

Report to Legal Management

OUR 34TH YEAR

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Sometimes You Get What You Pay For... Sometimes Not



Daniel J. DiLucchio

By Daniel J. DiLucchio

Twenty-two of the nation's top general counsel characterized the current \$160,000 starting salaries for law firm associates as "outrageous." The 22 general counsel represent well over half of the 38 general counsel from the 200 largest U.S. law departments who responded to the Altman Weil flash survey on increases in associate salaries conducted in April 2007. This reaction comes at a time when general counsel are under increasing pressure by their corporations to better manage their legal costs while providing the best legal services available.

When it comes to the total cost for a new associate, however, the starting salaries are the tip of the iceberg. As my partner, Ward Bower, points out in his recent article, "The War for Talent and Starting Salaries" (April 2007, *Report to Legal Management*), the starting salary of \$160,000 for new associates in some cities translates into fully loaded compensation in the range of \$200,000. Once you add to this compensation figure the overhead of a large, major city law firm of approximately \$200,000 per lawyer, you arrive at a total cost of \$400,000 for a first year associate (which does not include the possibility of signing bonuses or actual recruiting costs).

Based on these high starting salaries, a few general counsel have established policies prohibiting their outside law firms from billing the corporation for first year associ-

ates' time. Although this is a clear statement of dissatisfaction with the state of affairs, it will probably not result in much savings for the corporation. As the cost structure of the large law firm diverges more dramatically from that of the client law department, it seems natural for a general counsel to weigh his or her alternatives and ask, "What would \$400,000 buy for my law department?"

What Will \$400,000 Get You?

To determine what is available for \$400,000 we first turned to the Altman Weil Publications, Inc. Law Department Compensation Benchmarking Survey, 2007 Edition. The Survey contains compensation information from 415 corporate law departments located in the U.S. with specific information for 8,148 lawyer positions. In addition, to analyze other opportunities, analytical metric information was extracted from the *Law Department Metrics Benchmarking Survey*, 2006 Edition, published by Altman

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Weil Publications, Inc. That survey contains metrics information from 138 companies within the U.S.

According to the *Law Department Metrics Benchmarking Survey*, the average expense *per lawyer* for a law department of 26 or more lawyers is \$302,185. This is a fully loaded cost, including compensation, occupancy, technology and other associated corporate charge-backs. To put this number in sharper perspective, one must keep in mind that corporate law departments generally hire lawyers with three to five or more years of experience. In today's sophisticated law department, many of the lawyers have years of substantive legal experience with brand name law firms before joining an in-house staff. Based on the level of experience and value, the \$302,185 expenditure looks quite attractive compared to the cost of a first year associate. Of this \$302,185 figure, the average compensation and benefits for an in-house counsel is \$250,536, leaving a difference of approximately \$51,000 for in-house overhead costs.

By adding the fully loaded cost of a first year associate in his or her budget, a general counsel could add an in-house counsel position and still have an additional \$78,000 to spend on prevention programs, compliance, training, technology or additional paralegal or support staff assistance.

Looking more granularly at opportunities to enhance a corporate law department, the following are some buying options based on the \$400,000 first-year lawyer costs and what the *Law Department Compensation Benchmarking Survey* reports could be purchased in-house for that sum:

- For those considering a different organizational structure, you might add a Deputy Chief Legal Officer for an average total cash compensation (salary plus bonus) figure of \$365,800. After adding

the \$51,000 in-house overhead, the cost of adding a Deputy is \$416,000. The benefits of adding such a position include adding a highly experienced lawyer/ manager as well as allowing the Chief Legal Officer to spend more time focused upward on the Board and key executives.

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- A Managing Attorney could be added to the organization for an average total cash compensation of \$243,700. After adding the \$51,000 in-house overhead, the cost of adding a Managing Attorney is \$294,700. A managing attorney generally exercises supervision over several lawyers or heads a group of lawyers. The benefits of adding such a position include the ability to improve the management and delivery of the corporation's legal services, to deliver additional preventive law, and improved cost control.
- A High-Level Specialist, a lawyer with 12 or more years of experience and a specific practice area specialty, could be added to the law department. For example, a High-Level Specialist with a Merger and Acquisition specialty could be added for an average total cash compensation of \$239,400. After adding the \$51,000 in-house overhead, the cost of adding a High-Level Specialist is \$290,400. The benefits include the internal-

ization of more legal work and the reduction of outside counsel costs associated with that work.

- A Senior Attorney, an attorney with eight or more years of experience, could be added for an average total cash compensation of \$169,500. After adding the \$51,000 in-house overhead, the cost of adding a Senior Attorney is \$220,500.
- Nationally, according to the *2007 Annual Compensation Survey for Paralegals/Legal Assistants and Managers*, conducted by Altman Weil Publications, Inc. in cooperation with the International Paralegal Management Association, the total cash compensation (salary plus bonus) for a paralegal is \$59,973. Even when adding occupancy, technology and other corporate overhead of approximately \$51,000 per legal service provider, a General Counsel could add three paralegals or more to her staff.

The observations above are not intended to minimize the reality of the talent war in which law firms are currently engaged. The war for talent is real and strategically important to the future of the firms. Law firms are dependent on their talent pools and must be constantly attracting the best available. At the same time, however, general counsel are responsible to their corporations. They must ensure that they are spending their legal dollars in the most effective and efficient means possible while providing the highest quality legal counsel required.

