



Revisited Sector Paper on: ISIC Rev.4 691 Legal activities

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Overview

- ❑ Introduction
- ❑ Overview of industry
- ❑ Classification issues
- ❑ International methodological recommendations
- ❑ Output/turnover
- ❑ SPPI
- ❑ Summary

Introduction

- legal activities in the works of Voorburg Group

- ❑ Classification of Services of ISIS (89.12+89.13), Netherlands Central Bureau of Statistics– 1987, Stockholm,
- ❑ Draft classification of Legal services excluding jurisdiction (ISIS 89.11), Netherlands Central Bureau of Statistics– 1987, Stockholm,
- ❑ Australian Price Indexes for Legal Services, David Collins, Australian Bureau of Statistics, 2000, Madrid,
- ❑ Legal Services within Producer Price Indexes - The New Zealand Experience, Ron McKenzie, New Zealand, 2000, Madrid,
- ❑ Producer Price Index for the Legal Services Industry, Richard McKenzie, Australian Bureau of Statistics, 2001, Orebro,
- ❑ Service Price Index for Legal Services, Sima Assaf, Central Bureau of Statistics Israel, 2003, Tokyo;
- ❑ PPI for Legal Activity, Auditing and tax Consulting Services in Germany, Astrid Stroh, Susanne Lorenz, Federal Statistical Office Germany, 2004 – Ottawa,

Overview of industry

Two types of legal systems

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graph TD; A[Two types of legal systems] --> B[The legal system of continental Europe]; A --> C[The Anglo-Saxon legal system];
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The legal system of continental Europe

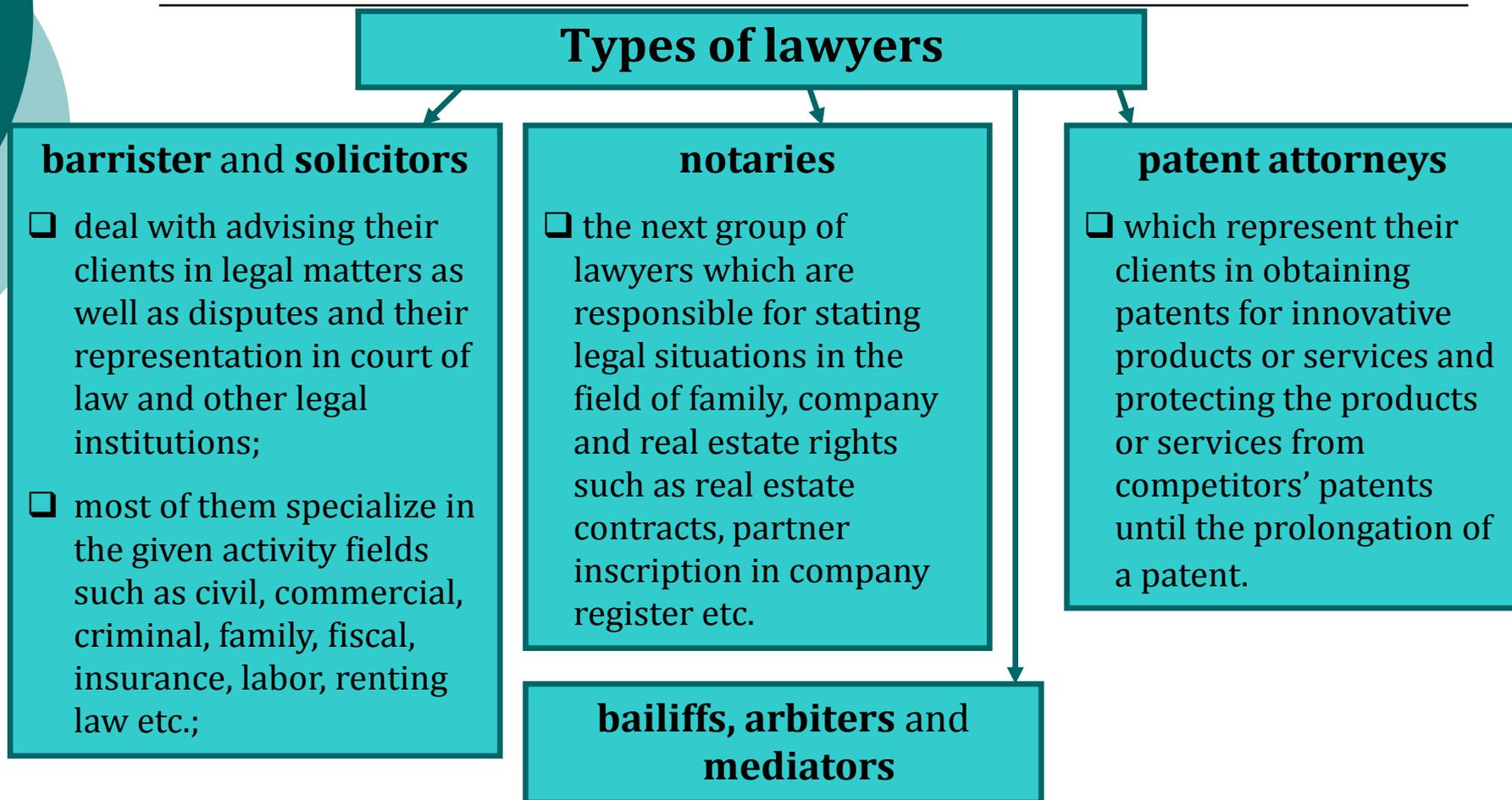
- legal practice follows laws and acts
- market is more regulated by government than in the Anglo-Saxon countries
- fees are set on the basis of the scales of fees

