women. In this 2001 study, a large proportion of both men and women lawyers reported difficulty balancing the demands of work with the demands of their personal life. Also, Catalyst found that the careers of women law graduates are significantly affected by work-life issues, both in terms of advancement and career paths.

Following the release of *Women in Law: Making the Case*, Catalyst engaged in a series of discussions with stakeholders in the Canadian legal community. A clear theme that emerged in these discussions was the desire on the part of Canadian law firms to better understand how to address the challenges lawyers in law firms experience around flexibility and work-life balance. This desire emerged, in part, as a recognition that increasing demands for balance on the part of incoming lawyers appear to be in direct conflict with the realities law firms face as they adapt to an increasingly competitive marketplace for legal services (e.g., rising billable hours demands, lengthening partnership tracks).

Catalyst's *Flexibility in Canadian Law Firms* series is our contribution to the ongoing dialogue on work-life balance within Canadian law firms today. In the last 20 years, through our research activities, member outreach, and extensive advisory services practice, Catalyst has learned that the first step in making effective organizational change is to understand and widely communicate the "business case" for change. Correspondingly, in the case of law firms, the first step in effectively dealing with the seemingly intractable dilemma of how to improve balance while succeeding as a firm in challenging times, is to *understand the dimensions of the work-life balance issue*. In other words, to what degree is work-life truly an issue and, in dollar terms, what is the impact of this issue on the firm?

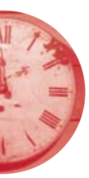
This first report lays out two critical elements of the business case for flexibility in law firms. First, it demonstrates that work-life balance is a prominent consideration for associates, both in terms of how they assess a firm as a place to work and why they stay with their firms. The social contract has changed over the years, and today's younger people are clearly placing a high value on the "life" aspect of the work-life equation.[2] Second, this report puts a dollar value on associates who leave their firms, arguably due to dissatisfaction with balance. The potential dollar cost of not addressing dissatisfaction with work-life balance can amount to millions of dollars each year in lost investment due to turnover.

[1] Catalyst, *Women in Law: Making the Case*, 2001.

[2] Catalyst, *Next Generation: Today's Professionals, Tomorrow's Leaders*, 2001. This study examined the attitudes and perceptions of the "Generation X" cohort, ages 25-34, a demographic that coincides with the age demographic of most associates in law firms.

Moreover, given that young people entering the field are demonstrating that work-life considerations are of critical importance to them, firms that lead the way in helping their lawyers manage competing personal and professional demands may have a reputational advantage. Arguably, those firms with this reputational advantage have a greater possibility of leveraging their sizeable investment in their associates. Furthermore, when a valued associate walks out the door due to frustration with how work-life issues are handled, not only can there be a potential financial cost in terms of lost investment, but there are multiple other potential soft costs to a firm as well. Lower morale, the loss of intellectual capital and talent, and the long-term financial loss of a strong performer, are just a few examples of the intangible costs of turnover a firm may incur. In short, when a law firm loses those it would prefer to retain, recruitment and retention issues assume long-term implications for law firms' performance and growth.

Against this backdrop of shifting demands from newer firm members and increasing market pressures, the purpose of this series is to help law firms understand the business case for change around this issue in their own terms, and to prepare themselves for change. For those firms who desire a leadership role on this issue, this series is intended to provide insights, benchmarks, best practice examples, and tools that will enable them to better manage the omnipresent work-life balance challenges faced by the majority of today's associates and partners, men and women. With this series, Catalyst intends to:



- Provide insights that augment firms' retention strategies and contribute to building a business case for flexibility in law firms.
- Understand how attitudes and perceptions of and experiences with work-life balance and flexibility affect levels of commitment, satisfaction and, for associates, their aspirations to partnership.
- Generate greater awareness and understanding of the factors that facilitate and obstruct flexibility and work-life balance in law firms.
- Address existing assumptions and perceptions of flexible work arrangements in law firms.

UNIQUE ASPECTS OF THIS SERIES

This innovative series includes unique elements worth highlighting:

The Flexibility in Canadian Law Firms Survey

Fielded in the fall of 2003 to lawyers in 100 Canadian law firms, this online survey explored associates' and partners' experiences managing their work and personal responsibilities, their perceptions of the law firm environment, and their attitudes towards the use of flexible work arrangements. In addition, it assessed satisfaction, intention to stay, and associates' aspirations to partnership. A total of 1,439 associates and partners (638 women and 801 men) completed Catalyst's *Flexibility in Canadian Law Firms* survey, producing a robust, representative sample of associates and partners.

Turnover Cost Model

Through an iterative design approach with the Toronto offices of four large Canadian law firms, Catalyst devised a workbook to be used by law firms to capture the cost of associate departures. Cost data collected from the four firms during this process serves as a case study, demonstrating the potential cost impact of associate turnover.

SERIES' RELEASES

The *Flexibility in Canadian Law Firms* series includes the following reports, described below.

Beyond a Reasonable Doubt: Building the Business Case for Flexibility

The first report of the series, this report begins to explore how associates' attitudes and perceptions of work-life balance and flexibility affect their commitment to stay with their firms. In addition, this report provides a framework for thinking about the cost of associate turnover.

Future Reports

The next report of the series will focus on associates' and partners' perceptions of firm culture and work-life balance. Drawing heavily on survey data, and supplemented by interviews with associates and partners, this report will provide greater understanding around how work design, performance norms, and work-life balance contribute to associates' and partners' satisfaction with their work environments, commitment to their firms, and—for associates—their aspirations to partnership. It will also include action steps for how to create a more flexible work environment at your firm. We anticipate releasing this report in the summer of 2005.

In the third report of the series, Catalyst will focus on associates' and partners' perceptions and use of flexible work arrangements in law firms. We anticipate a release in late 2005 or early 2006.

CHAPTER 1: MAKING THE LINK—WORK-LIFE BALANCE AND ASSOCIATES' INTENTIONS TO STAY

KEY FINDINGS

Making the Link—Work-life Balance and Associates' Intentions to Stay:

- Sixty-two percent of women associates and 47 percent of men associates intend to stay with their firms for five years or less.
- Women and men report the same top factors as important in choosing to work at another firm: an environment more supportive of family and personal commitments, and more control over work schedules.
- Associates with positive perceptions of their firms' work-life cultures intend to stay with their firms for a longer period of time.

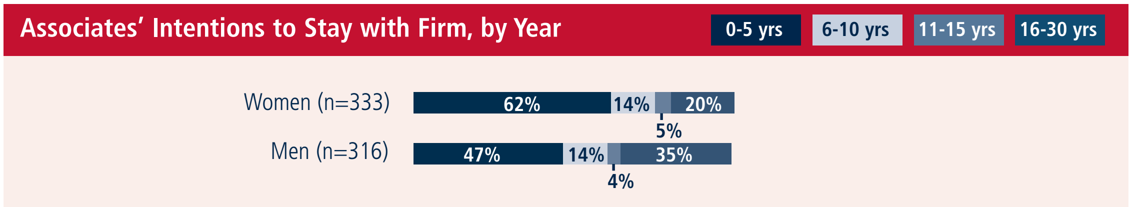
In this chapter, we share a select set of findings from the *Flexibility in Canadian Law Firms* web survey pertaining to associates' intentions to stay with their firms. Two-thirds of women associates and nearly one-half of men associates report that they intend to stay with their firms for only five years or less. In turn, men and women associates with more positive perceptions of their firms' work-life culture (i.e., the observed norms, practices, and behaviours within the firm work environment that enhance or diminish associates' sense of support for work-life balance) intend to stay longer with their firms. This finding suggests that law firms that proactively address the work-life balance concerns of associates are capitalizing on a powerful lever for retention.

KEY FINDING

Sixty-two percent of women associates and 47 percent of men associates intend to stay with their firms for five years or less.

Of the associates who reported their intentions to stay with their firms,[3] 62 percent of women and 47 percent of men intend to stay with their firms for five years or less. Additionally, more men than women report longer-term intentions to stay with their firms. Thirty-five percent of men associates, compared to 20 percent of women associates, report they intend to stay 16 years or more with their firms. Of those men and women associates who intend to stay with their firms for five years or less, 50 percent of men and women are senior associates[4] (i.e., associates with greater skills, expertise, and revenue-generating ability than their more junior counterparts).

[3] 333 women and 316 men, a total of 649 associates, are included in the analysis of intentions to stay.
[4] Junior associates are first- to third-year associates; senior associates are fourth-year associates and above.

