

Handling Changes: The Challenge of the '90s

In Volatile Industries, Law Department Leaders Are Taking Initiative

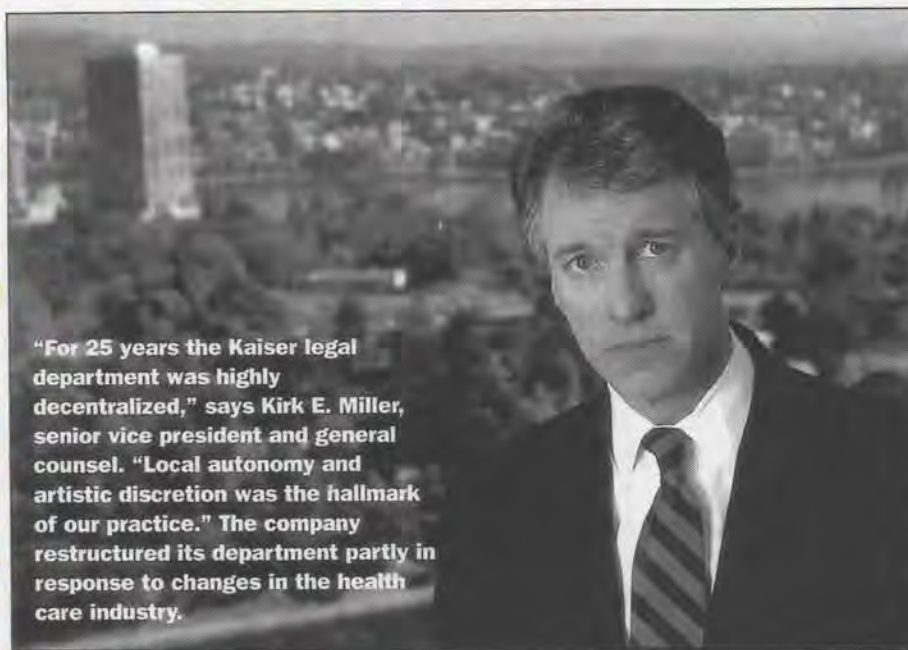
BY BRUCE RUBENSTEIN

THE RESPONDENTS to the 1998 *Corporate Legal Times*-Co-Counsel Annual Report of Corporate Law Departments ["In-House Stronger, More Cost-Effective," October 1998, p. 1] were asked to name their biggest management challenge. Many replies shared a common theme. They came from law department leaders for companies in flux or in industries undergoing rapid change who said their major problem is providing legal services in those circumstances.

This month we look at how the heads of several rapidly evolving departments manage for change.

UTILITIES GO INTERNATIONAL

The common wisdom about the utilities industry is that it is undergoing major



"For 25 years the Kaiser legal department was highly decentralized," says Kirk E. Miller, senior vice president and general counsel. "Local autonomy and artistic discretion was the hallmark of our practice." The company restructured its department partly in response to changes in the health care industry.

change because of deregulation. That's only half true, says Rodger A. Kershner, senior vice president and general counsel of CMS Energy Corp., Dearborn, Mich.

"We are still a 90 percent regulated industry," he says. "The deregulation we've experienced has led to some change, yes, but diversification has driven the big change in the utilities business and in my depart-

ment."

Kershner explains that most U.S. energy distribution companies are diversifying because they face the loss of their regulated monopolies. For CMS, that meant looking for other opportunities in the energy industry, a quest that began a decade ago.

"Before we began diversifying, the

PHOTO BY STEVE CASTILLO

Inside

Diversity and the Bar

14 Sports Lawyer

This month, *Corporate Legal Times* is proud to debut a new column written by Lloyd M. Johnson Jr. of the Minority Corporate Counsel Association. Each month, "Diversity and the Bar" will spotlight a notable corporate counsel.



Rich Nichols

The general counsel for the American Basketball League, Rich Nichols, always wanted to be a sports lawyer, but he followed a winding career path to reach his goal. Now he says he has his dream job.

Management in Action

4 Moral Tug of War

Is ambivalence a job requirement for in-house counsel? The tug-of-war between ethical, moral and professional responsibilities on one hand and loyalty to the corporate client on the other may force some corporate counsel to become ambivalent.

Technology

17 Implementing New Software

After a long, painstaking process, General Motors Corp. has selected its new matter-management software. Now, however, it faces the challenge of implementing it. Part two in a series.

U.S. Business Litigation

21 Tobacco Fee Dispute

Minnesota achieved the best settlement per capita of any state that has sued the tobacco companies. Now the law firm that handled the case for the state must deal with a suit over the fees it received for its work.