The Anglo-Saxon legal system

- legal practice bases on precedent cases
- fees are usually charged after free price negotiations and sometimes on a success basis

However, in all countries there are different regulatory bodies (dependent on or independent from government) such as law societies or bar associations which coordinate the functioning of legal market, requirements necessary for entering the market etc.

Overview of industry c.d.



Overview of industry c.d.

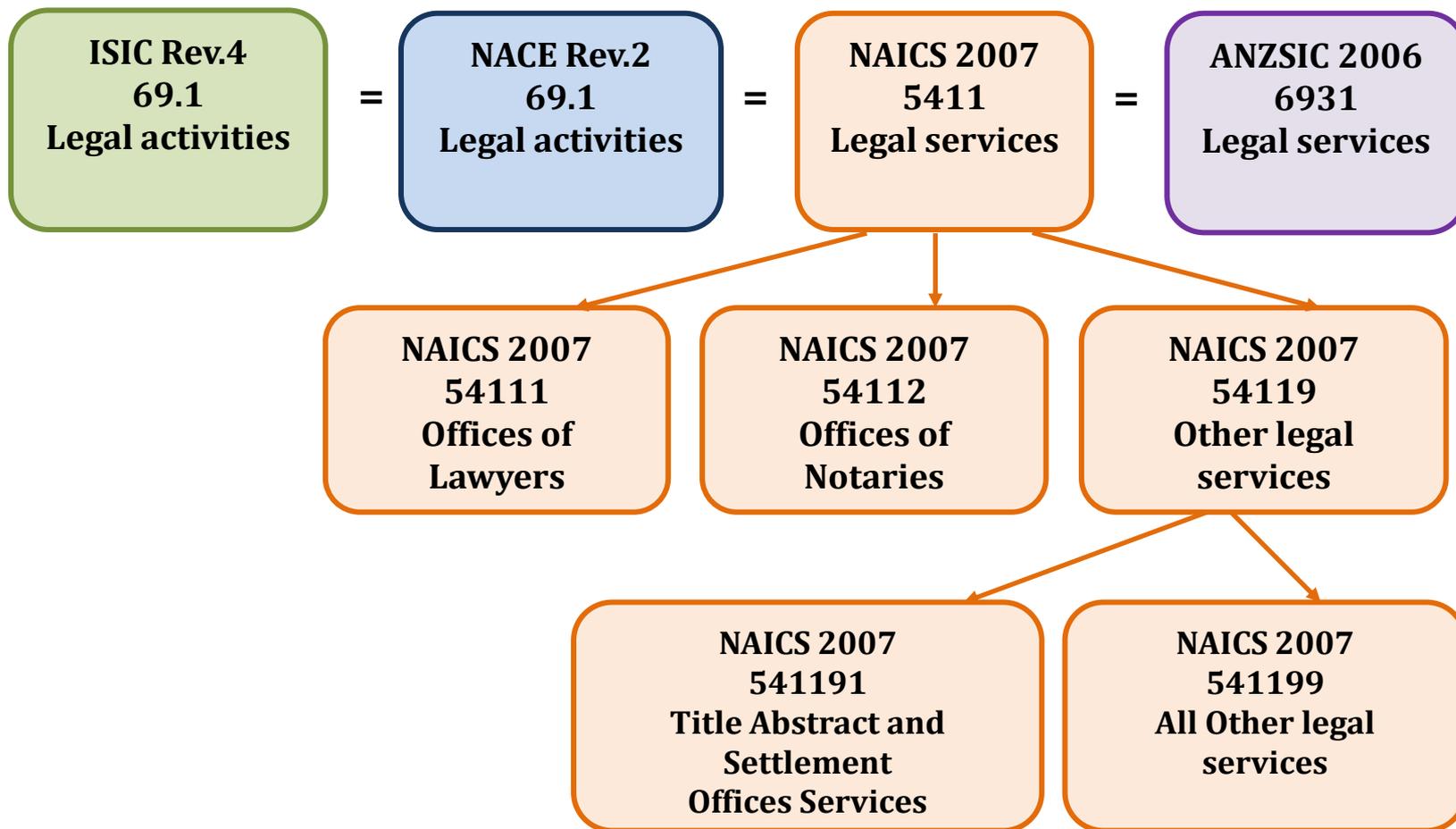
- business model of legal industry

- ❑ in most countries is a small number of large firms to be involved in providing a range of services to corporate clients, and a much larger number of small firms (usually in the form of a sole proprietor or partnership) servicing households and small business needs¹;
- ❑ small units with the number of persons employed 9 and less constitute – from at least 58% to above 90% of total number of units (*VG questionnaire*);
- ❑ the legal advisory and representation services were most often mentioned by countries as a main source of turnover from legal services (*VG questionnaire*);
- ❑ in the aspects of globalization, the market of legal services develops steadily¹;
- ❑ the demand for legal services is driven mainly by “the increasing legal requirements of corporation”¹;
- ❑ general tendency for smaller units to merge in order to achieve better economy of scale, or to enter into strategic alliances with other small unit;
- ❑ even during the global crisis the legal companies proved to be flexible and were able to make profits from their activity;

1) Producer Price Index for the Legal Services Industry, Richard McKenzie , Australian Bureau of Statistics, 2001, Orebro)

Classification issues

Legal activities in industry classifications



Classification issues

Legal activities in product classifications

CPC Ver. 2		CPA2008		NACPS for NAICS		Products for ANZSIC 2006	
82.1	Legal services	69.1/ 69.10/ 69.10.1	Legal services	5411	Legal services	6931	Legal services
8211	Legal advisory and representation services concerning criminal law	69.10.11	Legal advisory and representation services concerning criminal law	Legal services, criminal law		Advocate service	
8212	Legal advisory and representation services concerning other fields of law	69.10.12	Legal advisory and representation services in judicial procedures concerning business and commercial law	Legal services, business and commercial law		Barrister service	
		69.10.13	Legal advisory and representation services in judicial procedures concerning labour law	Legal services, labor and employment law		Solicitor service	
		69.10.14	Legal advisory and representation services in judicial procedures concerning civil law	Legal services, family law		Legal aid service	
Legal services, civil negligence law				Legal service			
				Legal services, other civil law			