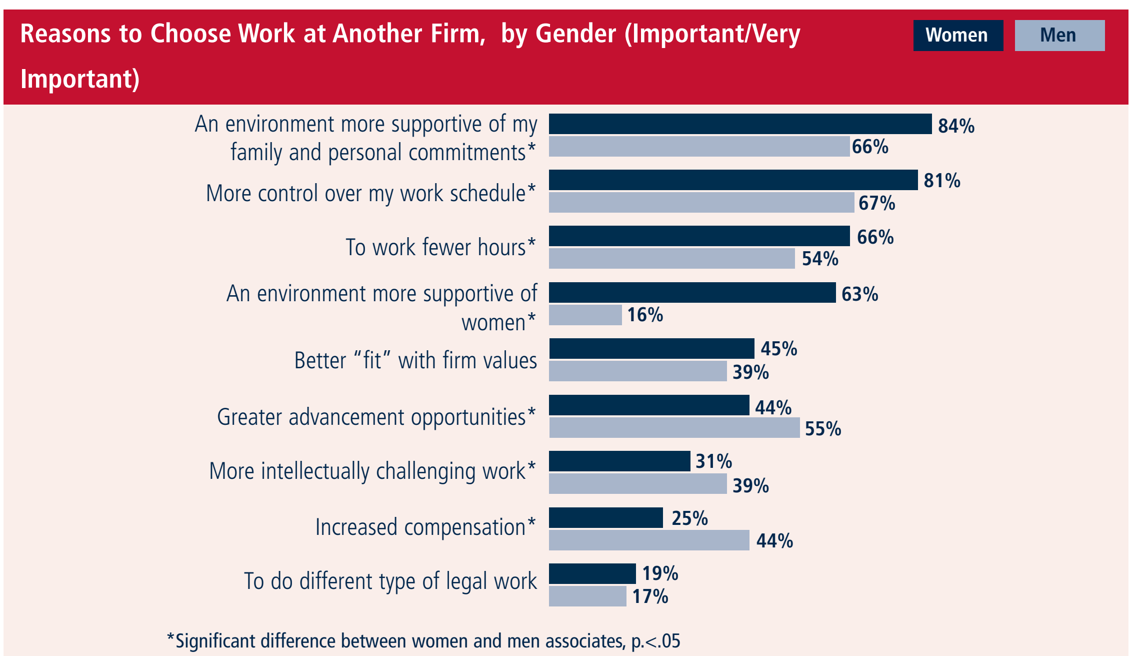


Associates' Intentions to Stay with Firm, by Year

KEY FINDING

Women and men report the same top factors as important in choosing to work at another firm: an environment more supportive of family and personal commitments and more control over work schedules.

Despite the range of factors offered in Catalyst's survey—from increased compensation to pursuing more intellectually challenging work—more men and women associates, both junior and senior, cite work-life balance factors as important in choosing to work at another firm than other factors. Eighty-four percent of women and 66 percent of men rate "an environment more supportive of my family and personal commitments" as an important factor in choosing to work at another firm. Similarly, four out of five women (81 percent) and 67 percent of men indicate more control over their work schedules as important in choosing to work at another firm. Finally, a majority of women (66 percent) and men (54 percent) indicate that the possibility of working fewer hours would be important in choosing to work at another firm.



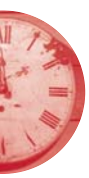
Reasons to Choose Work at Another Firm, by Gender (Important/Very Important)

Despite similarities in the reasons for choosing to work at another firm, there are some significant differences between men and women associates.[5] For example, although still a majority, a smaller proportion of men than women report that the top factors (i.e., an environment more supportive of family and personal

[5] When we find that a relationship is statistically significant, we know that that relationship is not random, i.e., it is meaningful. For example, when this study reveals a statistically significant difference (at $p<.05$) between men and women on some variable, the difference is positive and significant at the 95 percent level. This means that there are fewer than 5 chances in 100 that this difference would not be observed should we repeatedly test this connection. Similarly, when $p=.000$, we would get the same result in almost any sample in which we tested the connection.

commitments and greater control over work schedules) are important in choosing to work at another firm. In addition, men associates are more likely than women to focus on the traditional incentives offered by law firms. Forty-four percent of men cite the importance of increased compensation, compared to 25 percent of women. Additionally, 55 percent of men, compared to 44 percent of women, cite the importance of advancement opportunities.

These findings do not demonstrate that women do not care about how much money they make or are uninterested in advancing their careers. Rather, the findings suggest that in addition to these traditional incentives, women are especially attentive to firms' efforts to foster supportive work environments and to provide flexibility. This is demonstrated by the extent to which the factor "an environment more supportive of women" is key to women's career choices—63 percent of women cite this as an important factor, compared to 16 percent of men.



Also important to note is that associates' top three reasons for choosing to work at another firm are not addressed by the typical retention strategies used by law firms: competitive compensation and the opportunity for upward mobility.[6] Clearly, these more traditional factors continue to be important, and are cited to be so by one-third to one-half of associates. But in an environment in which pay and advancement opportunities vary only marginally between one firm and another, policies that support associates' personal commitments and offer more control over their work may contribute to retaining top talent.

KEY FINDING

Associates with positive perceptions of their firms' work-life cultures intend to stay with their firms for a longer period of time.

Is there a connection between associates' perceptions of a firm's work-life culture and their intentions to stay with their firms? Establishing a connection is an integral aspect of establishing a business case for flexibility.

To answer this question, Catalyst created a "work-life culture index" to measure whether associates' perceptions of the work-life cultures at their firms are related to their intentions to stay with their firms. To define "work-life culture," we referred to survey items that capture associates' perceptions of cultural norms, practices, behaviors, and experiences within their firms that inform associates' sense of the firm's support for work-life balance (see p. 7 "What's the Work-life Culture Index?"). Rated by survey participants for the majority of survey items on a scale of one (i.e., strongly disagree) to five (i.e., strongly agree), the survey items' ratings were then averaged to derive an index "work-life culture score."[7]

[6] In addition to measuring the statistical significance between men and women, we determined that there is a significant difference between associates' top three reasons to change firms (i.e., "an environment more supportive of my family and personal commitments," "more control over my work schedule," "to work fewer hours") and the reasons "greater advancement opportunities" and "increased compensation."

[7] For a full description of the methodology used to devise the work-life culture index, see Appendix 3. The index is informed by other research. For example, see Cynthia A. Thompson, Laura L. Beauvais, Karen S. Lyness, "When Work-Family Benefits Are Not Enough: The Influence of Work-Family Culture on Benefit Utilization, Organizational Attachment, and Work-Family Conflict," *Journal of Vocational Behaviour*, vol. 54, no. 3 (June 1999): p. 392-415.

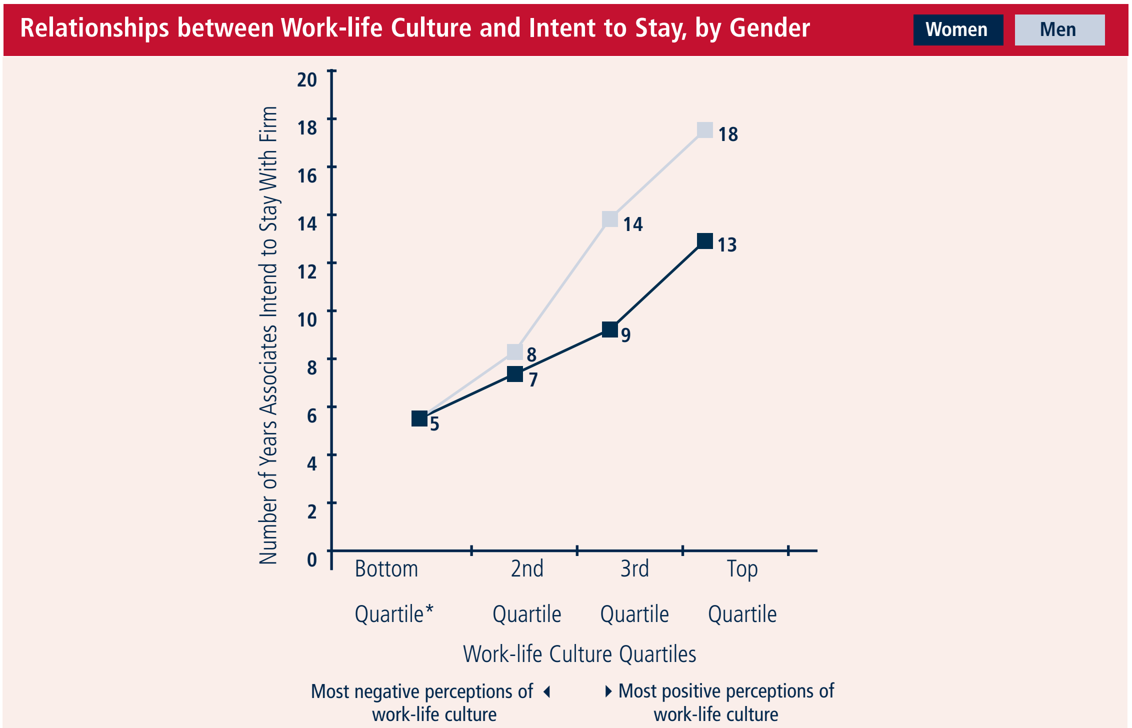
What's the Work-life Culture Index?

The term "work-life culture" captures associates' perceptions of how aspects of their law firms' work environments either support or detract from work-life balance. Our index of work-life culture is based on eight specific measures:

- I find it difficult to manage the demands of my work and my personal life.
- I am satisfied with my ability to manage my work and personal responsibilities.
- Advancement in my firm depends upon putting career before personal or family life.
- The amount of work-life conflict one experiences in my firm depends on who one works for.
- The unpredictability of my work makes it difficult for me to manage my work and personal responsibilities.
- Billable hours targets at my firm make it difficult for me to manage my work and personal responsibilities.
- My firm's leadership is supportive of helping partners and associates better manage work and personal responsibilities.
- How satisfied are you with the level of discretionary flexibility at your firm?

