

Key Issues and Trends in Law Department Compensation and Talent Management

Wednesday, October 1, 2008 | 4:00 p.m. to 5:30 p.m.

Gibson, Dunn & Crutcher LLP - Club 11

3161 Michelson Drive | Irvine, CA 92612



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GIBSON, DUNN & CRUTCHER LLP



**HILDEBRANDT
INTERNATIONAL**

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Hildebrandt 2008 Law Department Survey



Overview of this Segment

- The following slides provide data from the just released Hildebrandt 2008 Law Department Survey (HLDS).
- The bulk of this segment covers highlights from the 2008 All Participants and California Regional Compensation Reports. However, it also provides key spending and staffing data from the All Participants Law Department Metrics Report.
- The compensation information in this presentation compares the California region to the national pool of All Participants. It covers the following:
 - ◆ Base Salary
 - ◆ Cash Bonus
 - ◆ Total Cash Compensation – Base Salary + Cash Bonus
 - ◆ Value of Long-term Incentives - Stock-related and non-stock-related compensation, otherwise known as deferred compensation
 - ◆ Total Compensation – Base Salary + Cash Bonus + Value of Long-term Incentives
- Compensation data is as of March 15, 2008.



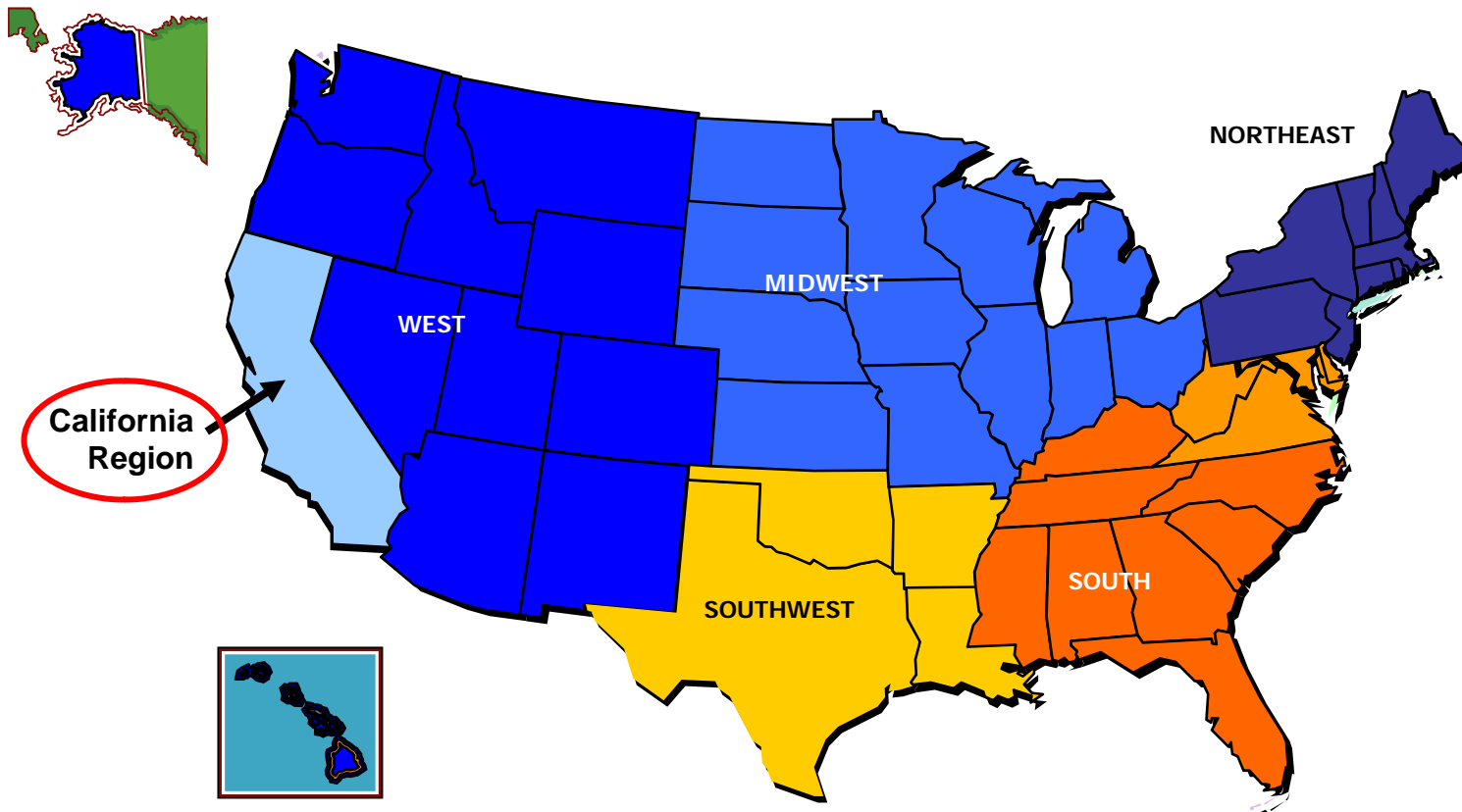
Hildebrandt Law Department Survey

- The Hildebrandt Law Department Survey is now in its fifth year at Hildebrandt
- The Survey, in two parts, includes extensive arrays of data on legal spending, staffing, organization, management, and compensation.
- The Part I Law Department Metrics Report enables law departments to compare their performance against a wide range of peer companies on law department management topics beyond the legal staffing and spending statistics.
 - ◆ Including: organization, structure and reporting relationships; outside counsel retention, evaluation and management practices; intellectual property; forecast for legal services by practice area; work demands and cost allocation methods.
- This year's Part II All Participants Compensation Report includes data on over 7,000 U.S. attorneys and nearly 6,500 U.S. non-attorney professionals, legal assistants, and support staff. The California Regional Report includes over 900 attorneys. All compensation reports cover nine attorneys levels and 24 non-attorney staff levels.
- A total of 223 companies participated in the 2008 Survey.
- The profile of the median company is one with \$9 billion in worldwide revenues, nearly 20,000 worldwide employees, and a law department employing 30 lawyers and 60 total staff worldwide, with almost \$30 million in total global legal spending.