Classification issues

Legal activities in product classifications

CPC Ver. 2		CPA2008		NACPS for NAICS	Products for ANZSIC 2006				
8213	Legal documentation and certification services	69.10.15	Legal services concerning patents, copyrights and other intellectual property rights	Patent agent services	Patent attorney service				
		69.10.16	Notarial services	Legal services, real estate law	Notary service				
				Notarization and certification services	Conveyancing service				
8219	Other legal services				Title-searching service				
	82191	Arbitration and conciliation services			69.10.17	Arbitration and conciliation services	Arbitration, mediation and conciliation services	Legal service	
			82199	Other legal services n.e.c				69.10.18	Auction legal services
	69.10.19	Other legal services			Process server services				
					Legal consulting services				
Legal document filling and searching services									
Other related products									

International methodological recommendations

*Compilation Manual
for an Index of Service Production
OECD, 2007*

*Methodological Guide For Developing
Producer Price Indices For Services
OECD, 2005*

*Handbook on
price and volume measures
in national accounts
Eurostat, 2001*

International methodological recommendations

*Compilation Manual for an Index of Service Production
OECD, 2007*

– indicates variables for measuring the output of legal activities

the best variable

the alternative variable

gross turnover
deflated by
appropriate quality adjusted
price indices

CPI for
legal services

PPI for
legal services

gross turnover
deflated by
partially representative
price index

PPI partially representative
for legal services

volume indicators

general
price index

CPI

International methodological recommendations

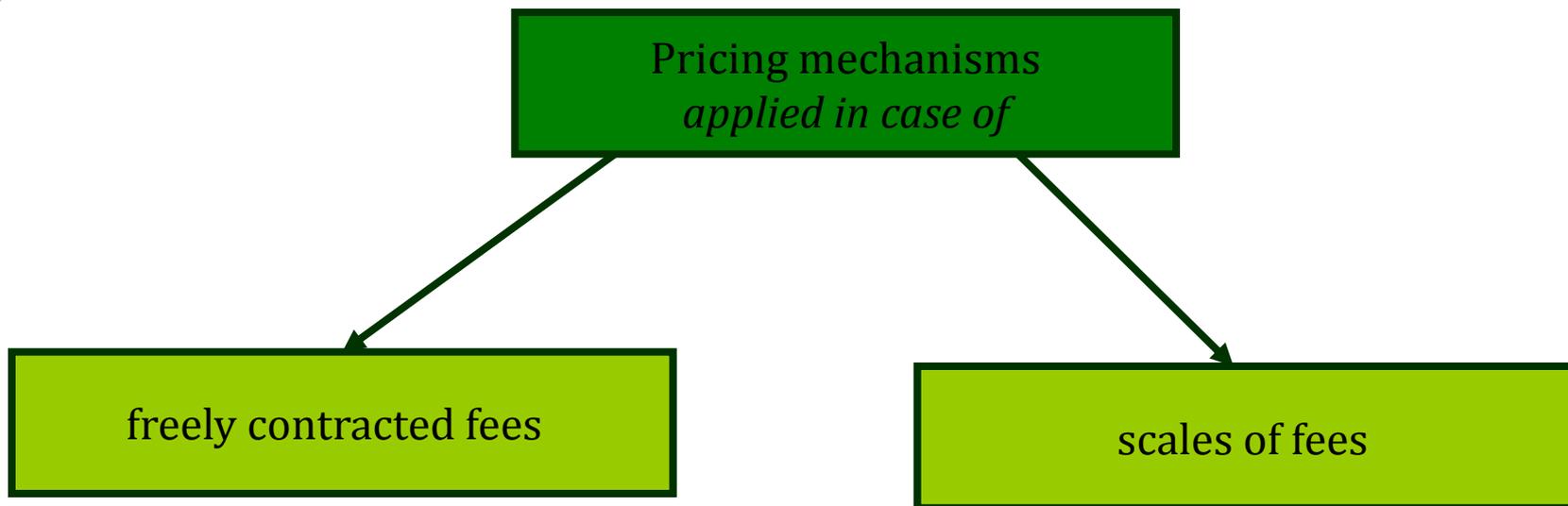
*Methodological Guide For Developing Producer Price Indices For Services
OECD, 2005*