Clearly, as indicated in the graph below, associates' ratings of their firms' work-life cultures are significantly related to the number of years they intend to stay with their firms. In other words, the more positive perceptions of work-life culture, the longer associates intend to stay. This finding is true even after considering differences among associates due to gender, level, marital status, and other characteristics.

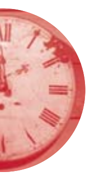
Relationships between Work-life Culture and Intent to Stay, by Gender



*In this graph, associates were placed into quartiles based on their work-life culture scores. The bottom quartile includes associates with the lowest ratings (i.e., those who gave the most negative scores to the work-life culture index items) and the top quartile contains those with the highest work-life culture ratings (i.e., those who gave the most positive scores to the work-life index items). Quartiles are used for the purpose of illustration only. The full continuous scale was used in the analysis.

Men and women who gave the most negative assessments of their firms' work-life cultures (i.e., the bottom quartile) intend to stay the fewest number of years—approximately five for both genders. In the second quartile, men and women associates who rate their firms' work-life cultures more positively than those in the bottom quartile intend to stay longer—eight and seven years, respectively. In the third and top quartiles, although both men and women report an intention to stay longer, men who perceive a positive work-life culture intend to stay longer than women do: 14 years compared to 9 years in the third quartile, and 18 years compared to 13 years in the top quartile.

It is important to note that this finding does not suggest that associates' perceptions of work-life culture are the only factors influencing their intentions to stay with their firms. Catalyst and other research demonstrate that other factors, such as levels of job satisfaction, can impact general levels of commitment and intention to stay. However, while exploring other factors that influence associates' intentions to stay is beyond the scope of this report, the relationship shared here suggests that associates' perceptions of work-life culture are important factors for firms to consider.



Finally, a possible explanation for the difference between top quartile men's and women's intention to stay may lie in the different experiences of men and women associates in the law firm work environment. For example, in Catalyst's 2001 study *Women in Law: Making the Case*, despite similar satisfaction levels with their current employers, women law graduates generally did not intend to stay with their current employers as long as men. However, compared to other women associates, those women who did plan to stay longer reported higher satisfaction levels with advancement opportunities, availability of mentors, the management of their firms, professional development opportunities, and control over their work. Law firms that ensure women associates are satisfied with these elements may, in turn, benefit from their increased willingness to stay.[8] Nevertheless, despite the difference between men and women in the third and top quartiles, the overall message from the findings in this report is clear: Firms that foster a more balanced work-life culture stand a better chance of retaining both men and women.

[8] Catalyst, *Women in Law: Making the Case*, 2001.

KEY FINDINGS

- The average total cost of an associate's departure is $315,000, approximately twice the average associate's salary.
- The average firm breakeven point[9] on an associate is 1.8 years.

A substantial proportion of associates intend to stay with their firms for less than five years.[10] Moreover, perceptions of work-life culture are significantly related to associates' intention to stay with their firms, and work-life balance considerations figure prominently in the minds of both men and women associates. While some may assume associate turnover is simply a cost of doing business—an expected by-product of law firms' organizational structure (i.e., their recruitment and partnership model)—perceptions such as these miss the bigger picture. Consider the following:

- A firm invests a great deal of its capital in recruiting and developing associates. A well-designed retention strategy, which includes tracking the cost of associate turnover, will help a firm maximize its return on this investment.
- Numerous studies across industries have determined that the exit of employees impacts organizations in terms of out-of-pocket expenses, loss of intellectual capital, and, ultimately, an organization's bottom line.[11]
- Law firms employ administrative procedures to account for business transactions, capital investments, and costs. Since associates are among a firm's most valuable assets, tracking the cost of associate turnover is imperative.[12]

Using a case study approach, Catalyst worked closely with the Toronto offices of four large Canadian law firms to gather detailed information concerning the cost of associate turnover. The goal of this analysis is three-fold:

- Quantify the potential cost impact of associate turnover so that parties who are concerned about the issue are operating with data and not assumptions.
- Provide law firms with a guide to calculate and track the cost of associate turnover.
- Quantify the cost impact of associate turnover in order to encourage thinking and dialogue about a major driver of associate turnover (i.e., dissatisfaction with work-life balance).

[9] The *breakeven point* is the point at which revenues generated by an associate equal the cost of recruitment, training (investment costs), and the potential cost of departure from the firm (separation costs).

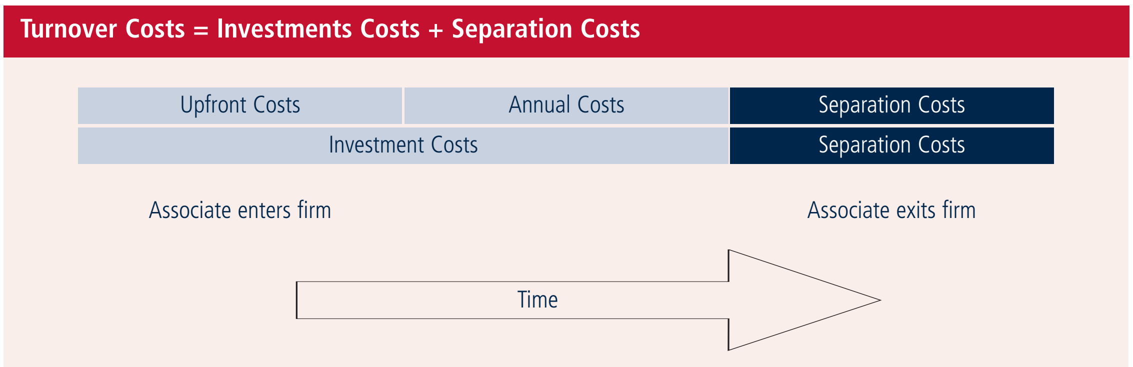
[10] Research demonstrates that individuals' expressed intention to leave their organizations is highly correlated to actual turnover. See James D. Westaby, "The integrative reason model and employee turnover: New links in behavioral intention models," *Academy of Management Best Paper Proceedings*, (2003): p. G1 - G6; Peter W. Horn and Angelo J. Kinicki, "Toward a greater understanding of how dissatisfaction drives employee turnover," Academy of Management Journal vol. 44, no. 5 (2001): p. 975-987; Robert P. Steel and Nestor K. Ovalle, "A review and meta-analysis of research on the relationship between behavioral intention and employee turnover," *Journal of Applied Psychology* vol. 69, no. 4 (1984): p. 673-686; Allen I. Kraut, "Predicting turnover of employees from measured job attitudes," *Organizational Behavior and Human Performance* vol. 13, no. 2 (1975): p. 233-243.

[11] The NALP Foundation for Law Career Research and Education, *Keeping the Keepers,* 2003; Abraham Sagie, Assa Biranti, and Aharon Tziner, "Assessing the costs of behavioral psychological withdrawal: A new model and empirical illustration," *Applied Psychology: An International Review* vol. 51, no. 1 (2002): p. 67-89.

[12] The NALP Foundation for Law Career Research and Education, *Keeping the Keepers*, 2003.

QUANTIFYING THE COSTS OF ASSOCIATE TURNOVER—THE TURNOVER COST FORMULA

The diagram below represents the basic formula underlying the cost calculations in this chapter. The point at which an associate enters the firm as a summer student to his or her point of departure as an associate (either junior or senior) is the time period captured in the cost formula. During this time, there are two major types of cost involved when determining the potential cost of associate turnover: investment costs and separation costs.[13, 14] Below, we break down each type of cost and describe its cost components.



Investment Costs

Law firms build their associate ranks largely by following a fairly standard recruitment model that relies on the progression of a "class" of law students, from their recruitment as summer students, to their tenure as articling students[15] with the firm, to their "hireback" as associates and potential partners with the firm.[16] The process of recruiting law students out of law school and then developing them as summer students, articling students, and associates with the firm over a period of years involves significant upfront (i.e., pre-associate) and annual investment by the firm. A firm invests a great deal of its capital in developing its associates' skills; therefore, capturing this investment as part of the cost of an associate's departure is important. In addition, quantifying this investment helps a law firm determine when it recoups its investment in its associates.

[13] This model is intended to be a guide. Each firm should customize the cost information it gathers and tracks to reflect its business and how it manages associate turnover.

[14] Organizations also capture replacement costs when calculating the cost of employee turnover. However, in this study, replacement costs are not calculated due to the manner in which law firms participating in this case build their associate ranks and manage associate departures.

[15] See Appendix 5.

[16] Many law firms, including the four case study participants, also hire laterally to build their associate ranks. However, the bulk of associates join the firm through the summer student/articling student process. Given typical practice, the costs of lateral recruitment are not included in investment costs.

