



# TALENT ATTRITION COSTS IN LAW FIRMS



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# THE HIGH-STAKES GAME OF ATTRITION

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Talent is the cornerstone of any successful law firm; driving innovation, client satisfaction, and growth.

Yet, in some parts, the legal industry grapples with the costly challenge of skills attrition – the loss of skilled fee earners from partners through to associates.

As the legal landscape evolves, law firms encounter a pressing challenge: managing staff attrition while upholding performance excellence and continuing to drive revenue.

The past five years have seen this issue grow in complexity, prompting the need for strategic solutions.

Our latest market research delves into the trends, concerns, and potential remedies to mitigate attrition's impact while ensuring client service levels remain unmatched.

We delve into a comprehensive analysis of the cost of attrition for some South African law firms during a three year period, to derive insights for the wider legal market.

This report was a collaboration between The GRM Group's research and analytical team, who have 15 years of excellence in global legal research and recruitment experience, working alongside expert HR Consultant, Lynn Roux.

The insights drawn shed light on the significance of retention strategies and talent pipelining, emphasizing that in the legal realm, people are the most valuable asset.

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## THE ATTRITION LANDSCAPE: A CLOSER LOOK AT THE NUMBERS

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During the period under review, 100+ Candidate Attorneys, Associates, and Senior Associates who exited their firms were assessed.

The highest turnover experienced in a given year was in 2019 at 42.59% and the second highest was in 2021, at 27.78%, signalling a recurring challenge amongst law firms.

This trend underscores the need for proactive measures to address the root causes of attrition.

GRM has first-hand experience with how this is a reality for most law firms in South Africa.

While the turnover rates vary, there is a consistent picture of high attrition in private practice firms, which can be addressed with detailed retention strategies.

# THE ANATOMY OF ATTRITION: THE BREAKDOWN

82.41% of departing fee earners had completed their articles within the firm they were leaving, shedding light on the opportunity cost of training these employees.

The firms we assessed were of varying sizes, therefore varying budgets and expenses, but to give the reader a better understanding of the costs involved - of the large law firm we looked at, the financial implications of training the 89 employees assessed during the two-year articles period amounted to approximately:

R2 512 067 per person.

## LARGER FIRM ANALYSIS

Table 1: Estimated annual cost of on-the-job training during articles

Average working days per month	21.67
Average working days per annum	260.04
Annual leave	-15.00
Board leave (split exams over 2 years)	-10
Public holidays	-12
Actual average working days per annum	223.04
Training time per day (includes "on the job" training)	5 hours
Average actual training hours per annum	1115.2
Cost per training hour	R1 000
Training cost per annum during articles	R1 115 200
Training cost for year 2 of articles @ 50% of year 1	R 557 600

## LARGER FIRM ANALYSIS

Table 2: Estimated cost of articles

Annual cost to company Candidate Attorney 1st year (CA1)	R 380 133
Annual cost to company Candidate Attorney 2nd year (CA2)	R 409 133
Formal L&D & LPC cost	R 50 000
On the job training CA1	R 1 115 200
On the job training CA2 @ 50% of CA1 cost	R 557 600
Estimated cost for 24 months of articles per person	R 2 512 067
Estimated cost for 24 months of articles per person EXCL Annual cost to company	R 1 722 800

## SMALLER FIRM ANALYSIS

Table 1: Estimated annual cost of on-the-job training during articles

Average working days per month	21.67
Average working days per annum	260.04
Annual leave	-15.00
Board leave (split exams over 2 years)	-10
Public holidays	-12
Actual average working days per annum	223.04
Training time per day (includes "on the job" training)	1 hours
Average actual training hours per annum	223.04
Cost per training hour	R1 000
Training cost per annum during articles	R223,040
Training cost for year 2 of articles @ 50% of year 1	R 111,520

## SMALLER FIRM ANALYSIS

Table 2: Estimated cost of articles

Annual cost to company Candidate Attorney 1st year	R 120 000
Annual cost to company Candidate Attorney 2nd year	R 144 000
Formal L&D & LPC cost	R 10 000
On the job training CA1	R 223 040
On the job training CA2 @ 50% of CA1 cost	R 111 520
Estimated cost for 24 months of articles per person	R 608 560

NB. Obviously, these figures are just from the firms we studied and were given access to - they are meant as a guide and will differ from firm to firm.

