

ACC'S CLO THINKTANK EXECUTIVE REPORT COMPENSATION & CAREER ADVANCEMENT FOR IN-HOUSE LAWYERS

This Executive Report provides an overview of discussion results from ACC's CLO ThinkTank session titled "Compensation & Career Advancement for In-House Lawyers" held in Chicago, IL on March 17, 2006. ACC's CLO ThinkTank sessions are designed to provide a forum for CLOs who wish to exert greater leadership at the bar, in the courts, and in the halls of government on emerging issues of greatest concern. Following is summary information on key topics and takeaways, discussion point highlights, and follow-up initiatives identified by these private company CLO thought leaders.

ThinkTank participants included the following legal leaders:

- Susan Blount, General Counsel, Prudential Financial, Inc.
- Tim Donovan, Executive Vice President, General Counsel & Managing Director-Int'l Group, Tenneco Inc.
- Deidra Gold, Executive Vice President & General Counsel, Wolters Kluwer North America
- Muzette Hill, ACC Board Member & Advocacy Committee Chair, Counsel, Ford Motor Credit Corporation
- Michele Mayes, Senior Vice President & General Counsel, Pitney Bowes Inc.
- John Page, General Counsel, Golden State Foods Corporation
- Rick Palmore, Executive Vice President, General Counsel & Secretary, Sara Lee Corporation
- James Wooten, Jr., Vice President, General Counsel & Secretary, Illinois Tool Works Inc.

KEY TOPICS

Below is a list of key topics discussed during this CLO ThinkTank session:

- **Job Titles**
- **Bonus/Wealth Creation Opportunities**
- **Education/Communication Regarding Compensation Structure**
- **Retention/Engagement/Developing Talent**
- **Law Department Organizational Models**
- **Competencies/Performance Assessment & Metrics**

KEY TAKEAWAYS

Thought leaders participating in this session described a number of ideas and practices. Listed below are some top themes and takeaways. Ideas on additional issues are described in the Discussion Highlights section below, and thoughts on action items are summarized in the final section on Conclusions & Proposed Action Items.

- Law departments don't appear to be losing in-house lawyers due to compensation concerns. The bigger issue is implementing practices to keep lawyers engaged so they don't 'die-on-the-vine.'

- Communicating compensation opportunities is important—particularly for lawyers new to in-house from law firm compensation environs; HR can play a role in openly presenting to in-house lawyers their total package of benefits and compensation opportunities.
- Behaviors and competencies for lawyers can be an important component of career advancement practices, and clearly communicating expectations in these areas as well as working with high potential lawyers to cultivate competencies needed for leadership are worthwhile practices.
- Developmental assignments, leadership training, executive coaching, and job design are practices that can be implemented to help retain good legal talent even when promotional opportunities appear flat.
- Measuring and communicating to business personnel the value added by in-house lawyers is an important component of organizational compensation discussions.

DISCUSSION HIGHLIGHTS

JOB TITLES

Job Titles/Scope and Levels of Titles for Lawyers: A lot of lawyers come to law departments from law firms where there are two basic levels of titles: Partner and Associate. Within law departments and among in-house lawyers, there seems to be a disconnect because there is an expectation when it comes to titles that there will be more levels or opportunities for titles and there are corresponding challenges associated with how these titles fit broadly within the organization and what these various rungs of titles mean. If titles are associated with compensation opportunities, this adds another layer of complexity. Another area of complexity arises when lawyers join law departments through corporate acquisitions: here, evaluations of positions may be necessary to determine which titles to use.

Job Titles/ Opportunities to Provide Enhanced Satisfaction & Links to Metrics: Where titles are not linked to compensation, there may be opportunities to provide ‘carrots’ by offering different titles. Participants discuss practices that include linking competencies or behavior or skill expectations to levels of titles.

Job Titles/Challenges with Combined Business Titles: Lawyers with business as well as legal titles must address challenges associated with which hat the lawyer is wearing when providing a particular service and whether this impacts privilege considerations.

Job Titles/Lateral Moves: Some lawyers may face situations where they experience a lateral move within the law department that involves radical changes in a substantive practice area and ramping up to develop different skills, but no change in pay or job title level. Part of the rationale for lateral moves is to help develop new skills and broader experience when there are fewer vertical opportunities to advance, but lawyers may perceive themselves as working harder without a job title return.