HLDS Regions

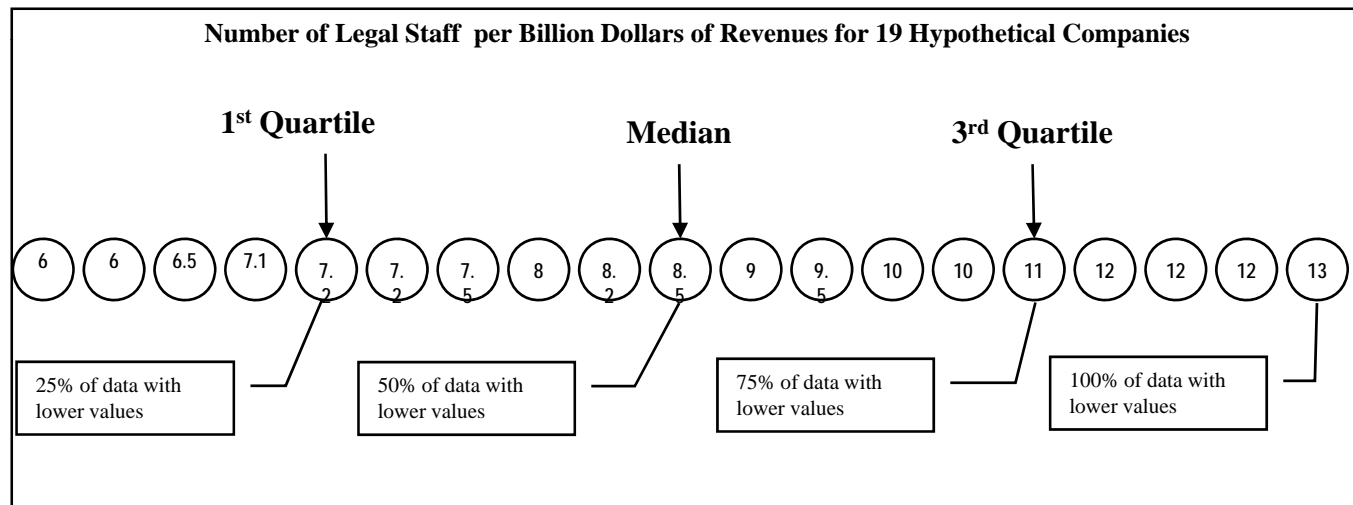
California is a standalone region within the West.



Statistical Definitions Used in HLDS

Quartiles and medians are used primarily in the *Hildebrandt Law Department Survey*. These statistics are more reliable gauges than averages (mean) in that they reduce the distortions that may arise from extreme, non-representative values from individual participants. However, for compensation data, we also report averages as a point of reference.

Illustration of the Quartile System



Staff Levels Used in HLDS: Management Attorneys

<p>Chief Legal Officer (CLO)</p>	<ul style="list-style-type: none"> ■ Most senior legal officer of the corporation with ultimate responsibility for practicing law and setting legal policy ■ Also has responsibility for other substantial corporate units (e.g., compliance, government affairs, environmental, etc.)
<p>General Counsel (GC)</p>	<ul style="list-style-type: none"> ■ Senior legal officer of the corporation with day-to-day responsibility for substantive legal matters as well as law department management ■ In most situations, the GC is the most senior legal officer of the corporation
<p>Deputy General Counsel (DGC)</p>	<ul style="list-style-type: none"> ■ One or more attorneys who report directly to the General Counsel – the GC’s most senior deputies ■ Has primary responsibility for legal services to one or more groups of related businesses or legal practice areas and may supervise one or more section heads
<p>Subsidiary General Counsel (SGC)</p>	<ul style="list-style-type: none"> ■ Senior legal officer and manager of the law department of a decentralized standalone subsidiary company ■ Reports directly to the president of the business unit and may have dotted line reporting to the General Counsel
<p>Section Head (SCH)</p>	<ul style="list-style-type: none"> ■ Supervisor of a group of attorneys in a particular area of law or function, with responsibility for all or part of a business unit or product line, or corporate functions



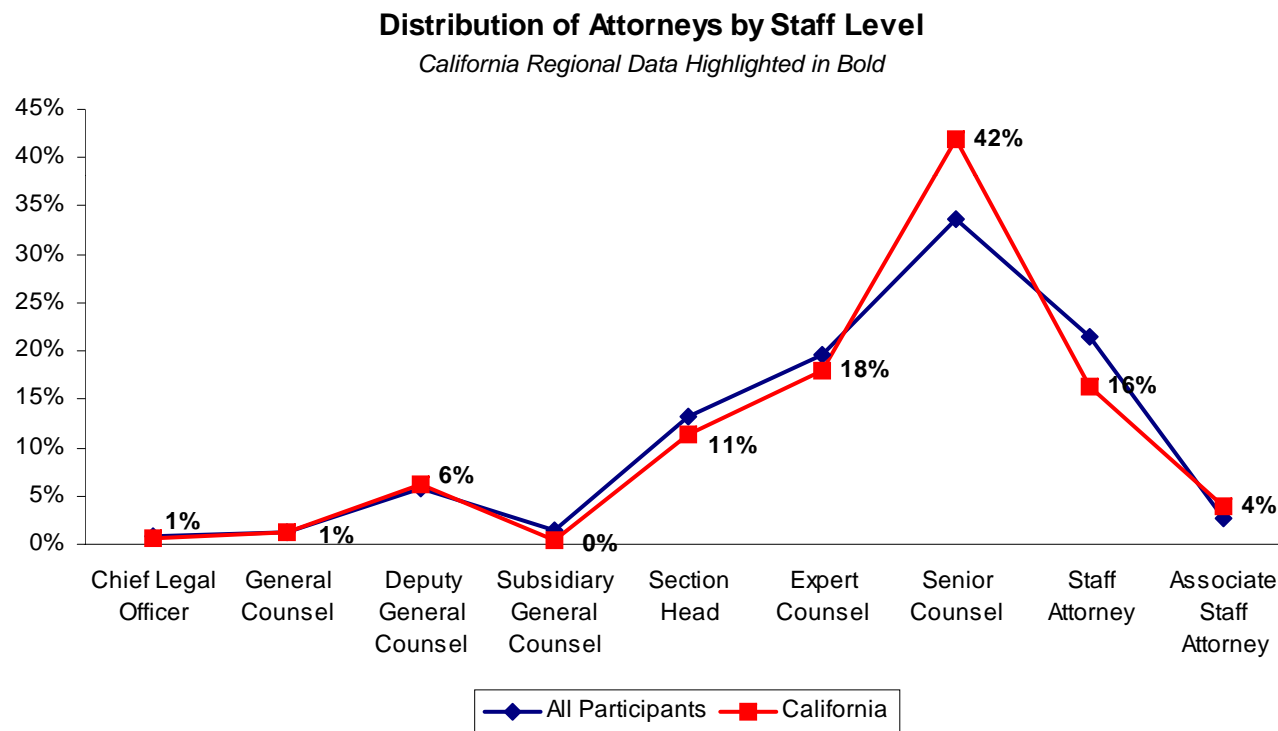
Staff Levels Used in HLDS: Non-Management Attorneys