On-the-job training has many factors, not least of all, the time of the professionals conducting the training, and possible lost revenue.

With the average attorney changing law firms up to two times within their first six years after admission, training juniors who are potentially going to leave the business has become more of an expected norm than a unique issue experienced by our case study firms.

## CALCULATING THE COSTS: ATTRITION'S FINANCIAL IMPACT

The cost of attrition extends beyond just training to encompass replacement expenses and much more.

The replacement cost is based on the annual cost-to-company for the vacant position plus orientation, onboarding and time to productivity, client work, and marketing and excludes the placement fee if an agency or job board is used.

When we isolated the bigger law firm we analysed, the estimated cost to replace just 50% of the resigning fee earners in the study, excluding the cost of articles, amounted to: -

R10 826 119 or **R200 484 per person.**

When accounting for the cost of articles, this figure surged to:

**R83 644 038, equating to R1 548 967 per person.**

In our study, a staggering 65.74% of turnover was avoidable or unwanted (e.g. leaving to join a competitor, leaving to move to an in-house legal practice, left with a director etc), this points to the potential for targeted interventions, therefore cost savings.

Table 3:

Breakdown of estimated annual replacement cost (**within the Large Law Firm client case study**) using 33% of the annual cost-to-company.

Est replacement cost 108 employees Estimated replacement cost for 50% of positions	R21 652 238 (excl cost of articles) R10 826 119 (excl cost of articles)
Est replacement cost including cost of articles for 54 employees (of which 84.41% did articles)	R83 644 038 (incl cost of articles)
Est replacement cost per person including cost of articles for 54 employees (of which 84.41% did articles)	R 2 218 124 (incl cost of articles)

# THEMES AND TRENDS: WHAT DRIVES DEPARTURE

## Moving to competitors

Within our study, competitor migration emerged as the primary theme for attrition, accounting for 30.56% of departures.

Emigration (16.67%) and in-house legal counsel positions (13.89%) followed suit.

This underscores the influence of external opportunities and indicates the allure that competitors hold for skilled legal professionals, not just at home, not just in the same sector, but also in different sectors and overseas.

The bulk of these moves are lateral but 98.7% of all competitor moves are met with either a pay rise or significant improvements in non-financial benefits.

In particular, medium-sized law firms are key head-hunting targets for the Big 5 and international law firms seeking growth through hiring or replacement of lost talent.

Being able to offer headline deals, nice and well-located offices, the prestige of the law firm name, and a host of perks that no medium or small law firm can compete with, over-and-above more attractive remuneration packages, will generally beat out any counter-offers firms may make, to retain the poached talent.

## Toxic law firm culture

The label “toxic” has now been attributed to corporate cultures that are prevalent within businesses that are not necessarily matched to the staff they have working there.

Some Law firm company cultures have challenges, not all, but definitely some - and it is well documented that toxic cultures, and challenging working arrangements, can increase the departure of some talented professionals.

A toxic work environment can erode morale, hinder career growth, and diminish the sense of belonging crucial for employee retention.

The pressure to meet billable hour targets while juggling personal responsibilities, especially for those aiming to strike a balance between family and professional life, often drives attrition.

Burnout, a relentless consequence of high-pressure work environments, casts a long shadow over the attrition landscape.

As skilled legal professionals grapple with the physical and emotional exhaustion that burnout brings, their commitment to their current role wanes.

Strain stemming from inadequate work-life balance, lack of flexibility, and limited career growth opportunities can compel legal professionals to seek alternative employment avenues.

This underscores the urgency of fostering balanced, supportive work cultures – something somewhat foreign to private practice law firms across time and markets.



# THEMES AND TRENDS: WHAT DRIVES DEPARTURE

## Seeking greener pastures

The decision to immigrate is often driven by a complex interplay of factors, ranging from career aspirations to personal ambition.

Skilled professionals in the legal industry, like many others, find themselves drawn to new horizons for a myriad of reasons. At the forefront is the pursuit of improved opportunity, safety and security, followed closely by the aspiration for a better future for their children.

