

Human Capital Adds Value to your Practice

When you view employees on a balance sheet, they are generally classified as negatives. Their salaries and overhead costs are listed as liabilities, taking money away from your practice. But, this perception misses the true value of an important asset... human capital.

Within a law firm, attorneys and staff members are vitally important to success, but sometimes this is hard to quantify when making employment decisions. Here are some tips for employee valuation and how to determine the true worth of your workforce.

1. **Expenses** – This is the no-brainer. Obviously, to determine the value of your workforce, you must determine what expenses are associated with each employee. This entails all of the out-of-pocket costs that are required for employment, including:
 1. Salary – This not only includes the employee's current compensation, but also salary increases that will likely occur with increased years of service and advancements in knowledge/experience.
 2. Health Insurance – This is pretty self-explanatory.
 3. Retirement Contributions – Remember to include any future retirement payouts in addition to contributions you are currently making.
 4. Training – Are you providing specialized trainings to staff members? Perhaps you reimburse for college classes or assist with CLE credits. Include all of these costs in your expenses.
2. **Cost of Replacement** – Now that you have grasped the expenses of your staff, let's look at the potential cost of replacing them with new employees. This does not necessarily mean that you are considering hiring new employees, but it does provide an additional perspective when determining financial value. Consider advertising costs, time and

money spent on interviews, and compensation paid to employment agencies or head hunters. You should also include the necessary time to onboard a new employee and make him or her fully productive.

3. **Productivity** – Speaking of productivity, consider how much output your employees are producing. Are staff members working efficiently? Are partners and associates meeting the firm’s billing goals? These are attributes that directly contribute to the profitability of the firm, so give them close consideration.
4. **The Extras** – There is something to be said for a great attitude, leadership skills and punctuality. Though these extras may prove challenging to quantify, they are still extremely important to the overall success of your practice. For example, what if a chronically tardy associate showed up late for a court ordered settlement conference? The consequences could be far reaching, including discipline from the bar, loss of a paying client, and damage to your firm’s reputation. Though it may seem hard to place a value on these types of positive attributes, their absence can leave a significant dent in your bank account.

A law practice is only as good as its people. Stop looking at your employees as liabilities on a spread sheet and start recognizing the significant value that they add to the firm. When you take a closer look, you may find a greater appreciation for your staff, and possibly identify some members who should be best replaced. Either way, this is a useful task for the benefit of your firm.

About Erika Winston:

Erika Winston is a Virginia based writer with a passion for all things legal. As a former domestic relations attorney, she understands the challenge of determining the best fee structure for your practice. Erika is a regular contributor to [TimeSolv](#) and a variety of other publications.