<p>Expert Counsel (EXC)</p>	<ul style="list-style-type: none"> ■ Highly experienced attorney (e.g., "partner" level with at least eight years of experience) and very senior but is not generally considered part of the management track or leadership team ■ Practices in a recognized specialty areas and may have some supervisory responsibility for staff or associate attorneys ■ On a "dual or technical" track
<p>Senior Counsel (SEC)</p>	<ul style="list-style-type: none"> ■ Highly experienced (e.g., "partner" level with at least eight years of experience) attorney who has major matter, team or client responsibilities and may have some supervisory responsibility for other attorneys but only on a project-specific/mentoring basis ■ On the "management track" and would likely be in consideration for future management-level opportunities that might arise
<p>Staff Attorney (STA)</p>	<ul style="list-style-type: none"> ■ Four years or more of legal practice ■ Analogous to that of an experienced and/or permanent associate at a law firm
<p>Associate Staff Attorney (ASA)</p>	<ul style="list-style-type: none"> ■ Practicing law for less than four years and may still be in training to support client or practice areas



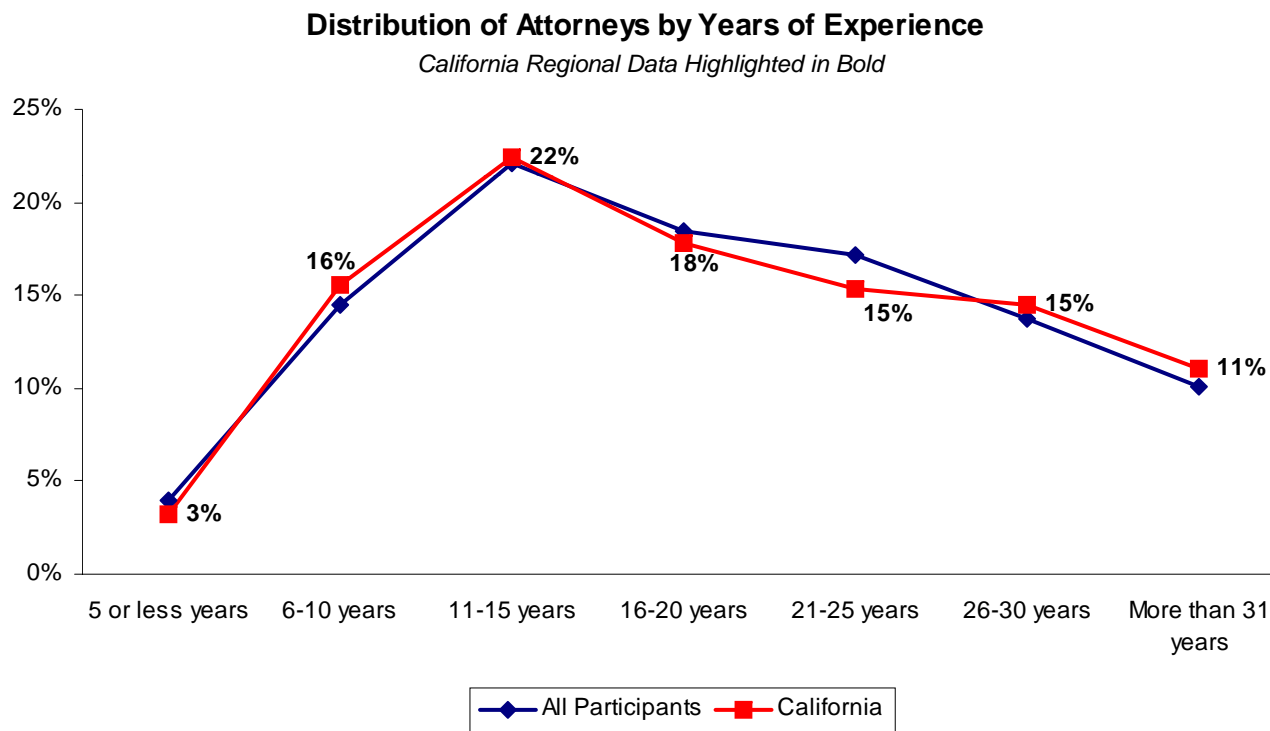
Participant Profile: Staff Level

The distribution of attorneys by staff level in the California region mirrors that of the All Participants group.



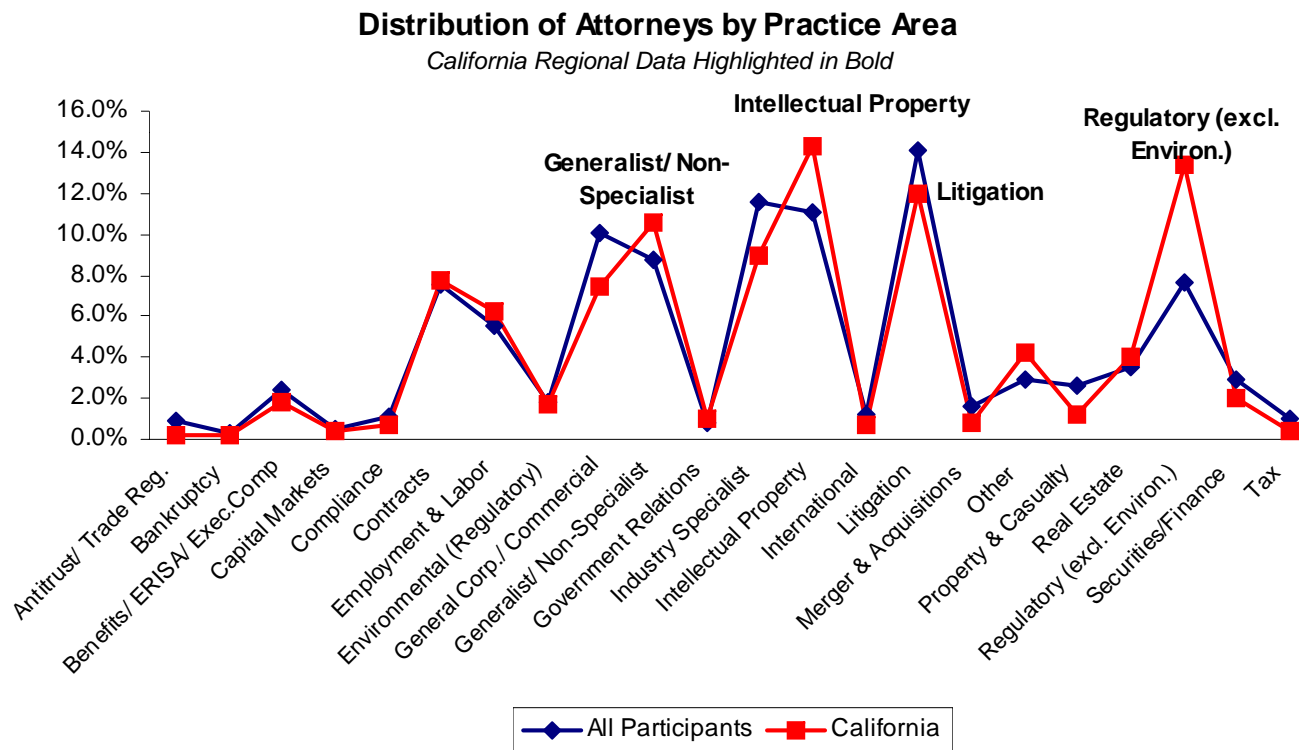
Participant Profile: Years of Experience

Most attorneys fall within the range of 11 to 25 years of experience.