Investment Costs[17]	Cost Item
Upfront	**Student Recruitment Costs** ● Labour costs associated with the recruiting process ● Out-of-pocket costs associated with the recruiting process (travel expenses, dinners and entertainment, promotional materials) ● Summer student salary and benefits (includes an overhead allocation) ● Articling student salary and benefits (includes an overhead allocation) ● Cost of benefits during the time students are not working between their call to the Bar and the time they begin work as an associate ● Tuition bonus
	Training Costs ● Labour in training of summer students ● Labour in training of articling students ● Orientation training ● Bar admission courses
Annual	**Training Costs** ● Formal continuing legal education (CLE) training ● Informal continuing legal education (CLE) training ● Additional informal training/mentoring

Separation Costs

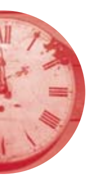
Separation costs are those costs incurred when an associate leaves the firm. While some costs, such as severance packages and outplacement services, are categorized as "out-of-pocket" expenses (i.e., a direct cost), most separation costs also involve time, inconvenience, and lost productivity. These can be significant depending on the value of the associate to the firm prior to departure.

Separation costs also vary by the circumstances surrounding an associate's departure. *Voluntary separations* are those in which an associate chooses to leave the firm. While occasionally the firm may support this decision or see it as a positive departure, ultimately, the associate initiates the separation. *Involuntary separations* are those in which the associate is officially asked to leave the firm. This termination may be for several reasons, including unmet performance expectations (the "up or out" philosophy that exists across many professional firms in which the associate is unlikely to be admitted to the partnership ranks), overcapacity, or layoffs due to particular "economic" circumstances affecting the firm.

[17] Costs are not adjusted for summer, articling student, or associate revenues. For further description and detail of investment costs, refer to Appendix 2.

The following table lists all cost items considered "separation costs:"

Separation Costs[18]	Cost Item
Involuntary Separation	● Labour costs for file reassignment (professional and staff) ● Severance ● Career counseling services ● The decrease in an associate's billable hours from the time the departure decision is announced to when he or she actually leaves the firm
Voluntary Separation	● Labour costs for exit interview and file reassignment (professional and staff) ● The decrease in an associate's billable hours from the time the departure decision is announced to when he or she actually leaves the firm[19]



HOW MUCH COST VARIABILITY EXISTS BETWEEN FIRMS?

Although investment and separation costs are generally consistent across the four case study participants, Catalyst did find *some* variability in particular cost items across the four firms. Where differences do exist, typically they are due to key choices or decisions the firms have made that affect each cost allocation.

Investment Costs

Professional versus staff labour costs. Firms delegate responsibilities for recruitment and training differently across staff members and professionals.[20] Those firms that allocate more duties to staff members typically show lower costs. This is true not only because staff members typically are paid less than professionals, but because professionals' time spent on administrative activities represents an opportunity cost (i.e., hours spent by professionals on recruiting and training represent revenue lost by not billing those hours to client files).

Number of candidates interviewed. Firms that interview a greater number of candidates and devote more resources to recruitment activities tend to have higher costs. The greater the number of candidates, the more hours of labour spent in the process of recruiting them.

Use of external trainers. External trainers have different cost properties than internal trainers. First, they represent an out-of-pocket, direct expense (i.e., as opposed to a labour cost that is absorbed by a fixed salary or draw). Second, depending on whose labour the external trainers are replacing (i.e., staff versus professional), the value of their time may be greater than or less than internal alternatives.

[18] For further description and detail of separation costs, refer to Appendix 2.
[19] There may also be a decrease in the billable hours of other associates and partners disrupted by the departure. This decrease is not captured here, but should be acknowledged.
[20] Professional labour could include partner, senior associate, or junior associate time, depending on the cost item.

Separation Costs

Voluntary or involuntary departures. Involuntary departures tend to have higher costs associated with them due to a sometimes generous severance package. All of the four participating firms in this analysis offer some sort of severance package to associates departing involuntarily. Typically, these are measured in months of salary.

Loss of productivity. Some firms report comparatively higher percentages of lost billings in the final weeks and months of an associate's tenure at the firm. Although the hours of client work are often reallocated to other associates and do not constitute lost revenue to the firm, the departing associate continues to be paid a full salary during the time that his/her billable hours have declined. This percentage of salary while the associate is not billing represents the cost of lost productivity.

KEY FINDING

The average total cost of an associate's departure is $315,000, which is approximately twice the average associate's salary.

Using the turnover cost formula and the cost information provided by the four case study participants, the average total cost of an associate's departure is **$315,000**, or roughly twice the average law firm associate's annual salary.[21] Of this $315,000, $244,000 are investment costs and $71,000 are separation costs.[22]

Total Cost of an Associate Departure

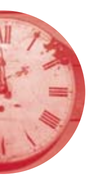
Investment Costs	Separation Costs		Turnover Cost
$244,000	$71,000	=	$315,000

Associate enters firm → Associate exits firm

By "total" cost, we mean a firm's total investment and separation costs, per associate, not adjusted for revenues generated during an associate's time with the firm. We have opted to report total costs as opposed to net costs due to the variability in associate revenues across the four firms.

[21] Average associate salary includes benefits. This figure is an average of associate salaries across the four case study participants.
[22] For clarity, all figures have been rounded.

The following table further details the turnover cost per associate with a breakdown of investment and separation costs.



Turnover Cost Per Associate		
		Average Cost
Investment Costs	Cost of student recruitment	$196,000
	Upfront training costs	$12,000
	Annual recurring training costs [23]	$36,000
Sub-Total		$244,000
Separation Costs		$71,000
Turnover Cost Per Associate [24]		$315,000

Catalyst further examined turnover costs according to two variables: associate level and type of separation. We found that junior associates[25] who leave their firms voluntarily present the lowest total cost to the firms, whereas senior associates[26] who leave their firms involuntarily present the highest total cost to the firms. Cost differences between junior and senior associates are driven by the fact that senior associates are employed by firms longer and have more responsibility, resulting in higher investment costs (e.g., annual training costs) and separation costs (e.g., file reassignment costs). Voluntary and involuntary separations differ because involuntary separations involve severance, which can be significant. The difference between a junior associate who leaves voluntarily and a junior associate who leaves involuntarily can be up to $70,000. Similarly, the difference between a senior associate who leaves voluntarily and a senior associate who leaves involuntarily can be up to $120,000.

KEY FINDING

The average firm breakeven point on an associate is 1.8 years.

The investment and separation costs of associate turnover described in this chapter capture the potential magnitude of cost to a law firm when a junior or senior associate leaves. These costs do not capture revenues associates generate while they are employed by their firms. In order to understand whether the cost of associate turnover amounts to an actual financial loss to a law firm (i.e., costs that the firm does not recover), we calculated an associate's "breakeven point," the point at which revenues generated by an associate are equal to the cost of recruitment and training (investment costs), and the potential cost of departure from the firm (separation costs).[27]

[23] The total cost per associate of annual recurring training is ultimately determined by when an associate leaves the firm. To calculate this cost, Catalyst assumed an average tenure of 1.5 years for junior associates and an average tenure of 6 years for senior associates.
[24] Cost data is in 2002 dollars and is an average of the cost data provided by the four case study participants (Toronto office only).
[25] Junior associates are first- to third-year associates.
[26] Senior associates are fourth-year associates and above.
[27] Reference to revenues generated by an associate includes those revenues an associate generates during their time as a summer student and articling student.

Calculating the breakeven point enables a firm to understand better the potential cost impact of associate departures. Departures that occur prior to the breakeven point reflect a net loss for the firm, essentially investment and separation costs that the firm "eats." Alternatively, if an associate stays past the breakeven point then the firm has, theoretically, recouped its investment and potential separation costs. Arguably, what the associate contributes to the firm's bottom-line after the breakeven point (adjusted for annual salary, training, and overhead costs) is "pure profit."

Some variability in breakeven points exists across the four case study participants. The figures ranged from one firm that saw associates break even almost immediately after they began their tenure as junior associates (due to their high levels of billing during summer and articling years) to another firm that did not see their associates break even until they reached their fourth year as an associate. The differences in the firms' breakeven points are due largely to differences in revenue generation among the four firms (i.e., differences in firms' billable rates and billable hours).

To calculate the breakeven point of an associate requires determining the values of two variables: an associate's "cost to firm" and an associate's "unit contribution." An associate's "cost to firm" is the total upfront investment costs and separation costs a firm may sustain if the associate leaves the firm, minus any revenues an associate may have generated while working as a summer and articling student with the firm. An associate's "unit contribution" is the annual profit an associate generates for the firm, which is calculated by taking an associate's annual revenues (annual billable hours x hourly recovery rate) minus annual investment costs (training), salary and benefits, associate bonus, and overhead. Dividing an associate's cost to firm by an associate's unit contribution determines the breakeven point (i.e., the number of years required for a firm to recoup an associate's "upfront debt" or upfront investment and separation costs).

$$\textbf{Breakeven Point} = \frac{\textbf{Associate Cost to Firm}}{\textbf{Associate Unit Contribution}}$$

Associate Cost to Firm	=	[Investment (Upfront) Costs + Separation Costs] - [Summer Student + Articling Student Revenues]
Associate Unit Contribution	=	Associate Revenues - [Investment (Annual Training) Costs + Associate Salary + Associate Bonus + Overhead]

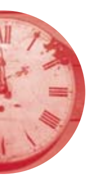
The average firm's breakeven point on an associate is 1.8 years (but, as discussed above, can vary widely for individual firms), measured from the time the associate accepts full-time employment as a first-year associate. In other words, the average associate breaks even during his/her second year as an associate. This average firm breakeven point is calculated using the cost information detailed in the previous sections on the four firms' investment and separation costs, along with information from each firm on the annual revenues generated by summer students, articling students, and associates;[28] associate salary, benefits, and bonus; and associate overhead allocation.

