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Chapter 1

Attorneys and Attorney Tariff in Slovenia

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Additional information is available at the end of the chapter

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Abstract

In Slovenia, attorneys as part of the justice system represent an autonomous and independent service that is regulated by law. As set out in the decision of the Constitutional Court of RS, there is no doubt that the legislature has to adopt the law to regulate the attorneys' profession, but in its attempt of such regulation, the legislature always collides with the constitutional requirement that the attorneys are autonomous and independent. Therefore, when regulating the attorneys' profession, the legislature has to address the issues of autonomy and independence, and thus also the question of determining attorney tariffs, while certain issues must be left to be autonomously regulated within the attorneys' profession. The attorney tariff does not determine a mandatory price of legal services because an attorney and his client may always reach an agreement that is different from the attorney tariff. However, the tariff is binding when the court decides on the obligation to reimburse the party who has succeeded in a dispute for their attorney costs. With our research, we have empirically demonstrated that the existing attorney tariff in Slovenia unjustifiably drains smaller law firms, which guarantee an efficient coverage of population and smaller undertakings with a network of legal services.

Keywords: public finance, attorney tariff, the right to effective judicial protection, financial analysis, Balassa-Samuelson effect, Slovenia

1. Introduction

In Slovenia, the attorneyship as part of the justice administration is an autonomous and independent service that is regulated by law (the first paragraph of Article 137 of the Constitution of the Republic of Slovenia). This constitutional formulation substantively determines only the social function of attorneyship, while its organisation is left to the law ([1]: 937). Based on the above, the legislature stipulated in the second paragraph of Article 1 of the currently valid

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Attorneys Act (*Zakon o odvetništvu*) /ZOdv/ (Official Gazette of the Republic of Slovenia, No. 18/1993, 24/1996—decision US, 24/2001, 54/2008, 35/2009, 98/2014, 8/2016—decision US, 46/2016) that attorneys shall practise legal profession as a liberal profession. As stated by the Constitutional Court of the Republic of Slovenia in its decision No. U-II-1/09-9 of 5 May 2009, there is no doubt that the legislature must adopt the law to regulate attorneyship. However, in its attempt of such regulation, the legislature always collides with the constitutional requirement that attorneyship shall be "an autonomous and independent" service. With a decision No. U-II-1/09-9, the Constitutional Court of the RS answered a key question of what is meant by the provision that attorneyship is "autonomous and independent", and whether the autonomy and independence also encompass the right to determine attorney tariff or at least to participate in the determination thereof. As clearly derives from this decision, Slovenian Constitution uses two terms in relation to attorneyship—"autonomy" and "independence"; these two concepts, although semantically very similar, do not have the same constitutional meaning. According to the Constitutional Court of the RS, independence should be understood in a functional sense, while autonomy should be considered as an organisational sense. Both principles apply to individual attorneys, as well as to their professional association, even though a greater emphasis is placed on individual attorneys in the context of independence and on their professional organisation in the context of autonomy. Unlike independence, which primarily refers to an attorney in the performance of his work, the autonomy of attorneyship should be understood in the organisational sense. Autonomy, therefore, refers to the autonomy of attorneys' profession as such, in relation to state authorities (in particular, the executive branch of power). From the substantive perspective, the autonomy of attorneyship relates to the regulation of questions concerning the status of attorneys and their professional organisation. The legislature must undoubtedly regulate these issues as well, but not exhaustively; instead, it should leave certain issues to be autonomously regulated within the attorneys' profession. The tariff, which determines the method of valuation, charging and payment for attorney's services and expenses that must be paid to the attorney by a party or a client, does not provide a mandatory price of attorneys' services (U-II-1/09-9). In accordance with the provision of the second paragraph of Article 17 of Attorneys Act /ZOdv/, an attorney and his or her client may always agree to the payment for the attorney's performance other than the payment laid down in attorney tariff. However, this tariff is binding when the court imposes an obligation to reimburse the party, who has succeeded in a dispute, for their attorney costs (Article 20 of ZOdv). If the tariff was set at the amount that is obviously too low, this could constitute an unacceptable restriction on the right to effective judicial protection for those parties who were successful in the proceedings (U-II-1/09-9).

In this regard, it should be noted that the regulation of prices through the mechanism of total or partial adjustment to inflation falls within the instrumentation of approaches to the market regulation, which are generally applied in early stages of their development (e.g., during the transition period). The continuation of such practice or even freezing of such prices completely disregards the fact that, in the meantime, the transition phase of economic development has already ended. Slovenian legislation is in line with the "*Acquis Communautaire*", and following the introduction of common European currency, EUR, relative prices of goods and services have been largely harmonised, which is the essence of the single market. This means that the

harmonisation of regulated prices through the retail price index would be advantageous only if relative prices of attorneys' services had already been harmonised with prices in the EU in 2003, which cannot be presumed.

The freezing of the value of attorney tariff point falls under the instrumentation of anti-inflation policy, which was present in Slovenia before the accession to the Euro area. In order to comply with the Maastricht criteria relating to inflation, the Government of the RS insisted on the mechanism of controlled prices in several markets, especially in the non-tradable sector, where markets were still fairly underdeveloped and foreign competition had high entry barriers. Before 2003, such description also largely applied to the market of attorneys' services, which is why price regulation was essentially justified. Due to the insufficient competition and relatively inelastic function of demand, it was highly probable that the prices of services would fluctuate in line with the cost function since there is no sufficient competitive pressure in such circumstances to raise productivity or to reduce costs. Therefore, the share of regulated prices still amounted to almost 18% in 2005 but has decreased to just over 9% by 2014, which is below the EU average of 12.7% [2].

With the "de facto" freezing of the value of attorney tariff point, the Government of the RS administratively prevented the usual process of the adjustment of attorneys' services prices in the segment of tariff services. This resulted in the accumulation of price imbalances, which in the long run impair the development of attorneys' services market in terms of the number of participants and from the perspective of ensuring a sustainable quality of services. The latter is particularly true for smaller regional centres, where the possibilities for cross-subsidisation between tariff services and more profitable commercial transactions, in which the attorney's payment depends on the value of dispute (especially in the segment of corporate clients), are very limited. As a consequence, many lawyers in smaller regional markets with tariff services prevailing have been forced to increase their productivity, which is not even theoretically possible without affecting the quality of services in the given circumstances of this activity.

Given the above, it was empirically proven that the current attorney tariff is set decidedly too low, which means that the right to effective judicial protection of a party who succeeded in a dispute is unjustifiably restricted (U-II-1/09-9).

Unfortunately, attorneys in most countries do not enjoy the same social standing as health care providers due to attorney's indirect impact on personal and social welfare (despite economic similarities of both services). In this circumstances, our interdisciplinary study based on our unique data set for the period 1995–2015 becomes even more relevant for attorneys and policy makers in order to identify and prevent long-term negative spill-over effects. Thus, this first long-term analysis of attorney's services in Slovenia provides a comprehensive model and various (empirically tested) guidelines for the European discussion on deregulation. Considering the fact that Slovene legislative system is based on German legal tradition, we assume our model's relevance for the broader central-European area.

As stated by the Constitutional Court of the RS in the decision U-II-1/09-9, Article 137 of the Constitution of the RS does not imply that the only arrangement of payment for attorneys'

services that complies with the said article is the arrangement under which the tariff is determined by the Bar Association of Slovenia, with the consent of state authorities and on the grounds of the established public interest. The legislature could consider an arrangement under which the tariff would be determined by the Bar Association of Slovenia with the consent of National Assembly. However, the fact cannot be overlooked that, in spite of what has been discussed above, the attorney tariff represents a broad determination of prices of attorneys' services that can be used by attorneys when practising their profession in order to guarantee the competitiveness of their services. Therefore, Article 137 of the Constitution of the RS stipulates at least the obligation of the legislature to provide a mandatory participation of the Bar Association of Slovenia in the event that the tariff is determined by an act of the legislature itself (U-II-1/09-9). Article 19 of the currently valid Attorneys Act /ZOdv/ provides one possible manner to determine the tariff for attorneys' services; namely, the tariff is determined by the Bar Association of Slovenia upon the prior approval of the minister competent for justice, thus protecting the public interest. Even if such arrangement, as stated by the Constitutional Court of the RS, cannot be accused of being non-compliant with Article 137 of the Constitution of the RS, the applicable Attorneys Act /ZOdv/ fails to provide a proper methodology for the establishment of prices of attorneys' services.

2. Development and the current status of attorneyship in Slovenia

2.1. Summary of economic conditions

Modern economic history of Slovenia begins with the disintegration of the SFRY, declaration of political independence (25 June 1991), and the introduction of independent currency following the replacement of Yugoslav dinar with Slovenian tolar at the conversion rate of 1:1 (8 October 1991). At the time, foreign exchange reserves of Slovenian banking system amounted to around 150 million EUR (**Figure 1**).

Important procedures for the establishment of key institutions in the field of public finances (Tax Administration of the Republic of Slovenia, Customs Administration of the Republic of Slovenia), banking, insurance and securities markets (Bank of Slovenia, Insurance Supervision Agency and Securities Market Agency) were carried out successfully. Slovenia joined the

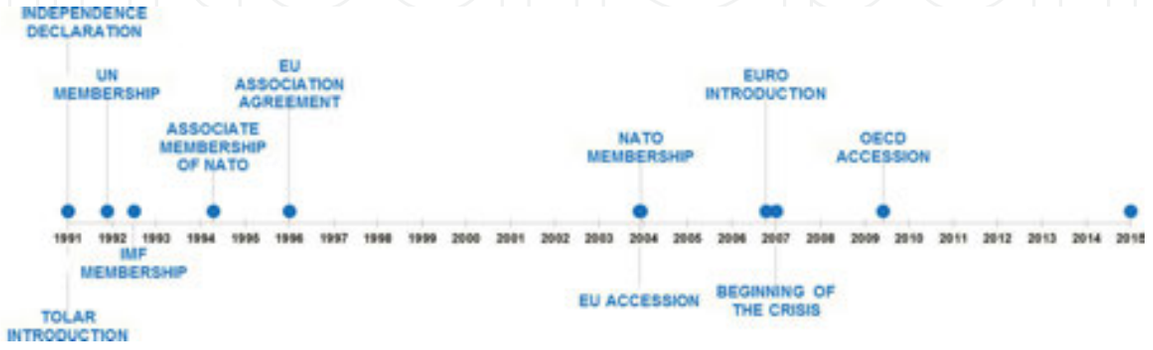


Figure 1. Notable events in the Republic of Slovenia.

World Bank Group, International Monetary Fund, European Bank for Reconstruction and Development, Development Bank of the Council of Europe, Inter-American Development Bank and other important financial institutions. The process of the establishment of tax and customs system, including the abolition of the sales tax and the introduction of VAT in July 1999, was successfully carried out as well. On 1 January 2007, Slovenia was the first transitional country to adopt the euro currency at the irrevocably fixed exchange rate (239.640 SIT/EUR).

During the transition period, Slovenian economy reached a fairly steady growth and maintained the difference in GDP per capita in comparison with other transitional countries. It was not until the major global financial and economic crisis that the greatest systemic weaknesses were revealed, which had been generally hiding in the underdeveloped financial market, the management of state ownership and the shortcomings of certain lines of business (e.g., construction) that were too dependent on domestic (state) demand. After 2008, Slovenia thus experienced the second largest cumulative drop in GDP, by 10 percentage points (Greece ranked first). This was followed by a wave of bankruptcies of numerous companies and the rescue of largest (state) banks from a similar fate. The national economic situation only stabilised after 2014.

From 1991 to 2015, Slovenian GDP experiences a real increase of 75.2%, while GDP per capita increased by 70% (GDP per capita amounted to over 5000 EUR in 1991 and exceeded 18,000 EUR in 2015) (**Figure 2**).

After Slovenia declared independence, the companies fairly quickly emerged from transformational depression and successfully shifted to foreign markets following the loss of Yugoslav markets. The biggest challenge of the 1990s was macroeconomic stabilisation, since the levels of inflation and interest rates were particularly high. The stabilisation already transpired at the time of the accession to the EU (2004) and has led to the fulfilment of criteria for the entry into the EMU and the adoption of the common currency. Under the circumstances, the unemployment was relatively low compared to the rest of EU Member States but has reached a level almost equal to that of the EU after the great crisis (**Figures 3** and **4**).

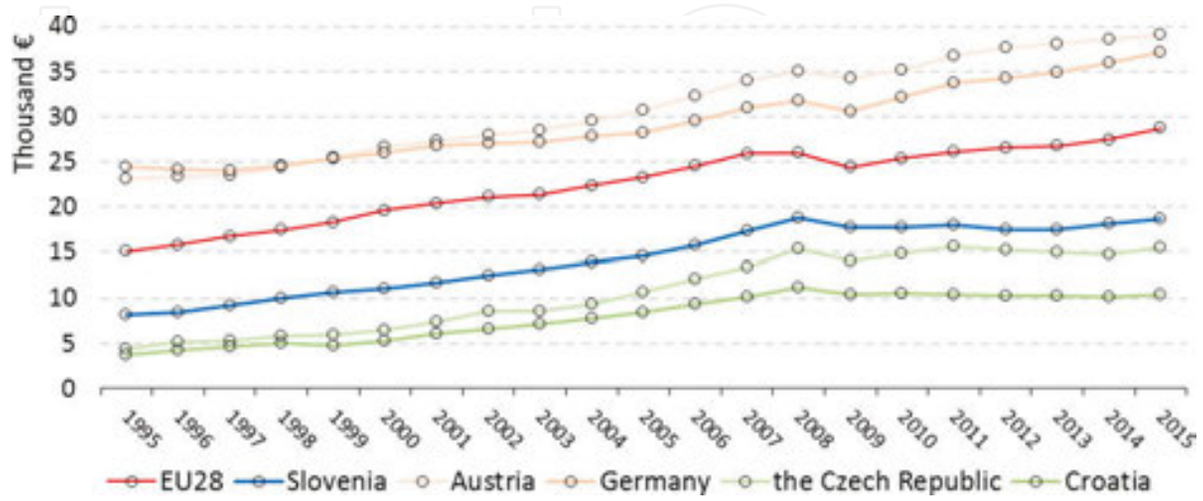


Figure 2. GDP per capita by country (1995–2015). Source: Eurostat [3].

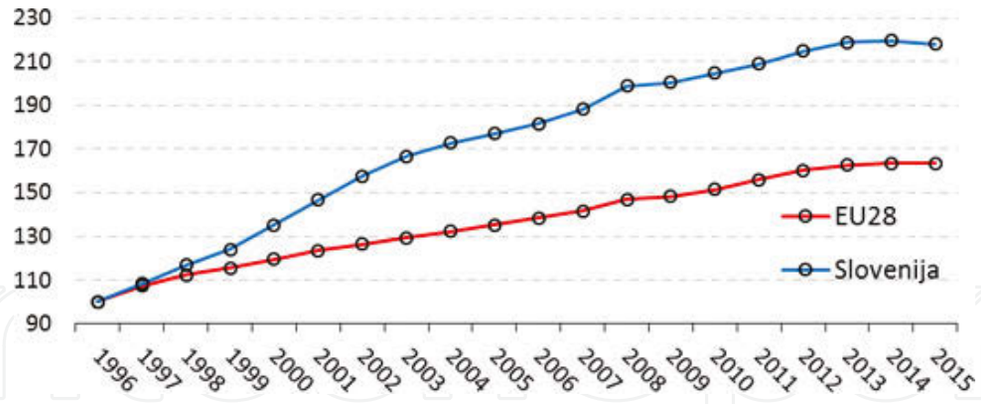


Figure 3. Harmonised index of consumer prices (1996 = 100). Source: Eurostat [3].

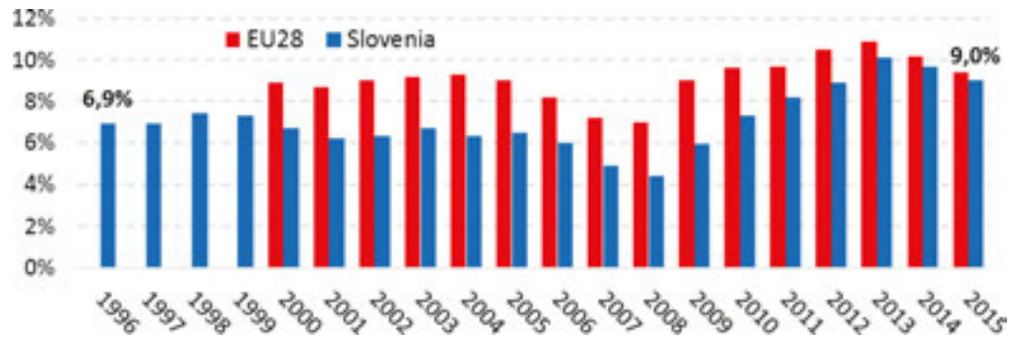


Figure 4. Survey-based unemployment rate. Source: Eurostat [3].

For reasons given above, Slovenia was ill-prepared for the great crisis, whereas its options were further limited because it had no monetary policy of its own. In the period 2008–2013, the number of employees in enterprises or non-financial companies, which on average employ more than half of the entire active working population, decreased by 13.4% (by 76,528 persons) to 494,061 persons. In the same period, the government sector increased the number of employees by 6.1% (9414 persons). Before the beginning of the crisis, the employment in Slovenia was at a record high: in 2008, more than 1 million people were employed in total, the largest number since 1995 (**Figure 5**).

In 2014, GDP experienced a real increase of 3% compared to 2013, which represented the highest growth since 2008 (when it amounted to 3.3%). Therefore, in 2014, Slovenia still fell behind the level of GDP from 2008 by 6.8%. However, according to the economic forecasts of domestic and foreign institutions, the growth of GDP in the next 3 years is expected to be slightly lower, at around 2% per year.

2.2. Attorneyship and justice administration

It is always sensible to analyse the development of attorneyship within the framework of justice administration in which attorneys practise their profession. In the analysed period 1995–2014, we witnessed historical changes that ranged from the political, legal and economic transition in the 1990s to synchronisation with the rules of the single market and legal order of

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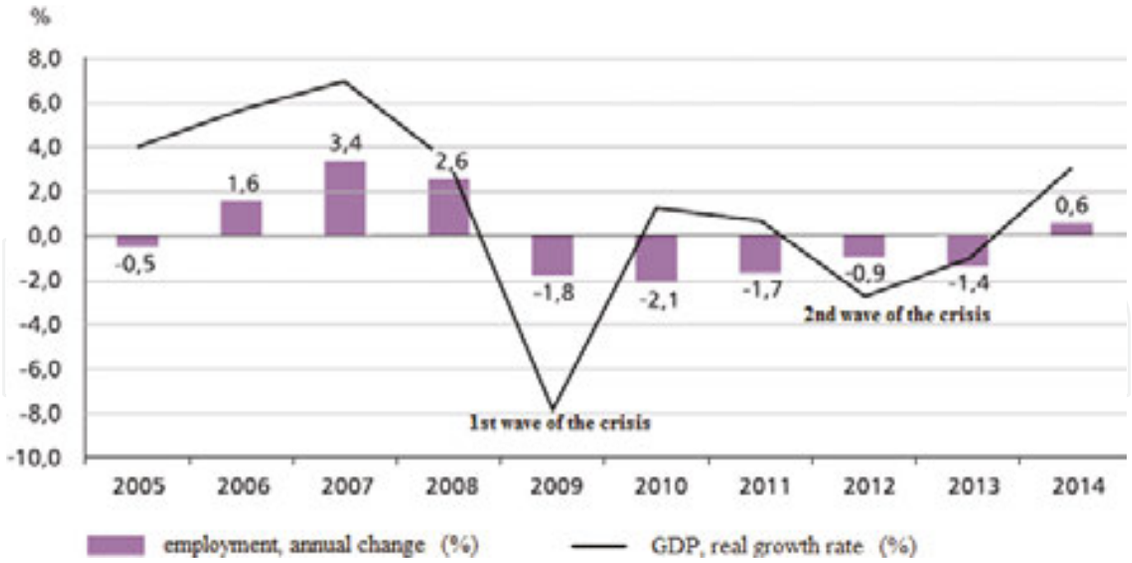


Figure 5. GDP growth and employment rate change in Slovenia during the crisis. Source: SURS [4].

the EU. For a stable development of a modern country, the competitiveness of its justice administration system, which is constantly subject to international comparisons (e.g., WEF, Doing Business, EC-CEPEJ), is of crucial importance. Therefore, it became quite normal for justice administration to adopt a challenging and clear development strategy [5], which states: "A functioning, independent, effective and fair justice system, which has the trust of the citizens, is one of the essential factors and guarantors of social development".

Among key stakeholders in the implementation of this strategy have always been and will remain attorneys, who provide professional assistance to individuals and legal entities and thus take part in the shaping of the citizens' "user experience" with the justice system. Since attorneys possess a sufficient professional knowledge and a first-hand experience with the functioning of the justice system, they also represent the most valuable source of feedback on the quality of the functioning of justice administration. A strong mutual interdependence between attorneyship and justice administration allows us to assess the past development of attorneyship and its potential on the basis of data obtained from justice administration.

Taking into consideration the purpose of our study, we will not conduct an in-depth analysis but will instead only present the relationship between the number of judges and attorneys, coverage in relation to the population and the number of court cases. In this respect, comparisons with the other EU Member States are especially useful, even though their legal systems often originate in different legal traditions. Moreover, we will not focus on the entire period 1995–2014 but only on data for 2010–2014. To this end, we are referring to the most reliable database provided by the European Commission in the framework of their "Justice Scorecard" analysis. The Supreme Court of the RS refers to the same database in its annual report.

Based on the image below, we can infer that Slovenia, together with Austria and Denmark, ranks first among the EU Member States when it comes to the initiation of non-criminal proceedings before the courts (including enforcement and land registry cases). However, when

we consider only civil and commercial matters, Slovenia takes the 11th place in the EU, which is still well ahead of Austria and Denmark (**Figures 6** and **7**).

The time needed to resolve legal disputes is one of the key parameters of the efficiency of justice administration. Data for Slovenia show a significant improvement in 2014 and thus rank us 13th in the EU in terms of litigious civil and commercial cases (**Figure 8**).

The unsatisfactory functioning of justice administration system in the past has brought Slovenia a dishonourable first place in the number of pending cases, mainly because of enforcement and land registry cases; nevertheless, the situation is improving constantly. The status of litigious civil and commercial litigation pending cases is improving as well (**Figure 9**).