- describes more comprehensively pricing mechanisms used for charging fees and methods of their statistical observation

Pricing mechanisms
applied in case of

freely contracted fees

scales of fees

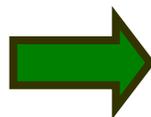


International methodological recommendations

*Methodological Guide For Developing Producer Price Indices For Services
OECD, 2005*

Pricing mechanisms *applied in case of* freely contracted fees

Pricing mechanisms
Charge-out rates (hourly rates)
Ad valorem prices
Flat rates
Success-correlated fees



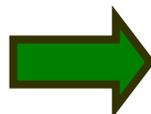
Pricing methods
Hourly charge-out rates
Percentage fee method
Percentage fee method
Model pricing

International methodological recommendations

*Methodological Guide For Developing Producer Price Indices For Services
OECD, 2005*

Pricing mechanisms applied in case of scales of fees

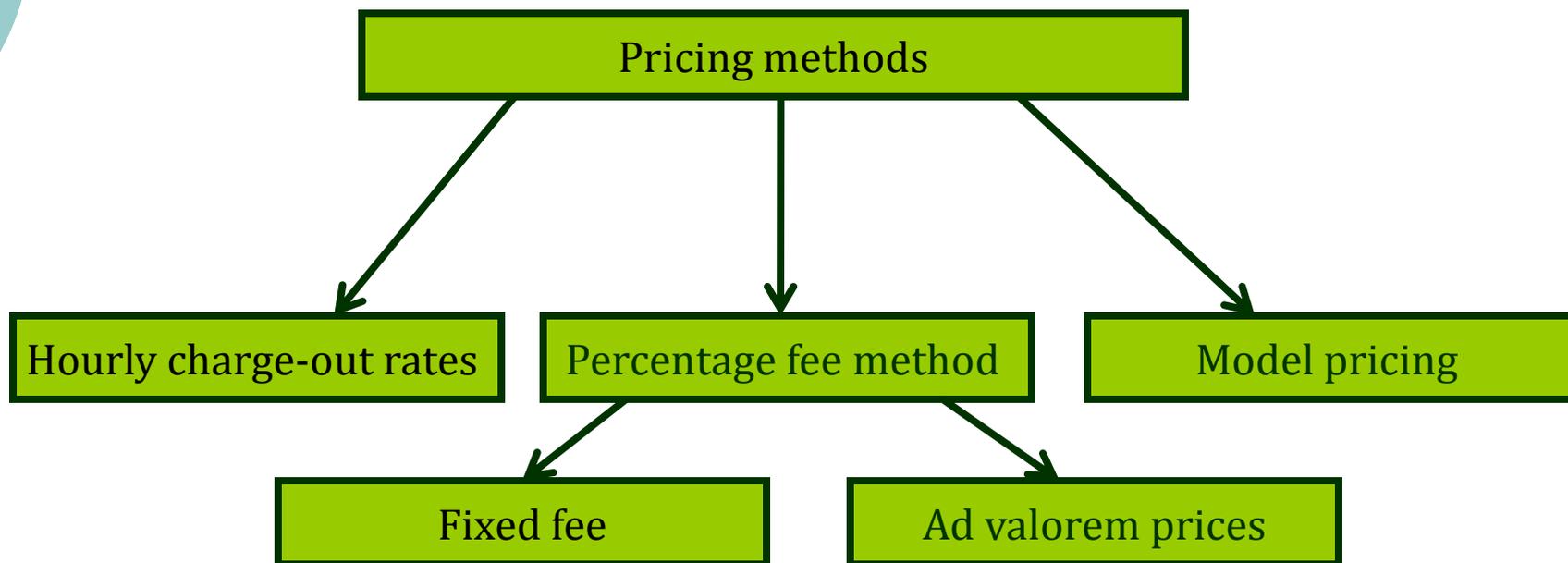
Pricing mechanisms
Fixed fees
Ad valorem prices