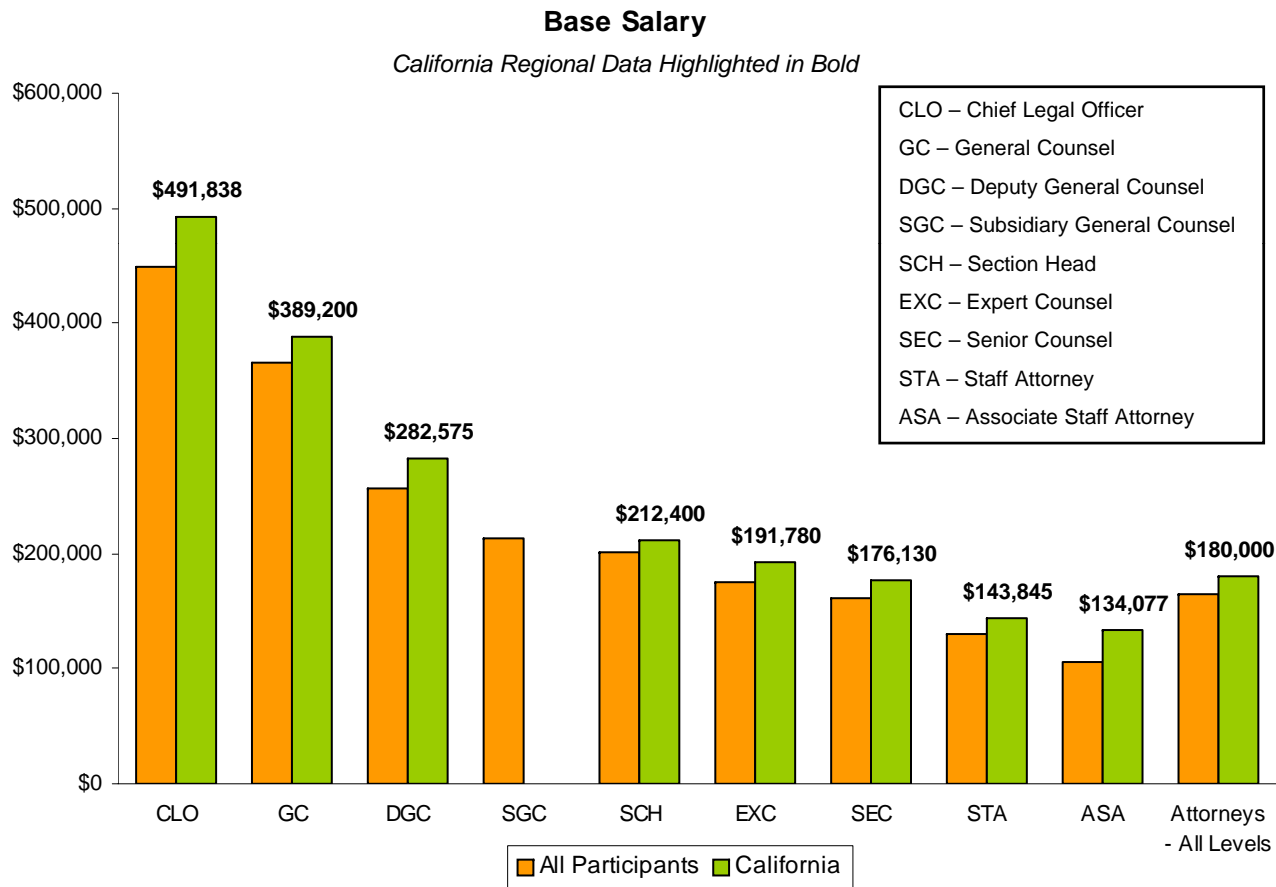
Participant Profile: Practice Area

Approximately 14% of the attorneys in the California region are primarily dedicated to the Intellectual Property practice. Among All Participants, 11% of the attorneys are in this area.