In order to assess the efficiency of justice administration system, it is also sensible to demonstrate the available financial and human resources. **Figure 10** shows the relationship between gross domestic product per capita (GDP per capita) and budgetary resources allocated to the justice administration system per capita for an individual country. Data for 2014 show that justice administration system is apparently not financially disadvantaged, as our expenditure

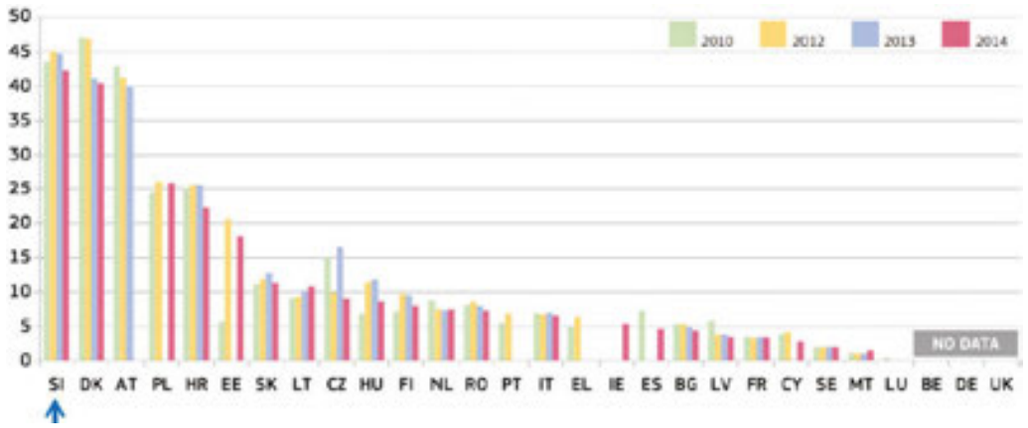


Figure 6. Number of incoming civil, commercial, administrative and other cases at first instance per 100 inhabitants. Source: [6, 7].

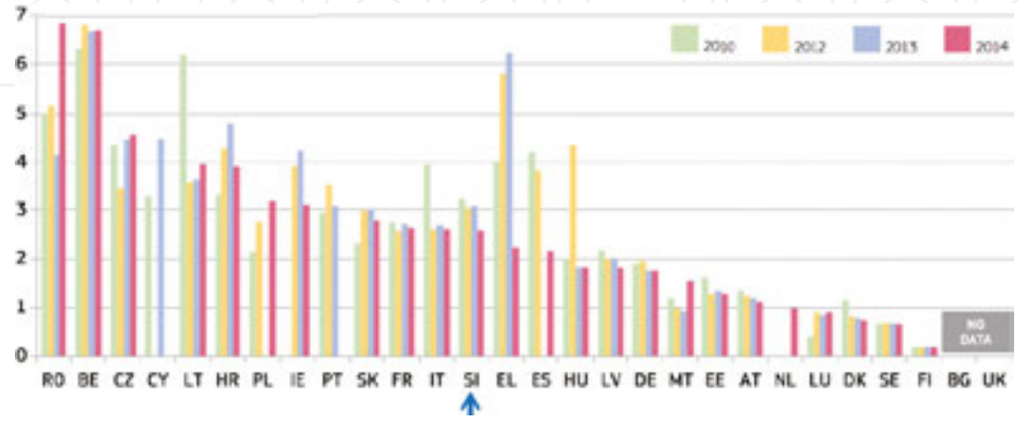


Figure 7. Number of incoming civil and commercial litigious cases at first instance per 100 inhabitants. Source: [6, 7].

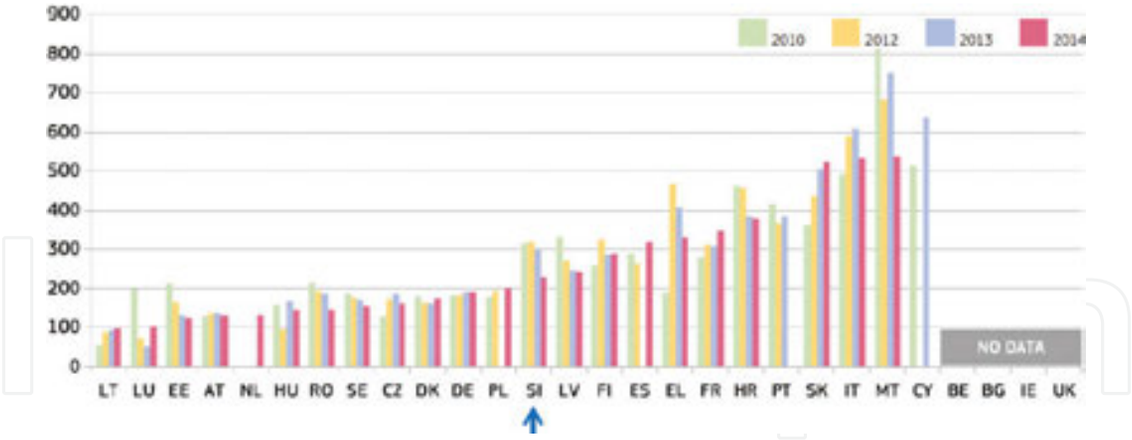


Figure 8. Time needed to resolve litigious civil and commercial cases at first instance in days. Source: [6, 7].

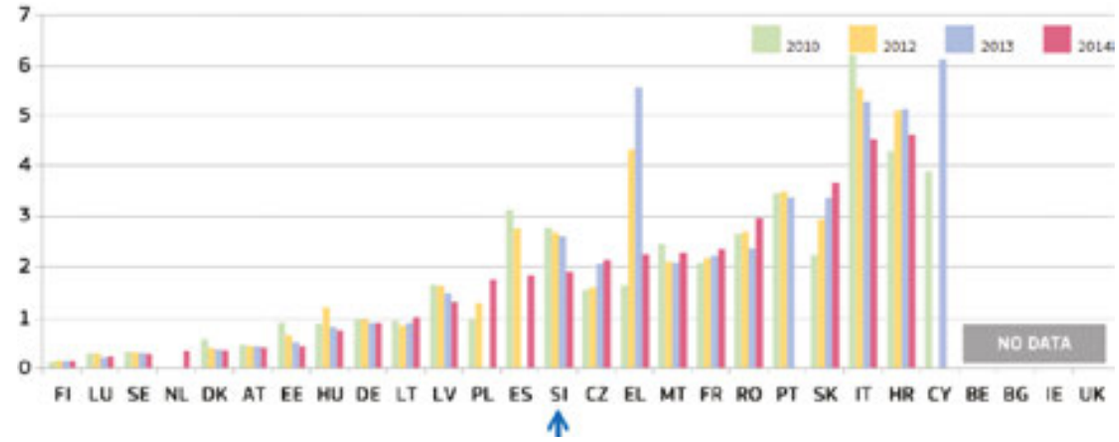


Figure 9. Number of litigious civil and commercial pending cases at first instance per 100 inhabitants. Source: [6, 7].

for justice administration (per capita) is at the level of the richest countries, even though our GDP per capita is notably lower.

In addition to financial resources, human resources are important for the effective justice administration system as well. In this regard, Slovenia (together with Croatia) has held the first place among the EU Member States by the number of judges per 100,000 inhabitants for many years. In terms of the ratio of judges and court personnel, which amounted to 3.7 in 2014, we rank above the arithmetic average in the EU, which amounted to 3.35 or the median of 2.86 (**Figure 11**).

Despite the improvement of many parameters in Slovenian justice administration, public opinion of the latter is still the least favourable in the entire EU (Eurobarometer survey [8], as quoted by VSRS [10]; **Figure 12**).

Considering the described circumstances in justice administration, it is particularly interesting that Slovenia ranks at the low end of the spectrum when it comes to the number of attorneys per 100,000 inhabitants. Data for 2010–2014 show a trend of a steady growth in the number of attorneys, as we would need about 21 additional attorneys per 100,000 inhabitants to achieve a

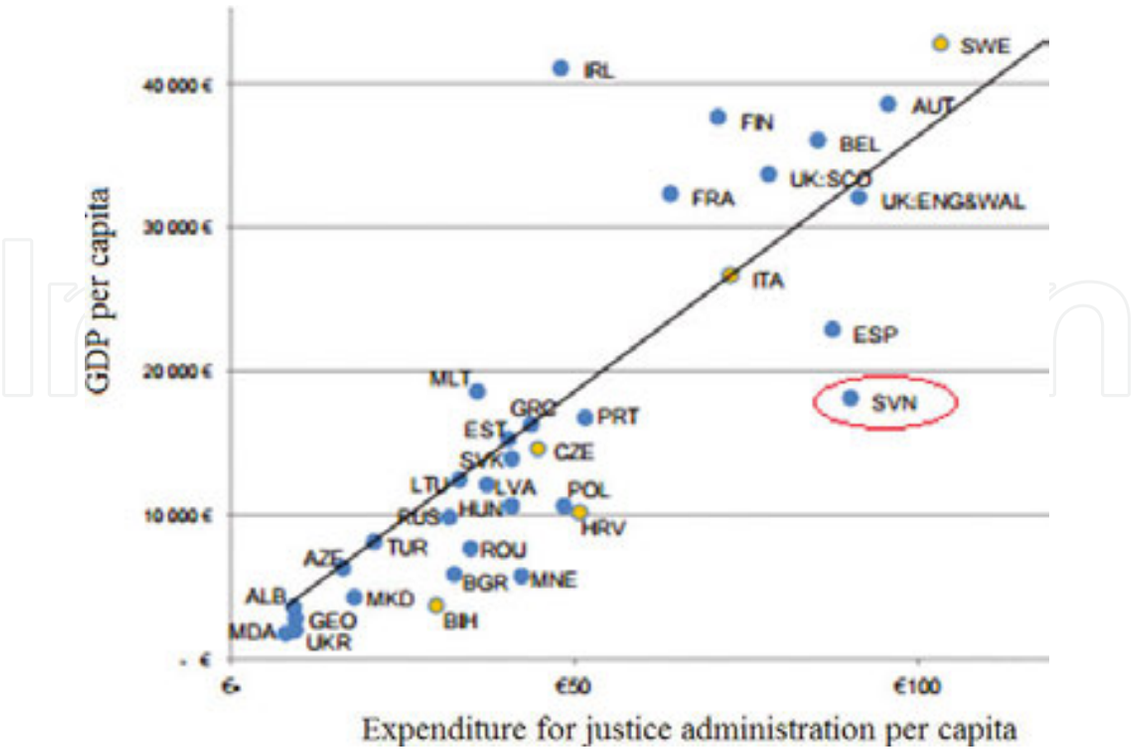


Figure 10. Correlation between GDP/capita and expenditure for justice administration/capita (2014). Source: CE [9].



Figure 11. Number of judges per 100,000 inhabitants. Source: [6, 7].

coverage with the network of attorneys that is similar to that of comparable transition countries and neighbouring Austria (**Figure 13**).

The fact that Slovenia ranked first in the number of judges but is lagging behind in the number of attorneys per 100,000 inhabitants is best reflected in the relationship between attorneys and judges, which amounted to only 1.76 in Slovenia. The arithmetic average of this relationship in the EU was 8.34 in 2014, and the median was 5.64. However, because of a disproportionately high number of judges, the potential for new lawyers cannot be assessed on the basis of these mean values.

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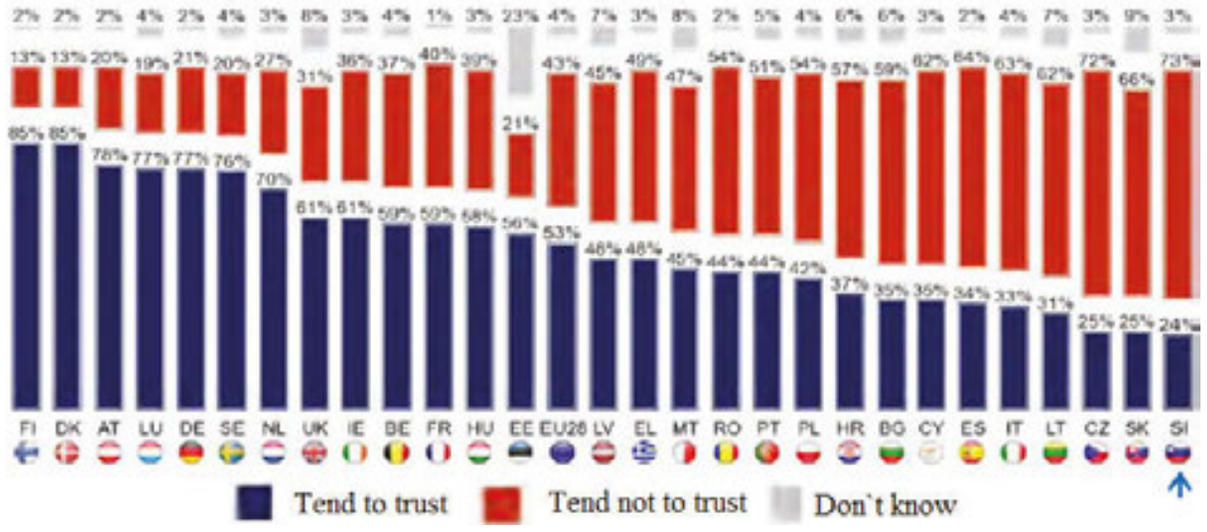


Figure 12. Trust in the judicial system. Source: VSRS [10].

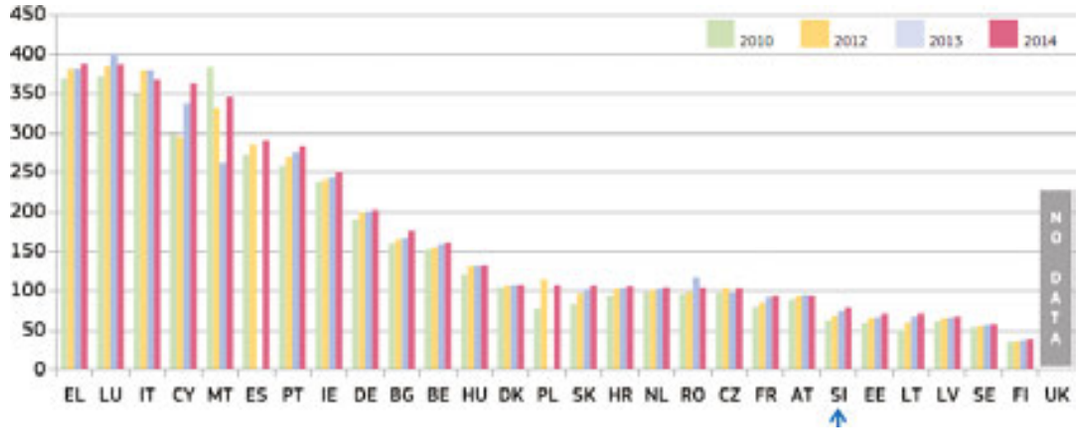


Figure 13. Number of lawyers per 100,000 inhabitants. Source: [6, 7].

A very concise overview of developments in justice administration between 2010 and 2014 prompts the conclusion that significant organisational and financial reserves still exist in justice administration, which will lead to a reduced number of judges and the introduction of modern technologies. A comparison with the number of attorneys further suggests a considerable market potential, insofar as proper conditions for the education of new generations of attorneys are ensured, as well as appropriate market and financial conditions for the existence thereof.

2.3. Market of attorneys' services

The market of attorneys' services serves as an interesting object of economic research, since its particularities generally cause it to be highly regulated even in modern market economies. Market regulation is primarily aimed at restricting negative economic and wider social effects that would emanate from the free functioning of market mechanisms, considering the known limitations of the market of attorneys' services:

- Individual demand is irregular and unpredictable but usually very necessary;
- High level of information asymmetry is present in the legal triangle (party-attorney-judiciary);
- Uncertainty about the quality of services and the final outcome of legal proceedings;
- Partial funding of attorneys' services from the public purse;
- Most parties underestimate the importance of preventive measures;
- High entry barriers;
- Market is geographically limited to the state territory;
- Wider social effects or externalities.

Fundamental economic characteristics of the market of attorneys' services are very similar to that of the market of healthcare services analysed by Arrow [11]. He managed to demonstrate that prudent regulation is a fundamental prerequisite for sustainable economic growth and general social welfare in the specific health care market. Further, he proved its systemic and persistent impact on human behaviour; but its positive externalities are less visible when we become used to high standards. In these circumstances, deregulation can appear politically promising, due to hidden welfare costs which backfire in mid and long term. Equally, unserved demand, potential violation of human right to accessible legal services for all citizens, as well as lack of corporate governance principles (Hauptman and Belak [12]) can cause substantial social costs in legal services market.

Consequently, it is not surprising that, for example, German BRAK (*Bundesrechtsanwaltskammer* [13]) justified its position on legally conforming restrictions on practising the attorneys' profession with a judgement of the European Court of Justice (C-531/06, C-171 and 172/07) that resolved doubts related to the lawfulness of restrictions in pharmaceutical activity. For some time, certain countries with regulated pharmaceutical activity were under pressure from the European Commission regarding the rules governing the establishment of a pharmacy and its ownership. The proceedings ended in 2009, when the European Court of Justice confirmed that restrictions on the ownership and operation of pharmacies are permissible, but only with the aim to protect the public interest (health).

The concern for human health and life is, understandably, by far the most important public good; with the fundamental human right of the access to legal protection being a close second. The latter right is enshrined in our highest legal act (the constitution) and in fundamental acts of the European Union. Consequently, national states are the ones responsible for shaping, ensuring and giving meaning to the legal protection. This right is well used by the vast majority of EU Member States, as the research has shown that attorneys' services generally rank first in the degree of regulation, whereas any changes are very modest [14].

One of the main reasons why caution is needed in the deregulation of the market of attorneys' services is the diversity of user segments. Studies have shown [15] that, when weighing the benefits and costs of liberalisation, it is necessary to carefully consider the most vulnerable

users of attorneys' services, such as natural persons and small businesses. The latter have fewer possibilities to choose between providers and are less able to evaluate the quality of services offered. The European Commission was cautioned of the necessity to consider public interest by the European interest group CCBE (Council of Bars and Law Societies of Europe), which emphasised that natural persons (defendants, victims of violence, injured parties, employees who suffered damage, etc.) and small businesses hold the greatest importance in numerical terms, even though in terms of their financial value, companies would prevail.

During the last decade, we witnessed several attempts of the liberalisation of markets, which had been promising predominantly positive effects without any in-depth economic analysis. Based on the acquired experience, we find that the understanding of particularities in individual markets is crucial for a successful deregulation; otherwise, the costs can quickly outweigh the benefits (e.g., negative effects of a broad access to medicines or a reduced access to pharmaceutical care in less populated areas; [19]). Caution is also needed when examining econometric analyses of the effects of liberalisation of professional services (e.g., [20]), which compare attorneys' services, accounting, architectural and engineering services in a non-differentiated manner. Such comparison of professional services is conceptually completely inappropriate, as the particularities of user segments in attorneys' services and exceptional specifics of the market of attorneys' services may lead to incorrect conclusions. Experience has shown that deregulation often brings positive effects for the segment of attorneys' services for companies but generally leads to a lower quality of services and reduced access to effective legal protection in the segment of natural persons and small businesses [15].

In order to understand the functioning of the attorneys' services market, we hereby focused on the analysis of market participants, market concentration, net profit margin, cost structure, a portfolio of attorneys' services and the appropriateness of regulation.

2.3.1. Number of market participants and employees

According to EC-CEPEJ [6], there were 1628 attorneys in Slovenia in 2014, which amounts to 79 attorneys per 100,000 inhabitants. According to the latest data from 2015, 1300 legal entities were registered to perform attorneys' services in Slovenia, which is the highest number in the last 20 years. Of those legal entities, 1051 entities were registered as a registered attorney, 240 as a limited liability company, 4 as a company with unlimited liability, 3 as a foreign affiliate and 2 as a sole proprietor.

In 2015, 1051 or 80.8% of all legal entities in attorneyship were organised as a registered attorney. Dominating are small law offices with a maximum of one employee (45.4%), while law offices with up to three employees represent as much as 82.1% of the entire population of law offices (**Table 1**).

The number of law offices increased threefold in the period 1995–2015, which suggests a very dynamic growth of between 5 and 6% per year (with the exception of the years 2010–2013). At the beginning of this period, law offices with a maximum of one employee were the most numerous (60.6%), whereas their share reached its minimum in 2009, at 41.8%. The share of

Organisational form	0–1 employee	2–3 employees	4 and more employees	Total
Unlimited liability company (d.n.o.)	2 (0.2%)	1 (0.1%)	1 (0.1%)	4 (0.3%)
Limited liability company (d.o.o.)	35 (2.7%)	84 (6.5%)	121 (9.3%)	240 (18.5%)
Attorney	551 (42.4%)	390 (30.0%)	110 (8.5%)	1.051 (80.8%)
Foreign affiliate	0 (0.0%)	1 (0.1%)	2 (0.2%)	3 (0.3%)
Sole proprietor	2 (0.2%)	0 (0.0%)	0 (0.0%)	2 (0.1%)
Total	590 (45.4%)	476 (36.6%)	234 (18.0%)	1.300 (100%)

Source: ZZZS [16].

Table 1. Number of law offices by organisational form and by size class of employment (2015).

law offices with 2–3 employees remained fairly stable (around 37%), while the share of law offices with 4 and more employees increased from 5 to 18% (**Table 2**).

The growth in the number of law offices fairly closely follows the number of new cases before courts, which leads to a conclusion that the demonstrated increase of law offices is sustainable. Considering the comparisons within the EU, we can conclude that this growth will continue for some time if the appropriate economic conditions are ensured (**Figure 14**).

In 2015, the attorneyship employed 3418 persons, 2081 of which were registered as attorneys, 1263 in limited liability companies, 61 in foreign affiliates, 11 in companies with unlimited liability and 2 as sole proprietors (**Figure 15**).

The number of employees followed the dynamic growth of the number of law offices. The growth eased slightly in 2011, before resuming again after 2013. The average annual growth of employment in the period from 1995 to 2015 was 8%.

2.3.2. The impact of the number of attorneys on their own economic situation

Sometimes, public opinion pursues false hypotheses that a drop in law offices' earnings is linked to the growth rate of the number of attorneys. Such theses can be rejected on the basis of the existing data for the entire population of attorneys. The turnover of law offices increased by 521% from 1996 to 2014, while the number of employees increased by only 380%. The effects of a slower employee growth are reflected in the increased productivity (revenue/employee), which increased from 35,679 € in 1996 to 48,904 € in 2014 or by 37%. A comparison of revenue growth and employee growth for the period 1996–2003 shows that revenue growth significantly outpaced employee growth, while the period 2003–2014 shows a nearly equal growth in revenue and employees (**Table 3**).

Despite the optimism and positive GDP growth between 2004 and (including) 2008, productivity growth began to stagnate in the entire population of attorneys. The fact that a strong growth in employment continued in spite of the lower revenue growth suggests the thesis that the growth was based on less and less profitable services. Thus, the highest revenue/employee in attorneyship was reached in 2004, at the rate of 47,720 €, and was only surpassed a decade later, when the indicator amounted to 48,904 €.