Pricing methods
Hourly charge-out rates
Percentage fee method

International methodological recommendations

*Methodological Guide For Developing Producer Price Indices For Services
OECD, 2005*



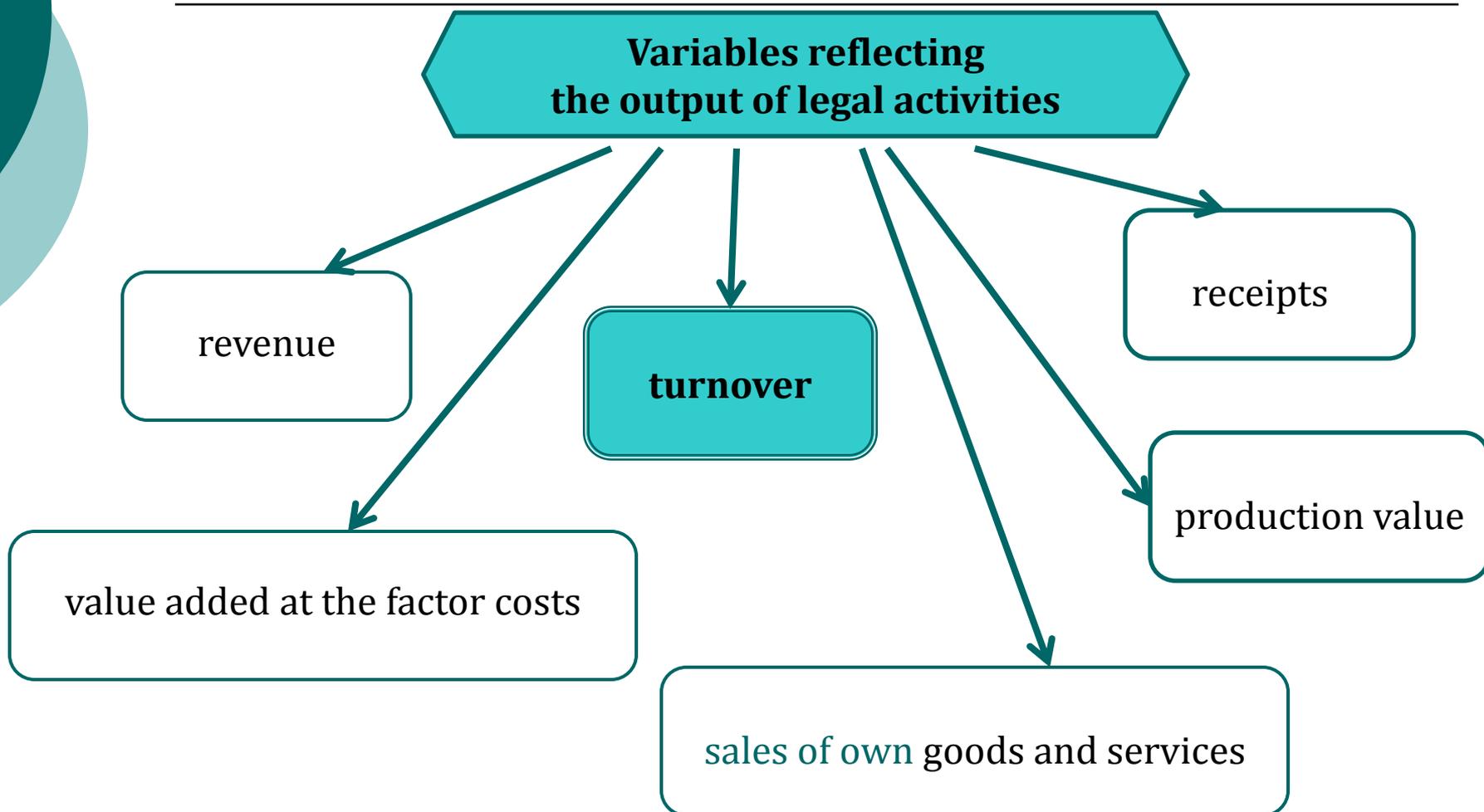
International methodological recommendations

