

WHITE PAPER



**IN-HOUSE LEGAL COUNSEL:  
WHY NO COMPANY  
SHOULD BE WITHOUT ONE**



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# IN-HOUSE LEGAL COUNSEL: WHY NO COMPANY SHOULD BE WITHOUT ONE

## INTRODUCTION

When a legal problem arises for an organization, it can throw off even the savviest CEO. Depending upon the severity of the problem, panic, uncertainty and the prospect of financial loss can be felt across the company – derailing important day-to-day operations.

In small- and medium-size companies around the world, the threat of legal action is generally far from the minds of executives. But when the need for legal help arises, CEO's usually have no choice but to call an outside law firm – and engage an attorney who has never even been inside the company and is unfamiliar with the culture of the business, the industry they operate in, and the details of the issue at hand.

Why don't executives hire an in-house legal professional to proactively assist with day-to-day business issues? The answer they give is that unless outside legal costs exceed the amount it would cost to hire a full-time, in-house legal employee, internal counsel is not either required or even considered. They mistakenly see the in-house counsel as merely a more cost-effective alternative to an outside law firm.

Surprisingly, CEO's who wouldn't think of operating a business without the professional expertise of a financial or sales executive believe they can manage important business dealings, contracts, legal agreements, new initiatives, customer and supplier disputes and general day-to-day business activities without the advice or input of legal counsel. Ironically, a recent study of law firms validates the importance of in-house legal counsel to a business – law firms are increasingly using in-house general counsels for their own firms to protect and further their business interests.

In today's global business climate, the impact of not using in-house counsel is predictable. Small missteps, many that could have been prevented, suddenly become the main focus of the business. Unaware that the company may be vulnerable to potential legal problems, CEOs leave the creation of contracts, negotiations with customers and suppliers, the protection of intellectual property and other important business decisions solely up to managers who do not have legal expertise nor understand the full measure of risk their actions may incur.

Many legal issues arise in a company because few executives understand the critical role a legal professional can play, in not only protecting the business and saving costs, but also in helping the company accomplish its business goals. The in-house legal counsel performs a very different role than the outside law firm attorney. By not having an in-house lawyer, a company leaves itself exposed to legal problems and without good, preventive and strategic advice when it is needed most – before the company is blindsided.



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## PALLADIUM CHIEF LEGAL OFFICERS

Today, finding more effective, efficient and innovative ways for achieving business objectives is crucial to survival. CEO's must begin to take heed of the benefits that business-minded and experienced Chief Legal Officer's (CLO's) bring to their companies.

### THE ROLE OF IN-HOUSE COUNSEL

The role of the CLO is not just one concerned exclusively with legal issues. While the best CLO takes legal matters very seriously, they also view their position as that of a trusted business advisor – one who understands both the business and legal nuances, and how they inter-relate to one another. They seek ways to help the business achieve objectives by working closely with the executive team and understanding the specifics of the industry and the workings of the particular business. With participation in the day-to-day activities, and an in-depth knowledge of the company, the CLO brings great value in many ways.

#### 1. Collaborate with Management in Every Functional Area of the Company

The CLO reports directly to the CEO, senior management, and board of directors on a variety of critical business and legal issues. Yet, they also collaborate with other company personnel on a day-to-day basis. This involvement allows the internal legal counsel to gain important intelligence in all aspects of the industry and the business, and to provide the most relevant and knowledgeable advice for the most effective decision-making.

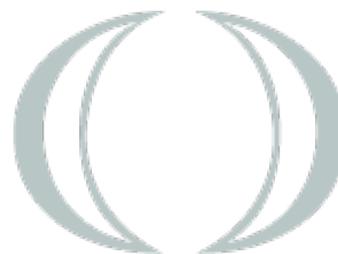
#### 2. Advise the Company in all Legal Matters

Naturally, a large part of the CLO's responsibility is to minimize litigation and other risks, and monitor and encourage ethical corporate conduct. This is accomplished through activities most commonly associated with the traditional legal role, including but not limited to business contracts, negotiations, conflict resolution, human resource & labor relations, and other risk management. While these issues are important components of the role, they are not the only value offered by a CLO.

