

## The Real Cost of Going In-House

*By: Vanessa Vidal*

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 the real cost of going in-house, and just how much 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 in 2008 year by an Am Law 100 partner at the nation's 100 top-grossing firms was \$1.3 million. While the golden age of law firms may be over, and companies are tightening belts, these top level legal positions will continue to be well compensated.

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% of base. Increasingly, we are seeing even more companies trying to push this median further down as a result of their diminished legal budgets.

According to a Hildebrandt's legal department survey more experienced in-house lawyers regularly fall short of their law firm counterparts: A 1998 law school graduate made an average of \$151,815 in-house, while a law firm attorney with 10 to 12 years experience made between \$167,500 and \$234,000. (For additional salary figures see: "Salary Slump," Inside Counsel).

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 less than two years ago to increase first-year associate salaries to \$145,000 and \$160,000, as well as incremental increases of other classes by as much as \$15,000 did very little to provide law firm attorneys with a realistic understanding of their worth in the corporate legal market. The same can be said today, even if associate salaries are generally frozen, they are nevertheless not decreasing to their pre-salary war levels.

Most law firm attorneys 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 real cost of going in-house – as for most of them, there will be a significant monetary tradeoff.

*© 2015 ESQ Recruiting LLC. All rights reserved.*