INTERPRETING THE NUMBERS

Quantifying the cost of associate turnover by capturing relevant costs (i.e., investment and separation costs) is one way of denoting the value lost to a firm when an associate leaves. But, it is important to acknowledge contextual features of a law firm, along with intangible costs of turnover, which may shape interpretation of the numbers.

Is There an Acceptable Level of Associate Turnover?

Given the recruitment model and partnership structure of most law firms (i.e., not every associate will become partner), a certain level of associate turnover is natural and expected. Applying the cost figures discussed in this chapter, the table below demonstrates the difference in total costs that a firm of 60 associates[29] may experience at an "acceptable" turnover rate of 10 percent versus an "actual" turnover rate of 25 percent. As an example, a firm may be willing to absorb an annual turnover rate of 10 percent as a natural by-product of its recruitment model and "cost of doing business"—in this scenario, a potential total cost of $1,890,000. But, actual turnover levels may exceed an acceptable level, in which case understanding potential total costs and the factors that offset them (i.e., at minimum, associate revenue generation) become useful benchmarks for understanding the impact of associate turnover on a firm.



Example: Quantifying the Impact of Associate Turnover

	Acceptable Turnover = 10% (annual)	Actual Turnover = 25% (annual)
Firm size = 60 Associates	6 Associates = $1,890,000* (6 x $315,000)	15 Associates = $4,725,000* (15 x $315,000)

*These are potential total costs and are not adjusted for revenues generated by associates.

However, as the four case study firms were quick to note, determining a hard figure on an acceptable rate of associate turnover is difficult. How much associate turnover is acceptable is, ultimately, subject to a variety of considerations. These considerations can be grouped as strategic and individual.

Strategic Considerations

The impact of associate turnover on a firm may be outweighed or exacerbated by other strategic considerations within the firm. For example, a higher rate of turnover during a period of excess capacity may be welcome in order to maintain leverage ratios (the ratio of partners to associates in a law firm) and

[28] For details on calculating the breakeven point, see Appendix 2.
[29] Number of associates is based on the average number of associates of the four case study participants.

an optimal revenue generation and profit-sharing structure. Alternatively, any associate turnover may be undesirable in a practice area experiencing high growth. Ultimately, law firms interpret the "cost" of associate turnover according to larger considerations of leverage, profitability, and growth.

Individual Considerations

In addition to strategic considerations, individual considerations of a particular associate's skill level, performance, and prospects at the firm influence how "acceptable" the cost of an associate's departure is to a firm. Losing a productive associate from a busy practice area to a competitor represents a greater cost to a firm and may not be acceptable, whereas losing a weaker associate in a slower area to a different market player might be more acceptable.

Individual considerations also shape law firms' interpretations of the involuntary or voluntary nature of associate departures. Involuntary departures tend to have higher costs associated with them due to a sometimes generous severance package. However, one could argue that eliminating poor quality work generated by an associate that merits termination offsets the cost of severance. Correspondingly, voluntary separations tend to have lower costs compared to involuntary departures, but may represent a greater loss to the firm if the departing employee is a high performer who could have potentially generated high levels of revenue during his or her tenure.

Intangible Costs of Turnover

Understanding the cost of associate turnover and, more broadly, the direct and indirect costs of associate recruitment, training, and departure, enables firms to make informed decisions concerning recruitment and retention, vis-à-vis the strategic and individual considerations described above, and is a management essential. However, intangible aspects of associate turnover which are difficult to quantify may have a longer, more enduring impact on a firm's profitability, morale, and client service. Beyond the investment and separation costs discussed in this chapter, managing the true cost of associate turnover involves consideration of the following:

- productivity decreases prior to the departure decision;[30]
- the potential loss in consistency of client service and client dissatisfaction with disruptions;
- opportunity costs of repairing relationships;
- lower morale among those left behind;
- the loss of intellectual capital and talent; and
- the potential long-term financial loss of a strong performer who has left the firm.

[30] Abraham Sagie, Assa Biranti, and Aharon Tziner, "Assessing the costs of behavioral psychological withdrawal: A new model and empirical illustration," *Applied Psychology: An International Review* vol. 51, no. 1 (2002): p. 67-89.

Firm Size

Firm size may influence the investment costs of associate turnover. Catalyst's cost calculations are based on cost information provided by our four case study participants, all national firms. Smaller firms may not devote the same resources to the recruitment, training, and development of associates, therefore the cost impact of associate turnover may be different.

Replacement Costs

"Replacement costs" refer to the costs associated with replacing a former employee. Law firms differ from other environments in that there is no consistent method of replacement once an associate exits the firm. In addition to the earlier observation that a certain level of associate turnover can be considered natural and expected, workload considerations, anticipated growth in practice areas, and overall firm growth all figure into whether or not an associate is replaced with a new lateral hire. Of the three scenarios listed below, Catalyst found that scenarios #1 and #2 typically prevailed among the four case study participants.

1. The associate is not replaced and workload is absorbed by other associates/partners.
2. The associate is replaced with a new student recruit that is a part of the next year's class of hires.
3. The associate is replaced with a lateral hire from another law firm.

However, some firms may replace departed associates with new hires more regularly than the firms studied here, particularly if lateral hiring is relied on more heavily to build associate ranks. Types of replacement costs include but are not limited to:

- Direct costs incurred in hiring (i.e., recruiting costs, signing or hiring bonus, moving expenses, fees paid to headhunters, "on boarding" costs, such as background checks and drug screens)
- Administrative and indirect costs (i.e., professional and staff time involved in the hiring process)
- Training costs, including firm orientation training and job training
- Learning curve costs, (i.e., the time required for an employee to perform at an optimal level)
- Departure-related costs, such as billable hours revenue lost between the time of an associate's resignation and the time a replacement associate is hired
- Savings realized as a result of the departure (i.e., salary and benefits) between the time of resignation and the time a replacement associate is hired[31]

When calculating replacement costs, it should be noted that in some cases, the experience and skill set gained from the lateral hire may offset costs.

[31] Cynthia Thomas Calvert, "Attrition Cost Worksheet," in Joan C. William and Cynthia Thomas Calvert, Solving the part-time puzzle: The law firm's guide to balanced hours (Washington, DC: NALP, 2004): p. 151-156.

CHAPTER 3: CONCLUSION

Our findings suggest firms that foster a more balanced work-life culture stand a better chance at retaining their associates, both men and women. Associates clearly consider a firm environment supportive of family and personal commitments to be a top priority when evaluating their workplaces. Moreover, positive perceptions of work-life culture appear linked to an associate's willingness to stay with his or her firm, for both men and women. That said, women generally are more likely than men to report intention to stay with their firms for five years or less. Given that women now comprise 50 percent or more of law school graduates across Canada's top law schools,[32] law firms that are intent on recruiting and retaining the best candidates need to identify and address the core issues which may undermine a supportive work environment for women associates.

This research demonstrates that work-life balance considerations shape an associate's decision to leave or remain with their firms. In an effort to help firms recognize the bottom line impact of associate departures (which are clearly linked to dissatisfaction with work-life balance), we have presented a model in this report that enables firms to quantify the cost impact of associate turnover. While the sizeable investment firms make in their associates may come as no surprise to Canadian firms, enabling ways to measure and track the cost of associate turnover is essential to building a business case for flexibility. Moreover, it is important to consider the multiple intangible costs a firm may incur as a result of associates who leave due to dissatisfaction with work-life balance.

In this report, Catalyst has established that work-life balance is indeed an issue for associates and, in dollar terms, that there is a substantial potential cost to firms that do not address it. Subsequent reports in this series will further explicate the drivers of work-life balance challenges within Canadian law firms and identify realistic opportunities for change.

[32] See Appendix 4 for law school graduating class information for 2000 to 2004.

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APPENDIX 1: WEB SURVEY METHODOLOGY

Catalyst sent the "*Flexibility in Canadian Law Firms* Web Survey" to 11,344 Canadian lawyers across Canada. The survey included more than 40 items assessing a range of attitudes and experiences with work-life balance issues. It took approximately 25 minutes to complete and was administered over the Internet.

After accounting for undeliverable email addresses and removing non-targeted individuals (i.e., non-lawyers) from the total sample, 10,735 lawyers received the study. A total of 1,439 completed surveys (846 of whom are associates) were returned, giving us a response rate of 13.4 percent.[33]

PROFILE OF SURVEY RESPONDENTS

A total of 846 associates responded to this survey. Men and women were evenly distributed (52 percent of respondents are women), as were junior and senior associates (52 percent of respondents are junior associates).

	Senior Associates	Junior Associates
Women	208	232
Men	201	205

PRACTICE AREA

Lawyers from across the legal profession were included in this survey. A majority of associate respondents specialize in corporate banking, environment/land use, and trusts and estates. Fourteen areas of the law were represented by a very small number of associates—fewer than five percent of the total sample. These areas included, among others, civil rights/human rights law and real estate. Together, almost one-third of respondents were in one of these "other" categories.

Men and women associates were, overall, similarly represented across the practice areas. One exception includes corporate banking, where more men than women respondents reported working.