Year	0–1 employee	2–3 employees	4 and more employees	In total	Annual growth
1995	260 (60.60%)	147 (34.30%)	22 (5.10%)	429	/
1996	259 (54.20%)	187 (39.10%)	32 (6.70%)	478	49 (11.40%)
1997	302 (56.10%)	206 (38.30%)	30 (5.60%)	538	60 (12.60%)
1998	296 (52.70%)	225 (40.00%)	41 (7.30%)	562	24 (4.50%)
1999	333 (54.10%)	225 (36.60%)	57 (9.30%)	615	53 (9.40%)
2000	345 (53.60%)	236 (36.60%)	63 (9.80%)	644	29 (4.70%)
2001	359 (52.90%)	243 (35.80%)	76 (11.20%)	678	34 (5.30%)
2002	371 (51.50%)	267 (37.00%)	83 (11.50%)	721	43 (6.30%)
2003	358 (47.40%)	299 (39.60%)	99 (13.10%)	756	35 (4.90%)
2004	351 (43.70%)	337 (42.00%)	115 (14.30%)	803	47 (6.20%)
2005	369 (43.10%)	346 (40.40%)	141 (16.50%)	856	53 (6.60%)
2006	388 (42.50%)	374 (41.00%)	151 (16.50%)	913	57 (6.70%)
2007	419 (42.80%)	380 (38.80%)	180 (18.40%)	979	66 (7.20%)
2008	455 (44.00%)	392 (37.90%)	188 (18.20%)	1.035	56 (5.70%)
2009	460 (41.80%)	412 (37.40%)	229 (20.80%)	1.101	66 (6.40%)
2010	475 (42.30%)	404 (36.00%)	244 (21.70%)	1.123	22 (2.00%)
2011	487 (42.80%)	420 (36.90%)	230 (20.20%)	1.137	14 (1.20%)
2012	498 (43.30%)	402 (35.00%)	249 (21.70%)	1.149	12 (1.10%)
2013	506 (42.60%)	446 (37.60%)	235 (19.80%)	1.187	38 (3.30%)
2014	536 (43.20%)	477 (38.50%)	227 (18.30%)	1.240	53 (4.50%)
2015	589 (45.30%)	477 (36.70%)	234 (18.00%)	1.300	60 (4.80%)

Source: ZZZS [16].

Table 2. Number of law offices by year and size class of employment.

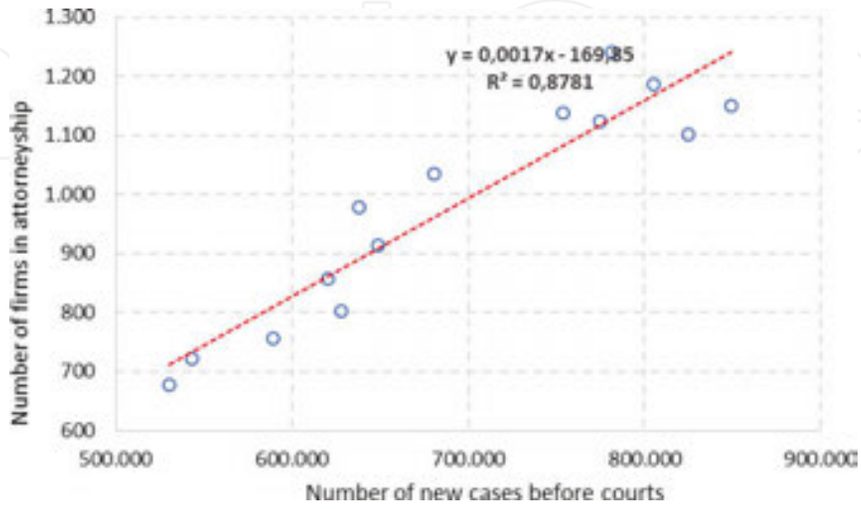


Figure 14. Correlation between the number of new cases before courts and the number of law offices. Source: CE [9], FURS and AJPES [17, 18].

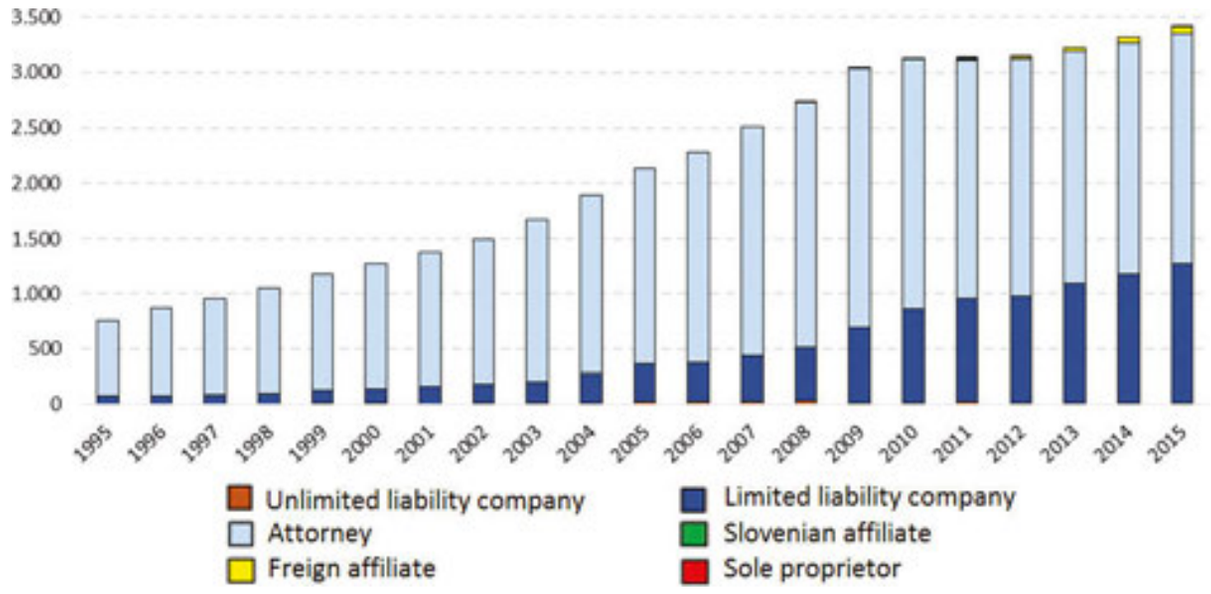


Figure 15. Employment dynamics in attorneyship for Slovenia (1995–2015). Source: ZZZS [16].

	Revenue (%)	Employees (%)
Growth 2014/1996	521	380
Growth 2003/1996	246	191
Growth 2014/2003	212	199

Note: Data for 1995 are incomplete, which is why 1996 was chosen as a base year.

Table 3. Revenue and employee growth in attorneyship.

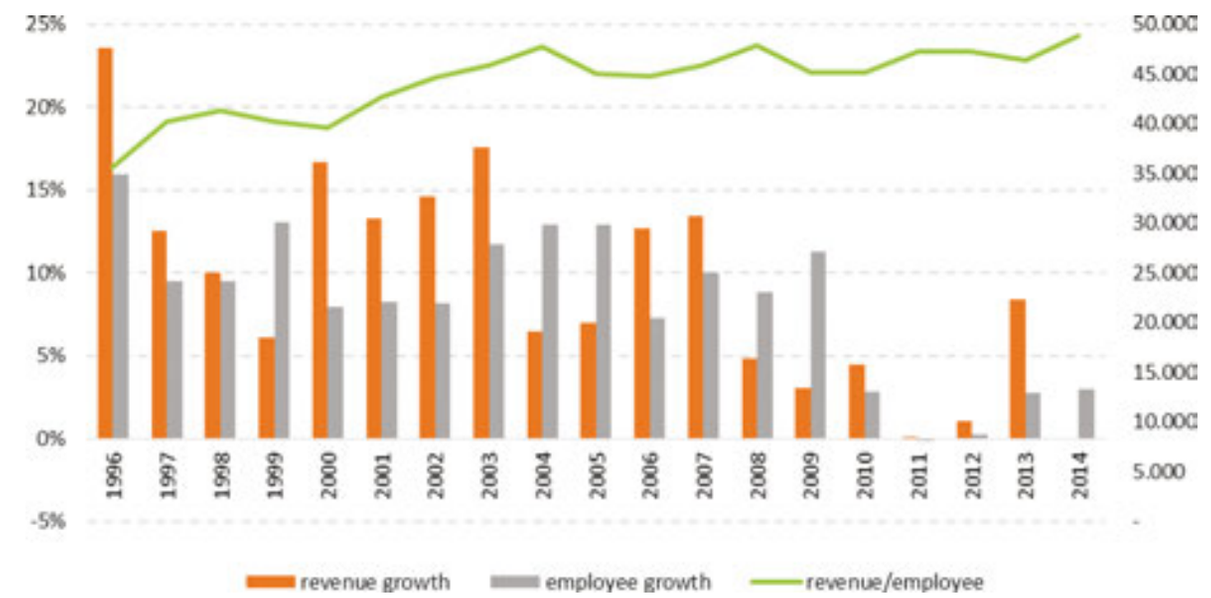


Figure 16. Decreasing productivity growth in law offices after 2004. Note: Growth (left scale), productivity expressed in revenue/employee (right scale). Source: FURS and AJPES [17, 18].

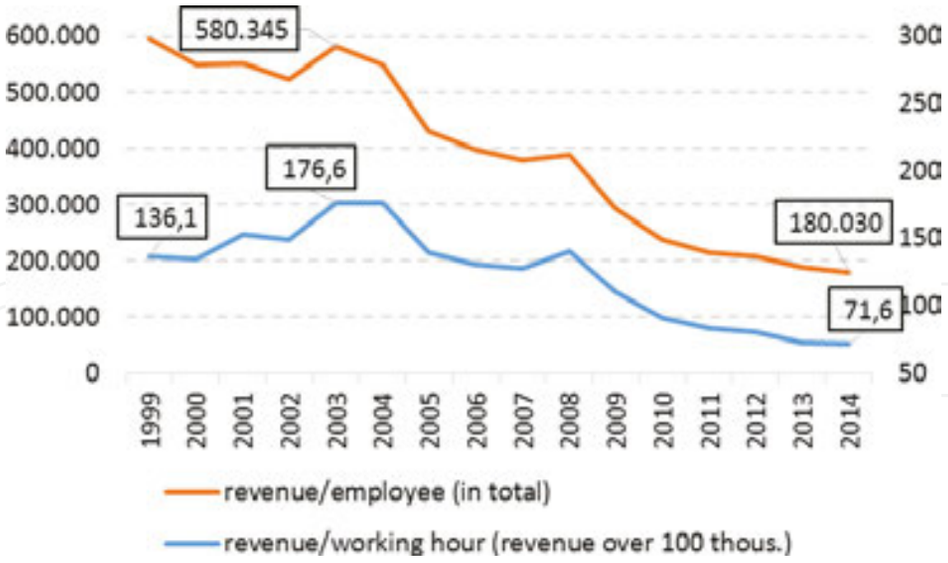


Figure 17. Revenue/employee and revenue/employee's hour in law firms. Note: Data on revenue per employee includes only law firms because no data were available on the number of employees with registered attorneys. In order to facilitate data comparability, holidays were not deducted when calculating working hours. Source: AJPES [17].

This problem is further exacerbated by the freezing of attorney tariff, which contributes to the decline in financial results of smaller players in the market of attorneys' services. Based on the presented data, we hereby conclude that the deterioration in the economic situation of predominantly smaller attorneys is not a result of the increase in the number of attorneys and their associates (**Figure 16**).

Due to the polarisation of the attorneys' market, significant gaps in productivity (revenue/employee) are expected within individual size classes; however, the analysis is only possible with a sample of law firms for which relevant data on employees is available. **Figure 17** shows that revenue/employee has been declining rapidly since 2003 even when all law firms are taken into account. This is most probably a consequence of market maturing in larger regional centres or a consequence of competitive pressures and the ever-increasing complexity of legal disputes. Since a law firm is the most representative legal form in the segment of major market players, we analysed the changes in revenue per hour of an employee in the market segment with a turnover of over 100,000 €. The results show that their value decreased from 176.6 € in 2003 to 71.6 € in 2014[1]. However, these data are not identical to the market price of attorney's hour charged on an invoice, which is set higher in order to cover all direct and indirect costs, the required returns and taxes.

2.3.3. Market value and market concentration

The value of the market of attorneys' services amounted to about 162 million € in 2014, which is 5 times higher than in 1996. At that time, the share of the value of attorneys' market in

[1]A limitation of such comparisons is partially represented by the fact that not all working hours are properly considered in the case when law firms engage persons who do not carry out their work under an employment contract.

Slovenian GDP increased from 0.26 to 0.43%. Since 1996[2], the attorneyship demonstrated a continuous dynamic growth until 2008, with annual growth rates predominantly exceeding 10% (with the exception of years 2000, 2005 and 2006).

The low sensitivity of attorneyship to economic crisis can be observed not only in the 1990s but also after the crisis of 2008. Annual growth rates of revenue were positive throughout this period, and after the exceptionally low growth in 2012 and 2013, a strong increase in growth rate (7.9%) followed in 2014, when the total revenue of attorneyship reached 162 million € (**Figure 18**).

The persistence of such growth is largely the consequence of global trends of the growing importance of services and the approximation of the contribution of Slovenian attorneyship to GDP at rates that are common in developed countries. Thus, data for Germany show that the revenue of law firms represents about 0.71% of GDP (average for 2008–2014), whereas this share increased to 0.76% in 2014.

The exact dynamics of revenue growth by organisational forms of law offices and the achieved effectiveness (expressed with the net profit margin) is presented in **Figure 19**. Legal form of a registered attorney prevailed (measured in revenue) from the beginning of the research period until 2009, when, for the first time, the sum of the registered attorneys' revenue demonstrated an interim decline, which continued until 2014. In 2014, law firms organised predominantly as limited liability companies (d.o.o.), thus surpassed the total revenue of registered attorneys for the first time, even though they still accounted for only a quarter of their turnover in 2008.

Figure 19 uses a net profit margin to illustrate the effect of the adjustment of attorney tariffs until 2003, as well as the subsequent effective freezing thereof. The net profit margin for the entire population was maintained at around 31% until 2004 and then began to steadily decline until it reached the lowest level since 1995.



Figure 18. Annual revenue growth in attorneyship. Source: FURS and AJPES [17, 18].

[2]Unusually high growth in 1995 (114%) is attributed to incomplete databases.

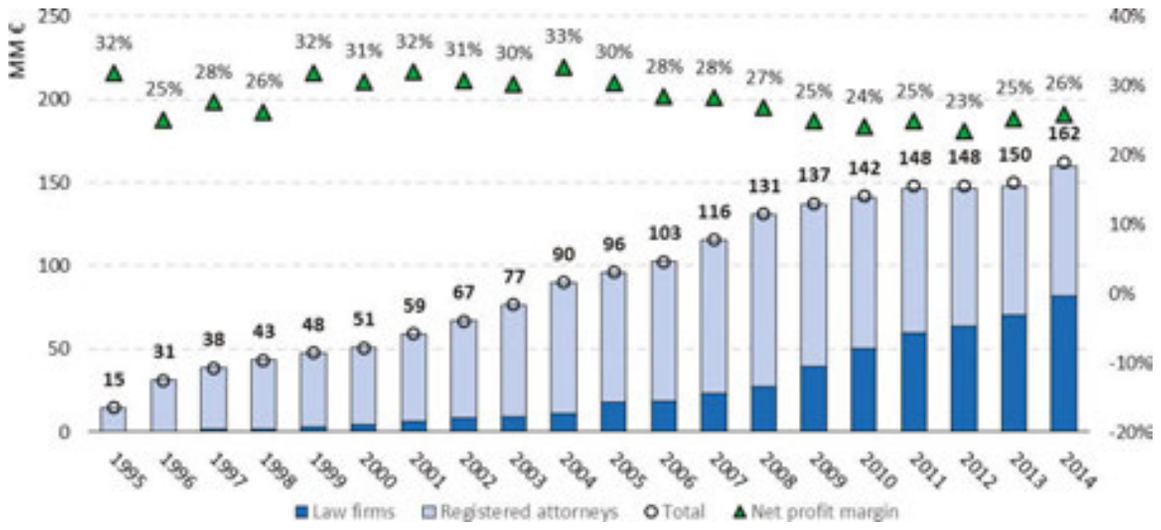


Figure 19. Total revenue and net profit margin for attorneyship in Slovenia (mio. EUR). Source: FURS and AJPES [17, 18].

The observed trend in the number of registered attorneys indicates the usual process of the maturing of attorneyship, special features of which bring about market polarisation. Thus, on the one hand, we are dealing with the professionalisation of attorneys' services in larger law firms, which are capable of solving the most demanding cases for domestic and foreign clients (locally and abroad). Because of their growth and diversified activities, the legal form of a registered lawyer becomes an obstruction in their development strategy.

At the other end of the market of attorneys' services, we find those attorneys who are not able to compete in the most profitable and extremely demanding segment of the attorneys market because of their human resources potential, location, or different development strategies. The relevant data for 2014 even show that the highest turnover generated by the largest registered attorneys reached an upper limit of around 1 million €. It should also be noted that 80% of registered attorneys generated a turnover of less than 100,000 € in 2014. Among law firms, this share is only 25%.

Scatter diagram below shows a smaller number of law firms that generate revenue at the level of more than 1 million € (left figure). The focus on law offices with a turnover of less than 150,000 € reveals an area in the entire population that encompasses, according to the latest data (the year 2014), the most units (almost 80% of all units), which deserve special analytical attention (**Figure 20**).

On the basis of a linear regression function, which explains the relationship between the turnover and the profit, we estimate that standard opportunities for profitable growth exist at the level of the entire population (the growth of loss or profit is proportional to the turnover). Because of geographic limitations and polarisation of the market of attorneys' services, we devoted a special chapter to the analysis conducted at the level of each RAA, which will reveal potential issues in relation to the profitability of the portfolio of attorneys' services. The providers of attorneys' services in economically less developed areas are facing an increased risk of providing a high share of non-profitable services.

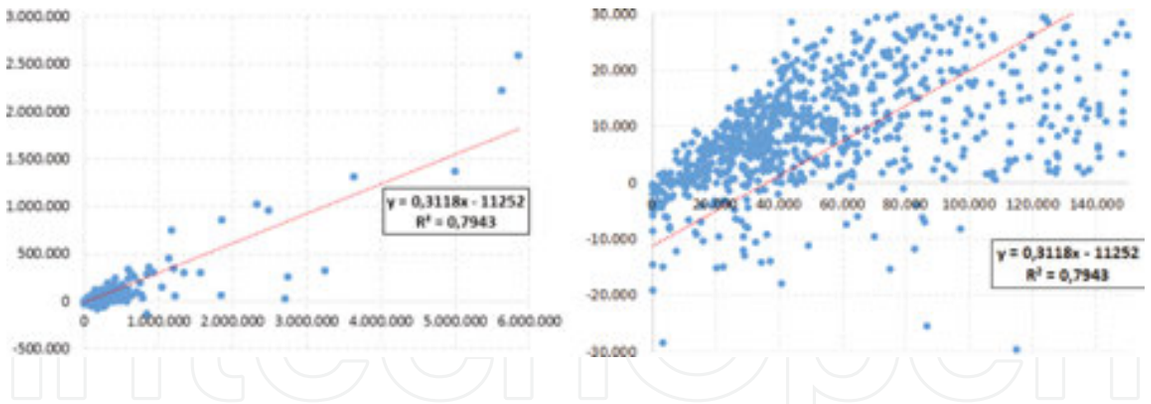


Figure 20. Correlation between revenue and net profit in law offices. Source: FURS and AJPES [17, 18].

A fairly long period of dynamic growth in attorneyship eventually leads to a greater market concentration, which is reflected in the share of total revenues controlled by 5 or 10 largest market participants (TOP 5 and TOP10). The market concentration began to increase at the beginning of the twenty-first century and has nearly doubled by 2014, in comparison with the year 1999. The largest five firms thus increased their market share from 7.7 to 14.6%, while the largest 10 increased their share from 12.3 to 21.7%. Essentially, such market structure is not particularly worrying, because the largest 10 firms are fairly equal competitors. A greater risk of concentration can transpire in smaller RAAs, where the number of law offices is also small (**Figures 21** and **22**).

The entire population of registered attorneys shows a slow decline in the share of entities that operated with a positive result after 2003, and a sharp decline is evident after the crisis year of 2009. The year 2014 displays a similar probability of the entity's success rate, regardless of its legal form (91%).

It is a worrying conclusion that we are also witnessing a geographical concentration since the representatives of three different RAAs were still ranked among the TOP10 in 2007 (Ljubljana, Maribor and Celje). However, in 2014, Ljubljana RAA is prevalent among the 16 largest firms, where only a law firm from Maribor managed to occupy the 10th place. Similar conclusions

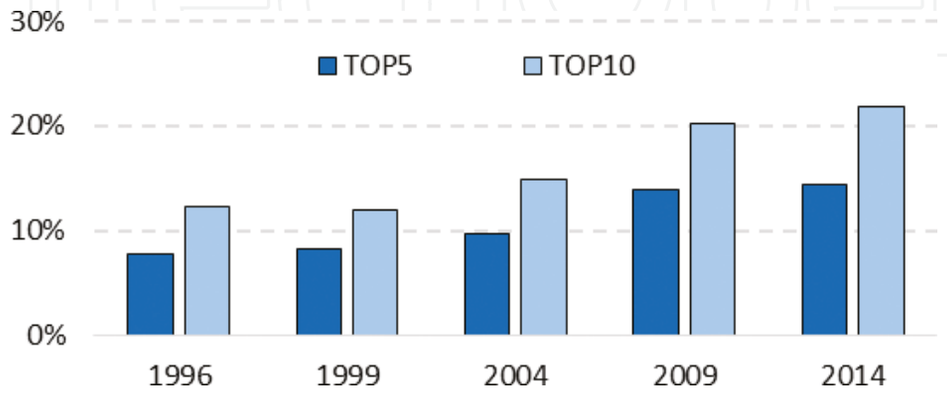


Figure 21. Market concentration. Source: FURS and AJPES [17, 18].

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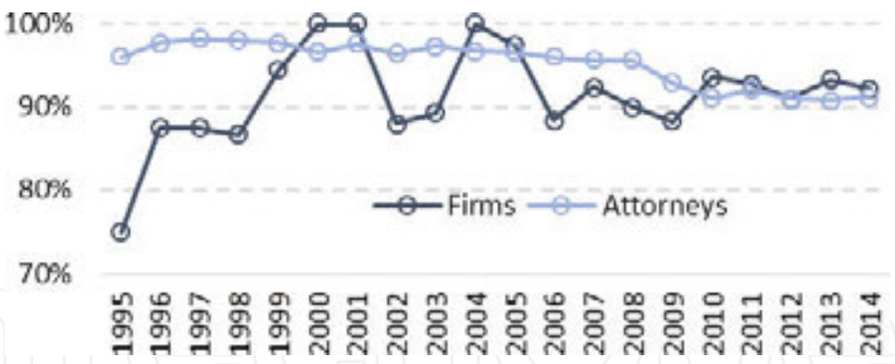


Figure 22. Share of law offices with a net profit.