*Handbook on price and volume measures in national accounts
 Eurostat, 2001*

- provides us with information on the best method for compiling the price indices regarding the type of legal service and customer

Type of legal service	Client	Pricing mechanism	Pricing method	Method A/B/C
Drawing up the contracts for buying houses, wills, marriage contracts et. – “notary” services	households	Most often - fixed tariffs	CPI	A
			Volume indicator – number of contracts drawn up etc.	B
Legal services related to gross fixed capital formation being part of transfer costs of buying property	households and businesses	Fee is related to with the price of property	Percentage fee method	B
		Fixed fee	Direct use of prices of repeated services	B
Other services to businesses	businesses	Total fee = hourly rate*number of hours	Charge-out rates	B
		Fixed-rate on the basis of contact	Contract pricing	A
			Model pricing	A

Output/turnover



Output/turnover – interview

Turnover at industry level

Frequency and number of countries which compile data on turnover at the industry level for legal activities - 20 respondents

Frequency	Number of countries	Data source
annually	18	census, sample survey, administrative data
quarterly	6	sample survey, administrative data
monthly	8	
with other frequency- every five years	1	census
with other frequency- every two months	1	administrative data

Output/turnover - interview

Turnover at product level

Frequency and number of countries which compile data on turnover at the product level for legal activities - 20 respondents

Frequency	Number of countries	Data source
annually	9	sample survey, administrative data
biennially	5	sample survey
with other frequency – every five years	1	census

Output/turnover – challenges

- ❑ Decreasing and effectively managing the respondent burden which mainly results from obligation for delivering data on turnover by product;
- ❑ The way of counting the establishments - every lawyer working at a law firm which does not have corporate status should be counted as one establishment respectively, but the law firm is sometimes counted as one establishment regardless of the number of lawyer in the business frame;
- ❑ Difficulties in properly measuring the output of legal activities due to the different ways of establishing prices in the industry;
- ❑ Meeting the legal requirements and user needs;
- ❑ Difficulties in selecting appropriate samples of surveys in order to adequately reflect output and profit levels.
- ❑ The environment of legal professionals - strong lobby that is resistant to providing statistical information;

Output/turnover – recommendations

Based on information surpassed by various countries it can be stated that:

- ❑ the variable which in the best way reflects the output of legal industry is **turnover**;
- ❑ it is highly recommended to compile data on turnover at the industry as well as at the product level;

Annual information on turnover for legal activities at the industry level present changes in values and allow to assess the growth of all legal services sector while data on turnover at the product level show phenomena which take place inside the industry. Moreover, data on turnover by product are applied while constructing the SPPI for legal services.

- ❑ in order to make more depth insight into the legal industry it is helpful to analyze short-term data on turnover (turnover indices) which reveal the trends and cycles specific for legal industry.

Service Producer Price Indices (SPPI)

- 15 countries have developed an SPPI for Legal Activities - Australia, Austria, Finland, France, Germany, Ireland, Israel, Japan, Netherlands, New Zealand, Norway, Spain, Sweden, United States, and Slovenia.
- Main pricing method used - time based method based on hourly charge out rates.
 - Collected with assumption that changes in hourly charge-out rates will approximate changes in the final charges paid by clients.
 - Respondents may provide a selection of hourly charge-out rates for a specific type of project that is representative of the firms activities.
 - Hourly charge-out rates provided by firms are often collected by level of staff/qualification category.
- Model pricing and contract pricing are also quite common.

SPPI – Hourly Charge-out rates

Country	Use of hourly charge-out rates
United States	Construct models based on previous billing invoices. Where the invoice specifies the charges of individual legal professionals, each of these rates are updated in future periods.
Australia	Collect a selection of hourly charge out rates by staff level, for a project for a major client.
Japan	Monitors monthly or hourly fees for attorney services (covering advisory services only).
United Kingdom	Conducting a pilot survey. Collect standard hourly charge out rates along with the hours billed and the total fees billed during the quarter. The ratio between what was actually billed for the hours and what would have been billed had the standard rates been charged is used to adjust the standard rates.