#### 3. Counsel on Strategic Business Issues

The CLO is most effective and productive to a company when functioning as part of the business operations, and performing as a strategic business and legal advisor. In this role, the attorney can proactively bridge the gap between the business knowledge held by managers, and the legal issues it may face. In this way, the CLO cannot just protect, but advance, the rights and objectives of the company. There are many ways in a company for the CLO to add value in critical decisions:

- Identify not just the opportunities but also the liabilities not readily seen by business managers
- Provide insight into business and legal paths that could ultimately enhance operations
- Provide strong protection of intellectual property and actually create asset value
- Create business relationship documents for key technology and ownership issues
- Develop ways to protect and advance business interests and enhance strategic relationships
- Understand the causes and effects of regulated industries for a particular business and translate legal issues into a business context.



**THE CLOs POSITION  
IS THAT OF A TRUSTED  
BUSINESS ADVISOR.**

#### 4. Engage in Structuring Relationships with Strategic Alliances and Customers

Choosing the best options for protecting intellectual property ownership with distributors, setting pricing to customers, and determining the right manufacturing or licensing arrangement are key issues for a business. The nuances of these seemingly common agreements can backfire on a company if managers do not have all the information needed to make the best-informed decisions. The CLO can be instrumental in protecting a company's future and getting it on the path that most aligns with business objectives.

#### 5. Manage Activities with Outside Legal Firms

In-house CLO's manage the relationships with outside law firms when specialized expertise is required. CLOs can clearly identify when the need for outside counsel exists and what services should be provided in order to most effectively resolve or assist in an issue. Besides eliciting a higher-valued and better-performing service from outside counsel, the CLOs liaison and management helps to ensure the most cost-effective projects are implemented. In-house counsel is also best qualified for identifying errors or duplication of services that might be missed or unknown by other management.

Whether a company is just starting out, or on its way up, the many roles of in-house legal counsel add great value for effective risk management and furthering business objectives.

### THE IN-HOUSE COUNSEL ADVANTAGE

In today's competitive environment, companies achieve the best outcomes by utilizing both the occasional specialized services of a retained law firm and the daily insights of an in-house CLO. In-house counsel gives companies a competitive advantage by providing:

#### 1. Convenient Accessibility

Internal legal counsel is available when executives need help most – and more importantly, when they don't realize they need it. With a CLO as part of the management team and engaged in operational meetings and discussions, executives get immediate advice for pressing issues, and for those they may not realize they have or that may develop. Often, it is casual conversations held in the office that help to inform and resolve issues before they are even perceived as problems.

#### 2. Specified Company Knowledge

The in-house CLO learns the details of daily operations and the company's industry generally. This hands-on knowledge allows for a more effective and timely identification of potential legal issues, and provides solutions that accomplish business objectives in the least business-restrictive manner. Particularly in the fast-paced environment of business, legal professionals who are actively involved in the daily operations and decision-making can respond to the changing dynamics, and therefore, best serve companies strategically and on a day-to-day basis.

#### 3. Greater Efficiency

With in-depth knowledge of the business, the in-house CLO works efficiently and effectively providing more detailed and relevant advice when working through an issue, whether management believes it to be just a business issue, or otherwise. The CLO with the appropriate business knowledge, helps avoid most re-works or misunderstandings around legal issues, thereby saving time and money.

### HOW IN-HOUSE COUNSEL HELPED PROTECT INTELLECTUAL PROPERTY

When the Americas region of a multi-billion dollar global company discovered another manufacturer was infringing on their intellectual property, the question they asked their Chief Legal Officer was how they could secure protection without incurring a multi-year, multi-million-dollar patent litigation.

The infringer was a low-cost seller that was causing two problems for the company. Firstly, they were infringing on the technology without an approved license. Secondly, they were using the infringed technology in an inferior product that was likely to risk the perceived quality and value of the technology in the marketplace.

Rather than pursuing a typically long and costly patent litigation approach, the CLO proposed a hybrid licensing and OEM agreement to stay in effect for a limited amount of time and for a higher than average royalty percentage. The arrangement would account for past infringement and future royalties, as well as create the right incentives to encourage the infringing company to maintain quality in the marketplace.

The 5-year agreement provided an innovative approach with results that:

- Avoided litigation
- Created a reasonable royalty structure that served multiple purposes and achieved multiple objectives
- Maintained the integrity of the value of the technology in the marketplace
- Created a short-term arrangement requiring the infringer to phase out the technology over time
- Created an additional short-term revenue stream

With the solution, the company met all its business objectives, saved itself time and money, and resolved a problem with a small infringing company in a favorable way to the marketplace.