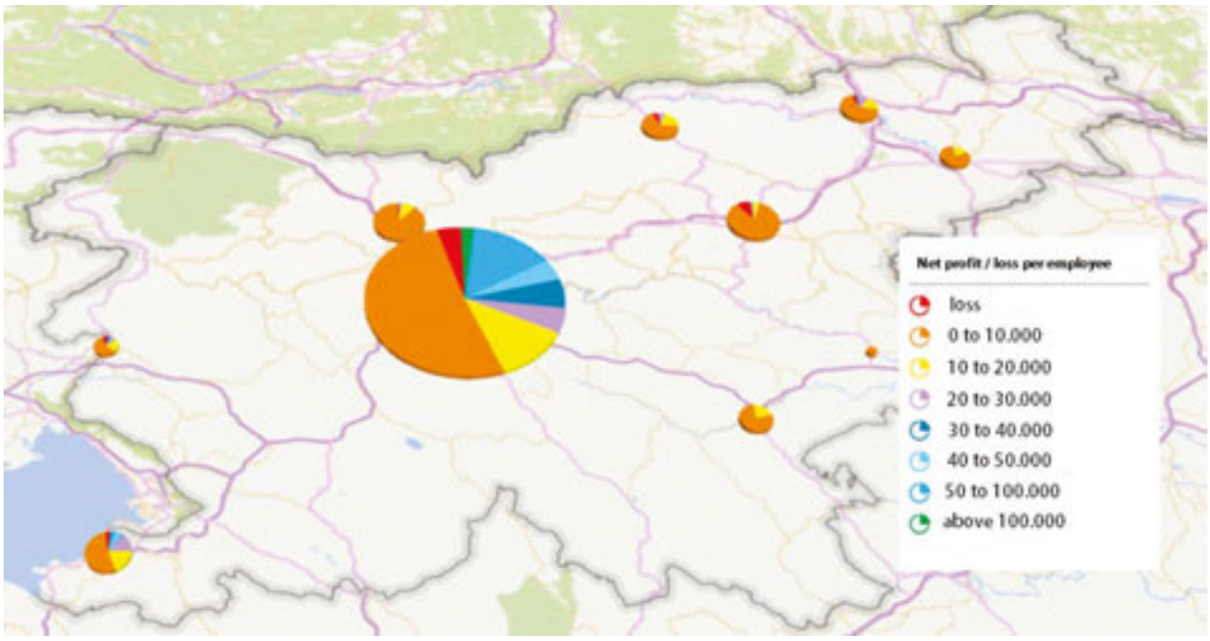


Figure 23. Law firms structure by the profit or loss per employee in RAAs. Source: FURS and AJPES [17, 18].

can be reached by observing the number of law firms in relation to the loss or profit per employee within a particular RAA. **Figure 23** demonstrates that even in RAAs of Ljubljana, Koper and Nova Gorica, more than half of the employees work in law firms[3] that generate either a loss or a profit of no more than 10,000 € per employee (red and orange). Meanwhile, the situation within other RAAs is considerably worse, as demonstrated by a complete domination of these colours. The layout of the circles symbolises the size of a regional market.

The histogram of revenue generated by law offices demonstrates a strong asymmetry to the right or the so-called positive asymmetry. The latter can be clearly illustrated by comparing the

[3]Data on employees with registered attorneys were not available, which is why only data for law firms is presented.

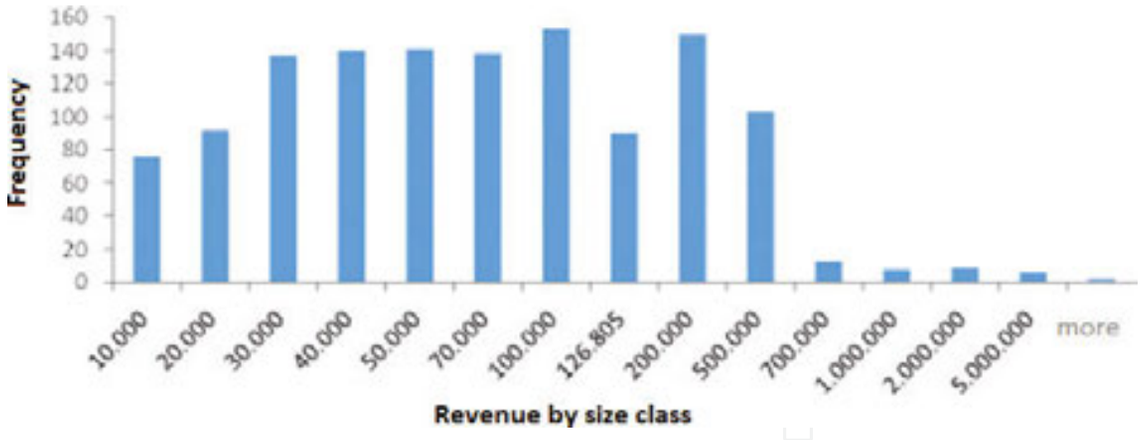


Figure 24. Revenue histogram for law offices. Source: FURS and AJPES [17, 18].

average revenue of a law office, which amounted to 126,805 € in 2014, while the median[4] amounted to only 55,884 €. This means that we are dealing with 967 law offices (77%) that failed to reach the average revenue in the activity in 2014. Revenue lower than the median was generated by 629 law offices (**Figure 24**).

A great importance of the law office's location is clearly demonstrated in **Figure 25**, which is based solely on data obtained from law firms (mainly limited liability companies—d.o.o.), for which we have relevant information at our disposal. Thus, as much as 57.4% of all persons that are active in the legal profession (attorneys and other associates) are employed within Ljubljana RAA. What stands out the most is the number of jobs that generate either a loss or a profit of up to 10,000 € per employee, while at the same time, this is the only RAA where jobs also generate a profit of more than 30,000 € per year. Thus, there are 441 such posts (1/3 of all posts in law firms) in Ljubljana RAA and in other RAAs that generate either a loss or a profit of between 0 € and 10,000 € per employee. These law offices are most likely unable to ensure necessary material investments and investments in the development of human resources.

In the following text, we present data from the FURS database on registered attorneys using the size class of net result for the entire attorneyship unit, since this is the only way to ensure a minimum comparability of data with the AJPES database. In this regard, we are aware of the limitations of a comparison on the basis of profit or loss per employee (for law firms) and the total profit or loss (for registered attorneys). However, because of the anonymization of employee data for registered attorneys, this remains the only smallest common denominator. We chose this approach because we are primarily interested in law offices that generate either a loss or a minimum profit, which generally comprises the smallest firms. The analysis of registered attorneys has shown that 2/3 of firms generate a maximum profit of 10,000 € employs 0 or 1 associate, while almost 1/3 of these firms employ 2 or 3 employees. We can,

[4]Median represents the mean value of the sample, with one half of values of observed units higher and the other half of values lower than the median.

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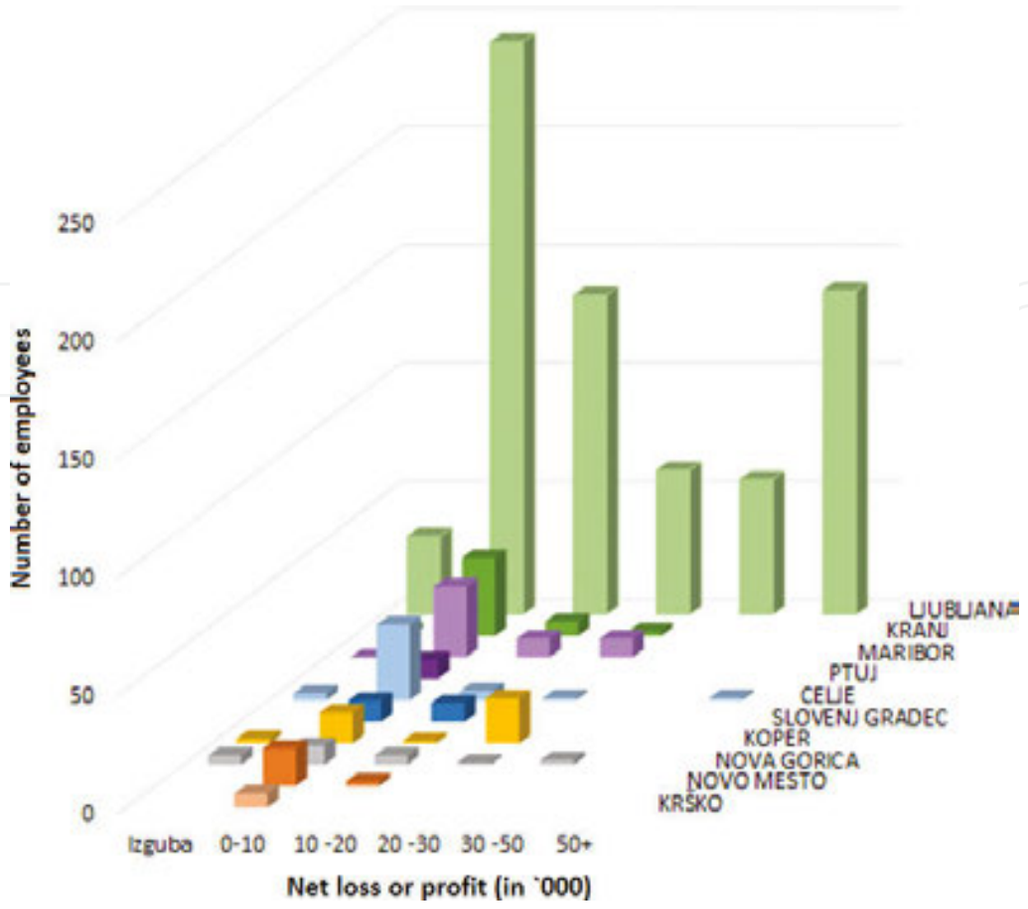


Figure 25. Number of employees by the profit/employee class for law firms in 2015. Note: Some neighbouring RAAs are similar in colour, in accordance with the principle of concentration in the anonymization of data, which is evident in the following figure referring to registered attorneys. Numerical values on the x-axis are in thousands of EUR. Source: AJPES [17].

therefore, conclude that law offices with either a loss or a profit of up to 10,000 € employ an average of 1.13 employees, which is why we consider the comparison of data with profit per employee in a law firm in this segment acceptable (**Figure 26**).

2.3.4. Cost structure

The analysis of cost structure is based solely on the available data on law firms since registered attorneys are not compelled to such reporting. For that reason, we have no access to the majority of the population under assessment, with the largest share of small attorneys. We tried to mitigate the described limitation of the research by presenting a small sample of 10 law firms with annual turnover approximating the median income of the entire population of attorneys. In this regard, we implicitly assume that in order to understand the characteristics of the attorneys' business model, the size of a law office is crucial regardless of its legal form. The characteristics of 10 small and 10 largest law offices will be presented through the data obtained from financial reports for 2015 and 2012, even though the primary data sample that

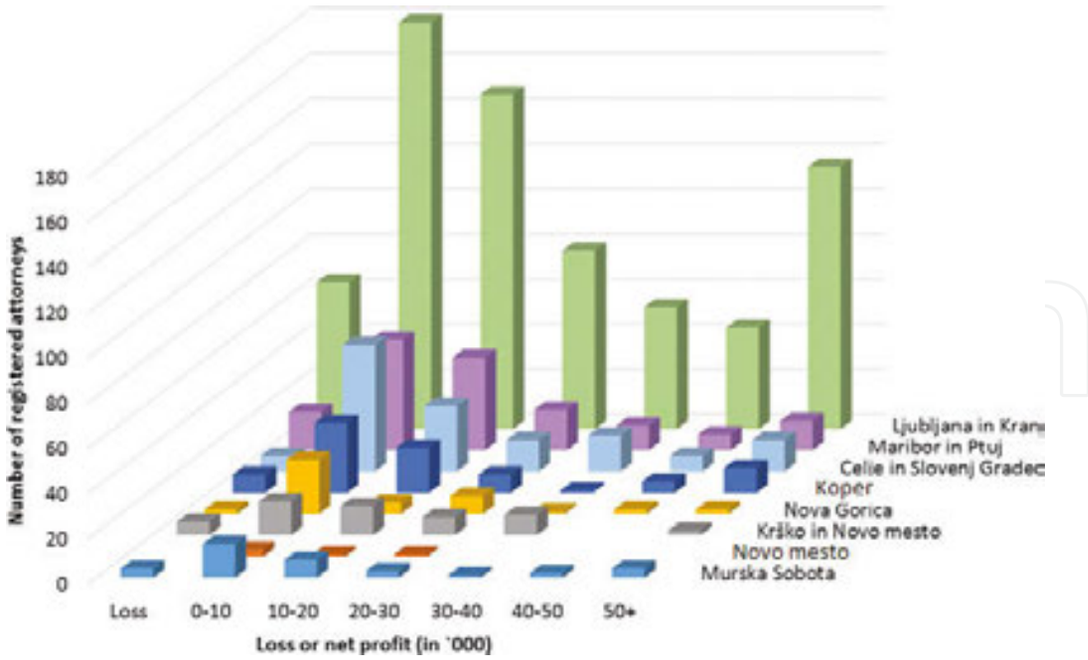


Figure 26. Number of registered attorneys by the class of net result in 2015. Note: X-axis in thousand EUR. Source: FURS [18].

was provided by the client only covers the data up to 2014, since we wanted to present the most current situation in terms of the cost structure.

2.3.4.1. Cost structure in small law firms

When selecting a sample of 10 small law firms, we derived from the median income of the entire population, i.e., the mean value of the entire population that divides the number of observed statistical units exactly in half. This means that the turnover of one-half of all law offices was lower than the median, and the turnover of the other half of law offices was higher. The median income of the entire population in 2014 amounted to 55,884 €. We selected law firms that provided data for the last 3–4 years. We found that this is a fairly dynamic size interval, since we had to exclude almost every other observed unit because it demonstrated revenue for only 1–2 years. In the end, we managed to create a sample of 10 firms that met the basic requirements and whose turnover in 2015 ranged from 39,347 € to 75,927 €. The sample includes seven firms from Ljubljana, two from Koper and one from Novo mesto.

In the studied sample, only one firm faced a significant decline since 2012 (25% decline in its turnover), while two firms stagnated (turnover growth −4.9% and +3.8%). The remaining seven law firms demonstrated a very dynamic growth. The vast majority were well capitalised (the median of the capital share was 59%) and generated a revenue of 32,539 € per employee (measured by median).

Professional services, such as attorneyship, are characterised by a high percentage of labour costs, which in our sample amounted to 58% (median). The share of labour costs can deviate significantly among individual observed firms, since the employment of each additional

person has a strong impact on the share in total expenditure when it comes to relatively small firms. Consequently, the share of labour costs is highly dependent on the development strategy and development phase in which a particular firm found itself at the time of research. Moreover, the employment directly depends on the possibility of creating revenue per employee, which in our sample amounted to 32,539 € (median). It should also be noted that a part of labour costs might be hidden among services if it concerns payments to intermediary agencies (e.g., student work, secretarial tasks) or payment of working hours on the basis of work contracts (**Figure 27**).

Service costs are, as a rule, the second most important group with a median of a share in all operating expenses amounting to 38.6%. Fairly high shares of service costs may indicate a transfer of labour costs to services; otherwise, they usually encompass the usual operating costs of law offices, such as rent, energy, cleaning, insurance, telecommunications, education, costs of additional expertise, etc. Unfortunately, the limitations of the database made a detailed analysis of service costs impossible.

The remaining shares of costs (in operating expenses), such as depreciation, goods and materials, as well as other costs, are generally very low (median of our sample: 1.2, 2.5 and 1.2%). At most, depreciation reaches a few percentage points only in the case of ownership of real estate and cars.

2.3.4.2. Cost structure in 10 largest law firms

The 10 largest law firms in Slovenia are established in Ljubljana. In 2015, they jointly generated revenue of almost 35.7 million € and employed 255 people. Significant differences can be observed between those firms as well, with the smallest of them generating 1.8 million € and

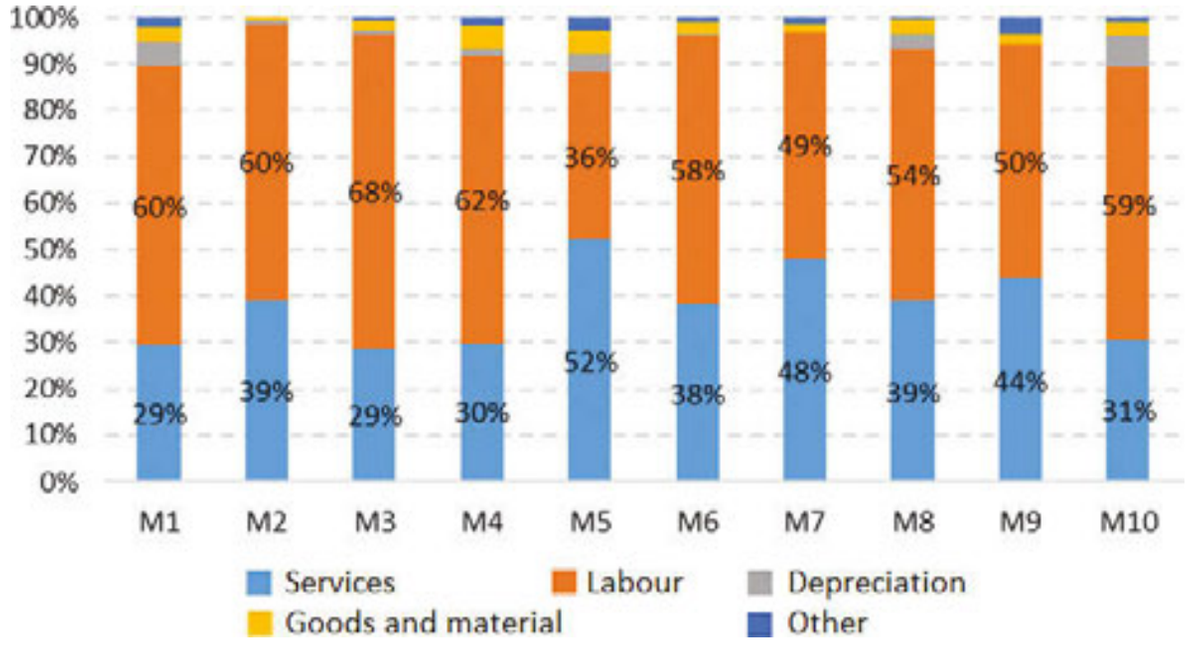


Figure 27. Cost structure in small law firms in 2015. Source: AJPES [17].

the largest generating 7 million €. In the studied sample, two firms have slightly regressed since 2012 (turnover growth −12 and − 16%), one stagnated (+6%), while the rest demonstrated a strong growth up to 2015 (from 41 to 106%). The median of revenue per employee amounted to 155,137€, while two affiliates of foreign law firms exceeded 220,000 € per employee (which could also be the result of operating in a group). Domestic law firms mostly reached around 150,000 € per employee. The exceptions were Law firm Ilić, which reached a half of this amount, and Law firm Čeferin, which reached one-third. All 10 largest law firms also have a very strong capital base (median at 76%).

The cost structure of the largest law firms in Slovenia is even more diverse than in the case of small firms. The most obvious is the deviation in the share of labour costs in two affiliates of foreign law firms and Law firm Senica, which is the result of their special business models. Regardless, the median of the share of labour costs in operating expenses is at 56%, which is fairly close to the amount reached by small law firms (58%). However, even in this sample, we cannot determine the exact amount of costs that would, by their nature, fall under labour costs but might be listed among service costs due to special contractual relationships. The median of revenue per employee in the largest law firms amounted to 155,137 € in 2015 (**Figure 28**).

The median of the share of service costs in operating expenses in 2015 amounted to 36.4%. The extremely high share of service costs in some law firms indicates, at most, that a more detailed analysis of these costs would be needed, albeit this would be impossible to conduct with the available database.

The role of the remaining operating costs, such as depreciation, costs of goods and materials, and other costs, is negligible, the same as in the case of small law firms.

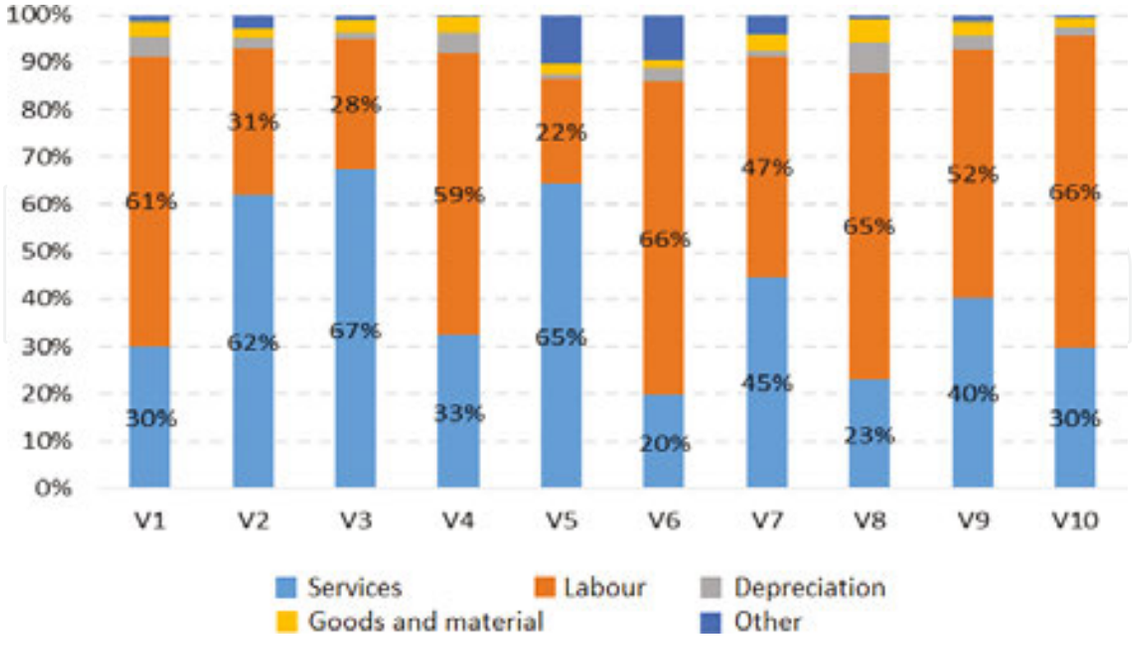


Figure 28. Cost structure in 10 largest law firms in 2015. Source: AJPES [8].

2.3.5. Net profit margin analysis

The analysis of basic characteristics of the market of attorneys' services in Chapter 2.3.3 revealed at the level of the entire sample of law offices that the effective freezing of attorney tariff most likely contributed to a gradual decline in the net profit margin. The latter gradually declined from around 31% (before 2004) to around 25% in 2014.

A negative trend of net profit margin in the conditions of a dynamically growing market is the result of a combination of effects of increased competition, which exerts pressure on margins, as well as the consequence of the prevention of price adjustments (at least at the rate of inflation) in the segment of less profitable or unprofitable services, which must lead to the accumulation of losses. A phenomenon of cross-subsidisation in those law offices where a considerable part of the portfolio is represented by less profitable attorneys' services is well known in developed markets of attorneys' services. These services are typical for economically less-developed areas and smaller law offices.