SPPI – Other pricing methods

- Time based pricing method usually supplemented with other methods - contract pricing or model Pricing
- Different pricing mechanisms tend to be used for different types of work.

Country	Pricing method
New Zealand	Model pricing.
United States	Collect fixed fees for real estate transactions, simple divorces, simple wills etc. Models pricing - where a contingency fee is charged, respondents estimate the dollar value of the settlement/penalty would receive if the case were taken again.
Israel	Re-price fixed fees. Collect contract fees.
Austria, Germany and France	Monitor fees set by industry regulators.
Japan	Track different types of registration fees.

SPPI – Issues

- Main concerns relate to the use of hourly charge out rates:
 - Labour productivity
 - Other components contribute to the final cost of the service
 - Charge-out rates can remain constant whereas the true price of the service is increasing
 - As staff gain experience and their skills improve the quality of the services they provide will change
 - Legal firms often change their mix of staff

SPPI – Issues

- Difficulties experienced with model pricing:
 - Countries experienced difficulties implementing
 - The mix of staff and factors contributing to each case differs
 - In practice respondents may not change the listed inputs

- New Zealand investigated the validity of using charge-out rates:
 - Some short-term differences in the index series,
 - Over medium to long-term differences were not as large as expected

SPPI – Other Considerations

- Majority of countries collect their information via survey
- Most countries collect data quarterly
- 14 countries publish their results
- Main challenges highlighted by countries include:
 - Reluctance from respondents/other associations to provide assistance
 - Industry is very dynamic
 - Response burden and costs are key challenges for many countries.

SPPI – Recommendations

Pricing methods	Category	Information	Issues
Fixed fee	A method Not appropriate for all legal services	-Used for routine legal work -Supplements hourly rates -Low cost / effective in pricing to constant quality	-Only covers a small part of the industry -Rarely get repeated constant quality services
Contract pricing	A method Not appropriate for all legal services	-Monitor rate paid according to a long term contract -Supplements hourly rates	-Only covers a small part of the industry -Difficult to measure a constant quality service
Hourly charge-out rates	B Method Compromise between what ideally want to collect and what able to collect in practice	-Favoured by many countries -Readily available / easy for firms to provide -Reflects price changes -Easier and low cost	-Labour productivity -Excludes other costs -Charge-out rates can remain constant whereas the true price may be increasing
Model pricing	C Method Conceptually is the best approach but difficult to apply	-Specifications developed in consultation with legal professionals -Supplements hourly rates	-Defining specifications is difficult -Periodic updating is time-consuming and costly -Costs for respondents in terms of reporting time - Countries experienced difficulties with this method

Summary

- 1) The market of legal services more regulated by government in continental Europe than in the Anglo-Saxon countries - influence on pricing mechanisms and pricing methods
- 2) The stable growth of legal industry mainly due to the demand for legal services driven by “the increasing legal requirements of corporation”
- 3) A common feature of the legal industry in most countries: small number of large firms providing a range of services to corporate clients, and a much larger number of small firms servicing households and small business needs
- 4) The gross turnover deflated by appropriate quality adjusted price indices (CPI or PPI for legal services depending on the type of consumer.) as the best variable for measuring the output of legal activities
- 5) Data on turnover at the industry level as well as at the product level – produced by the vast majority of countries
- 6) Broader usage of administrative data, especially VAT data, for compiling data on turnover
- 7) Cooperation with professional bodies, such as law societies and bar associations - strongly recommended

Summary

- 8) Hourly charge out rates
 - easier and low cost compared to other methods
- 9) Model pricing difficult to implement
 - time-consuming / response burden
- 10) Data collected mostly via survey
 - some from administrative data.
- 11) Main challenges:
 - reluctance from respondents
 - uniqueness of service
 - different pricing mechanisms used for different services;
 - response burden and costs