[33] The demographic profile, by gender and level, of individuals who returned surveys revealed that respondents were representative of the original sample.

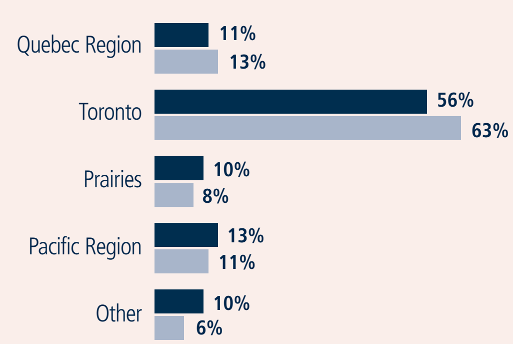
Area of Law	Men	Women
Antitrust	1.3%	0.9%
Bankruptcy/Restructuring	5.4%	3.2%
Civil Rights/Human Rights	2.5%	3.2%
Corporate Banking	20.9%	14.5%
Corporate General	0.0%	0.2%
Corporate/M&A	0.2%	0.0%
Corporate/Securities	0.5%	0.0%
Criminal Law	1.0%	1.4%
Entertainment/Sports	0.2%	0.5%
Environmental/Land Use	17.5%	20.2%
Family Law	0.0%	0.9%
General Litigation	3.9%	7.0%
Healthcare/Eldercare	1.2%	0.9%
Intellectual Property	9.4%	8.4%
Labour/Employment	0.2%	0.0%
Municipal Law	4.4%	3.0%
Poverty Law	6.9%	4.8%
Real Estate	1.5%	3.4%
Taxation	0.7%	1.6%
Torts & Insurance	7.9%	10.7%
Trusts & Estates	7.4%	6.4%
Other	5.7%	7.0%
Not Applicable	1.2%	1.8%

REGION

While lawyers across Canada were represented in the survey, a majority of them report working in Toronto. The smallest number of participants work in the Atlantic region, Ontario outside of Toronto, and the National Capital region. These areas are clustered together as "other" in the graph below.

Associates' Region, by Gender

Women Men



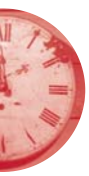
FIRM SIZE

A majority of associate respondents report working for firms with more than 300 employees. Women are less likely to work for the large firms than men associates, and junior associates are more evenly distributed across firm size than are senior associates.

Firm Size, by Gender	Less than 150	151-300	301+
Women	25% (n=108)	25% (n=109)	51% (n=223)
Men	17% (n=70)	21% (n=84)	62% (n=252)

COMPARISONS BY GENDER AND LEVEL

At both the junior and senior associate levels, men and women share many demographic characteristics. Not surprisingly, junior associates, both men and women, are, on average, younger than senior associates. They are also less likely to be married or living with a partner and far less likely to have children. For men and women, despite their many similarities, there is one notable difference: Men are less likely than women to have a partner or spouse that works full time. This difference is most pronounced at the senior associate level: 89 percent of women senior associates, compared to 64 percent of men, have a spouse that works full time.



Profile of Senior Associates	Women	Men
Married/living with a partner	81%	84%
Have partner/spouse who works full time*	89%	64%
Have children	49%	47%

* Significant difference between women and men associates, p<.05

Profile of Junior Associates	Women	Men
Married/living with a partner	58%	58%
Have partner/spouse who works full time*	90%	74%
Have children	10%	12%

* Significant difference between women and men associates, p<.05

APPENDIX 2: ASSOCIATE TURNOVER COST CASE STUDY

METHODOLOGY

General

Based on a series of conversations with key stakeholders and advisors, Catalyst chose a case study method to quantify the cost of associate turnover. We focused on the Toronto offices of four Canadian law firms, averaging the cost data across the four firms in order to provide an informative and relevant analysis of the cost of associate turnover to other law firms. Focusing on four firms enabled Catalyst to:

- partner closely with firm representatives to develop a robust understanding of the law firm environment, and
- ensure high standards of data accuracy and consistency in data gathering processes.

Preliminary Research and Preparation

Prior to data gathering and analysis, Catalyst

- reviewed the secondary literature on the measurement of turnover costs in various industries, and
- conducted preliminary interviews to understand firms' human capital practices, cost accounting practices, and data availability.

Data Collection

Catalyst submitted an extensive questionnaire, or "workbook," to the firms in the fall of 2003 requesting specific numerical data from the firms. The workbook requested 2002 cost data from the firms' Toronto offices only. Although data collection continued past a point where 2003 numbers may have been accessible, we elected to focus on pre-2003 numbers to expedite data collection. Unless a law firm alters its practices substantially (e.g., greater resources allocated to its recruitment process), cost data should not change much year over year.

Submitted cost data underwent an extensive data-cleaning process from the fall of 2003 to the spring of 2004 to identify discrepancies and outliers caused by differences in firm's accounting methods. We also returned to each firm with questions about specific numbers that were missing or that appeared inaccurate. Where reasonable estimates were required, we reviewed with the firms how they had arrived at the number provided. Finally, in those instances where an unusual event at the firm produced atypical costs, the firm was asked to provide a reasonable estimate of typical expenses, or agree to use an average cost based on the data of the three other case study participants (this occurred on one occasion).

Third-Party Advisors

This report has undergone extensive review. Prior to release, two national accounting firms reviewed our cost accounting approach to associate turnover. This report has also benefited from the active review of the four case study participants, in addition to several rounds of review with the research advisory board appointed for this study.

Turnover Cost Workbook

The following tables illustrate Catalyst's approach to calculating the cost of associate turnover and the breakeven point. They describe the nature of each cost category,[34] a description of each cost category, the corresponding question(s) posed to the case study participants, and how we calculated the costs and breakeven point reported in this study.

This workbook is intended to be a guide. Each firm should customize the cost information it gathers and tracks to reflect its business and how it manages associate turnover. Working through the calculations in Tables 2–8 below will yield costs to be inserted into Table 1. Table 9 provides calculations for firms interested in doing a breakeven analysis.

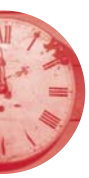


Table 1: Putting the Costs Together

		Junior Associate (voluntary)	Junior Associate (involuntary)	Senior Associate (voluntary)	Senior Associate (involuntary)
A	Cost of student recruitment	Table 4	Table 4	Table 4	Table 4
B	Upfront training costs	Table 5	Table 5	Table 5	Table 5
C	Annual training costs	Table 6 x Average tenure of 1.5 years[35]	Table 6 x Average tenure of 1.5 years	Table 6 x Average tenure of 6 years	Table 6 x Average tenure of 6 years
D	Separation costs	Table 8	Table 7	Table 8	Table 7
Per associate cost of turnover		**A+B+C+D**	**A+B+C+D**	**A+B+C+D**	**A+B+C+D**

Table 2: General Data Requested

Nature of Cost Collected	Cost Category	Variations of Data Requested
Per associate	Hourly rate (based on billable hours recovery rate)	Partners, senior associates, junior associates, articling students, and summer students
Per associate	Hourly rate (based on salary)	Staff members
Per associate	Average annual number of recovered billable hours	Partners, senior associates, junior associates, articling students, and summer students
Per associate	Annual average salary and benefits	Senior associates, junior associates, articling students, and summer students
Firm-wide	Annual bonus total	Senior associates and junior associates
Firm-wide	Average annual population by level (average over three years 2000-2002)*	Partners, senior associates, junior associates, articling students, and summer students
Firm-wide	Total annual overhead expenses (less professional staff salaries)	(See overhead allocation methodology in Table 3)

* Population figures for law firm associates and partners were averaged over three years (2000-2002) to adjust for internal and external fluctuations, i.e., a sudden spike in associate population numbers, to ensure costs are a reflection of a typical firm setting.

[34] For some items, particularly those that related to a line item on an accounting statement or a documented client file, it was easier for the firm to provide an annual total firm-wide cost. For other items, particularly those that required a reasonable estimate, it was typically easier for firms to provide us a per-associate cost.

[35] The total cost per associate of annual recurring training is ultimately determined by when an associate leaves the firm. To calculate this cost, Catalyst assumed an average tenure of 1.5 years for junior associates and an average tenure of 6 years for senior associates.