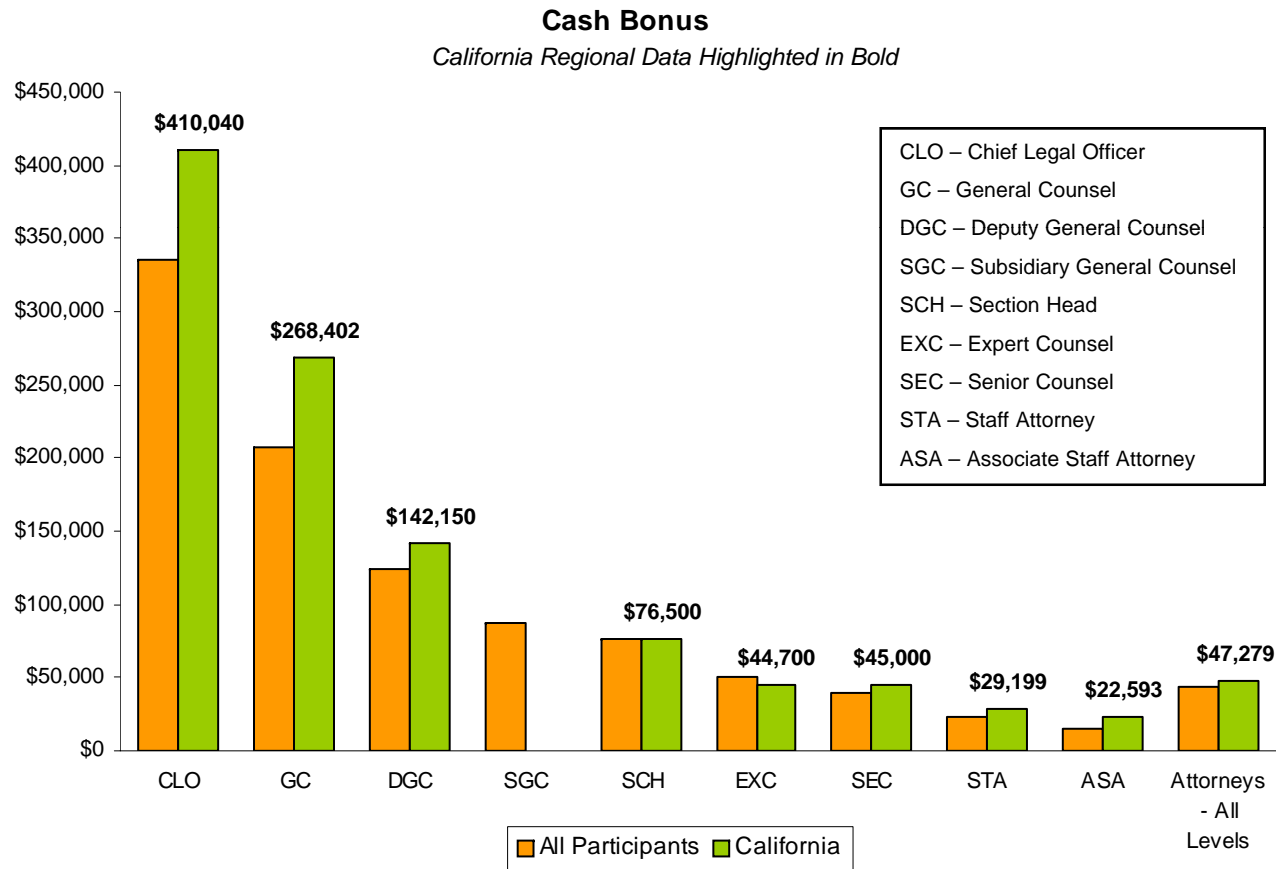
Compensation Data: Base Salary

The median base salary among all attorney levels in the California region is 9% higher (\$180K) than the national median of \$165,000.



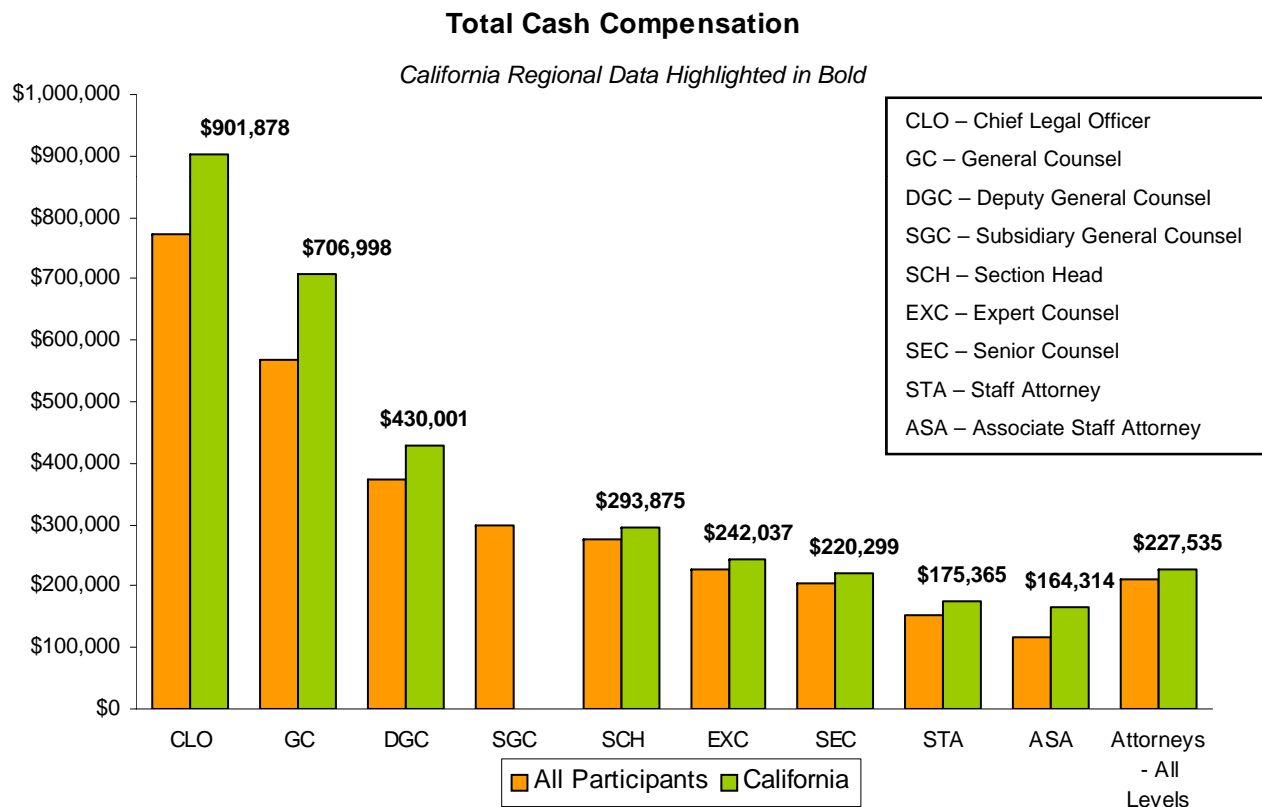
Compensation Data: Cash Bonus

The median cash bonus among all attorney levels in the California region is 7% above (\$47K) than the national median of \$44,021.



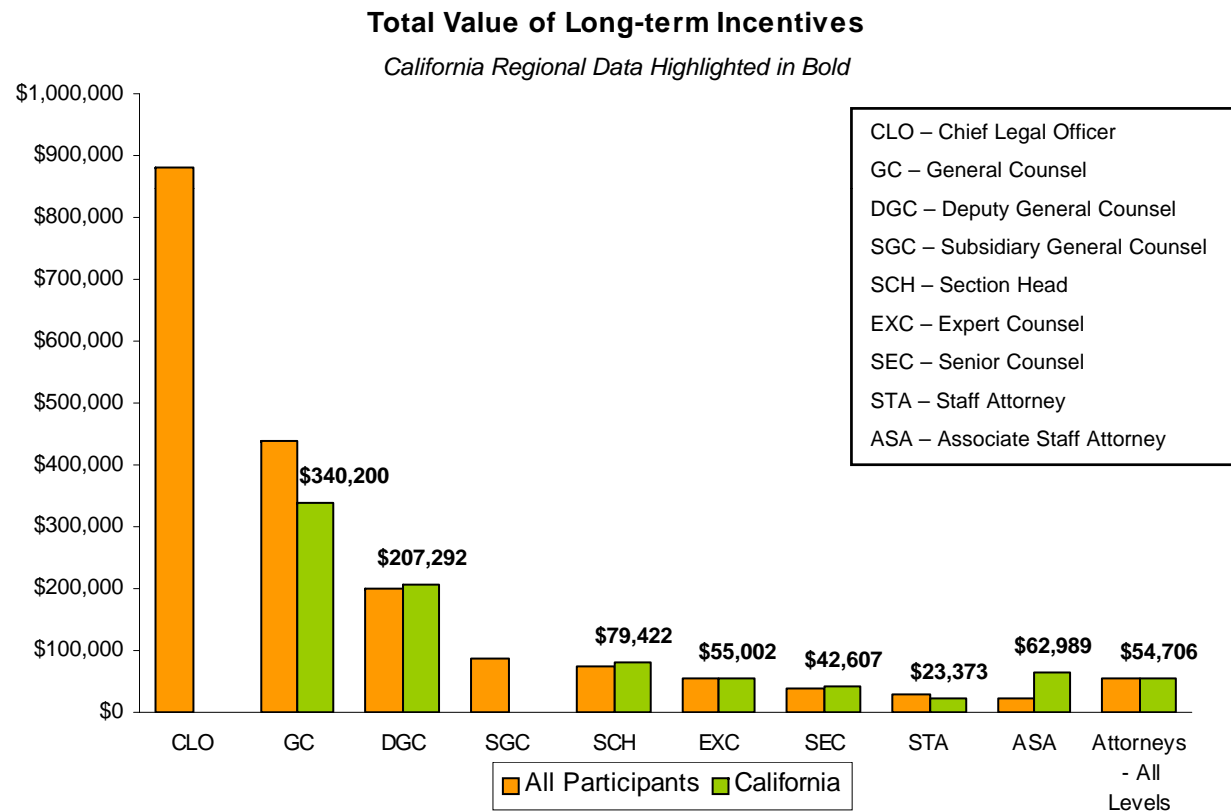
Compensation Data: Total Cash Compensation

