

Are You Ready to Go In-House?

By Vanessa Vidal

If I had a dollar for every time I heard a law firm associate tell me “I want to go in-house,” I would be enjoying my retirement on a tropical island in the South Pacific. The allure of taking one’s practice in-house is understandable, and in many cases, quite appropriate.

The opportunity to take an active role in a client's business decisions, to focus on the growth of one client and one industry, to part with billable hour requirements and business development responsibilities, and operate within a more predictable and sometimes less taxing schedule, are all very compelling reasons to make that transition. But how do you know whether you are ready to make the move in-house?

There is a notable difference in wanting to go in-house and being ready to go in-house. No matter how enticing the opportunity might turn out to be; unless you are truly ready for it, it might not be the successful transition you were hoping for. How do you know whether you are ready? Here are some questions to consider in determining whether you are ready to make that leap in-house:

Do You Have the Experience?

When you consider that 75% of associates leave private practice by their fifth year of practice (NALP 2005), it is not surprising to see a number of junior associates banging on corporate doors to transition in-house. Obviously most in-house job postings will include the minimum level of experience required for the position – but is meeting the minimum requirement enough? Not necessarily.

Companies that hire in-house counsels are looking for attorneys who are self-sufficient, who can work independently, with little support, and almost no supervision. Sounds like an ideal proposition? Yes, but consider the following: this also means that corporate legal departments are not good training grounds either. This is not a place where you will be taught skills, or have much of an opportunity to learn from more senior counsel. It will be assumed that you are already skilled in your practice area, can handle all of the documentation and processes that come with it, can provide strategic advice to your company, and can oversee the legal work of potentially more experienced outside counsels.

In light of what companies expect from their attorneys, it is recommended that you stay in private practice for at least five (5) years before you consider making a transition in-house. While the level of responsibility and training tends to vary on an individual basis, and from firm to firm; this minimum threshold can at least ensure that you have had the opportunity to be exposed to the various documentation and processes of your practice area.

While law firms continue to have a dubious reputation in terms of the quality of their training, they remain the best place for junior attorneys to acquire experience and develop legal skills. Corporate legal departments for the most parts are thinly staffed, and therefore provide you with more limited access to experienced counsels (and sometimes no access whatsoever) to whom you could go for support or advice. And remember, if you are thinking about picking up the phone to call an outside counsel to get advice, it will cost you and your company. Corporate legal departments operate under strict budgets – they do not provide for this type of on-the-job training. Corporate legal departments also tend to work with fewer resources, in terms of libraries, software programs, continuing legal education programs etc. Finally, the work you will be required to handle in-house, will demand that you not only be able to draft, revise, and negotiate or explain the various documents associated with the transaction or litigation matter, but that you take it a step further and advise your client on what strategy and steps they need to take to meet their business objectives.

The longer you stay in private practice, the more valuable you will become to a company, and the more likely you will be able to succeed in-house. The best time to transition your practice in-house is generally between your fifth year and tenth year of practice, or right before partnership. Why before partnership? Because by the time you make it to partnership, you may have become either too expensive, or too dependent on your high compensation package, to be able or ready to absorb the salary cut you will need to take when moving in-house.

Are You Ready for a Salary Cut?

When speaking with attorneys who are ready to make that in-house transition, I invariably hear the same message, “I am ready to take a salary cut for the right opportunity.” They seem candid and honest about their willingness to give up a portion of their law firm compensation to move in-house, and they generally are. However, very few tend to understand just how much of it they will have to give up to make that move. That’s understandable; where law firms make their compensation public knowledge and generally align themselves in terms of their size and geographical locations, corporate legal departments are not only more guarded about their figures, but are also much more unpredictable – as compensation can vary greatly depending on a company’s size, industry, location, and financial situation.

The only in-house figures that seem to gather the attention of the press, and therefore those that are readily available to the general public are the compensation figures of Fortune 500 general counsels. In fact, those figures are typically those of the 100 highest-paid general counsels at Fortune 500 companies. In 2006, the average cash bonus and restricted stock grant received by this group approached \$2 million. In addition, more than half of the group cashed in stock options in 2005, with an average gain of \$3.1 million. In comparison, the average profit taken home last year by an Am Law 100(R) partner at the nation's 100 top-grossing firms was \$1.1 million.