Table 3: Overhead Allocation Methodology	
Total Firm Overhead	**Calculation**
Professional headcount	
Partners	Average annual headcount provided by firm
Senior Associates	Average annual headcount provided by firm
Junior Associates	Average annual headcount provided by firm
Articling Students	Average annual headcount provided by firm
Summer Students	Average annual headcount provided by firm
Total professional headcount	Sum of above
Revenue generation, by level	
Partners	Hourly partner rate (based on billable hours recovery rate) x Average annual number of recovered billable hours x Average annual partner headcount
Senior Associates	Hourly senior associate rate (based on billable hours recovery rate) x Average annual number of recovered billable hours x Average annual senior associate headcount
Junior Associates	Hourly junior associate rate (based on billable hours recovery rate) x Average annual number of recovered billable hours x Average annual junior associate headcount
Articling Students	Hourly articling student rate (based on billable hours recovery rate) x Average annual number of recovered billable hours x Average annual articling student headcount
Summer Students	Hourly summer student rate (based on billable hours recovery rate) x Average annual number of recovered billable hours x Average annual summer student headcount
Total revenue generation	Sum of the above
Percent revenue generation, by level	
Partners	Revenue generation by partners / Total revenue generation
Senior Associates	Revenue generation by senior associates / Total revenue generation
Junior Associates	Revenue generation by junior associates / Total revenue generation
Articling Students	Revenue generation by articling students / Total revenue generation
Summer Students	Revenue generation by summer students / Total revenue generation
Overhead allocation per professional	
Partners	Total firm overhead x Percent revenue generated by partners / Partner headcount
Senior Associates	Total firm overhead x Percent revenue generated by senior associates / Senior associate headcount
Junior Associates	Total firm overhead x Percent revenue generated by junior associates / Junior associate headcount
Articling Students	Total firm overhead x Percent revenue generated by articling students / Articling student headcount
Summer Students	Total firm overhead x Percent revenue generated by summer students / Summer student headcount

Investment Costs

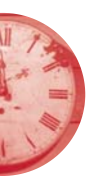


Table 4: Costs of Student Recruitment

Nature of Cost Collected	Cost Category	Question to Firms	Calculation
Firm-wide	Labour costs (professional) of recruitment - summer students	What is the estimated total number of hours partners/senior associates/junior associates devote to the recruitment of summer students annually (i.e., attending social functions, liaising with law schools, interviewing)?	Estimated hours x Hourly rate
Firm-wide	Labour costs (staff) of recruitment - summer students	What is the estimated total number of hours staff members devote to the recruitment of summer students annually (i.e., attending social functions, liaising with law schools, interviewing)?	Estimated hours x Hourly rate
Firm-wide	Labour cost (professional) of hireback process - summer students	What is the estimated total number of hours partners, senior associates, and junior associates devote to the summer student hireback process annually?	Estimated hours x Hourly rate
Firm-wide	Labour cost (staff) of hireback process - summer students	What is the estimated total number of hours staff members devote to the summer student hireback process annually?	Estimated hours x Hourly rate
Firm-wide	Labour cost (professional) of hireback process - articling students	What is the estimated total number of hours partners/senior associates/junior associates devote to the articling student hireback process annually?	Estimated hours x Hourly rate
Firm-wide	Labour cost (staff) of hireback process - articling students	What is the estimated total number of hours staff members devote to the articling student hireback process annually?	Estimated hours x Hourly rate
Firm-wide	Labour cost (professional) of hiring complements	What is the estimated total number of hours partners/senior associates/junior associates devote to the hiring of articling students who were not summer students with the firm to complete the articling student complement?	Estimated hours x Hourly rate
Firm-wide	Labour cost (staff) of hiring complements	What is the estimated total number of hours staff members devote to the hiring of articling students who were not summer students with the firm to complete the articling student complement?	Estimated hours x Hourly rate
Firm-wide	Firm expenditures on summer student recruitment activities	What is the total firm outlay for recruitment costs such as travel and accommodations, meals for prospective candidates, and advertising, merchandising, and support of law school recruitment events?	Firm provided estimated dollar amount
Per associate	Per student cost of recruitment-related	What is the annual per student cost (not including salary, bonuses, and benefits) of firm expenditures on other student-related items, such as social functions and Bar admission fees?	Firm provided estimated dollar amount

Table 4: Costs of Student Recruitment (continued)			
Per associate	Summer student salary, benefits, and overhead allocation[36]	How many weeks does a summer student work with the firm?	(Annual salary estimate / 52 weeks x # weeks[37]) + calculated overhead allocation
Per associate	Articling student salary, benefits, and overhead allocation	How many weeks does an articling student work with the firm before their call to the Bar?	(Annual salary estimate / 52 weeks x # weeks[38]) + calculated overhead allocation
Per associate	Cost of benefits between call to Bar and start date	How many months of unpaid time between the articling students' call to the Bar and the official start date as a junior associate do articling students remain on the firm benefits package?	Monthly estimate of benefits (15% of salary) x # months[39]
Average student population			Firm provided average annual population between 2000 and 2002
Total costs of student recruitment			Total firm-wide costs + (total per associate costs x Average student population)
Per associate costs of student recruitment*			Total costs of student recruitment / Average student population

*This figure should be inserted in row A of Table 1.

Table 5: Upfront Training Costs

Nature of Cost Collected	Cost Category	Question to Firms	Calculation
Firm-wide	Labour costs in articling students' training (professional)	What is the estimated total number of hours partners/senior associates/junior associates devote to the training of articling students annually?	Estimated hours x Hourly rate
Firm-wide	Labour costs in articling students' training (staff)	What is the estimated total number of hours staff members devote to the training of articling students annually?	Estimated hours x Hourly rate

[36] Salary, benefits, and overhead allocation for summer and articling students are included in the investment costs category. Based on our conversations with law firm representatives, the employment of summer and articling students is generally considered an investment cost rather than a fee for services rendered. Although students do generate revenue, the purpose of their time with the firm is to develop to the point where they are generating a maximum number of hours billable to the firm once they become associates. Many of the hours generated during this time are written off as a necessary training and development expense. In addition, because they have not yet passed the Bar, the firms take on a certain amount of risk until the students are professionally licensed to practice.

[37] Among the four case study participants, 15 weeks is the typical amount of time a summer student is with the firm.

[38] Among the four case study participants, 44 weeks is the typical amount of time an articling student is with the firm.

[39] Among the four case study participants, two weeks is the typical amount of unpaid time between an articling student's call to the Bar and his/her official start date.

Table 5: Upfront Training Costs (continued)

Firm-wide	External training costs for articling students	Does the firm use any external trainers and/or learning modules for training articling students? If yes, what is the cost of this external training to the firm annually?	Firm provided estimated dollar amount
Firm-wide	Labour costs in orientation training (professional)	What is the estimated total number of hours partners/senior associates/junior associates devote to orientation training of first-year associates annually?	Estimated hours x Hourly rate
Firm-wide	Labour costs in orientation training (staff)	What is the estimated total number of hours staff members devote to orientation training of first-year associates annually?	Estimated hours x Hourly rate
Firm-wide	External costs for orientation training	Does the firm use any external trainers and/or learning modules for orientation training? If yes, what is the cost of this external training to the firm annually?	Firm provided estimated dollar amount
Per associate	Associates' time in orientation training	What is the estimated average number of hours a first-year associate, who has articled with the firm, spends in orientation training at the firm?	Estimated hours x Hourly rate
Average population			Firm provided average annual population between 2000 and 2002
Total upfront training costs			Total firm-wide costs + (Total per associate costs x Average first-year associate population)
Per associate upfront training costs*			Total upfront training costs / Average first-year associate population

*This figure should be inserted in row B of Table 1.

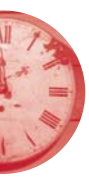


Table 6: Annual Recurring Training Costs

Nature of Cost Collected	Cost Category	Question to Firms	Calculation
Firm-wide	Labour costs for internal formal CLE[40] training (professional)	What is the estimated total number of hours partners/senior associates/junior associates devote to the internal formal training (CLE) of junior associates annually?	Estimated hours x Hourly rate
Firm-wide	Labour costs for internal formal CLE training (staff)	What is the estimated total number of hours staff members devote to the internal formal training (CLE) of junior associates/senior associates annually?	Estimated hours x Hourly rate
Firm-wide	Labour costs in informal training/mentoring	What is the estimated total amount of time partners spend informally training/mentoring a junior associate or a senior associate at the firm annually?	Estimated hours x Hourly rate
Per associate	Associates' time in internal formal CLE training	What is the estimated average number of hours that a junior associate or senior associate spends in internal formal training (CLE) annually?	Estimated hours x Hourly rate
Per associate	External training costs for formal CLE training	Do junior associates/senior associates participate in external courses and training programs outside of the firm? If yes, please provide an annual estimated cost of this training per junior associate/senior associate.	Firm provided estimated dollar amount
Per associate	Associates' time in external training	What is the estimated average number of hours that a junior associate/senior associate spends in external courses and training programs outside of the firm annually?	Estimated hours x Hourly rate
Average population			Firm provided average annual population between 2000 and 2002
Total annual recurring training costs - Junior associates			Total firm-wide costs + (Total per associate costs x Average population of junior associates)
Per associate annual recurring training costs - Junior associates*			Total annual recurring training costs / Average population of junior associates

*This figure should be inserted in row C of Table 1, in columns "junior associate (voluntary)" and "junior associate (involuntary)."

[40] CLE: Continuing Legal Education

Table 6: Annual Recurring Training Costs (continued)	
Total annual recurring training costs - Senior associates	Total firm-wide costs + (Total per associate costs x Average population of senior associates)
Per associate annual recurring training costs - Senior associates*	Total annual recurring training costs / Average population of senior associates

*This figure should be inserted in row C of Table 1, columns "senior associate (voluntary)" and "senior associate (involuntary)."