The median total cash compensation among all attorney levels in the California region is 9% higher (\$228K) than the national median of \$210,000.



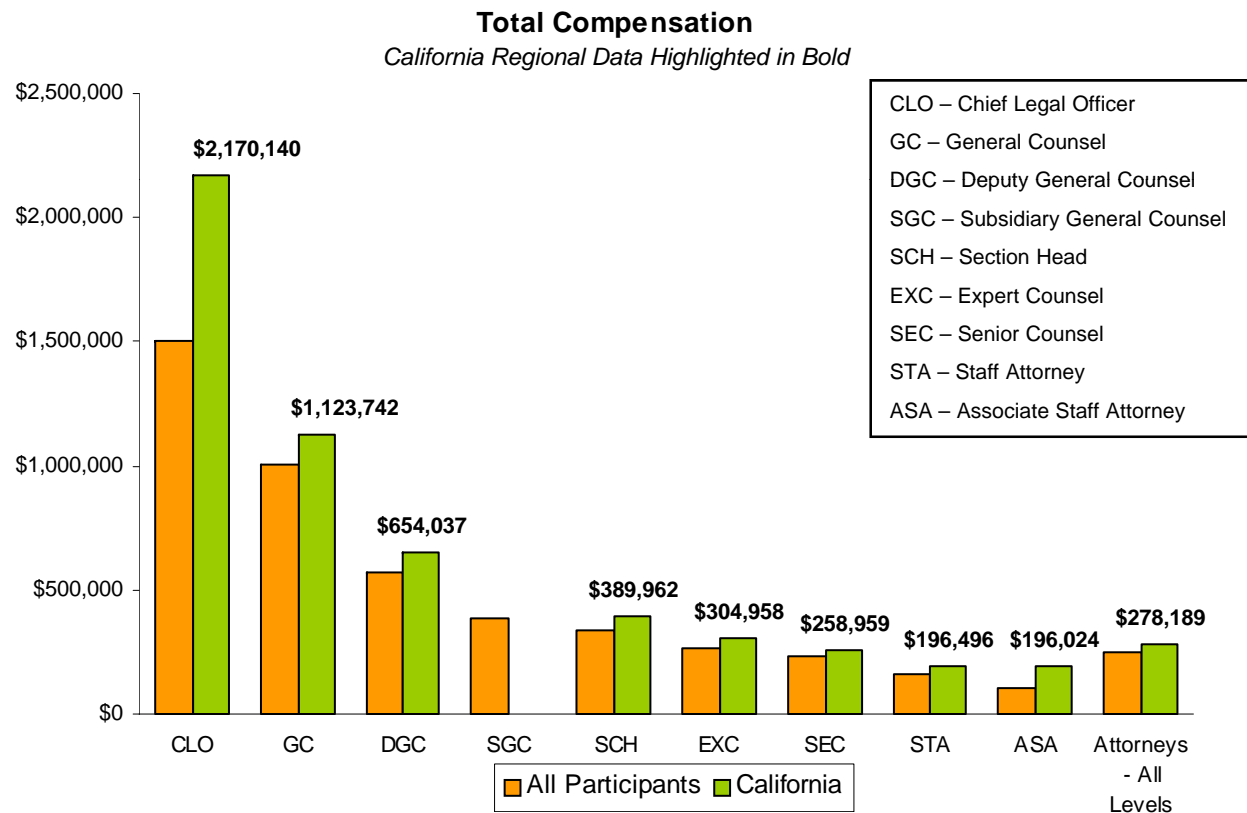
Compensation Data: Value of Long-term Incentives

Across all attorney levels in the California region, the value of long-term incentives is nearly at the national median.



Compensation Data: Total Compensation

The median total compensation among all attorney levels in the California region is 13% higher (\$278K) than the national median of \$246,683.



Compensation Data: Salary Administration

Merit pay followed by promotional increases are the most commonly used factors determining salary changes.