Top earners like Thomas Russo, Lehman Brothers Holdings Inc.'s vice-chairman and chief legal officer, takes home a whopping \$21.2 million, with \$450,000 in salary, \$4.6 million in bonus, and \$16 million in stock option cash-ins. Occidental Petroleum Corporation's Donald de Brier received nearly \$7.2 million in stock options in fiscal year 2005, while MGM Mirage's Gary Jacobs got a sweet \$5.5 million in options.

While not everyone has the grandiose ambition or the profile to become a Fortune 500 general counsel – these figures have a tendency to skew the expectations of attorneys wanting to make the jump from law firms to corporate legal departments. Most law firm attorneys expect to take a 20-30% cut from their law firm compensation, while the reality is that most law firm attorneys transitioning in-house experience compensation reductions ranging between 50%-70%. The median base salaries for in-house attorneys with 5-10 years of experience ranges between \$100,000-\$150,000 per year, with bonuses averaging 20%-30% of base.

Most attorneys who hear these figures gripe, "It's not market." It's easy to understand why. The salary wars waged by large law firms around the country increasing first-year associate salaries to \$145,000 and \$160,000, as well as incremental increases of other classes by as much as \$15,000 have done little to provide law firm attorneys with a realistic understanding of their worth in the corporate legal market.

They forget one crucial distinction between the law firm and in-house environment. While associates and partners are an integral part of the law firm's "profit centers" and help generate millions of dollars in revenues on behalf of the firm, when they transition in-house, they become "part of the overhead." In-house counsels, with very few exceptions in the licensing area, do not generate revenues. At best, they protect a company from liability. Unlike a law firm that sees the hiring of associates and partners as a means to increase productivity and revenues, companies must determine whether hiring an attorney in-house is cost effective, in both the short and long run. The value proposition changes drastically, and therefore, so does the compensation.

The question that each attorney must resolve in his mind, is whether he or she can absorb the cost of transitioning in-house – as for most of them, there will be a significant monetary tradeoff.

Can You Handle The Limited Career Path?

By now, some of those left with the experience and the willingness to make the financial sacrifices may think that it's just a matter of time before they make their way to a more senior-level position or take the general counsel position. Well, not so fast.

According to a 2005 Survey conducted by Corporate Counsel, nearly seventy-five percent (75%) of in-house counsels polled described overall opportunities for advancement in their departments as either "limited" or nonexistent. Although many of the 1,278 respondents reported that they had been promoted since going

in-house, they said that they were unlikely to get much further. Nineteen percent (19%) said there were no opportunities for advancement whatsoever for them in their department, while fifty-six percent (56%) percent said opportunities were limited.

What does it mean for you? If you think that with time you will enjoy promotions including a better title or a significant increase in pay, you may be going in with unrealistic expectations. Most corporate legal departments are small or flat in terms of structure; therefore, title promotions or elevation to other roles tend to be rare. Unlike law firms where you move up class levels every year, and enjoy significant pay raises, when transitioning in-house you may find yourself in the same position for many years to come, with pay raises that average 3-5% a year.

Most in-house counsels bid their times and move up only when a more senior counsel decides to retire or to transition to another company. In fact, the best chance for advancement may be jumping to the legal department of another company. Companies with larger legal departments of fifty or more attorneys, usually have more avenues for advancement. They may have a more hierarchical structure to enable its attorneys to move up to more senior roles with more responsibilities and greater levels of compensation. That said, in-house attorneys don't have the same clear and linear career path as their law firm counterparts, and opportunities for advancement for the most part are limited. Before you make any decisions, you need to ask yourself whether you are ready to bid your time and live with fewer opportunities for advancement.

Conclusion

Before you start polishing your resume and look for in-house positions, make sure you've gained the experience you will need to succeed in-house, that you are able to let go of your attractive law firm compensation package, and can work in an environment where your career path will not be a straight line.

The trade-offs are far from perfect; however, most lawyers who made that transition with open eyes insist that going in-house was a decision they would make again. Gripes and all, in-house lawyers are nearly unanimous in preferring the more complex path they've chosen. How do we know? Only 1 percent of in-house lawyers say they'd like to be at a law firm.