Book Review

22 Dispute Resolution Guide

The legal world is cluttered with published works tackling alternative dispute resolution. But there's always room for one more—if it's a good one. Bennett G. Picker's "Mediation Practice Guide" gets high marks for its useful, well-presented take on the subject.

Today's Tax Department: Good Stewards Adding Value

CORPORATE LEGAL TIMES ROUNDTABLE

Today's tax function has evolved from a department strictly concerned with compliance to one with the goal of staying on the cutting edge and continuing to provide value to the bottom while. In this roundtable—the first half of which was published in the December 1998 issue—participants discuss how they meet these mandates. Roundtable begins on page 38.

"We're evolving from tax departments that used to be looked on for compliance. Now you want your department to provide effective value to the bottom line."

—James L. Fitzgerald, AMR Corp.



PHOTO BY GLEN STUBBIE

Managing Legal In Canadian Subsidiaries: Kraft Canada's GC Has 20 Years' Experience

BY MICHAEL FITZ-JAMES

FOR ALMOST 20 years, corporate counsel Richard A. Bailey has been holding down legal jobs with the Canadian subsidiaries of large U.S.-based multinational corporations. With that experience under his belt, he cheerfully concedes that "why" is a good question to ask.

It's not why Bailey works in law departments—it's clear he's passionate about being vice president and general counsel for Kraft Canada Inc., a subsidiary of the huge consumer products company Kraft Foods Inc.

The better question is why have a Canadian legal department at all? In these days of NAFTA and globalization, why not run all legal affairs out of Kraft's U.S. head office in Northfield, Ill.?

The 49-year-old KRAFT CANADA

*****CAR-RT SORT**C-004
2604703
WILLIAM J. BOWE
ENCYCLOPAEDIA BRITANNICA
310 S MICHIGAN AVE
CHICAGO IL 60604-4299

CONTINUED FROM PAGE 1

Changing Industries

emphasis was on providing legal services to a mature operating company," says Kershner. "That meant litigation management, handling small claims, real estate and environmental work."

Now, most hires in Kershner's department are transactional attorneys who handle the legal aspects of mergers and acquisitions, financing and new business development.

Beginning about five years ago, CMS started looking for business opportunities outside the United States. Its entry into the international energy business caused another major change in the company's legal department makeup.

"We now employ lawyers in half-a-dozen countries outside the United States," says Kershner. "Some are expatriate U.S. lawyers, and some are trained and qualified in other countries."

CREATING AN INSTITUTIONAL MEMORY

CMS's department has grown since diversification began. It added five attorneys in 1998, bringing the total to 58 lawyers. The number of those people devoted to utility-related activities has gone down.

"We also outsource less than we did 10 years ago," says Kershner. "It's less costly to do work we're qualified to do inside, but there is another important reason. Accomplishing transactional work with in-house people creates an institutional memory. We know, for example, why the terms of the



PHOTO BY JOHN MCNEILTY

"I deal with cutting-edge legal issues," says William J. Bowe, executive vice president, secretary and general counsel of Encyclopaedia Britannica Inc., Chicago. "I can't think of another area of the law undergoing the revolutionary change we're seeing in copyrights and trademarks as the Internet evolves. We're at the forefront of that, and I'm enjoying it immensely."

deal were what they were, and what obligations are left to address in the future. That means we don't have to pay outside counsel to recollect for us when that becomes necessary. And, of course, our people get better at transactions the more of them they do."

Diversification has created opportunities for lawyers on the business end of the utilities industry, Kershner observes. That is especially true for transactional attorneys, who are able to parlay their knowledge of deals and dealmaking into executive-level positions.

"There's been a little of that here, and even more at other utilities," says Kershner.

Deregulation has created a new category

of legal work at CMS, but that trend hasn't occasioned any hiring.

"Regulatory attorneys are the ones best equipped to advise their clients on the consequences of deregulation," Kershner explains, "so we've been able to handle that with the people we had on staff. We have fewer regulatory lawyers now, simply because we are less regulated. But not much less."

HEALTH CARE GIANT RESTRUCTURES DEPARTMENT

Oakland, Calif.-based Kaiser Permanente, which began as a nonprofit health plan for Californians, has evolved into the nation's

largest integrated health organization. Kaiser serves 8.5 million members in 17 states and Washington, D.C., with a staff of 90,000 employees and 10,000 physicians.

Kaiser's 1998 balance sheet, which showed a net loss of \$102 million on revenues of \$3.9 billion, reflects the basic realities of a rapidly changing industry. Rising costs and increasing demand for services have put pressure on every division and department to increase efficiency. The legal department has responded by restructuring.

"For 25 years the Kaiser legal department was highly decentralized," says Kirk E. Miller, senior vice president and general counsel.