**4. Creation of an Informed Business Environment**

When executives and staff work closely with in-house counsel, legal issues take on a new relevancy within the company. As everyone becomes more educated on how the laws and regulations affect the business in its daily operations, a more informed, compliance-minded and preventive environment is established. Everyone takes responsibility for their role in understanding the issues, ensuring their actions will impact the business in a positive way and looking for operational behaviors that will accomplish goals. This creates a risk-managed not a risk-averse company, where business decisions are candidly discussed and everyone understands the full scope of the risks of the decisions being made.

**5. Allows Managers to Do What They Do Best**

The expertise delivered by a CLO relieves other managers from having to spend valuable time on issues they are unfamiliar with, or are only marginally familiar with, and allows them to focus on their core responsibilities. With all legal issues managed and consolidated through the in-house counsel, who knows and understands both the legal and the business operational issues, projects are handled efficiently and effectively.

**6. Objective Management Team Mentality**

While the CLO is part of the business, he or she is still a legal professional with ethical and compliance duties. Generally, the in-house counsel has an incentive to find solutions for the company that will help accomplish its objectives in both the most compliant, but least restrictive, business manner. This position, however, can also present a conflict of interest. While the attorney must always do what is legal and in the best interest of the company from a compliance and legal adherence standpoint, other senior management may have different ideas about what is best. The CLO must always represent and protect the company, not its management, should any choice have to be made.

**7. High Business Value**

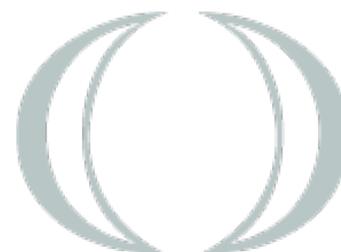
The in-house CLO not only protects an organization, they often help change it. The business knowledge and experience offered via the in-house role allows the attorney to operate in a proactive mode, where he or she is looking for situations where the business can take advantage of opportunities and manage risk.

**RETHINKING HOW TO UTILIZE LEGAL RESOURCES**

Every business has to make choices about the skills and services that will be hired internally or outsourced – and the timing for when services are needed. Selecting the best course of action for legal counsel is no exception. Since many CEOs believe the need for legal assistance is a part-time activity, with an associated high cost, the natural choice is to hire outside counsel only as the need arises – as perceived by the business managers. This shortsighted view of legal counsel, however, can place a heavy cost on a business – in dollars, time and effectiveness. CEO's and most business managers are not always aware of what they don't know when it relates to legal issues. Often, the hidden cost of not engaging proactive internal counsel becomes an unknown liability to the business.

**Engaging Legal Counsel Today**

Traditionally, there has been only one way to get top in-house legal counsel – hire a full-time employee. For many businesses this valuable service comes at a cost that is too high. Six-figure salaries, bonuses and the usual costs associated with full-time hires can add up to big expenses. With no other options, companies have opted to do without.



**CLOS HELP PROTECT  
AN ORGANIZATION AND  
OFTEN HELP CHANGE IT.**

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Today, CEO's have another choice. Companies can engage an experienced CLO on a part-time basis without taking on the infrastructure costs of an employee. These business leaders work onsite where all the critical decisions are made every day, and can act proactively and decisively on legal challenges. They provide the same accessibility, accountability and convenience expected from a permanent employee at a fraction of the cost required to hire a full-time General Counsel.

Companies now have a lot of flexibility for engaging a CLO on a part-time basis while getting proactive, preventive and strategic business-relevant legal work and consultation. This results in real value for a company. Businesses can choose the desired level of service they need and pay monthly flat-fee rates without worrying about hidden or ballooning charges. Chief executives benefit from this model because the company can budget the costs of a legal professional and gain the assurance that all the time paid for will be delivered. The level of service can be adjusted upward or downward as the needs of the company changes – the in-

### HOW IN-HOUSE COUNSEL HELPED A GLOBAL COMPANY AVOID A HIDDEN LEGAL ISSUE

When the CLO of a large international company became more involved in operational discussions and activities, a risky, yet unintentional, situation was uncovered. The company had both a direct and indirect sales channel. Product pricing used by the indirect channel was placed on the company-wide intranet, thereby giving access to its direct sales channel force. Usually this would not have been a problem, except that in this case, direct sales executives helped manage the indirect sales force, as well as competed with them for the same customers and product sales. This meant the direct sales personnel had the same pricing information as one of their competitors, leaving the company open to all types of legal risks ranging from possible litigation to government action.