Consequently, the smallest law offices are forced to apply a business model that is predominantly dependent on changes in attorney tariff, since they generally have no regular revenue accruing from more profitable services that would allow cross-subsidisation. Medium-sized law offices (even though they provide unprofitable services) generally manage to gain more profitable transactions as well, thus ensuring a balanced development of their activities. Large law offices generally do not implement cross-subsidisation, since most of their capacities are engaged in profitable transactions.

In **Figure 29**, we can see that in the period 1999–2004 (regular adjustment of attorney tariff), law offices reached a fairly uniform net profit margin of around 31%. Competitive pressure in all size segments caused a slow decline in net profit margin until it reached around 25% for law

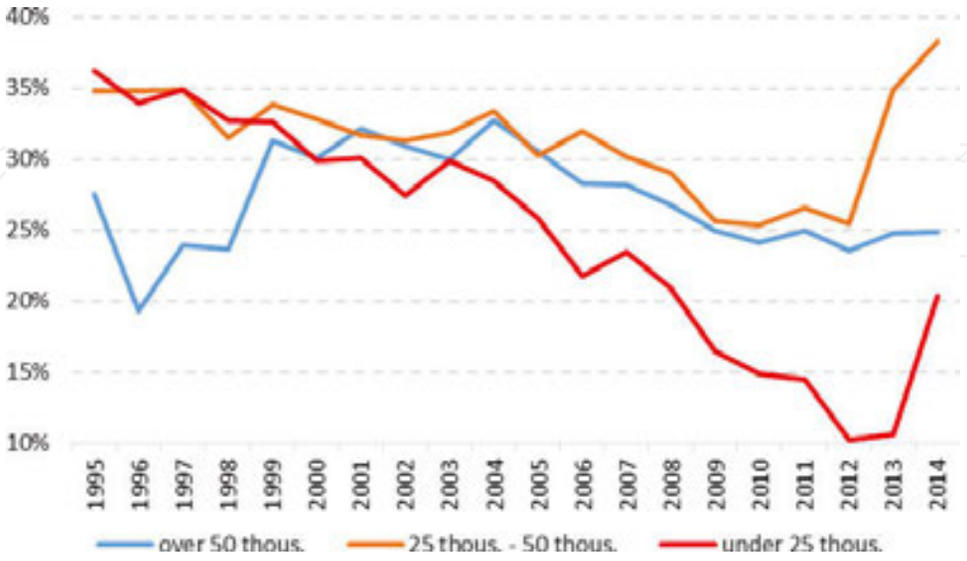


Figure 29. Net profit margin by size class of revenue for law offices. Source: FURS and AJPES [17, 18].

offices with a turnover of over 25,000 €. Based on these developments, we conclude that such law firms managed to prevent a stronger decline in their profitability because of a sufficiently low exposure to unprofitable services, which are paid according to the tariff. We should keep in mind that the margin of law offices with a turnover of up to 50,000 € most likely represents the extreme variant of rationality (with some costs even at a disproportionately low level) and that it can worsen considerably as a result of minor negative impacts on the business model (high sensitivity of profit or loss to risk). On the contrary, larger law firms hold larger rationalisation reserves for the times of crisis as a result of their business volume, which corresponds to a lower sensitivity of profit or loss to risks.

The failure to adjust attorney tariff and competitive pressure have resulted in a strong negative impact on the group of law offices with a turnover of up to 25,000 €. After 2003, the trend of their profitability has completely separated from that of the rest of law offices and has been sharply declining until 2013, when it reached a level of 10% of the net profit margin as its temporary bottom. The year 2014 was characterised by an interesting empirical fact when the net profit margin suddenly increased to 20% in the group of firms with a turnover of up to 50,000 €. This occurrence did not reflect changes in the business model of smaller law offices; rather, it resulted from a more favourable tax treatment, which was made possible by the manner of determining tax base in which flat rate expenses are taken into account. Such changes, however, do not guarantee a lasting improvement in the economic viability of small law offices, but only a special form of tax advantages. The said solution of tax policy is primarily intended to promote entrepreneurial activity at an early stage in the life cycle of services companies with a turnover of up to 50,000 € or 100,000 €, which have a harder time bearing the usual tax burden and the risks involved. Such artificial improvement in business performance of the smallest law offices through tax subsidies cannot end up as an excuse for imposing imbalanced dumping prices on the providers of attorney's services that are mainly subject to the tariff, who frequently fail to cover even rationally set cost prices and minimum development funds (competitive profits).

Major differences in the effectiveness of business models in law offices are clearly evident only after the segmentation of the market of attorneys' services by size. By doing so, we can reveal significant differences in the effects of attorney tariff, which is fairly irrelevant for major players in the market but can be almost fatal for the smallest.

In order to assess the effectiveness of attorneyship in the Republic of Slovenia, a comparison with other European countries is also needed, although the literature or accessible databases dealing with this topic are extremely limited. In the text below, we present interesting differences in the effectiveness within even the largest European countries with a long tradition of attorneyship. In this respect, it should be mentioned that the data are not directly comparable with our net profit margin (see the note in **Figure 30**). Nevertheless, it is worth noting that the gross operating surplus (close to the EBITDA margin) for the EU28 is at 41%, and that there is a significant gap when considering five countries with the lowest value at the average of around 22%. Significant differences among EU countries can also be observed in the scope and characteristics of legal activities.

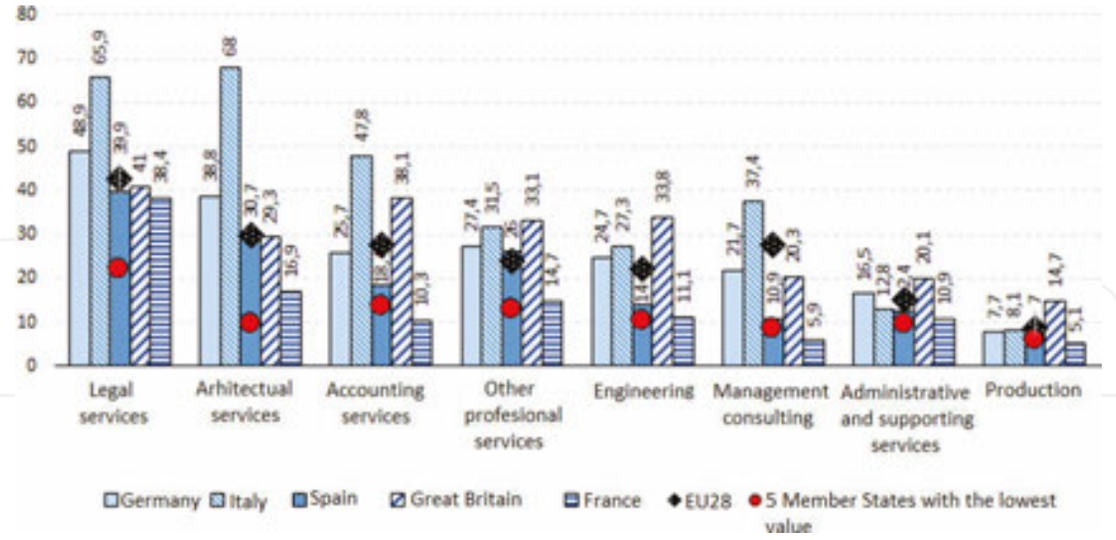


Figure 30. Gross operating surplus (GOS)* by selected services in 2011. Note: GOS is a surplus generated by operating activities after the labour factor input has been recompensed. It can be calculated from the value-added at factor cost less the personnel costs. It is the balance available to the unit which allows it to recompense the providers of own funds and debt, to pay taxes and eventually to finance all or a part of its investment. Income and expenditure classified as financial or extraordinary in company accounts are excluded from gross operating surplus. Source: [20].

2.3.6. Portfolio of attorneys' services

Our results of the analysis of the market of attorneys' services have already demonstrated that for a differentiated understanding of attorneyship, it is necessary to observe individual size classes of law offices and to understand the economic strength of gravitational field or regional market. Additionally, it is sensible to address characteristics of the portfolio of attorneys' services, considering the fact that in economically less developed areas, tariff services for less demanding and less wealthy population, or tariff services for ensuring state-funded legal protection, prevail. Predominant in economically more developed areas are more profitable attorneys' services, or the so-called projects, where the parties agree on hourly rates or remuneration that are tied to the value of the subject matter of dispute. Such remuneration for attorneys is much higher when compared with tariff values.

For illustration, it is worth repeating that half of Slovenian law offices generate revenue of less than 55,884 € (median in 2014) each year, although the average amount was 126,805 €. As many as 80% of registered attorneys fail to reach even a turnover of 100,000 €. Due to marketing restrictions on the economy of scale (varied cases and clients) and due to controlled prices (attorney tariff) that were not even adjusted to the basic inflation rate (let alone the consequences of Balassa-Samuelson effect[5]), after 2004, the smallest law offices missed the last chance to compete somewhat equally in the market of attorneys' services and to ensure the coverage of the population with a network of high-quality attorneys' services. A simplified

[5]For a detailed description, see Chapter 2.3.7.

estimate of the average revenue per hour per employee in law offices with a turnover of more than 100,000 € (18.3% of all law offices), which amounted to 71.6 € in 2014, and the average value of revenue per employee in all law offices in Slovenia, which amounted to 23.4 € in the same year, can help us illustrate the problems of smaller law offices. A difference of such magnitude between large law offices and other law offices can only arise if the latter operate with a considerably lower revenue per hour per employee, which amounts to 12.60 € per hour under this simplified estimation.

In such circumstances, each attorney will attempt to increase the more profitable part of the portfolio of his or her services and will devote, at most, only the remaining (surplus) capacity of his or her employees to tariff services. However, since a large working group of experienced attorneys and, as a rule, in-depth specialist knowledge are needed to provide more profitable attorneys' services, only larger domestic law firms and affiliates of well-established foreign law firms can prosper in this premium market segment. Consequently, entry barriers for the premium market of attorneys' services are very high in all countries and are primarily defined by the number of attorneys in a firm. Smaller law offices are thus essentially limited to acquiring a larger number of minor operations that make it impossible for them to specialise and thereby to achieve the economy of scale and higher prices of their services.

Legal specialisations additionally restrict the access to a more profitable part of the market of attorneys' services, since the attorney's remuneration in many legal fields (criminal, administrative, family, etc.) cannot be calculated as a percentage of the value of the dispute.

Historical experiences show that law offices have generally maintained a balanced structure of more and less profitable legal services that allowed them to operate effectively, by cross-subsidising services that are less profitable. However, a strong segmentation of the market of attorneys' services in the last decade has prevented an increasing number of smaller law offices from implementing such business model. The main reason for these trends lies in the centralisation of support services in companies (including legal services) in major city centres or in the capitals, which is also where wealthier individuals seek solutions to their more demanding legal problems. Consequently, a considerable part of premium users of attorneys' services in Slovenia is concentrated mainly in Ljubljana and in some other major cities.

Empirical data from the German[6] market support negative consequences of stronger market segmentation according to the size of a law office (measured by the number of attorneys in a law office). Data show that almost 2/3 of the smallest law offices with one employed attorney have no possibility of cross-financing because they mainly conduct less profitable transactions. On the other hand, a high share of larger law offices does not even encounter the problem of cross-subsidisation of their services because they are mainly dealing with highly profitable operations (**Figure 31**).

The problems of the smallest law offices are somewhat similar in Germany and Slovenia, although at least a periodic adjustment to the price growth was carried out in Germany. Given the increasing concentration of premium users of attorneys' services in major cities and the

[6] No such data exist for Slovenian market.

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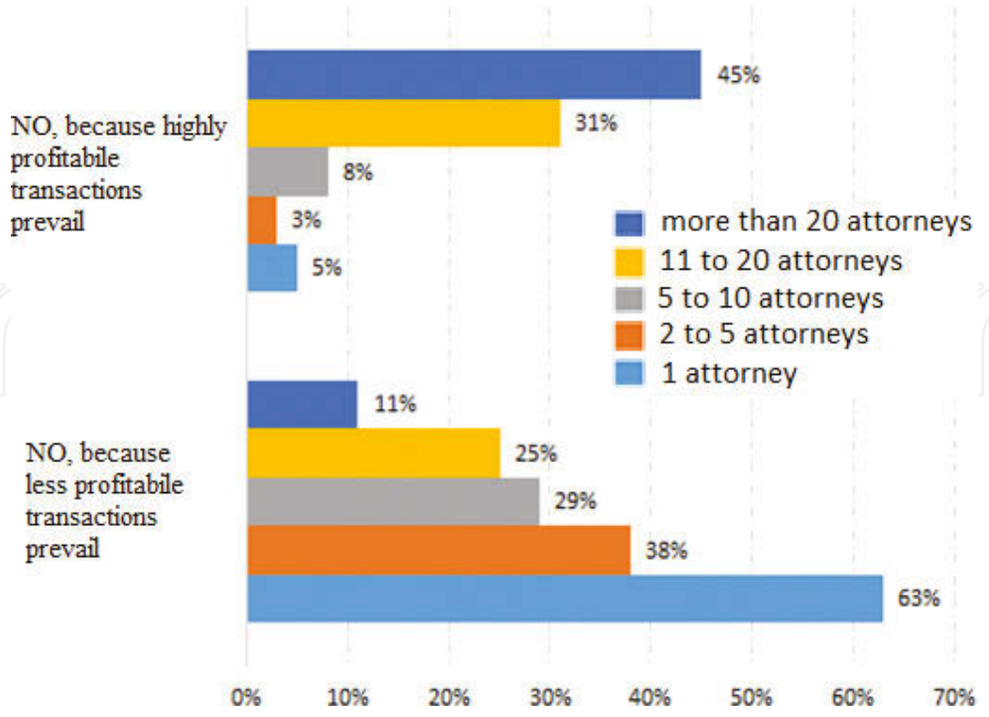


Figure 31. Cross-subsidisation of legal services. Source: AnwBl Anwaltsblatt [21].

centralisation of most state institutions in Slovenia, it cannot be expected that the adequate quality and accessibility of the network of attorneys' services will be maintained in economically and demographically neglected areas. Financial parameters of the market of attorneys' services in the segment of smaller law offices, which are mainly concerned with tariff services, are indicative of the unjustified regulatory depletion of entities concerned. The latter have no market- and legally conforming alternatives (additional activities, price rises, aggressive marketing, etc.) that would enable financial sustainability.

In the described circumstances, the only solution to maintain coverage with the network of attorneys is the adjustment of the value of tariff services to their equilibrium cost price and minimum return. Due to a long-standing unjustified delay in the adjustment with domestic inflation, higher rates of the adjustment of attorney tariff will now be required in order to ensure the minimum economic sustainability of the most vulnerable group of attorneys and to facilitate the entry of new attorneys into domestic market, which has (relatively) the lowest number of attorneys in the EU.

2.3.7. The effect of the freezing of the value of attorney tariff point

The adaptation of the tariff that is based only on a complete or partial adjustment to the inflation (without taking into account specific features of a relevant market) represents a minimal approach to market regulation, which makes it possible to maintain the level of real prices of services. From the perspective of the regulation of a relevant market, the freezing of the value of attorney tariff in Slovenia, which has been in place since 2003, is professionally unacceptable, since it is also used as a minimum regulatory instrument in markets that are

considerably more developed (e.g., Germany). Slovenian legislation is in line with the "*Acquis Communautaire,*" and following the introduction of common European currency, EUR, relative prices of goods and services have been largely harmonised as well, which is the essence of the single market. In such process of consolidation, equilibrium prices of (non-transferable) services are rising faster, while prices of merchandise are generally decreasing.

The freezing of the value of attorney tariff point falls under the instrumentation of anti-inflation policy, which was present in Slovenia before the accession to the euro area. In order to comply with the Maastricht criteria relating to inflation, the Government of the RS insisted on the mechanism of controlled prices in several markets, especially in the non-tradable sector, where markets were still fairly underdeveloped and foreign competition had high entry barriers. Due to the insufficient competition and relatively inelastic function of demand, it was highly probable during the period of transition that the prices of services would fluctuate in line with the cost function since there is no sufficient competitive pressure to raise productivity or to reduce costs in such circumstances. Therefore, the share of regulated prices still amounted to almost 18% in 2005 but has decreased to just over 9% by 2014, which is below the EU average of 12.7% [2].

In the service industry, the dynamics of price growth depend primarily on the dynamics of salary growth, as salaries represent the largest share in the cost structure. Higher salaries in the non-tradable service sector are often not the result of increased productivity (as is the case with salaries in the industry) but merely imitate the dynamics of salaries in the tradable sector by trying to maintain past relationships. In the service industry, the increased costs cannot be compensated with a higher productivity (the hairdresser does not cut more hair per time unit, just as the attorney is not able to provide a high-quality advice and represent more clients per time unit). Therefore, in order to maintain a sustainable business model, a substantial part of the increased costs translates into higher prices of services, which are in the process of integration with the single European market, the main contributor to the rising prices or inflation.

The described "pressure" channel of the non-tradable sector on the price increase (inflation) is known in the economy as the Balassa-Samuelson effect. It is based on the assumption that a difference in productivity between countries exists predominantly in the tradable sector, while productivity in the non-tradable sector is, in fact, constant, especially when it comes to non-transferable services. However, salary growth in the non-tradable sector must increase with similar dynamics as salaries in the tradable sector, if service providers are to attract or maintain a necessary number of employees.

With the "de facto" freezing of the value of attorney tariff point, the Government of the RS administratively prevented the usual process of the adjustment of attorneys' services prices in the segment of tariff services. This resulted in the accumulation of price imbalances, which are, in the long run, impairing the development of attorneys' services market in terms of the number of participants and from the perspective of ensuring a sustainable quality of services. The latter is particularly true for smaller regional centres, where possibilities for cross-subsidisation between tariff services and more profitable commercial transactions, in which the attorney's payment depends on the value of the dispute (especially in the segment of corporate clients), are very limited. As a consequence, many lawyers in smaller regional

markets, where tariff services prevail, were forced to increase their productivity, which is not even theoretically possible without affecting the quality of services in the given circumstances of this activity.

The described behaviour of the regulator of attorney tariff also reveals elements of fiscal and social policy, since the freezing of attorney tariff allows access to the enforcement of rights for poorer segments of the population at minimum costs for the state. However, since "there ain't no such thing as a free lunch" in the economy, the difference to a fair market price of services is increasingly borne by law offices with a high proportion of tariff services in their sales portfolio. They have to deal with the expanding scope of regulations (national and European) and with more complex cases, which is why a unit of the same attorneys' service requires more work to achieve a high-quality preparation and representation of a client.

The accumulation of negative effects resulting from the unjustified hindering of the attempt to achieve a fair market price for attorneys' work is clearly evident in **Figure 32**. On the basis of 18,921 observed units from 1995 to 2014, we examined the number of law offices (registered attorneys and law firms) that reported a negative net profit margin, low net profit margin (0–10%), medium net profit margin (10–30%) and high[7] net profit margin (over 30%). **Figure 32** shows a fairly stable structure of the effectiveness of the entire population of law offices up to 2004. Around 3% of law offices demonstrated losses and around 10% of attorneys

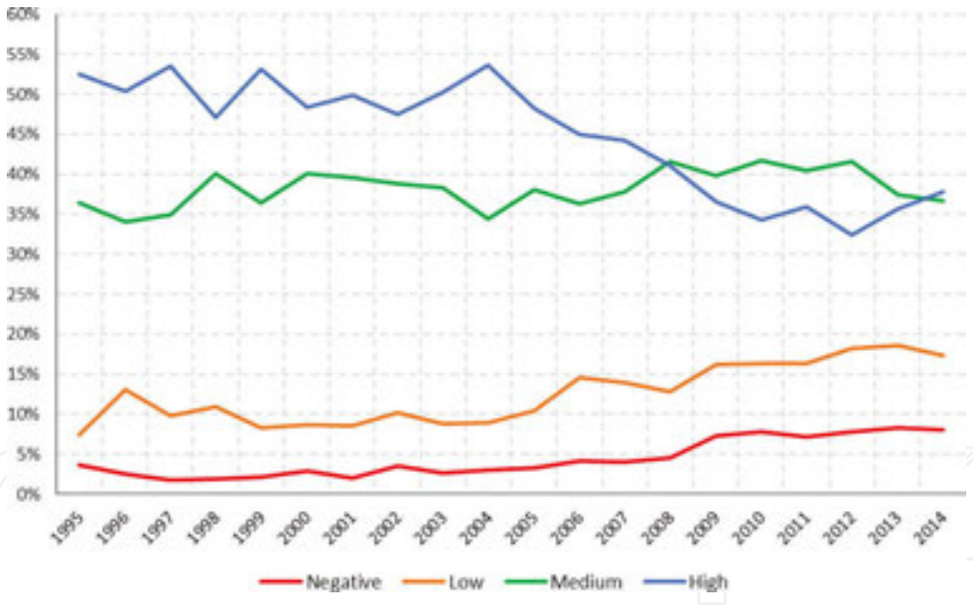


Figure 32. Law offices performance by net profit margin class. Source: Own calculations based on AJPES and FURS data [17, 18].

[7]Based on the analyses of the domestic market of attorneys' services and international comparisons, we estimated the equilibrium value of net profit margin at around 25%. In order to assess the risk faced by individual law offices, we determined the range of net profit margins of up to 10% as (unsustainable) low. Net profit margin was set as high at the level of 30% in relation to past changes in these values at the market, while the remaining range (10–30%) represents the medium performance according to net profit margin.

demonstrated low net profit margin, while the largest share of attorneys demonstrated either medium (close to 40% of attorneys) or high (around 50% of attorneys) net profit margin.

After 2004, the structure of the effectiveness of law offices started to change significantly in the group of attorneys that are most at risk. By 2014, the share of attorneys that have been making losses increased almost by three times, while the share of attorneys with a very low net profit margin doubled. The share of law offices generating high net profit margin also began to decrease considerably. A group of law offices with medium net profit margin remained fairly stable, which is probably a result of the transition of law offices from the group with high net profit margins among those with medium net profit margin and the transition of attorneys previously generating medium net profit margin among those with low or negative net profit margins[8].

The results shown in **Figure 33** are worrying both from the perspective of the development of a competitive market structure and from the perspective of accessibility to a high-quality network of attorneys. However, consequences of the freezing of attorney tariff vary considerably when considering the size class of law offices and the characteristics of the regional market.