"In 1996, we had 75 lawyers in eight locations, all reporting to different people. Local autonomy and artistic discretion was the hallmark of our practice. About 18 months ago we took a good look at how we were set up compared to what we needed, and instituted a major change."

The department was centralized into a single national function. There are still 75 lawyers, and with a few exceptions they remain where they were, but the reporting system is different.

There are four practice groups: Labor and employment; business; professional liability; and health and regulatory. The lawyers in each group, regardless of geography, report to a group manager, who reports to Miller.

Additionally, each of Kaiser's business divisions has a division counsel. They report jointly to the division president and Miller.

CHANGING INDUSTRIES continued on page 32



BLAKES
MEANS BUSINESS

Doing Business in Canada?

Let BLAKES be your guide to investing in Canada. Our handbook, "Investing in Canada: A Guide for U.S. Investors", is designed to help you meet your business objectives in Canada. For your complimentary copy, please contact Alison Jeffrey, Director of Client Relations at (416) 863-4152 or axj@blakes.ca

BLAKE, CASSELS & GRAYDON

Barristers & Solicitors | Patent & Trade-mark Agents

Blakes is one of Canada's leading business law firms with over 370 lawyers serving a diverse national and international client base. www.blakes.ca

Toronto | Ottawa | Calgary | Vancouver | London | Beijing

CONTINUED FROM PAGE 30

Changing Industries

"The new system has yielded a lot of efficiency and quality improvement," says Miller. "We've unified around best practices. The clearest example of this is in professional liability. We've changed to self-insurance, and along with other efficiencies, we've helped the company cut costs by about \$40 million annually."

Shifting alliances and a trend toward consolidation have characterized the health industry during the past five years, and transactions have become a regular part of Kaiser's legal department's work. In November 1998, for example, Kaiser

"Accomplishing transactional work with in-house people creates an institutional memory," says Rodger A. Kershner, senior vice president and general counsel of CMS Energy Corp.

completed the sale of its entire Texas operation to Sierra Health Services Inc.

"This is another area where we've realized a significant advantage out of this change," says Miller. "Previously we had just a small number of lawyers I could bring to bear on a transaction, because only about 20 of our 75 attorneys reported to me. Now we can draw much

more broadly from our pool of lawyers to marshal the skill sets we need."

Changing from a highly decentralized to centralized operating model isn't easy, says Miller. It requires a cultural shift and the goodwill of all the people involved.

"And it requires the manager in charge to demonstrate that there is unseen value

to be gained," he adds. "But the result has been worth it."

A VIRTUAL DEPARTMENT FOR ACQUISITIONS

Universal Health Services Inc., based in King of Prussia, Pa., owns and operates hospitals in 20 states. According to the company general counsel, Bruce R. Gilbert, change is a constant in the hospital business.

"The basic thing we do doesn't change, but health care law certainly does, and we have to stay abreast of it," he says.

With a small department—four lawyers—hiring to accommodate change is not one of Gilbert's problems.

"I do have concerns about when and how to use outside counsel," he says. "I keep certain regulatory issues closely in-house, particularly Medicare fraud, and abuse rules and regulations, how they are applied, and how we must comply with them."

Regulatory work dealing with issues such as certificates of need and licensing, which are state matters for the most part, are outsourced to firms familiar with the local situation.

Acquisitions are an integral part of Universal's business strategy.

"I set up a three- or four-person virtual law firm, coordinated through my office, for acquisitions," says Gilbert. "I hire an M&A specialist to do some of the documents. I do the documents I'm familiar with. I do most of the negotiating because I've become pretty savvy at that and because I work hand-in-hand with our development staff on these deals. Basically, I know our business better than the outside people. But they have more expertise on the nuts and bolts of acquisition."

Additionally, a local real estate lawyer will handle property purchases, and a local regulatory lawyer often will deal with licensing issues.

Legislation has a major affect on Universal's business. Accordingly, Gilbert serves on the board of The Federation of American Health Systems, the industry's national trade association.

"Through that I'm close to what goes on in Washington, D.C.," he says. "The association sends us notices when something big comes along, and I may even be involved in lobbying on those matters."

He also relies on law firm newsletters to keep informed on both national and state legislation affecting hospitals.

"We have capable people working in the hospitals and they try to keep their finger on the pulse locally, too," he says.

IP-INTENSIVE LEGAL DEPARTMENT

"This is certainly a company in flux," says William J. Bowe, executive vice president, secretary and general counsel of Encyclopaedia Britannica Inc., Chicago.

"Our legal practice has changed dramatically in the last few years, and that's been a direct function of moving from being a reference book publisher to being a software publisher."