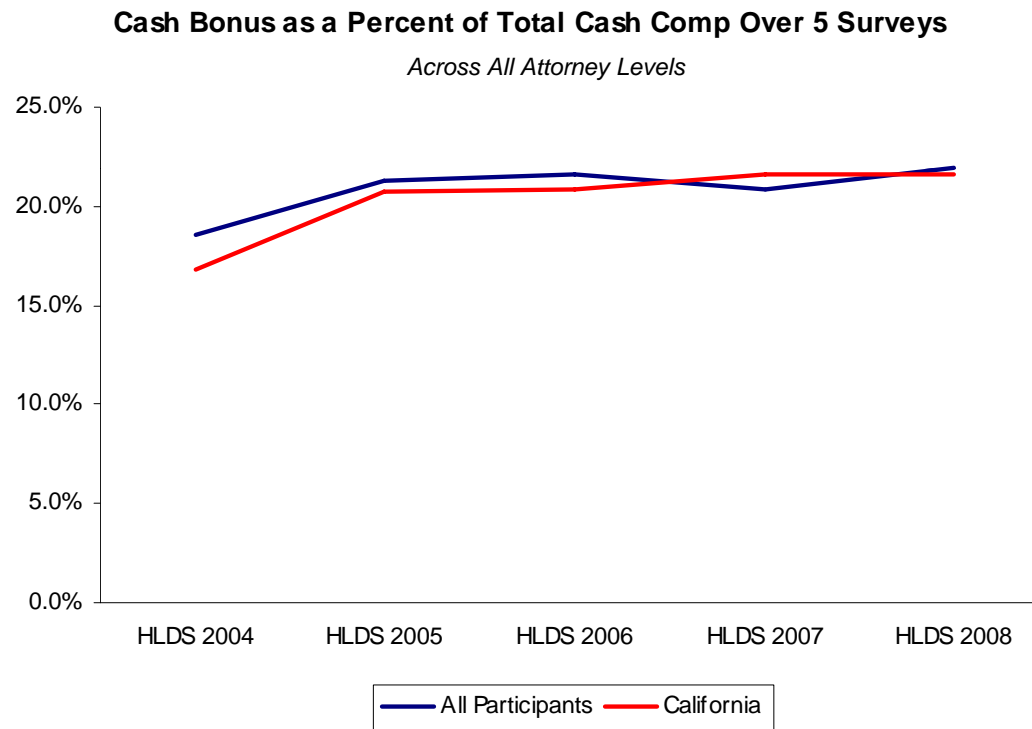
	Companies Reporting	Not Used	Used for Some Attorney Staff Levels	Used for All Attorney Staff Levels
Determining Factors for Salary Increase				
Merit Pay Increase	161	2%	4%	94%
Tenure-Based Pay Increase	141	96%	3%	1%
Market-Based Equity Increase	151	30%	18%	52%
Cost-of-Living Increase	143	89%	3%	8%
Skill-Based Increase	145	76%	8%	16%
Promotional Increase	160	7%	16%	77%
Experience-Based Increase	144	76%	8%	16%
Discretionary	144	45%	20%	35%

Note: This is representative of All Participants data.



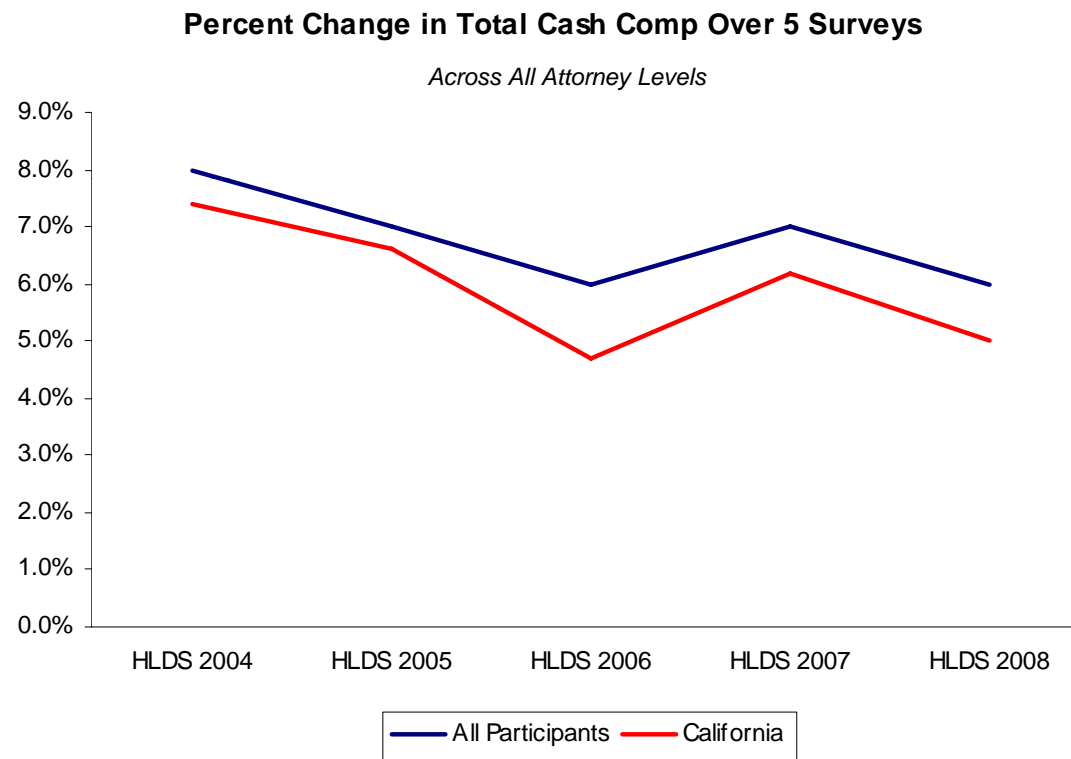
Trend Data: Cash Bonus

Locally and nationally, cash bonus as a percent of total cash compensation has been relatively steady over five survey years.



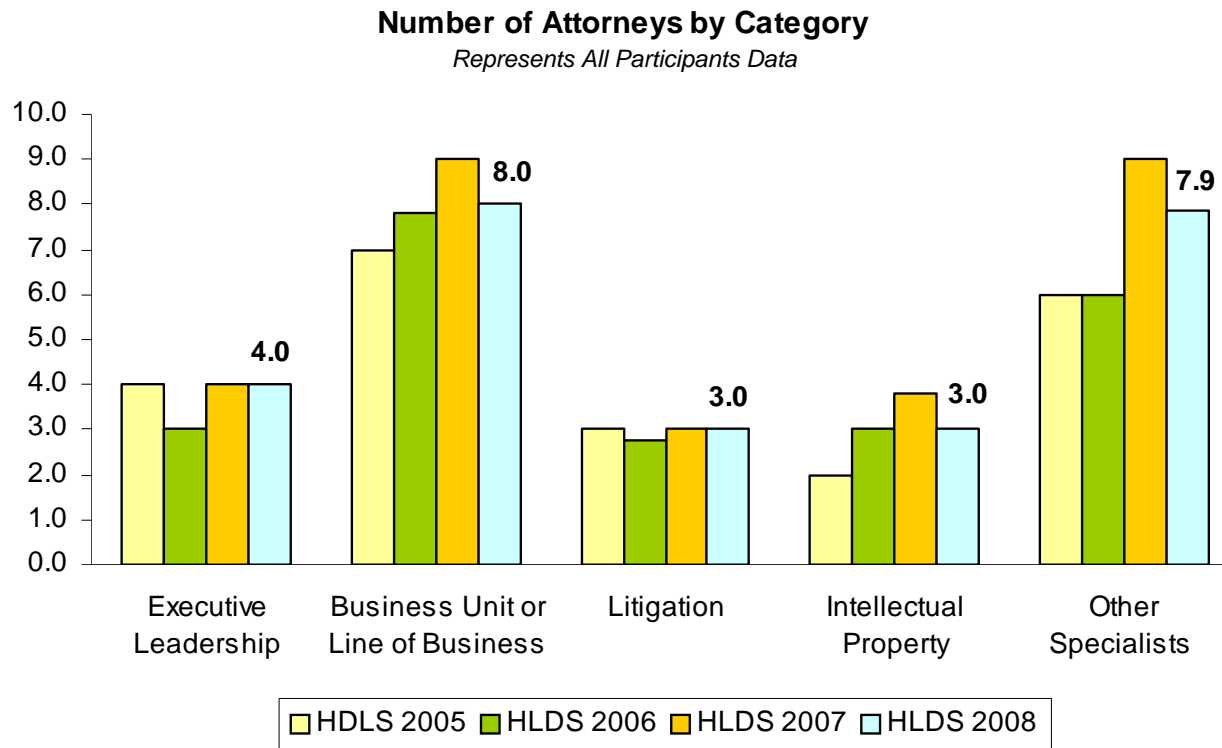
Trend Data: Total Cash Compensation

The percent increase in total cash compensation among all attorney levels in the California region has been consistently lower than the national median.