The structure of the effectiveness of the smallest law offices with a turnover of up to 50,000 € shows that their circumstances have been deteriorating at least since 1999, since the share of attorneys that incurred losses has increased by five times by 2014. During the same period, the share of small law offices with low net profit margin has more than doubled. Therefore, the groups of attorneys that are most at risk (with a turnover of up to 50,000 €) jointly represent

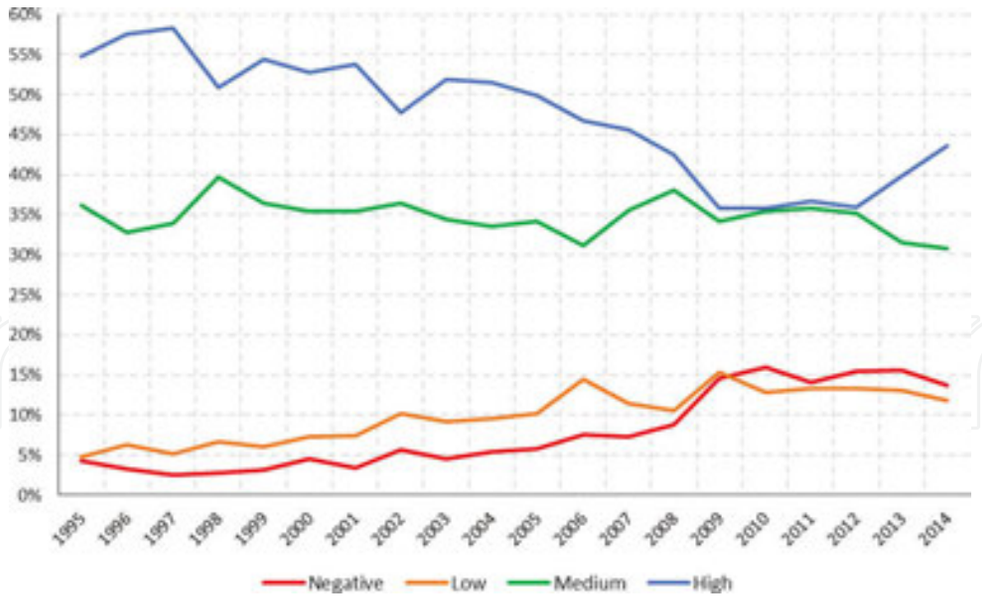


Figure 33. Smallest law offices performance by net profit margin class (max. 50,000 EUR revenues). Source: Own calculations based on AJPES and FURS data [17, 18].

[8]A precise tracking of the migration of individual law offices is impossible because of the anonymised data.

almost 30% of law offices. The consequences of economic crisis after 2008 are especially palpable in this sector.

In our assessment, the arguments collected indicate main risks for the development of the market of attorneys' services, which are rapidly accumulating primarily in the segment of the smallest law firms. It should be noted that risks involved are further enhanced by the characteristics of regional markets of attorney services, population density and the presence of corporate headquarters. When we exclude more developed regional centres, such as Ljubljana, Koper, Nova Gorica and Celje from the observed sample of smaller law firms with a turnover of up to 50,000 €, **Figure 34** is revealed, where the share of law offices that are most at risk almost reaches 40%.

Effective regulation of prices in developed service markets is a demanding task, which can, as a rule, only be performed well by the market itself. **Figure 35** shows that all professional

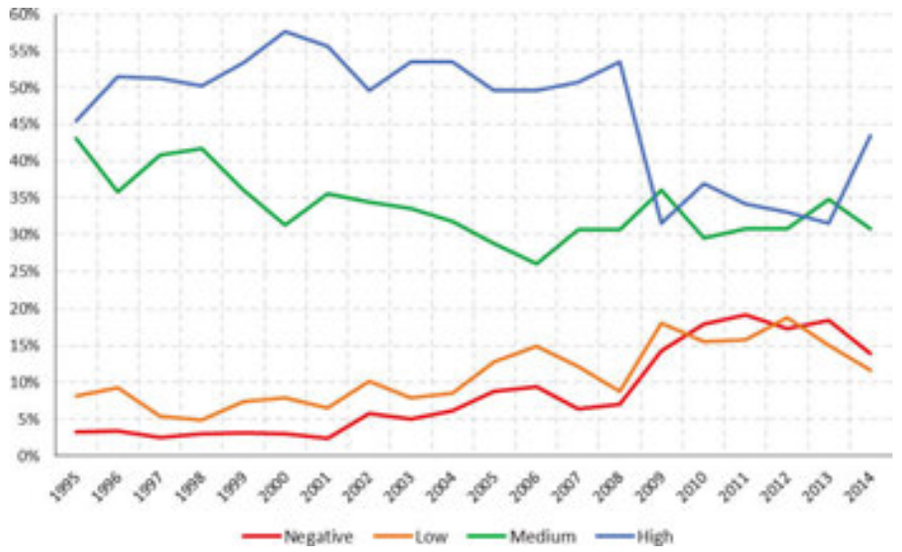


Figure 34. Smallest law offices performance by net profit margin class (max. 50,000 EUR revenues) (excluding Ljubljana, Nova Gorica, Koper, Celje). Source: Own calculations based on AJPES and FURS data [17, 18].

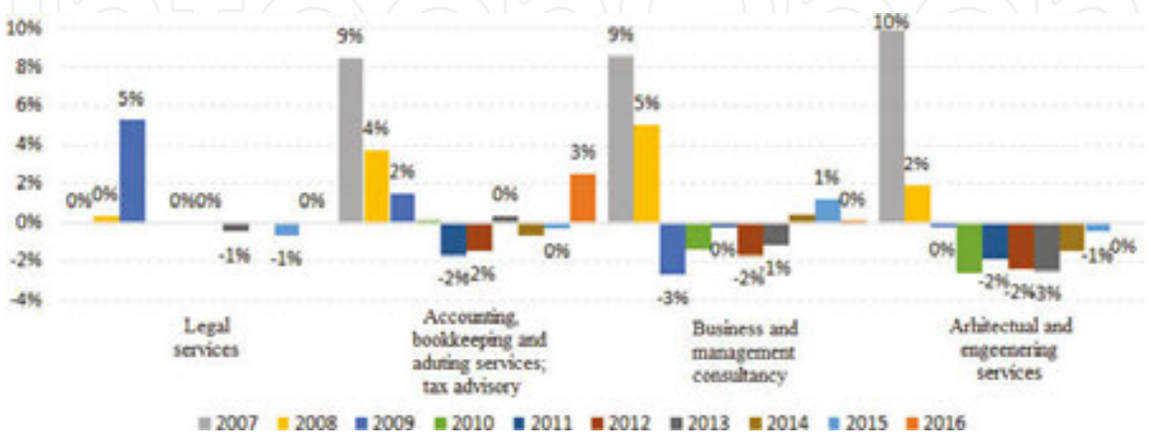


Figure 35. Price changes by providers of selected services. Source: SURS [22].

activities increased their prices in 2007 and 2008, in years of general optimism, and began to adapt with smaller price reductions during the crisis. This key instrument of controlling their own business model is rendered almost completely impossible in smaller law firms that are dependent on attorney tariff.

The pointlessness of this kind of state intervention is also demonstrated by the case of Germany, which shows a moderate increase in attorneys' payments that are based on an agreement. Such prices were continuously increasing during the observed period of 2003–2015 and have reached a growth of 14.2%. Meanwhile, the growth of prices of tariff services has long been hindered (up to 2012), until an inexplicable leap followed from the level of 106.4 in 2012 to the level of 121.9 in 2014 (**Figure 36**).

Differences between large and smaller law offices in the profitability of services portfolio can also be expressed through the average value of revenue per hour per employee in attorneyship. Based on data relating to the German market, we found that the average value of 1 hour rose to 38.4 € in 2014. For the purpose of comparison, we also added data for the entire population of Slovenian law firms, which reached the value of 23.4 € per hour per employee, while data referring solely to law firms with a turnover above 100.000 € reveals values at the level of 71.6 €. Considerable gap between the average for larger law offices and the average for the entire population again indicates a significantly lower revenue/hour in smaller law offices, which in our simplified estimation reached about 12.60 € in 2014. However, these data are not identical to the market price of attorney's hour charged on an invoice, which is set higher by about 2.5 times in order to cover all direct and indirect costs, the required returns and taxes (**Figure 37**).

The regulation of prices of goods or services in the market is a form of state intervention, which must serve a clearly defined public interest, and is, therefore, in modern market economies used under special circumstances. Such circumstances must be specially justified with a wider

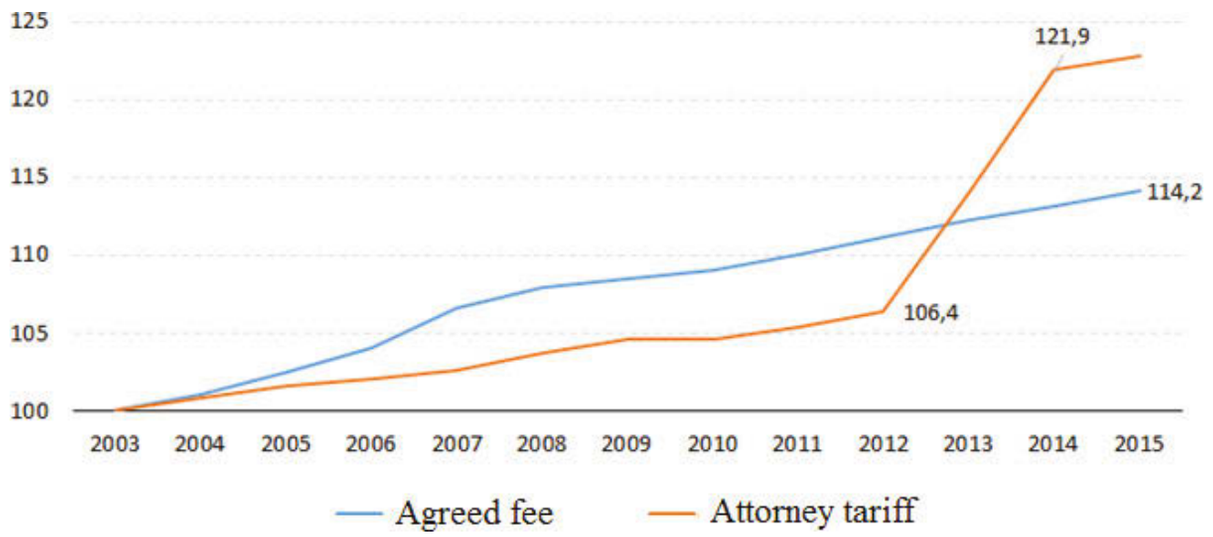


Figure 36. Cumulative growth in German legal services prices based on year 2003. Note: Growth is calculated with the base in year 2003. Source: DeStatis [23].

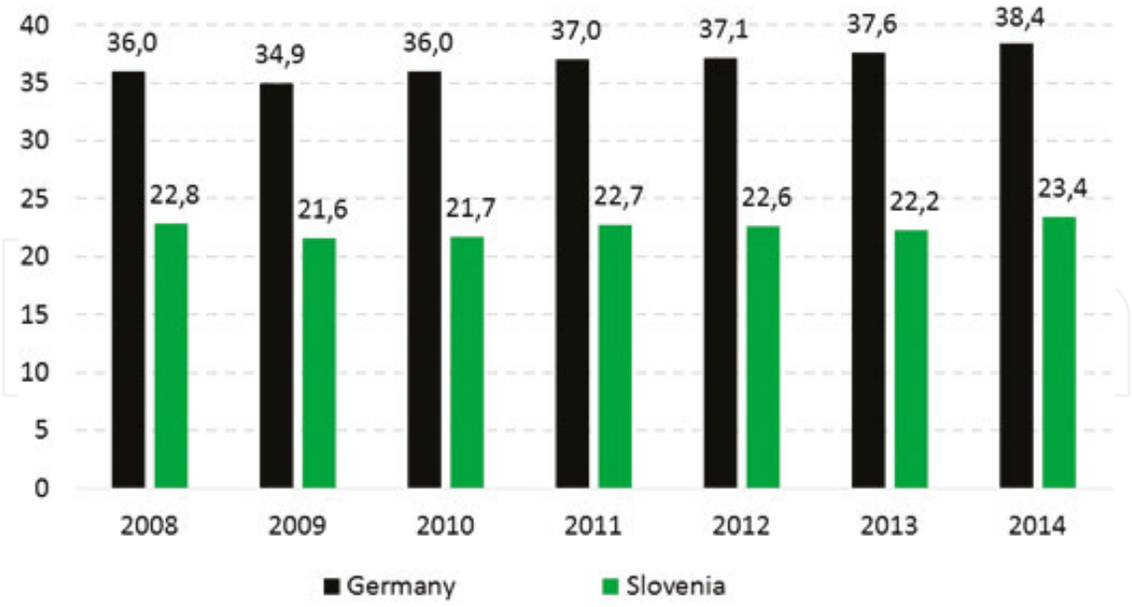


Figure 37. Average revenue per employee hour in attorneyship (Germany and Slovenia). Note: In order to facilitate data comparability, we did not deduct holidays in the calculation of working hours. Source: DeStatis [23], DeStatis [24], DeStatis [25], DeStatis [26], DeStatis [27], DeStatis [28], DeStatis [29, 30] and own calculations based on AJPES and FURS data [17, 18].

public interest, preservation of high professional standards, or particularities of market structure that would otherwise excessively limit the effective functioning of the relevant market.

The primary objective of any market regulation must be to increase, or at least maintain, the prosperity of a society through regulatory instruments that permanently reduce market inefficiencies. However, the experience shows (also in the case of attorneys' services) that ill-considered regulation increases or creates new market inefficiencies, which are the consequence of political influences and bureaucratic processes. Especially in the period of dynamic socioeconomic changes, a constant monitoring of regulatory effects with regard to the starting situation and long-term objectives of administrative intervention is indispensable. Good practices dictate that the regulator of a relevant market should present a report (at least once every 2 years) that addresses regulatory measures and their impact in relation to the set objectives. In order to prepare such report, the regulator must also establish the appropriate reporting system for regulated companies, which will allow a direct insight into their business models and parameters of the market as a whole.

Passive regulation of the market of attorneys' services in the segment of price regulation, which has developed in very different market and wider economic conditions, is a good example of bad practices in market regulation. For quite some time, the later has been causing negative economic consequences, which have not been identified or neutralised by the regulator. The reason for this situation lies in the process of the adjustment of regulated prices for a very exposed professional group, such as attorneys. The core of the problem lies in temporal dynamics of such adjustments and in a "political process" of the adjustment of attorney tariff. The longer the period of non-adjustment of prices of attorneys' tariff services to changes in

prices or comparable salaries lasts, the higher the relatively high rate of justified growth accumulates, which partly compensates for the past deprivation.

However, "a public opinion" will mostly remember the approval of a high increase in attorneys' earnings or costs to the population and the state, on top of the prevailing public opinion about the already high earnings of leading law offices. As a consequence, the competent minister will have to devote a great amount of energy to convince the public opinion that they are not helping a privileged social group to gain undue benefits, but, instead, that they are only adjusting the price of work in the segment of unprofitable attorneys' services to a level closer to the fair market value, which will facilitate survival and ensure jobs in the smallest law offices, mostly in the economically less developed areas. By doing so, they will also enable adequate coverage of the majority of the population with high-quality attorneys' services.

The described pressure of public opinion and election calculations of government parties often lead to the postponement of such decisions or to the adjustments that fail to comply with economic or business arguments or have little in common with the implementation of clearly defined objectives of market regulation. In the case of fairly developed markets of attorneys' services that maintain the regulation of "minimum prices", which serves primarily to maintain the coverage with a network of attorneys' services, the solution can be very simple; namely, a periodic adjustment of the value of attorney tariff points to the selected growth index (of prices or salaries). Nevertheless, special attention should be paid to the adjustment of tariff items to the lowest rated services and the attempt to bring them closer to their fair market value.

During the last decade, we witnessed several attempts of the liberalisation of markets, which had been promising predominantly positive effects without any in-depth economic analysis. Based on the acquired experience, we find that the understanding of particularities in individual markets is crucial for a successful deregulation; otherwise, the costs can quickly outweigh the benefits (e.g., negative effects of a broad access to medicines or a reduced access to pharmaceutical care in less populated areas; [19]). Caution is also needed when examining econometric analyses of the effects of liberalisation of professional services (e.g., [20]), which compare attorneys' services, accounting, architectural and engineering services in a non-differentiated manner. Such comparison of professional services is conceptually completely inappropriate, as the particularities of user segments in attorneys' services and exceptional specifics of the market of attorneys' services may lead to incorrect conclusions. Experience has shown that deregulation often brings positive effects for the segment of attorneys' services for companies but generally leads to a lower quality of services and reduced access to effective legal protection in the segment of natural persons and small businesses [15].

2.3.8. Analysis of salaries of employees in attorneyship and judges

We conducted the analysis of salaries of persons employed in attorneyship and judges by using the SURS database, which has closely followed this activity since 2005. For that reason, we decided to include a presentation of the entire set of data, up to October 2015. We supplemented these data obtained from the SURS with data obtained from AJPES-ISPAP (Information system for the transmission and analysis of data on public sector salaries), which

allowed us to conduct a comparison with average gross salaries of county and district judges. Finally, we have included a short comparison with data on salary per employee from our sample of law firms (10 small and 10 largest). Data from the AJPES-ISPAP system cover the period 2010–2015 and represent only average salaries of judges in the month of October.

Our comparative analysis of aggregate data on monthly gross salaries encompassed the following activities: M 69.101—Attorneyship, M 69.103—Other legal activities, M 69.200—Accounting, bookkeeping and auditing activities and tax consultancy services and M 70.220—Other business and management consultancy. The picture above demonstrates that gross salaries in other segments of professional services have almost equalised, while gross salaries in attorneyship have traditionally maintained a slightly higher level. The gap between these salaries and those in other activities has not been increasing.

Figure 38 also presents gross personnel costs of county and district judges (a similar situation applies to other jobs in justice administration), which represents an important alternative to the career path of an independent attorney. Furthermore, we must keep in mind that high remuneration for employees in the most successful law firms creates the impression that all attorneys receive high salaries. Our analysis of the sample of 10 small and 10 largest law firms has confirmed that this is not the case. The data obtained from the sample of our 10 small law firms show that the median of salary per employee is 1141 €, with 4 firms demonstrating a gross salary of 1000 €. On the other hand, the median of average gross salary in the largest law firms amounted to 2698 € and even exceeded € 3400 in three cases. The collected data show that the smallest law offices can afford, at most, the lowest base salaries, while even the most successful law firms barely manage to match the salary of a county judge.

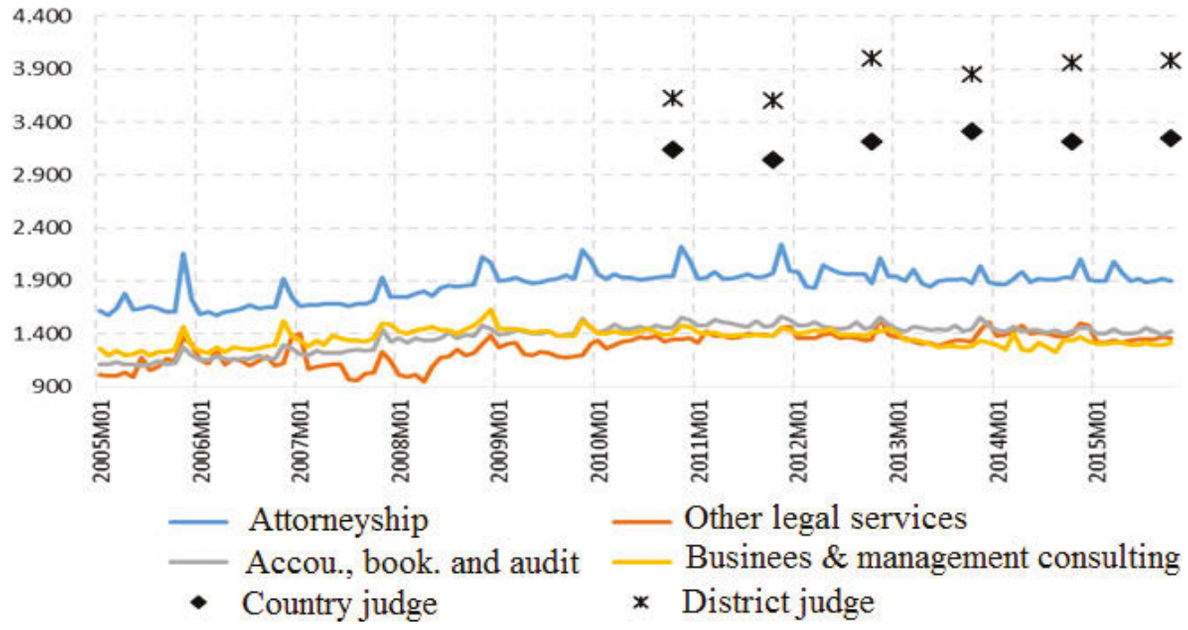


Figure 38. Gross salaries in professional services and judiciary (2005 M1–2015 M10). Source: SURS and AJPES [3, 17].

2.4. Analysis of regional assembly of attorneys (RAA)

Law offices in Slovenia are organised in 11 regional assemblies. Each RAA is composed of attorneys, candidate attorneys and trainee attorneys who participate in the council's operations without a voting right. The membership in RAA for attorneys is mandatory.

Our analysis of RAAs is somewhat limited by the anonymization of data on registered attorneys in the FURS database, which does not contain the number of employees. For this reason, some smaller RAAs are combined with their larger neighbours in the 2014 dataset. For example, Kranj RAA is merged with Ljubljana and Celje is merged with Slovenj Gradec. The purpose of this analysis is, inter alia, to evaluate whether the coverage of Slovenian territory with attorneys' services is adequate and to assess the operational and financial sustainability of law offices in economically less interesting areas. Since this is not possible on the basis 2014 data, we subsequently decided to use 2013 data. They exhibit similar substantive characteristics as 2014 data and at the same time allow for an in-depth study of smaller (regional) markets for attorneys' services.

Described problem is linked only to the part of analysis addressing revenue and net profit of law offices. Other data obtained from AJPES and ZZZS databases (the number of law offices and employees) are presented at the most current level of available data for 2015 (**Figure 39**).

Ljubljana RAA represents more than half of all law offices (681) and is followed by Maribor RAA with 146 law offices and Celje RAA with 129 law offices. Predominant position of Ljubljana is understandable due to its capital status with the largest concentration of households, corporate entities and state institutions (**Figure 40**).

In 2015, Ljubljana RAA employed 1953 people, which represents 57% of all employees in attorneyship, and is followed by Maribor RAA with 346 employees and Celje RAA with 314 employees. Altogether, the three largest law offices employed 147 people in 2015. They are organised as limited liability companies and headquartered in Ljubljana. Among the registered attorneys, the largest law offices are located in Celje with 19 employees, Ljubljana with 16 employees and Maribor with 15 employees. Two foreign law firm affiliates are based in Ljubljana and employ over 20 people (**Figure 41**).



Figure 39. RAAs in Slovenia. Source: OZS [31].