Additionally, the observations above are not intended to suggest that law firms do not provide services of value to their corporate clients. They do provide such services. Because so many general counsel feel outraged by the starting salaries for new associates, however, it makes sense to ask what one could purchase for \$400,000.

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2007 INNOVATION AWARD WINNERS NAMED

Four law firms from Washington, D.C., Denver, Sydney, Australia, and Los Angeles have been selected by the College of Law Practice Management for the 2007 InnovAction Awards for excellence and innovation in the management and delivery of legal services. For the third year, the College has solicited entries from law firms and other providers of legal services throughout the world for the InnovAction Awards. The goal of the awards is to demonstrate to the legal community what can be created when passionate professionals, with big ideas and strong convictions, are determined to make a difference.

"The five InnovAction judges were greatly impressed by the ideas demonstrated in the submissions from law firms in three countries," said Chuck Coulter, an attorney with Stanley, Lande & Hunter, past President of the College, and chair of the 2007 awards program.

DLA Piper US

In Washington, D.C., the global firm DLA Piper US was selected for its New Perimeter project initiative. This initiative expands what it means for lawyers to commit to *pro bono* service. New Perimeter's mission is to bring legal expertise to bear strategically on some of the world's most pressing problems – creating, providing legal support for, and completing major projects that address such issues as health care, hunger, corruption, environmental sustainability, economic development, law reform and human rights. Their volunteer attorneys work on initiatives in underdeveloped or developing countries, where they assist in building institutions that will endure and open the way for stronger societies and better lives.

Holland & Hart LLP

The Denver regional firm of Holland & Hart LLP was selected for the community service projects and efforts of its Holland & Hart Foundation. Holland & Hart formed the foundation not only with the goal of giving back to the community but also building relationships between attorneys and staff and among offices and practices within the firm. It acts as the "heart" of Holland & Hart by creating opportunities for firm members to work side-by-side in their communities. As a unique model, the foundation enables and empowers Holland & Hart volunteers to make worthwhile contributions to the many communities that sustain them, and to get to know each other in the process.

Mallesons Stephen Jaques

Mallesons Stephen Jaques of Sydney, Australia created its innovative TalentNet initiative as its answer to the highly competitive labor market in Australia. TalentNet is a web-based solution for recruitment management. It manages all internal and external processes in the recruitment lifecycle,

from the requisition through to the final appointment. TalentNet provides the candidate with an engaging experience while addressing the desire of today's recruits for "self-service" solutions and "personal" touch points. TalentNet has vastly improved the firm's recruitment outcome while reducing administrative overhead in the process.

Raskin Peter Rubin & Simon, LLP

Formation of the Association of Media & Entertainment Counsel (AMEC) by Raskin Peter Rubin & Simon, LLP, qualified the Los Angeles firm for a 2007 InnovAction Award. Established in 2004, AMEC addresses the lack of support in the career development of in-house counsel in the entertainment industry and the lack of recognition for corporate counsel who directly contribute to the success of a television program or motion picture. AMEC organizes and sponsors programs designed to equip in-house counsel with the skills necessary to excel. The Media and Entertainment Counsel Awards were inaugurated in 2005 to recognize those members who have achieved the highest levels of success in their areas of expertise.

Criteria and Judging

"The judges' first and primary criterion was whether the submission had ever been done or done this way before," Coulter stated. "For those that met that criterion, the judges then examined how the innovative idea was transformed into action and determined the potential effectiveness of the initiative. Many of this year's submissions demonstrated excellence in delivering on a concept that had already been done but that was not particularly unique in its original expression."

The College of Law Practice Management was formed in 1994 to honor and recognize distinguished law practice management professionals. To date, 200 practitioners from ten different countries have been inducted as Fellows of the College, including a number of Altman Weil consultants. The InnovAction Awards were initiated in 2004.

"We know a great deal of innovative thinking is at work around the world to solve the business challenges faced by law firms in today's competitive market. We want to focus the attention of the legal profession on these extraordinary achievements," said College President Marilyn Astin Tarlton, who served as one of the judges and is the principal of Astin Tarlton.

Other judges were Maggie Callicrate, partner with Kerma Partners and Secretary of the College; Thomas S. Clay, consultant with Altman Weil, Inc.; Jordan Furlong, editor, Canadian Bar Association's *National* magazine and the College's *InnovAction* e-zine; and Greg Siskind, founding partner of Siskind Susser Bland.

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The opportunities to spend dollars on in-house staff resources mentioned above are but a start. Other opportunities exist. A general counsel may need new corporate secretarial, e-billing, matter management, document management or e-discovery software. These are all expenditures of importance to the effective and efficient delivery of legal services to the corporate client and, when measured against the cost of a first year associate, relatively inexpensive. Therefore, the question for a general counsel becomes, do I implement this internal system which will improve the effectiveness and efficiency of our services or pay the same or more for inefficiencies and inexperience?

Developing a budget for an in-house law department is a critical exercise in today's corporate environment. When developing a budget, looking at in-house spending relative to what one is paying for outside counsel services is important to keep in perspective. You don't always get what you pay for...but sometimes you do. ♦

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