Job Titles/CLO: Participants discuss whether there is significance or difference between the CLO and General Counsel title. One view is that the title CLO is for the company’s top lawyer when that lawyer also leads other non-legal functions. Discussion also considered whether the CLO title is a ‘notch up’ from the General Counsel title or may be a transitional ‘retirement-ready’ title. No consensus was reached.

BONUS/WEALTH CREATION OPPORTUNITY

Bonus/ Expectations for Coming In-House: Participants identify bonus or wealth creation as an expectation that many lawyers coming in-house may have. There is a perception that while base salary may be lower than what the lawyer may otherwise receive at a law firm, the potential for bonus pay exists and adds to the value of the overall compensation package. This presents challenges because it's a component of compensation that may be harder to sell in years where the company doesn't hit its target, and can be difficult to value from 'day 1' when candidates ask about an 'anticipated trajectory.'

Bonus/Rationale & Approaches: One way to view having lawyers participate in a performance-based bonus opportunity is viewed as sharing in the overall risks and rewards of being in-house. One participant's system involves placing lawyers into quadrants; another system might result in having a total bonus pool for the law department that doesn't get entirely distributed. Of the participants in the session, most offer lawyers in addition to the CLO bonus potential at some point in their salary progression; one law department currently reserves bonus potential to the CLO level.

Bonus/Stock Awards: Some participants describe having moved away from stock options to restricted stock awards. One participant described going from stock options to restricted stock and going back to stock options because the award is based on long term and future performance and options reflect what companies do going forward..

COMMUNICATIONS/ CLEAR COMMUNICATIONS CAN ENHANCE MORALE

Participants identify practices, including having HR explain the overall compensation system and opportunities, to help enhance transparency and educate lawyers on the total compensation package offered to in-house lawyers and the benefits that are available. Some organizations provide separate HR presentations to each of the various types of providers within the law department (e.g., lawyers, legal assistants, administrative personnel). Discussions on compensation might include descriptions of how market reference ranges are set, how bonus ranges are set, identify what other companies HR reviewed in comparing compensation, and include an opportunity for questions and answers. Although sometimes the candor associated with describing the overall opportunities sends tough messages to some individuals, open communications that explain the company's philosophy can help show lawyers what the potential might be and how the organization creates its system.

RETENTION/WORK ALLOCATION/ENGAGEMENT

Retention/ Query Whether Losing Lawyers Due to Compensation: Participants note that they aren't generally losing lawyers to other companies because of the promise of more money. A bigger issue seems to be setting the right package to bring the lawyers in, and once they're part of the department the challenge focuses on what the next job or promotional opportunity might be. A question to consider is: if law departments aren't losing people because of compensation, then why have these discussions at the CLO Level? Even though lawyers may not leave, the issue of concern is whether they remain motivated and engaged or end up 'dying-on-the-vine,' and/or whether lawyers that should leave aren't.

Retention/ How to Motivate and Enhance Development: Companies that value continuous improvement have a culture that helps to challenge lawyers to grow and improve and develop professionally to grow a stronger set of skills—to use within the law department, elsewhere within the company, or where growth opportunities within the company are limited and an individual is ready for the next move, to leave with a stronger set of skills and a sense of professional growth. Retention is about rewarding people for a job well done and keeping lawyers engaged.

Retention/ Challenges Associated with Lawyer as Business Partner: A recent study shows that lawyers who are more engaged business partners may be more likely to perform work that isn't as highly valued and may be asked to do work that should be performed by business personnel but is handed to the lawyer because he or she is at the table. To help keep lawyers motivated and engaged as legal professionals, a question and challenge is how to allocate work to the appropriate skill set while at the same time maintaining good working relationships with business personnel that encourage them to seek needed legal guidance.



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Retention/ Calibration: One participant notes a practice involving mapping legal work to capture the value provided within the law department and identify which tasks to continue and how to best communicate to the business the value the law department delivers. Tying value to services is helpful in negotiating salary and compensation packages for the law departments. This type of mapping also has value in helping to move work to the right places and determine whether work should continue or go away.

Retention/ Developing Leadership & Talent: Among the ways described to help develop talent and enhance leadership skills are use of executive coaches and leadership training for high potential lawyers. In addition, one participant presents annually to company management a leadership review of staffing issues, including preparing a grid of talent, identifying gaps, staffing issues, and succession proposals. Part of developing talent is ensuring that communication is frank and often enough so that lawyers can adjust and improve. The higher within the organization lawyers progress, the more important 'soft skills' such as people and leadership skills become.