In-house Staffing Data: Attorneys by Category

This year's Survey shows a decline in the median number of attorneys in three out of the five categories.



In-house Staffing Data: Future Expectations

The Survey data indicates that the number of attorney and non-attorney staff will more likely stay the same in the coming year.

Percent of Companies Expecting Staffing to:				
	Companies Reporting	Increase	Stay the Same	Decrease
Summary of Expectations for Staffing Changes in the Coming Year				
Lawyers	151	38%	52%	10%
Legal Assistants	150	25%	68%	7%
Support Staff	150	20%	73%	7%

Note: This is representative of All Participants data.



In-house Staffing Data: Key Metrics

As a key benchmarking indicator, the number of in-house staff is typically compared to revenues. This year's Survey reports a median of 3.8 attorneys and 8 total law department staff per billion dollars of revenues.

	Companies Reporting	First Quartile	Median	Third Quartile
Legal Staffing				
Number of Lawyers per Billion Dollars of U.S. Revenues	148	2.4	3.8	6.4
Number of Total Law Department Staff per Billion Dollars of U.S. Revenues	147	4.9	7.9	12.9

Note: This is representative of All Participants data.



In-house Spending Data: Key Metrics

Total legal spending increased by 5% between 2006 and 2007. According to this year's Survey, the median company spends \$4.3 million for every billion dollars of revenues.

	Companies Reporting	First Quartile	Group Median	Third Quartile
Legal Spending				
Total Legal Spending as a Percent of U.S. Revenues	142	0.24%	0.43%	0.67%
Total Inside Legal Spending as a Percent of U.S. Revenues	147	0.09%	0.16%	0.27%
Total Outside Counsel Spending as a Percent of U.S. Revenues	142	0.12%	0.24%	0.40%
Change in U.S. Total Legal Spending	152	-7%	5%	16%
Change in U.S. Total Inside Legal Spending	162	0%	5%	13%
Change in U.S. Total Outside Counsel Spending	160	-18%	2%	23%

Note: This is representative of All Participants data.



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Legal Talent Development and Management



Introduction and Overview

- Legal Talent Development and Management (LTDM or “talent management” for short) is an area that is of increasing interest to law departments.
 - ◆ Most general counsel have been charged with doing more with less – more work with less money and, sometimes with a significantly reduced headcount.
 - ◆ As companies maximize the savings they can achieve through outside counsel management, right-sizing, budgets and technology, they will look for the next wave of savings to come through effectively managing their most important asset: people.
 - ◆ Moreover, due to demographic trends, it will be increasingly difficult to find and retain talent.
 - ◆ General counsel are trying to provide a rich and satisfying career experience within the traditionally flat structure of a law department.
- A law department with strong talent management strategies will be able to help the corporation achieve its profit objectives while, at the same time, maintain a tight rein on costs and deliver consistent results.
- Talent management is one of the keys to the law department’s ability to perform at peak. Effective talent management can drive productivity through:
 - ◆ Stronger skill development
 - ◆ Improved recruitment
 - ◆ Better morale and motivation
 - ◆ Retention of strong performers



Introduction and Overview

- There are many definitions of talent management. For law departments, we define the topic broadly as: **The strategic and operational management of human resources within a legal function to maximize the value and competitive advantage of the internal legal staff.**
- Those resources include lawyers, non-lawyer professionals, paralegals, and support staff.
- Talent management is not limited to grooming high potential individuals for future management roles or succession planning. Rather, it is about raising the level of performance for the entire group and optimizing results for the company.
- Most importantly, talent management is a critical area of collaboration for the GC and law department management teams; executed correctly, talent management promotes a high level of communication and collaboration that spans organizational lines and boundaries.
- The talent management program for the legal function should be consistent with, but extend beyond, the company-wide human resources program.
- Ideally, the human resources function will be a key partner working with legal function management in developing such a program.
- Trends, benchmarking data, and best practices information should be considered in developing the program.



Individual and Organizational Elements

<p>Legal Talent Development and Management (LTDM) has both individual and organizational components.</p>	
<p>Individual</p> <p>LTDM is an integrated and strategic approach to attracting, recruiting, hiring, developing and retaining the best people within the legal function.</p>	<p>Organizational</p> <p>LTDM may include, for example, workforce planning, staffing strategies, career development, diversity, teamwork, competency frameworks, continuity, evaluation, compensation and recognition/rewards.</p>
<ul style="list-style-type: none"> ■ Recruitment and orientation ■ Career paths and management ■ Training and development ■ Performance planning and management ■ Coaching and mentoring ■ Feedback and evaluation ■ Compensation – salary, bonus, long term incentives ■ Recognition, reward and motivation 	<ul style="list-style-type: none"> ■ Vision, culture, values and behaviours ■ Organisational – reporting, levels, titles ■ Competency framework: <ul style="list-style-type: none"> ◆ Position descriptions ◆ Definition of capability and skill requirements ◆ Gap analyses ■ Workforce planning – e.g., outsourcing, off-shore, part-time and contract lawyers, as well as strategies for future staffing, practice and skill requirements ■ Communications ■ People metrics and reporting



Challenges

- Rewards and Recognition: How do we reward good performance outside of compensation?
- Compensation: How much should be pay to attract and retain the best people? How should we adjust salaries to remain competitive?
- Recruiting: How do we recruit the talent that we need?
- Diversity: How do we attract and develop a diverse talent pool?
- Titles: How should we use titles and levels to provide appropriate recognition, reward and career path for our lawyers?
- Evaluations: How can we make performance planning and evaluation meaningful and linked to department and company goals?
- Retention: What future challenges will law departments face with retaining legal talent?
- Work Life Issues: How do we meet the diverse needs of different groups of lawyers at various stages of their professional and personal lives?
- Workforce Planning: What are other law departments doing to meet future resource needs and to address the issues of the aging demographic?
- Organizational and Reporting Structure: What are the benefits and challenges of various organizational models and reporting relationships?