Although the CLO identified the potential legal concerns, it was only after she was able to communicate the legal issues into day-to-day business terms did the business fully see the concern. Managing a multi-channel sales strategy requires a specific sensitivity and legal understanding of what information is shared between channels and how it is discussed. It was clear that only through the expertise of the internal lawyer to translate the legal issues could other company managers see for themselves how the legal questions related to their specific business. The departmental manager in charge immediately removed the risky information from the Web site.

The CLO also realized additional expertise was needed in order to institute the proper management boundaries of risk. An anti-trust attorney from a retained law firm was brought in to provide the highly detailed and technical expertise required to confirm

and validate the laws. From there, the business managers relied on the CLO to lead a company-wide project to revise how the company would manage the multiple channel distribution and conflict. The CLO knew the business and understood the legal issues while the outside firm provided the details of how the legal issues worked. By working together, they were able to determine the best way for the business to operate on a day-to-day basis to minimize both the risk and the business restriction, and maximize business operational efficiency. The CLO was also able to clearly define the law firm lawyers role and activity, resulting in more efficient utilization of outside legal services.

While the oversight was unintentional, and the company did not use the information in an inappropriate manner, there were questions that had to be answered about how the distribution channels could work together and prevent costly legal damages.

- What conversations could direct and indirect personnel have in the field?
- At what level could managers manage both indirect and direct sales channels?
- What information could be shared on the company's intranet, within the company and with whom?

The Web site was revised to meet the needs of the distribution channels and protect the company from legal issues. A restructuring of the sales management system helped to avoid legal risk and ensure appropriate management. The CLO had the experience and know-how to protect the company, find an operational solution that fit within the business objectives and seek appropriate outside expertise as it was needed.

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house counsel's time and level of service grows with the company as the company grows. For many businesses, the legal expertise they need to advance business objectives is now a viable option.

How do you know if a part-time CLO is right for your business? Companies best suited for part-time CLO's include those that are:

- growing a business or want to grow faster
- forming strategic relationships with vendors, distributors, partners and customers
- handling frequent transactions with vendors, distributors, partners and customers
- in a position often where legal advice would be beneficial, but are hesitant to call a law firm
- involved with valuable technology or other intellectual property where ownership is critical
- without the resources to employ a full-time employee
- without the need for a full-time legal employee

### WHAT TO LOOK FOR IN AN IN-HOUSE CLO

Just like location, location, location determines the value of a house, where a CLO has gained experience is important for a business. Attorneys having been employed in a corporate environment see things differently – they see the business issues, not just the legal concerns. That's what makes them great at what they do. When you're looking for in-house expertise, here are a few things to look for:

- **Corporate Experience**

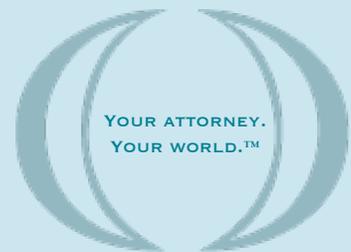
Team players make the best CLOs. Those with corporate management experience can adapt and collaborate easily into any company environment and culture.

- **Ability to translate business into legal and vice versa**

Experience that demonstrates the ability to balance legal requirements with company objectives provides the most value from any CLO professional.

### CONCLUSION

The reactive, "I'll call you when I think I need you." legal counsel is no longer (and never really has been) enough for companies. Making the right business decisions that protect and further objectives of the company, whether relating to products, services or human resources – now and for the future – are imperative. Understanding and managing risks before they turn into problems not only protects a business, it keeps it from financial disaster. But that's not all. CEO's who take stock of their business to consider what opportunities might be missed or what procedures can be improved will gain the highest level of success. With a CLO onsite, small- and medium-sized businesses can finally gain the business advantage they need and deserve.



LEARN MORE ABOUT HOW  
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CAN PROVIDE YOUR COMPANY WITH  
A DEDICATED CLO.

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