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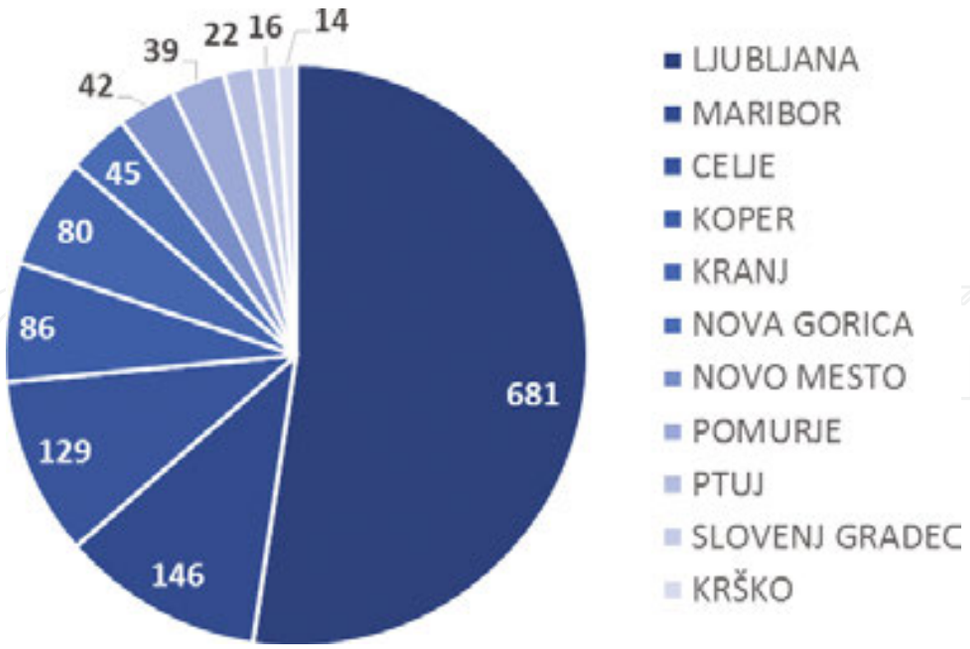


Figure 40. Number of legal offices per RAA (2015).

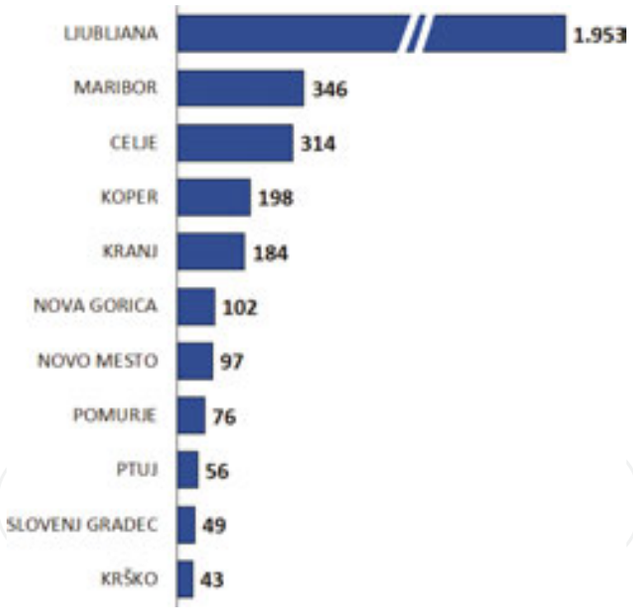


Figure 41. Number of employees in attorneyship per RAA (2015).

Total revenue of law offices in 2013 amounted to 147.8 million €, whereas 205 law firms and foreign affiliates generated 70 million € or 47.4% of the entire market. The cumulative net result of attorneyship amounted to 37.4 million € in profits (2013), which already accounts for a cumulative loss of 0.95 million €. **Figure 42** illustrates the distribution of all revenue in attorneyship, as well as the distribution of losses by RAAs. Collected data suggest a disproportionate distribution of losses after comparing by RAA share in revenues. In the case of Ljubljana,

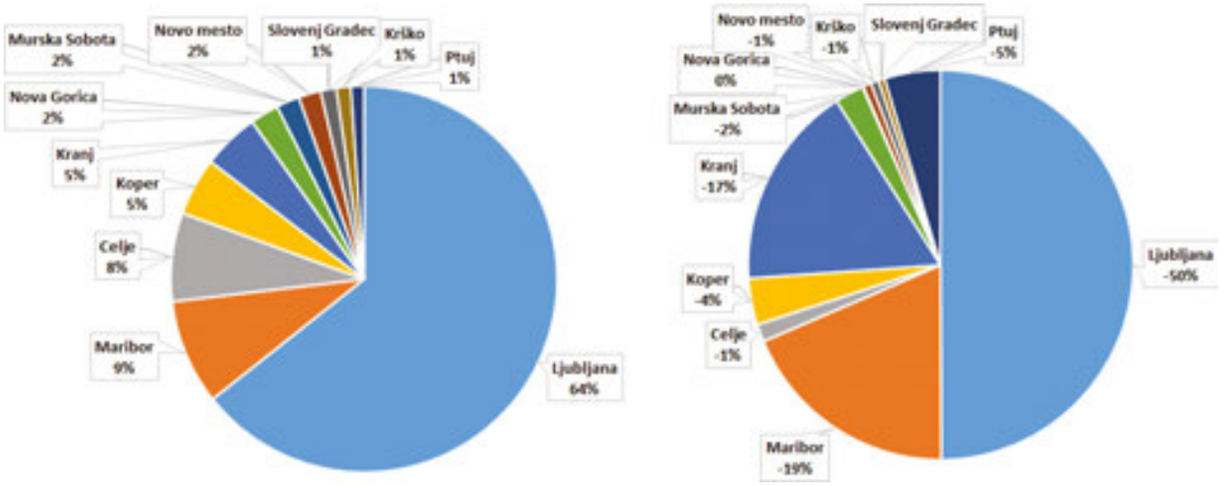


Figure 42. Share of RAA in total revenues and in total losses (2013).

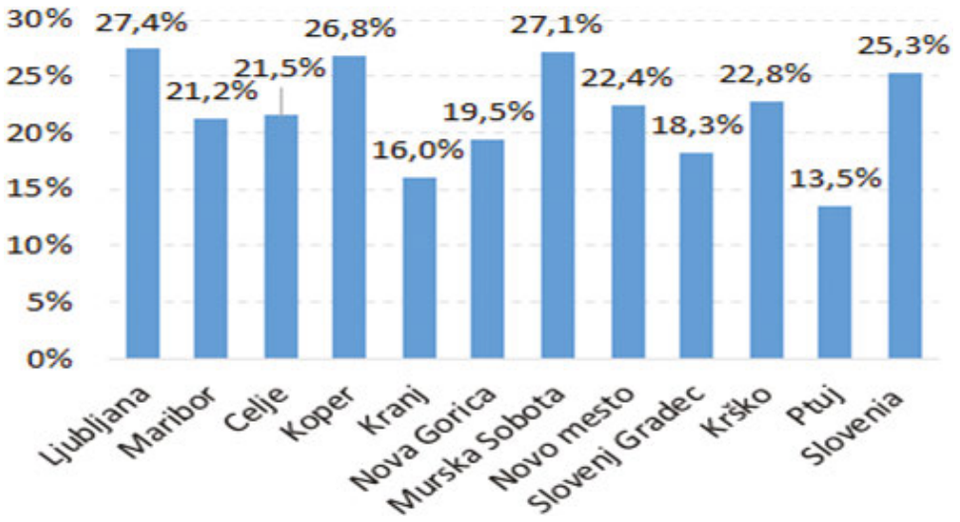


Figure 43. Net profitability by RAA (2013).

Celje and Koper, this ratio is very favourable, while Kranj, Maribor and Ptuj display a disproportionately high share of losses.

Differences in net profitability by RAA in 2013 point out an unsustainably low (average) level in smaller RAAs. The only exception in the year 2013 was Murska Sobota (**Figure 43**).

Below we present the data about the size of regional markets of attorneys' services, for law firms in 2014 and for registered attorneys in 2013 (**Figures 44** and **45**).

2.4.1. Ljubljana RAA

Ljubljana RAA comprises the area of the judicial district of Ljubljana, which includes the following general courts: Supreme Court, Higher Court, District Court and 9 county courts,

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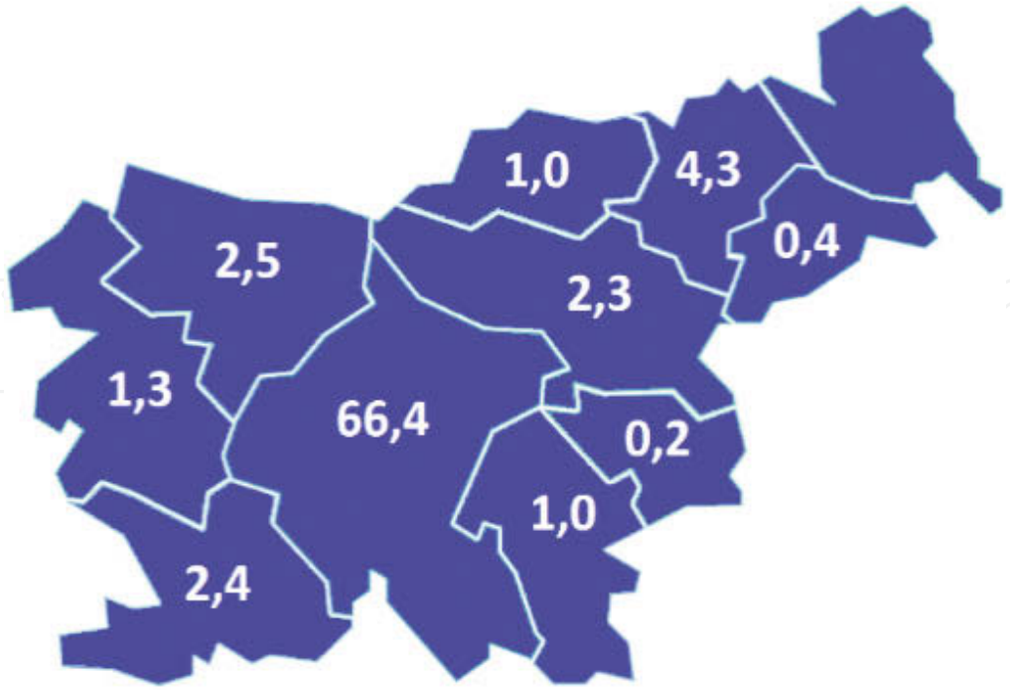


Figure 44. LFs revenue by RAA in 2014 (in Mio €).

as well as the following specialised courts: Administrative; Higher Labour and Social Court; Labour and Social Court. In 2014, judicial district of Ljubljana employed 421 judges. Ljubljana RAA is the largest in terms of the number of law offices. In 2015, 681 law offices were registered in Ljubljana RAA, which employed 1953 persons. The majority (76.3%) were registered as registered attorneys, while the rest were registered as limited liability companies (22.9%). Registered attorneys have the most employees (963) and are followed in this respect by law firms organised as a limited liability company - d.o.o. (920), foreign affiliates (61), companies with unlimited liability—d.n.o. (8) and one self-employed private entrepreneur (**Table 4**).

Organisational form	0–1 employee	2–3 employees	4 and more employees	Total
Unlimited liability company (d.n.o.)	1 (0.1%)	1 (0.1%)	1 (0.1%)	3 (0.3%)
Limited liability company (d.o.o.)	25 (3.7%)	51 (7.5%)	79 (11.6%)	155 (22.9%)
Attorney	300 (44.1%)	170 (25.0%)	49 (7.2%)	519 (76.3%)
Foreign affiliate	0 (0.0%)	1 (0.1%)	2 (0.2%)	3 (0.3%)
Sole proprietor (s.p.)	1 (0.1%)	0 (0.0%)	0 (0.0%)	1 (0.1%)
Total	327 (48.1%)	223 (32.7%)	131 (19.2%)	681 (100%)

Table 4. Number of law offices by organisational form and by size class of employment in Ljubljana RAA.

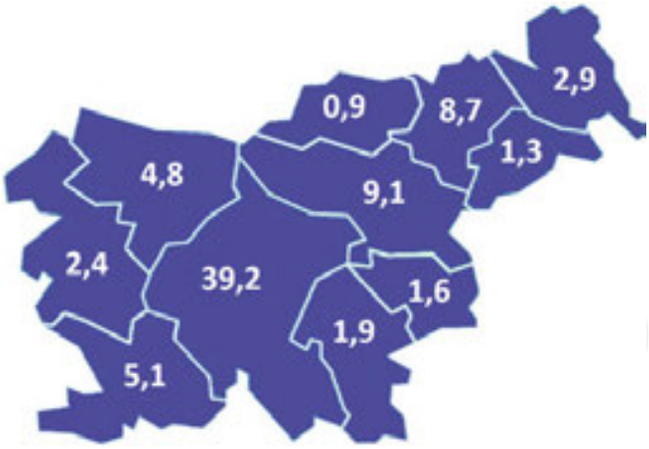


Figure 45. RAs revenue by RAA in 2013 (in Mio €).



Almost half of law offices in Ljubljana RAA employ a maximum of 1 employee, while 1/3 employ 2–3 employees. A very strong employment dynamics is evident in the period from 1995 to 2010, which still continued in 2013 (**Figure 46**).

Ljubljana RAA represents the most dynamic part of the Slovenian market of attorneys' services, with total revenue increase by 5.4 times in comparison to the year 1998. A strong trend in organisational form changes towards a law firm was identified, which is typical for bigger or fast-growing law firms. The average revenue per employee in law firms has been growing constantly, even though growth levelled out significantly after 2010. Meanwhile, the profit per employee in law firms remained at a similar level since 2004.

The distribution of revenue by size class shows a fairly high number of large law offices, which are usually established in the city of Ljubljana. This fact corresponds with a comparatively high market concentration in the market for attorney services in Ljubljana RAA, which amounts to around 20% for the TOP5 law firms (**Figures 47–50**).

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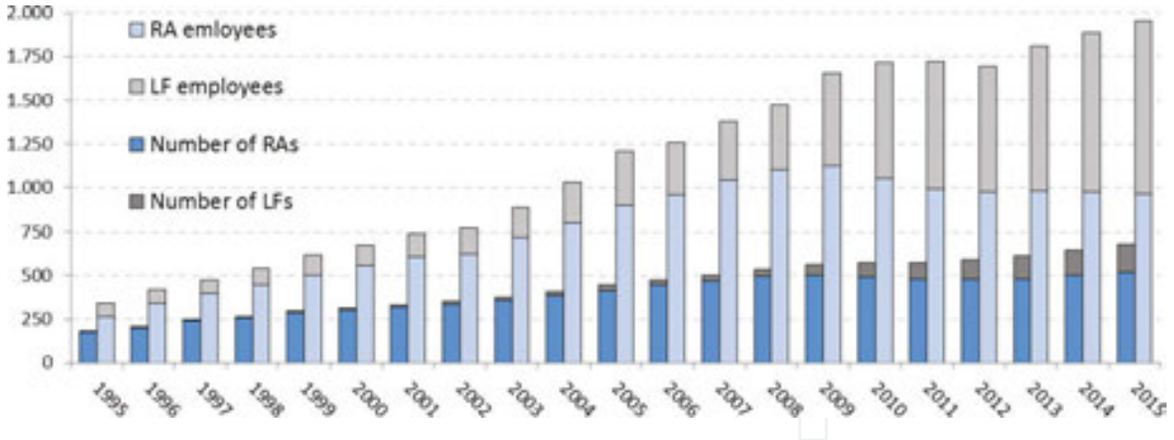


Figure 46. Number of law offices and employees in Ljubljana RAA (1995–2015). Source: ZZZS [16].

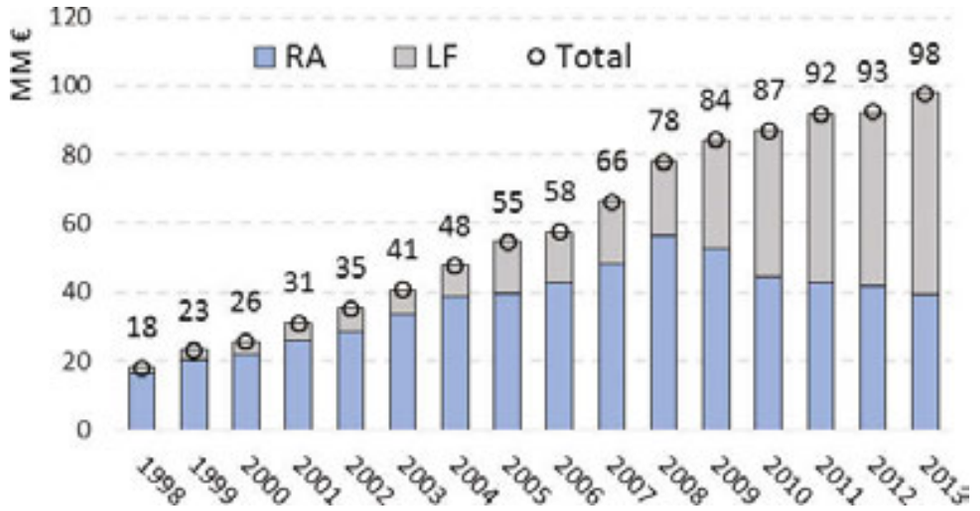


Figure 47. LO revenue in Ljubljana RAA.

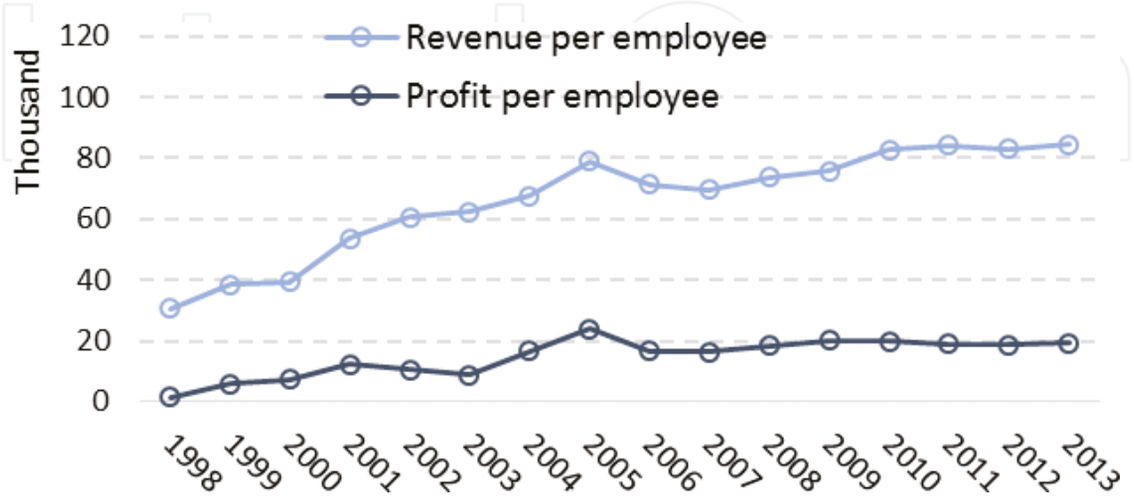


Figure 48. LF revenue and profit per employee (Ljubljana RAA).

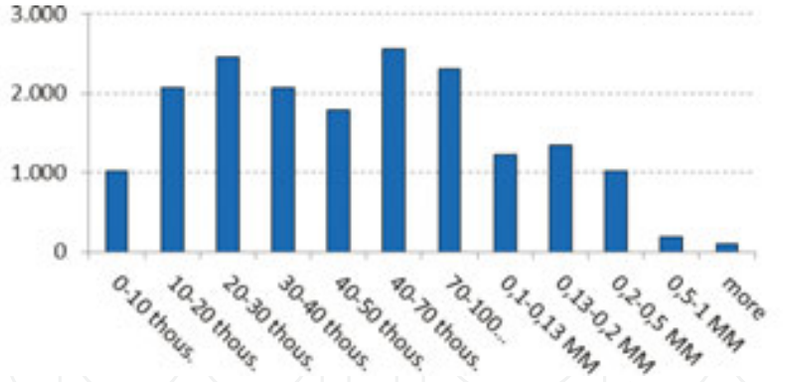


Figure 49. Distribution of revenue in Ljubljana RAA (2013). Source: FURS and AJPES [17, 18].

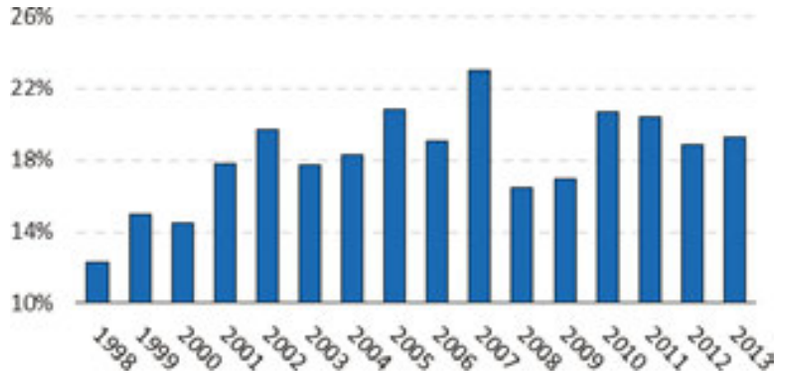


Figure 50. TOP 5 market concentration (Ljubljana RAA). Source: FURS and AJPES [17, 18].

Attorney network coverage in Ljubljana RAA is at the level of 294 employees in attorneyship per 100,000 inhabitants. The ratio between the number of employees in attorneyship and the number of judges (4.14 in 2013) is gradually improving, as the number of judges is slightly decreasing, while the number of employees in attorneyship continues to grow dynamically. In our estimation, this growth is sustainable in relation to new court cases and the steady growth in revenue, which is used for attorneys' services by an average inhabitant of Ljubljana RAA (almost 159 €) (**Figures 51–54**).

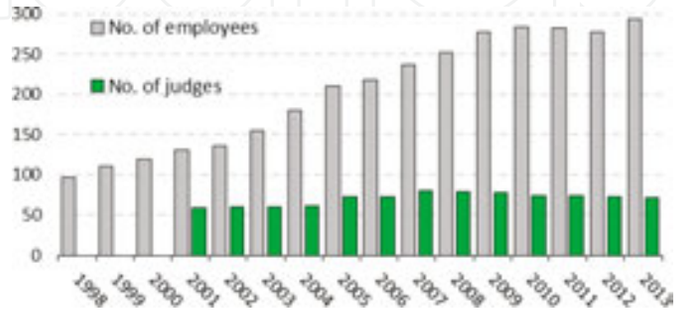


Figure 51. Number of judges and employees in attorneyship per 100,000 inhabitants (Ljubljana RAA).

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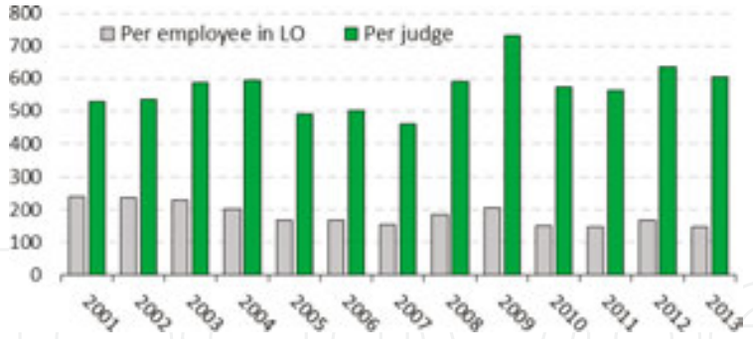


Figure 52. Number of new court cases per judge and per employee in LO (Ljubljana RAA).

