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# In-House Practice & Management

FOR THE CORPORATE LAW DEPARTMENT

Volume 6 Issue 1

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## PERSPECTIVE

ANALYSIS AND ADVICE FROM ALTMAN WEIL CONSULTANTS

### Are You Being Paid What You Are Worth?

BY DANIEL J. DiLUCCHIO

To determine whether or not you are paid what you're worth, you will need to examine several factors: your organization's expectations, how you meet your organization's expectations, the forces at work in the marketplace, and some compensation benchmarks for other attorneys in comparable positions, regions, and points in their careers.

#### Law Department Value

It is helpful to first establish an argument for the existence of corporate law departments. Whether or not a corporation needs an in-house law department is a question regularly asked by corporate executives as they review their organizations, staffing and strategic direction. Following are the typical reasons for maintaining an in-house law department:

- law departments are traditionally less expensive;
- the lawyers have a better knowledge of the corporation's business, people and issues;
- the lawyers are available on a full-time basis; and,
- legal costs of the corporation are generally better managed.

The in-house lawyer's role includes practicing law, managing outside counsel, practicing preventive law/education, and dealing with corporate administrative/management matters. Each of these four activities should directly connect to the four elements listed above which comprise the rationale for the in-house law department. A corporate lawyer is compensated for how well these roles are performed, while ensuring that these activities help advance the corporation's business. This article looks at three forms of in-house lawyer compensation; salary, bonus and stock options. There are also many other forms of non-monetary compensation, which will be explored in a later article.

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## Market Forces

In the past two years the lawyer labor market has been a roller coaster ride. To better understand the significant challenges of those years, it is instructive to define three labor markets; the buyer's market, the seller's market, and what we will call the 2000 market. The table below illustrates the various markets.

MARKET	CRITERIA
BUYER'S MARKET	<ul style="list-style-type: none"> <li>• BUYERS SET THE PRICE</li> <li>• SELLERS ADJUST</li> <li>• GENERALLY HIGH UNEMPLOYMENT</li> <li>• COMPETITION FOR JOBS</li> <li>• LOW ATTRITION</li> </ul>
SELLER'S MARKET	<ul style="list-style-type: none"> <li>• SELLERS NEGOTIATE PRICE FROM STRENGTH</li> <li>• BUYERS ADJUST</li> <li>• GENERALLY LOW UNEMPLOYMENT</li> <li>• JOBS ARE AVAILABLE</li> <li>• MODERATE ATTRITION</li> </ul>
THE 2000 MARKET	<ul style="list-style-type: none"> <li>• BUYERS BIDDING FOR TALENT AS THEY SCRAMBLE TO FIND SKILLS AND KNOWLEDGE</li> <li>• SELLERS "AUDITION" THEIR SKILLS/KNOWLEDGE TO HIGHEST BIDDER; BUT IT IS ONLY A SHORT TERM LEASE AS ANOTHER BUYER QUICKLY RAISES THE BID</li> <li>• JOBS GOING UNFILLED</li> <li>• ALL WHO WANT TO WORK CAN</li> <li>• JOBS ARE COMPETING FOR EMPLOYEES</li> <li>• HIGH ATTRITION</li> <li>• "RETENTION CZARS" ARE EMPLOYED TO STEM THE DEPARTURES</li> </ul>

Each of these markets is familiar to experienced General Counsel. The 2000 market phenomenon was unique. It extended beyond the seller's market and fueled an in-house compensation challenge for General Counsel. In the year 2000, there was a nationwide ripple effect on starting associate salary raises in U.S. law firms, and there were numerous attractive dot.com opportunities. Many General Counsel sought strategies and tactics to mitigate the impact of this escalating compensation on their in-house staffs.

To assess the impact of the market, in September of 2000, Altman Weil, Inc. and the American Corporate Counsel Association (ACCA) conducted a Survey of top General

Counsel. Seventy-seven General Counsel participated in the Survey. Among other strategic issues, the Survey specifically asked about the impact of rising law firm associate salaries on the corporate law department. Nearly half of the responding General Counsel said that they saw an impact of rising associate salaries on both in-house compensation and higher outside counsel fees.

## Today's Market

The compensation landscape has shifted again. In the past 18 months, a recession has developed in the U.S., the dot.com frenzy has subsided and many law firms are reducing the numbers of lawyers in their organizations. The 2000 lawyer labor market phenomenon has dissipated, although there are some residual effects, such as the higher associate starting salaries.

Today's market appears to have moved closer to the traditional mix of a buyer's and seller's market. It appears that the 2000 market has passed, for now.

## Compensation Benchmarks

To understand whether in-house counsel is being paid what they are

worth, a review of timely data, broken out by region, position and level of experience is vital. Some of the most recent data available to assess compensation trends is contained in the 2002 *Altman Weil Law Department Compensation Benchmarking Survey* of U.S. Corporate Law Departments published in November 2001 in partnership with the American Corporate Counsel Association.

The 2001 compensation data for in-house positions showed significant increases for the positions of Chief Legal Officer, Managing Attorney and Attorney. Overall, from 2000 to 2001, cash compensation (salary plus cash bonus) went up 6.55% for Chief Legal Officers. For Managing Attorneys, cash compensation rose 12.66% and for Attorneys, 4.77%.

The Survey reported some significant regional differences in total cash compensation as represented by the Chief Legal Officer differences. The top in-house lawyers in the New York City / Northern NJ / Long Island area earned 21% more total cash compensation than the national average. Total cash compensation for Chief Legal Officer's in the metropolitan San Francisco / Oakland / San Jose area is 7% ahead of the national average.

Upper management positions experienced significant bonus increases in the 2002 survey over that of 2001. Chief Legal Officer bonuses were up 42% over 2001. Over the past few years, many corporations have revamped their pay-at-risk strategies, putting more compensation in the bonus category. These upper level bonuses, combined with healthy salary increases, resulted in total cash compensation increases of 20% to 30% in some cases.

Nationally, the number of stock option shares awarded to eligible Chief Legal Officers ranged from the lower quartile (lower 25%) of 11,750 shares to the ninth decile (top 10%) of 100,000 shares.

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While attorneys at all levels in the law department appear to be eligible for stock options, those in more senior positions are more likely to receive them. In the largest companies of 20,000 employees or more, over half of the Senior Attorneys and 80% of Chief Legal Officers receive stock options as part of their compensation packages. Every category of lawyer, in varying degrees, appears to be eligible for stock options. The higher one climbs the organizational ladder, the greater the possibility for stock option eligibility.

Although stock options appear more popular today than 10 years ago, in proprietary studies conducted for clients by Altman Weil, 95% of General Counsel report that cash bonuses remain the most common compensation tool for in-house counsel.

The 2001 Survey showed substantial growth in lawyer compensation of recent graduate positions in 2000. Nationally, salaries of recent law school graduates reportedly grew by

9%. This was, arguably, directly related to the rising entry level starting salaries for lawyers in U.S. law firms that occurred in 2000. In the 2002 Survey, Recent Graduate salaries grew a modest 2% over the previous year.

### Conclusion

Based on the recent roller coaster ride of lawyer employment and compensation trends, General Counsel have their work cut out for them attracting, retaining and motivating top legal talent. When negotiating your next compensation package, come prepared with an understanding of your contribution to the department, the economics of your industry and region and comparable packages being offered to your peers. That knowledge will pay off. 🍀

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