When Encyclopaedia Britannica's primary business was book publishing, the legal department's activities dealt with managing a direct sales effort in the United States, Canada and many other countries. Much of its work related to the unique problems involved in door-to-door sales

BAKER & DANIELS

ANNALS OF INDIANA LAW

In Elkhart, a barber cannot threaten to cut off a kid's ears.

It's easy to get tangled up in federal and Indiana employment laws. Talk with someone who knows the territory, including how to:

- develop affirmative action, EEO and other personnel policies
- negotiate collective bargaining agreements
- defend administrative charges and lawsuits
- design employee benefit packages that meet business goals.

BAKER & DANIELS
We know the territorySM

INDIANAPOLIS
317-237-0300

FORT WAYNE
219-424-8000

SOUTH BEND
219-234-4149

ELKHART
219-296-6000

WASHINGTON, D.C.
202-312-7440

QINGDAO, P.R. CHINA
86-532-575-1051

www.bakerdaniels.com

exist any more. Now, the department deals almost exclusively with Internet and CD-ROM distribution throughout the world. Much of its activity is focused on two things: the contractual work associated with developing web sites and multimedia content, and trademark and copyright issues associated with the Internet.

Bowe says the change at Britannica was gradual enough to give the attorneys and everyone else in the company a chance to learn on the job. The decision to build the first multimedia encyclopedia was made in 1988, and Britannica's Compton's Encyclopedia for younger readers was published on CD-ROM in 1989.

"That meant we had to understand how to acquire the necessary rights and prepare for

distribution from a legal standpoint," says Bowe. "Also, the people on the editorial side became attuned to the problems that arise in electronic publishing and began to learn how to cope with them."

The online version of the Encyclopaedia Britannica was published five years later, in 1994.

"Now we've had 10 years of experience," says Bowe. "Of course, when we began, electronic publishing was a peripheral activity. We didn't pay much attention to it. Now it is almost all we do."

A substantial amount of the department's time is spent countering the efforts of cybersquatters who attempt to pre-empt trade names associated with Britannica.

"We've also run into pornographers who

take domain names similar to ours in an attempt to attract people looking for our site," says Bowe. "That's a category of work we never had before."

Recently Britannica entered into a partnership with *The Washington Post/Newsweek* online services. That transaction was handled internally, as were the divestments that accompanied the transition from the old business model.

Encyclopaedia Britannica downsized substantially as the higher revenues from encyclopedias selling for \$1,500 a set were replaced by CD-ROMS selling for a little more than \$100. The legal department has mirrored this change, shrinking from six full-time attorneys in the late 1980s to two attorneys and a paralegal now.

"We have moved to a virtual law office model," Bowe explains. "We have two contract attorneys who join us as needed. Our pension work and most of our litigation is outsourced. We try to devote our internal resources primarily to intellectual property management."

Like all the general counsel interviewed for this article, Bowe finds legal work in an environment of change to be challenging and interesting.

"I deal with cutting-edge legal issues," he says. "I can't think of another area of the law undergoing the revolutionary change we're seeing in copyrights and trademarks as the Internet evolves. We're at the forefront of that, and I'm enjoying it immensely." **CLT**

CONTINUED FROM PAGE 24

Immunity

diction, and Congress cannot legislate otherwise, when the university chooses to enter the federal arena, when the university's action in creating the controversy is within its sole control and initiative, and when the university invokes the system of federal law and federal judicial power for enforcement of property rights actionable only in federal court, including property rights extraterritorial to the state, the state is deemed to have waived its immunity from federal authority to resolve that controversy."

T. Martin Simpson, university counsel at the University of California, says the school will challenge the ruling.

"We have asked for reconsideration," he says. "We think there is no case law to support what the CAFC did. Normally the question of a school's immunity to patent suits would arise when a university is accused of infringing somebody else's patent. This case is the opposite. Genentech filed against us because they are infringing our patent."

Simpson also takes issue with the opinion that commercializing the patent undercut his client's rights as a state institution.

"Merely participating in the patent system does not constitute a waiver," he says. **CLT**

Since 1904...

Our 1800-page **LAWYERS' LIST** has provided corporate legal departments, law firms, and other sources of referred legal work in the United States and throughout the world with the information needed to select preeminent counsel.

Listed law firms remind past contacts of their firm's expertise and are introduced to new sources of business around the world. In addition, they find it a handy reference when selecting out-of-town counsel.

All calls for **LAWYERS' LIST** are promptly satisfied, call us today at the number below:

The Lawyers' List

8706 Commerce Drive, Suite 4
Easton, MD 21601

Ph: 410 820-8089 Toll-Free: 1-800 824-9911
Fax: 410 820-4474
email: lawyerslist@internetcconnection.com