Retention/ Developmental Assignments: Particularly in flatter organizations, lateral legal or business-side developmental assignments present opportunities for professional growth and can enhance overall job satisfaction. A challenge associated with providing developmental assignments is convincing business clients to allow lawyers to move onto new positions.

Retention/ Job Design: Participants describe value of receiving input on job design and moving work to appropriate service providers so that lawyers have fulfilling and challenging portfolios. Opportunities to use paralegals and other non-lawyers within the department is a consideration in helping to structure satisfying positions for lawyers.

Retention/ Challenges: Broadening experience within the department can be difficult when the practice of law is becoming increasingly specialized. Another challenge when the law department includes lawyers who are highly productive and accomplished is that others within the organization (and outside the organization) are interested in legal talent. What to do with smart lawyers who lack people skills and with lawyers who should advance but aren't interested in doing so are additional staffing and retention challenges.

ORGANIZATIONAL STRUCTURE

Organizational Structure/ Flat: Under this participant's model, all lawyers eight lawyers within the department—including those located outside of headquarters-- report directly to the CLO.

Organizational Structure/ Global Law Dept: Although this participant's model isn't flat, it currently involves having all lawyers around the world (including 2/3 of the law department's lawyers which are located outside of the US) ultimately report to the CLO.

Organizational Structure/ Non-US Lawyers Report to Business Personnel: One participant describes a model that includes having lawyers for non-US business units report directly to the leaders of those business units with dotted line reporting to the CLO.

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Organizational Structure/Deployment of Lawyers: Participants discuss pros and cons of locating lawyers centrally and/or deploying them to sit side-by-side with business personnel. On the ‘pro’ side of locating lawyers with business personnel is integrating lawyers within the business so that issues come to lawyers early in the game and preventive law is part of the business process. On the ‘con’ side of locating lawyers with business personnel is the issue of isolating lawyers and the potential for ‘going over the wall’ and losing some objectivity and erosion of role. Another challenge in locating lawyers with business personnel is that business personnel may have expectations of receiving guidance from co-located lawyers regardless of area of expertise (example re: intellectual property lawyers co-located with scientists and engineers and business personnel seeking guidance on legal matters outside the ip expertise area).

Organizational Structure/ Business Unit Liaisons: Another structure model includes having designated lawyers for each business unit perform a business unit liaison role that may include funneling work to appropriate specialist lawyers who provide services across the various business units.

PERFORMANCE ASSESSMENTS & METRICS/COMPETENCIES

Performance Assessments/Competencies for Lawyers: One participant describes having a set of legal competencies developed by lawyers within the department that function as a springboard for expectations as well as review by clients. The process for developing the competencies took around 18 months to complete. Receiving input from clients on lawyer performance is automated and includes using a competency survey that has a question asking whether the CLO needs to speak with the client about the lawyer’s performance.

Performance Assessments/ Reports to the CLO: On law department performance and reporting information to the CLO, one participant describes having monthly 80/20 meetings as well as quarterly reports from senior lawyers and meetings regarding acquisitions and litigation.

Performance Assessments/Metrics for Law Department: Quantifying legal value can help in company-wide compensation discussions. There is a challenge in valuing legal services (can look at dollars saved in litigation, through creative indemnities, regulatory enforcement resolutions, process redesigns within the department, etc...), and while it can be helpful participants note that it shouldn’t be everything.

CONCLUSION & PROPOSED ACTION ITEMS

The session ended with the CLOs sharing ideas on possible tools or action items, including:

- **White Paper/Article on Compensation Case Studies:** Consider preparing a white paper that includes case studies of what several law departments are currently doing regarding compensation (include larger and smaller law departments). The materials include a leading practice profile with information on compensation and retention strategies for a number of companies, but perhaps build on this.
- **Metrics:** Develop resources on law department metrics. Note that ACC has a leading practice profile on metrics and will have a session on developing and implementing sustainable departmental metrics at the CLO Club during Annual Meeting ’06.
- **Mapping Process for Legal Services:** Participants shared interest in receiving information on a process for mapping legal services, interactions with clients, etc... One participant noted that six sigma includes tools for this.
- **Competency Model:** Interest in access to the competency model prepared by one law department was expressed. The competency model will be made available via ACC’s virtual library.