As social services deteriorate and the quality of life declines, skilled professionals seek alternative avenues that promise higher earnings potential and a better standard of living.

The lure of professional growth and prospects abroad, along with the appeal of lower taxation rates, rounds out the top reasons compelling these individuals to seek a new chapter in their careers and lives.

This exodus of talent poses a challenge for law firms and industries alike, urging a reflection on how to create a work environment that not only nurtures skills but also fulfils the broader aspirations of its professionals.

## The Peter Principle

One of the interesting discoveries our research found is the possibility of the Peter Principle being prevalent in some law firms in South Africa.

It is a concept in management developed by Laurence J. Peter in 1969 which observes that people in a hierarchy tend to rise to "a level of respective incompetence": employees are promoted based on their success in previous jobs until they reach a level at which they are no longer competent, as skills in one job do not necessarily translate to another.

The Peter Principle states that, if you perform well in your job, you will likely be promoted to the next level of your organization's hierarchy. You will continue to rise the ladder until you reach the point where you can no longer perform well.



One of the issues that some law firms face is that of losing people because they are not promoted quickly enough and losing them because they've been promoted to roles they are not ready for.

Further analysis needs to be done, but this is certainly something that, globally, in the legal sector, has led to attrition rates soaring.

# MITIGATING ATTRITION: A PROACTIVE APPROACH

It is evident that controlling turnover hinges on controllable themes like competitor allure and in-house transitions.

Developing strategies to increase retention rates requires a multifaceted approach.

Research shows that addressing cultural and work environment concerns can yield a significant reduction in attrition.

Addressing these issues with proactive measures such as fostering a culture of inclusivity, implementing flexible work arrangements, and investing in leadership training can not only stem attrition but also cultivate a vibrant, engaged, and diverse legal workforce primed for success.

## Establishing Support Structures

Central to combating attrition is the establishment and continuous evolution of support structures within law firms.

Efficient delegation, communication, and collaboration enhance employee satisfaction. Dedicated change agents or external consultants can guide firms through transformative change.

Ensuring roles are well-distributed and communication streamlined fosters employee support and engagement, ultimately reducing turnover.

## Modern Support Models

The adoption of modern support models is essential. One emerging approach is the resource centre model, shifting associates to a centralized resource hub.

Delegating administrative tasks to support staff lowers operational costs and retains legal talent for core legal work, optimizing client value.

## Engaging Stakeholders for Smooth Transitions

Change management thrives on stakeholder engagement. Involving staff and fee earners ensures their insights and concerns are valued.

Open communication channels and feedback mechanisms create an inclusive culture, reducing resistance to change and bolstering loyalty.

## Balancing Competitive Salaries with Work-Life Balance:

Beyond competitive salaries, work-life balance is pivotal.

Hybrid work models that offer remote and in-office options cater to evolving expectations.

## CONCLUSIONS: NAVIGATING THE FUTURE

Talent attrition poses formidable challenges to law firms, prompting a re-evaluation of retention strategies and talent acquisition practices.

The financial and non-financial implications underscore the need for proactive interventions to nurture and retain legal professionals.

Against the backdrop of potential economic uncertainties, inflation, and cost pressures, law firms must reimagine their strategies.

Traditional quick fixes fall short, prompting the call for sustainable, innovative approaches.

By addressing the push factors that drive attrition – such as career advancement, remuneration, and company culture – law firms can transform their workforce challenges into opportunities for growth and success.

By embracing these strategies law firms can proactively address staff attrition. This approach nurtures internal talent, enhances performance, and fortifies law firms against attrition challenges.

As the legal industry navigates this complex terrain, these strategies ensure a resilient future for legal professionals and the industry at large.

People will always exit firms as they explore new opportunities or seek better working environments.

While attrition may never get to zero, even a slight reduction in attrition can not only have a significantly positive impact on the bottom line but can also create happier and more fulfilling careers for the attorneys who are expected to give so much of themselves to their careers.

Acknowledgement: The content presented in this article is based on an anonymized internal memorandum, with valuable market insights incorporated for a broader perspective.

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