Separation Costs

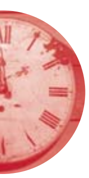


Table 7: Separation Costs (involuntary)

Nature of Cost Collected	Cost Category	Question to Firms	Calculation
Per associate	Labour costs for file reassignment (professional)	What is the total number of hours required of partners to reassign a senior associate's/junior associate's files?	Estimated hours x Hourly rate
Per associate	Labour costs for file reassignment (staff)	What is the total number of hours required of staff members to reassign a senior associate's/junior associate's files?	Estimated hours x Hourly rate
Per associate	Labour costs for file reassignment (associate)	What is the total number of hours required of the departing junior associate/senior associate to reassign files (i.e., transition memo)?	Estimated hours x Hourly rate
Per associate	Severance, etc.	What is the average severance, vacation pay, etc., received by a senior associate/junior associate when they leave the firm?	Firm provided estimated dollar amount
Per associate	Career counseling services	Does the firm provide career counseling and outplacement services to senior associates and junior associates leaving the firm? If yes, please provide an estimated cost of these services per junior associate/senior associate.	Firm provided estimated dollar amount
Per associate	Decrease in productivity (involuntary)[41]	Is there typically a decrease in the number of billable hours a junior associate/senior associate produces for the firm between the associate's departure announcement and their actual departure from the firm? If yes, please estimate the percentage decrease in the number of hours a junior associate/senior associate produces.	Firm provided an estimated percent decrease in productivity

[41] The calculation of separation costs on an associate-by-associate or project-by-project basis is difficult because the amount and time of revenue lost depends upon a number of independent variables, for example, the relative role of the departing associate with respect to ongoing matters or the size of the transactions on which he or she worked. We captured this cost by asking firms to provide an estimate on the decrease in productivity (sampling the hours of associates who left the firm) during the period between an associate's departure announcement and his/her actual departure.

Table 7: Separation Costs (involuntary) continued

Three-year average turnover population	Firm provided actual turnover numbers between 2000 and 2002 (average was used for calculation)
Per associate separation costs (involuntary) - Junior associates*	Total per associate separation costs
Total separation costs (involuntary) - Junior associates	Total per associate costs x Average turnover population of junior associates
Per associate separation costs (involuntary) - Senior associates*	Total per associate separation costs
Total separation costs (involuntary) - Senior associates	Total per associate costs x Average turnover population of senior associates

*These figures should be inserted in row D of Table 1, columns "junior associate (involuntary)" and "senior associate (involuntary)."

Table 8: Separation Costs (voluntary)

Nature of Cost Collected	Cost Category	Question to Firms	Calculation
Per associate	Labour costs for exit interviews (professional)	How many hours of partner time is required to conduct an exit interview with a departing senior associate/junior associate?	Estimated hours x Hourly rate
Per associate	Labour costs for exit interviews (staff)	How many hours of staff time is required to conduct an exit interview with a departing senior associate/junior associate?	Estimated hours x Hourly rate
Per associate	Labour costs for file reassignment (professional)	What is the total number of hours required of partners to reassign a senior associate's/junior associate's files?	Estimated hours x Hourly rate
Per associate	Labour costs for file reassignment (staff)	What is the total number of hours required of staff members to reassign a senior associate's/junior associate's files?	Estimated hours x Hourly rate
Per associate	Labour costs for file reassignment (associate)	What is the total number of hours required of the departing junior or senior associate to reassign files (i.e., transition memo)?	Estimated hours x Hourly rate

Table 8: Separation Costs (voluntary) continued			
Per associate	Decrease in productivity (voluntary)	Is there typically a decrease in the number of billable hours a junior associate/senior associate produces for the firm between the associate's departure announcement and their actual departure from the firm? If yes, please estimate the percentage decrease in the number of hours a junior associate/senior associate produces.	Firm provided an estimated percent decrease in productivity
Three-year average turnover population			Firm provided actual turnover numbers between 2000 and 2002 (average was used for calculation)
Per associate separation costs (voluntary) - Junior associates*			Total per associate separation costs
Total separation costs (voluntary) - Junior associates			Total per associate separation costs x Average turnover population of junior associates
Per associate separation costs (voluntary) - Senior associates*			Total per associate separation costs
Total separation costs (voluntary) - Senior associates			Total per associate separation costs x Average turnover population of senior associates

*These figures should be inserted in row D of Table 1, columns "junior associate (voluntary)" and "senior associate (voluntary)."

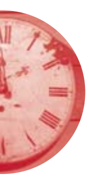


Table 9: Breakeven Analysis		
Revenues		Billing rate x Average hours billed annually
Costs		
	Ongoing training of associate	Table 6
	Annual salary and bonus	Table 2
	Overhead (per associate)	Table 3
Total Annual Cost		Sum of the above
Income to firm from associate's operations (unit contribution)		Revenue – Total annual cost
Investment (upfront) Costs and Separation Costs		
● Per associate costs of student recruitment		Table 4
● Per associate upfront training costs		Table 5
● Per associate separation costs (voluntary/involuntary/ junior associate/senior associate)		Table 7 and Table 8
Total Investment and Separation Costs		Sum of the above
Total Revenue Generation of Summer and Articling Students		Table 2
Associate cost to firm		Total investment (upfront) and separation costs – Total revenue generation of summer and articling students
Breakeven point (year)		Associate cost to firm / Unit contribution

Work-life Culture Index, Regression Analysis

Our analysis proceeded in several steps:

1. We created a "work-life culture index" to represent the many flexibility-related elements that constitute a firm's overall work-life environment—from senior leadership support to the pressures of meeting billable hours requirements. This index was created by first identifying several key survey items, including:

- I find it difficult to manage the demands of my work and my personal life.
- I am satisfied with my ability to manage my work and personal responsibilities.
- Advancement in my firm depends upon putting career before personal or family life.
- The amount of work-life conflict one experiences in my firm depends on who one works for.
- The unpredictability of my work makes it difficult for me to manage my work and personal responsibilities.
- Billable hours targets at my firm make it difficult for me to manage my work and personal responsibilities.
- My firm's leadership is supportive of helping partners and associates better manage work and personal responsibilities.
- How satisfied are you with the level of discretionary flexibility at your firm?

We then conducted a statistical analysis to assess the reliability, or internal consistency, of these items. This analysis helps to determine the degree to which the items fit together and measure a similar construct. The internal consistency of these items was good and the items were then averaged to create a single score for each participant on "work-life culture."

2. We identified several variables to control (or hold constant) during the analysis. That is, we ensured that these variables did not exert an effect above and beyond our variables of interest, namely work-life culture and intent to stay. The control variables included:

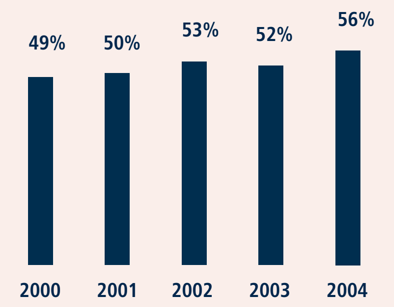
- Marital status
- Whether the associate has children
- Size of firm in which the associate is employed
- Position level (junior/senior associate)

3. We conducted a multiple linear regression exploring the relationship between the number of years associates intend to stay with their firms and "work-life culture" by gender, controlling for the variables identified in Step 2. Regression analysis permits examination of the relationship(s) between one "dependent" or "criterion" variable (i.e., intent to stay) and one or more "independent" or "predictor" variables (i.e., work-life culture and gender). In a regression analysis, we look for evidence that changes in the predictor variable(s) are related to changes in the criterion variable.

APPENDIX 4: WOMEN LAW SCHOOL GRADUATES

Catalyst gathered graduating class information from Canada's top law schools, as ranked in *Canadian Lawyer* for the years 2000 to 2004. Annual percentages are based on statistics from, on average, six of Canada's top law schools.

Percentage of Women Law School Graduates, 2000–2004



APPENDIX 5: STUDENT RECRUITMENT MODEL IN CANADIAN LAW FIRMS[42]

In Canada, in order to qualify as a lawyer, students must complete three years of law school, one year of articles, and a Bar Admissions course. Following successful completion of their Bar Admissions course, they are eligible to be called to the Bar of their province.

During law school, students may seek work in a law firm as a "summer student" for a period of approximately 15 weeks between their second and third year of law school. This is not a requirement for qualification as a lawyer but does give firms an opportunity to assess students before offering them an articling position following their third year of law school.

Currently, articling spans a 12-month period from late summer following completion of third-year law school to the following summer.[43]

Both summer and articling students docket their time on client files, but the main purpose of their time with the firm is to gain practical experience and training in the legal profession. Many of the hours generated during this time by summer and articling students are written off as a necessary training and development expense.

The associate ranks are built largely through this student recruitment model, supplemented by lateral associate hiring. Firms invite certain articling students to join the firm as first-year associates shortly after they are called to the Bar.

First-year associate groups vary in size from firm to firm depending on firm size, hiring strategy, leverage ratio, and economic circumstances. A typical first-year associate group consists mainly of lawyers who have been hired out of the articling student group.

The leverage ratio in these firms (i.e., the ratio of associates to partners) is typically 1:1. In the past, these firms worked on a model of an associate progressing into equity partnership after six years. In recent years, some firms have lengthened the track to partnership to seven to nine years. In addition, some firms have now created two-tiered partnership structures in which associates advance first through a non-equity partnership tier before being admitted as equity partners at the firm.

[42] This appendix captures the recruitment practices typical of large business law firms in Canada.
[43] This articling period may vary from province to province.

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