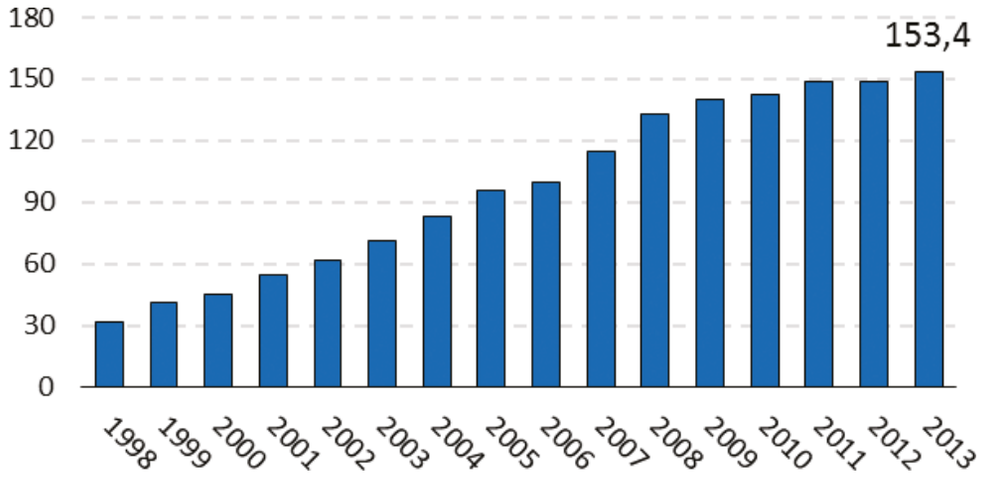


Figure 53. LO revenue per inhabitant (Ljubljana RAA).



Figure 54. Correlation between net result and revenue.

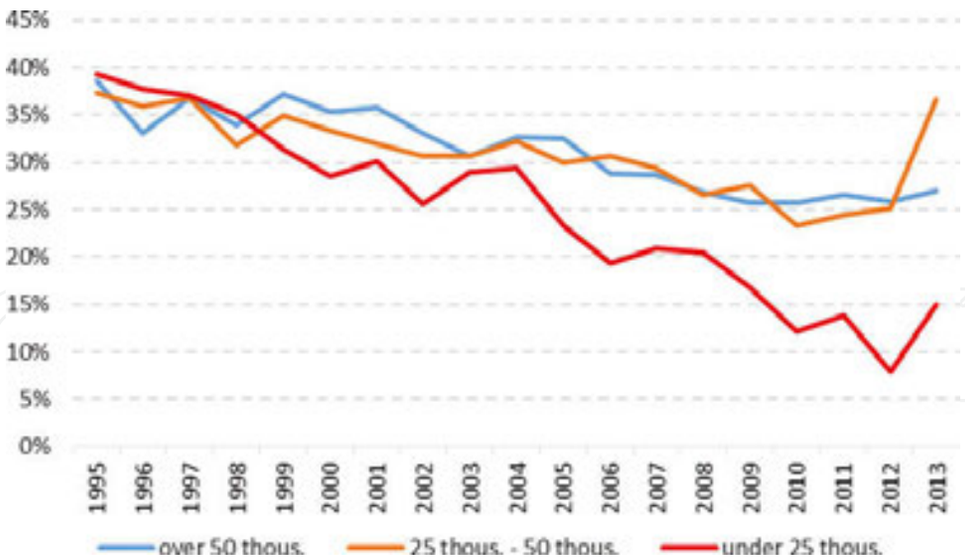


Figure 55. Net profit margin by size class of revenue for law offices.

The scatter diagram focuses on the smallest law offices and shows the correlation between net result and revenue. This regional market is very interesting, as each additional unit of revenue contributes, on average, 0.33 cents to the net result (**Figure 55**).

The data for the largest regional attorney services market show that the smallest law offices were constantly under pressure of declining net profit margins. After 2003, the situation worsened drastically for those who generated a revenue of up to 25,000 €/year. The negative trend was somewhat alleviated in 2013, as a consequence of a special tax regime.

2.4.2. Maribor RAA

Maribor RAA comprises the area of the judicial district of Maribor, which includes the following general courts: High Court, District Court and 3 county courts, as well as the specialised Labour Court. In 2015, 146 law offices were registered in Maribor RAA, which employed 346 people, of which 71 worked in law firms. The vast majority (87.7%) were registered as a registered attorney and the rest were registered as a limited liability company (d.o.o.) (**Table 5**).

Organisational form	0–1 employee	2–3 employees	4 and more employees	Total
Limited liability company (d.o.o.)	2 (1.4%)	6 (4.1%)	10 (6.8%)	18 (12.3%)
Attorney	56 (38.4%)	54 (37.0%)	18 (12.3%)	128 (87.7%)
Total	58 (39.8%)	60 (41.1%)	28 (19.1%)	146 (100%)

Table 5. Number of law offices by organisational form and by size class of employment in Maribors RAA in 2015.

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Almost 40% of law offices in Maribor RAA employ a maximum of one employee, while a similar percentage of offices employs 2–3 employees. A very strong employment dynamics is evident in the period from 1995 to 2010 but was then disrupted until 2015 (**Figure 56**).

Maribor RAA represents a less dynamic part of the Slovenian market of attorneys' services, with total revenue increasing only by about two times compared to the year 1998. A strong

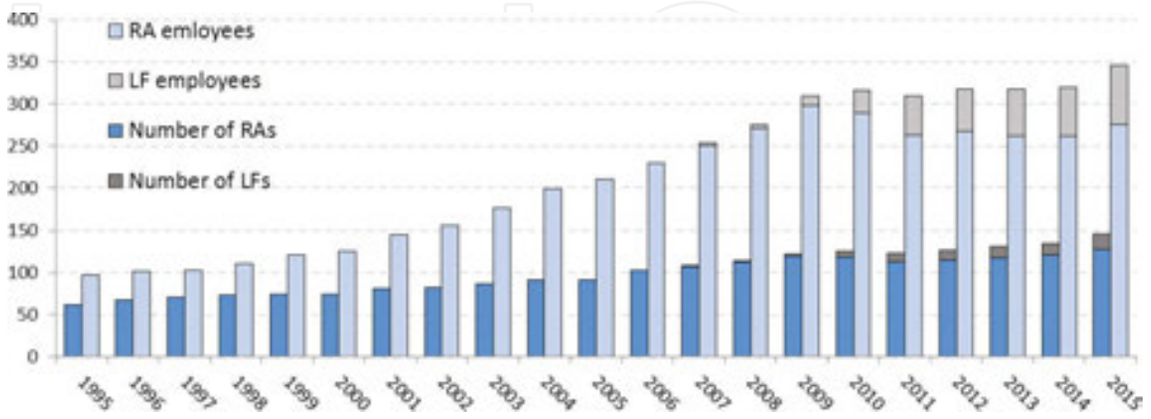


Figure 56. Number of law offices and employees in Maribor RAA (1995–2015). Source: ZZZS [16].

trend of transitioning to the organisational form of a law firm can also be identified after 2011. Since 1998, this market has experienced declines in revenue in 1999, 2005 and 2012. The average revenue per employee in a law firm has been growing since 2008. The profit per employee in a law firm was decreasing from 2007 to 2009 and then proceeded to stagnate at a relatively low level.

The distribution of revenue by size classes shows a fairly high number of large law offices. This fact corresponds with a comparatively high market concentration in the market of attorneys' services in the territory of Maribor RAA, which amounts to around 30% for the TOP5 law firms (**Figures 57–60**).

Attorney network coverage in Maribor RAA is at the level of 134 employees in attorneyship per 100,000 inhabitants. The ratio between the number of employees in the attorneyship and the number of judges (2.5 in 2013) is rather favourable. The number of judges is slightly decreasing, while the number of persons employed in attorneyship came to a halt after 2009. A relatively high number of cases per judge and per employee in attorneyship suggests the

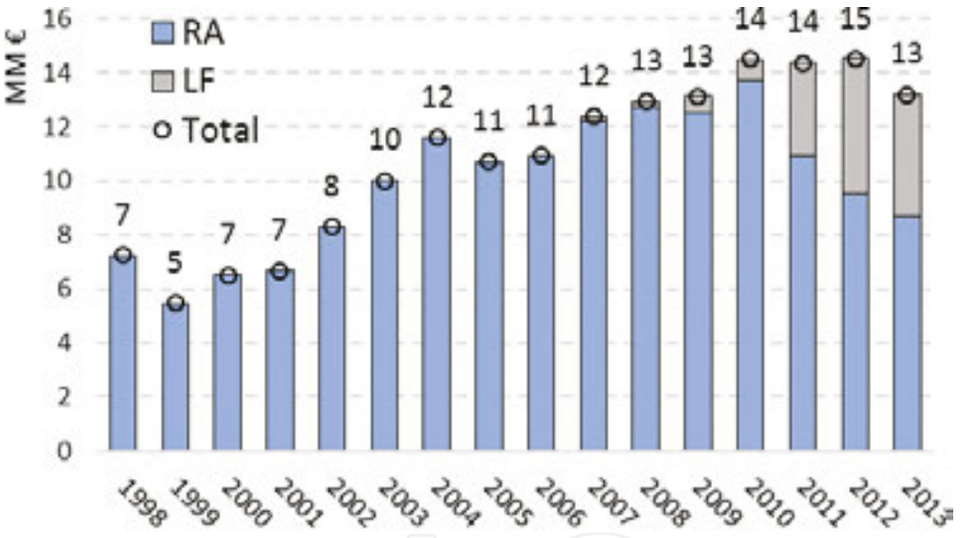


Figure 57. LO revenue in Maribor RAA.

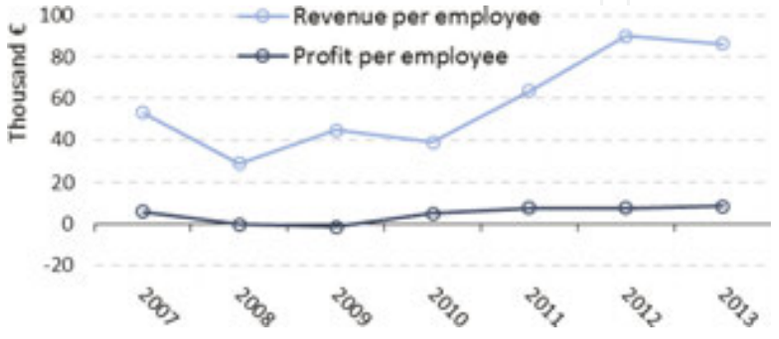


Figure 58. LF revenue and profit per employee (Maribor RAA).

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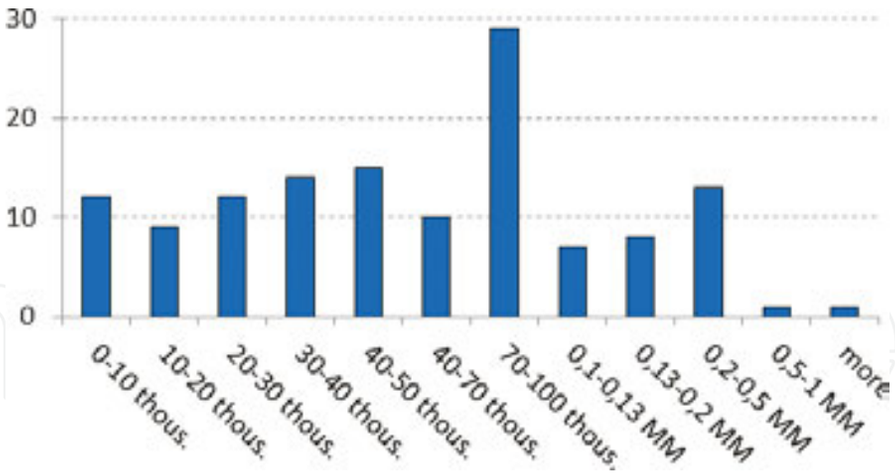


Figure 59. Distribution of revenue in Maribor RAA in 2013.

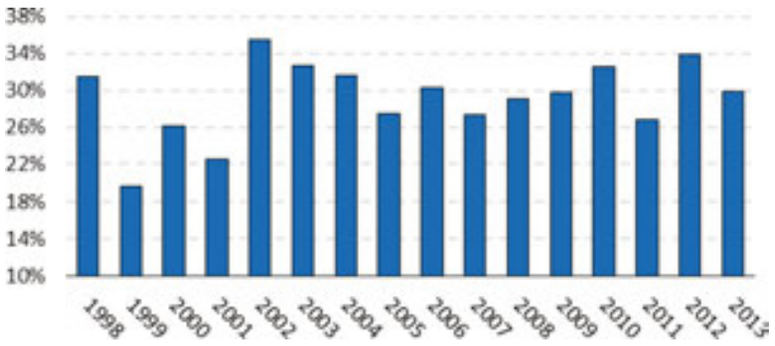


Figure 60. TOP 5 market concentration in Maribor RAA.

possibility of future growth; however, a very low level of revenue of law offices per inhabitant (55.6 €) fails to indicate any possibility of their funding (**Figures 61–64**).

The scatter diagram focuses on the smallest law offices and shows the correlation between net result and revenue. This regional market is less interesting, as each additional unit of revenue contributes, on average, only 0.07 cents to the net result (**Figure 65**).

The data for Maribor RAA show that the smallest law offices were constantly under pressure to lower net profit margin. After 2003, the situation worsened drastically for those who generated a revenue of up to 25,000 €. The negative trend was somewhat alleviated in 2013, as a consequence of tax effects.

2.4.3. Celje RAA

Celje RAA comprises the area of the judicial district of Celje, which includes the following general courts: High Court, District Court and 6 county courts, as well as the specialised Labour Court. In 2015, 129 law offices were registered in Celje RAA, which employed 314 people, of which 62 worked in law firms. The vast majority (85.3%) were registered as a registered attorney and the rest were registered as a limited liability company (d.o.o.) (**Table 6**).

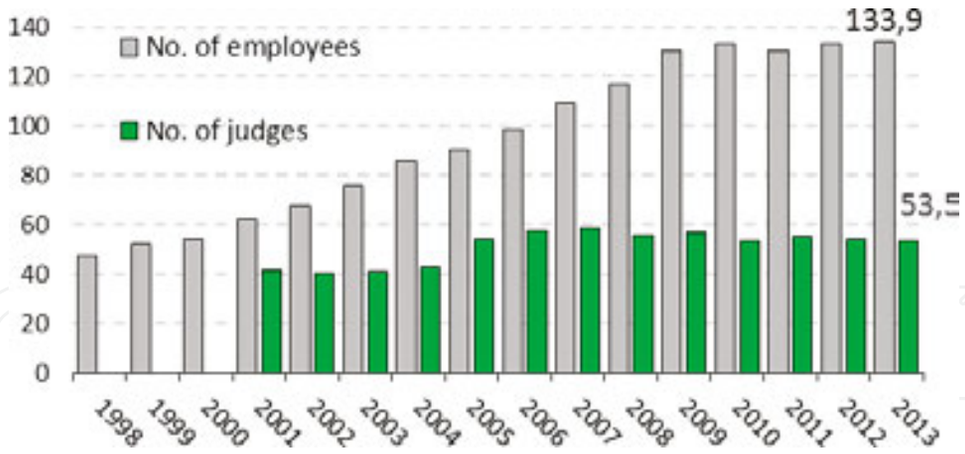


Figure 61. Number of judges and employees in attorneyship per 100,000 inhabitants (Maribor RAA).

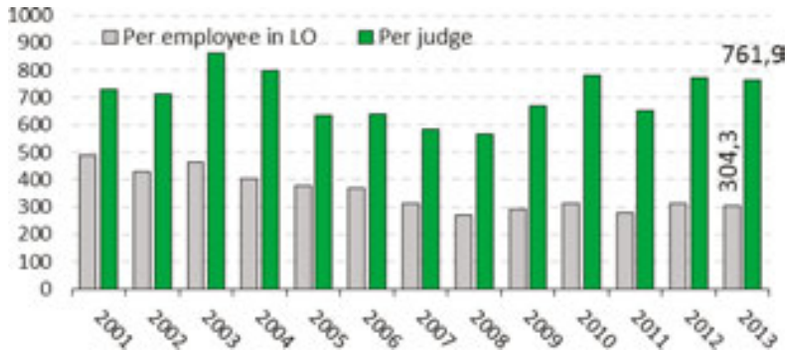


Figure 62. Number of new court cases per judge and per employee in LO (Maribor RAA).

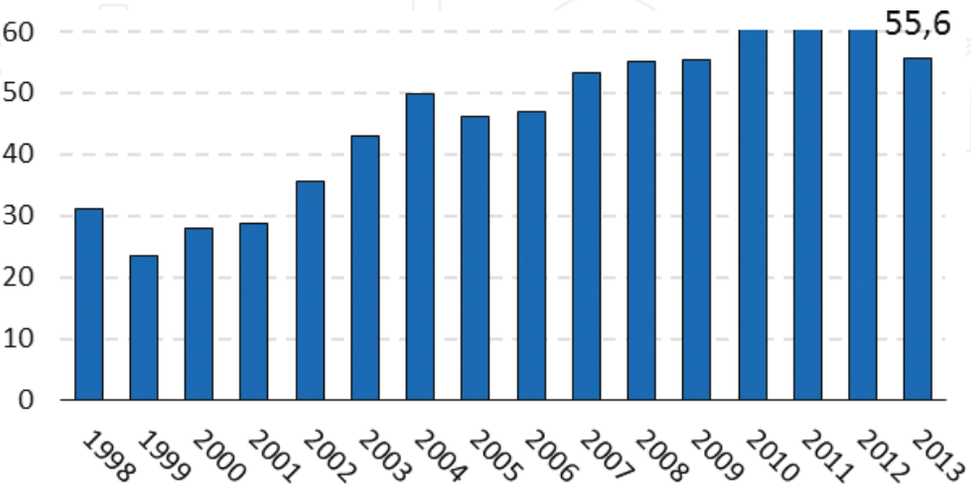


Figure 63. LO revenue per inhabitant (Maribor RAA).

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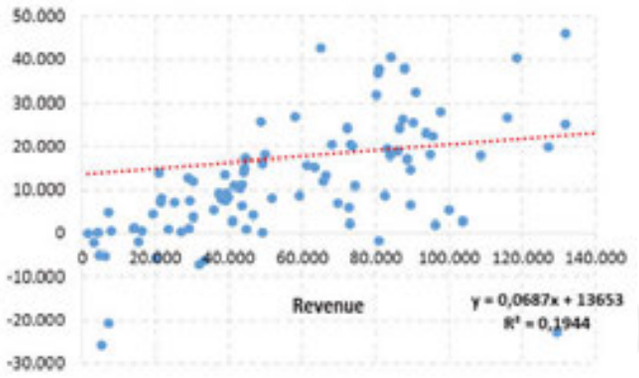


Figure 64. Correlation between net result and revenue.

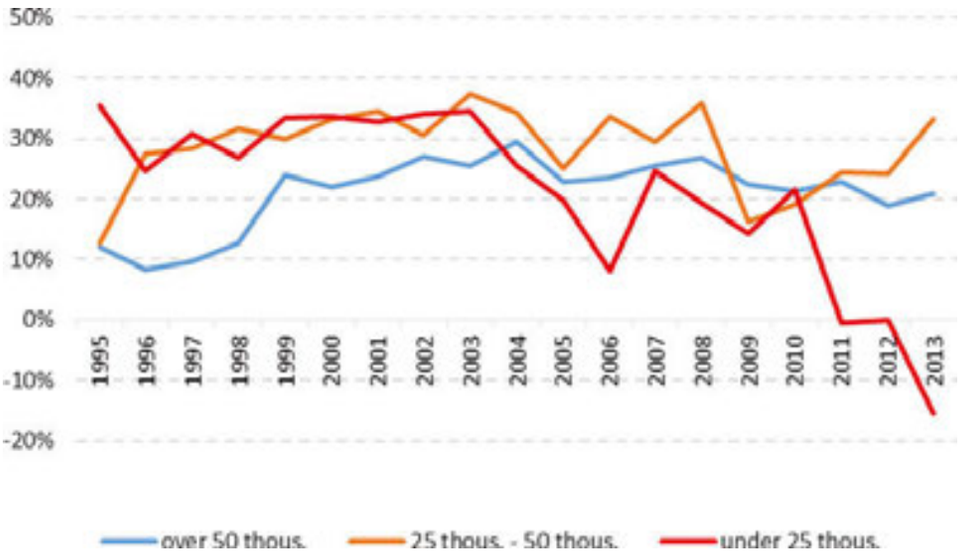


Figure 65. Net profit margin by size class of revenue for law offices.



Organisational form	0–1 employee	2–3 employees	4 and more employees	Total
Limited liability company (d.o.o.).	4 (3.1%)	8 (6.2%)	7 (5.4%)	19 (14.7%)
Attorney	49 (38.0%)	48 (37.2%)	13 (10.1%)	110 (85.3%)
Total	53 (41.1%)	56 (43.4%)	20 (15.5%)	129 (100%)

Table 6. Number of law offices by organisational form and by size class of employment in Celje RAA in 2015.

About 41.1% of law offices in Celje RAA employ a maximum of one employee, while 43.3% employ 2–3 employees. A very strong employment dynamics is evident in the period from 1995 to 2010 but was then disrupted until 2015 (**Figure 66**).

Celje RAA represents a fairly dynamic part of the Slovenian market of attorneys' services, with total revenue increased by almost 3 times compared to the year 1998. A strong trend of transitioning to the organisational form of a law firm can also be identified after 2011. Since 1998, this market has experienced declines in revenue in 2005 and 2008 and later maintained a revenue at the level of about 11 million €. The average revenue per employee in a law firm shows a lower average growth until 2013, even though it has remained around 40,000 € per employee. The profit per employee in a law firm has remained at a very low level and was occasionally even turned into a cumulative loss.

The distribution of revenue by size classes shows a fairly high number of large law offices. This fact corresponds with a comparatively high market concentration in the market of attorneys' services in the territory of Celje RAA, which amounts to around 25% for the TOP5 law firms (**Figures 67–70**).

Attorney network coverage in Celje RAA is at the level of about 104 employees in attorneyship per 100,000 inhabitants. The ratio between the number of employees in attorneyship and the number of judges (2.7 in 2013) is rather favourable. The number of judges is slowly decreasing, while the number of persons employed in attorneyship came to a halt after 2009. A relatively high number of cases per judge and per employee in attorneyship suggests the possibility of future growth; however, a very low level of revenue of law offices per inhabitant (40.1 €) fails to indicate any possibility of their funding (**Figures 71–74**).

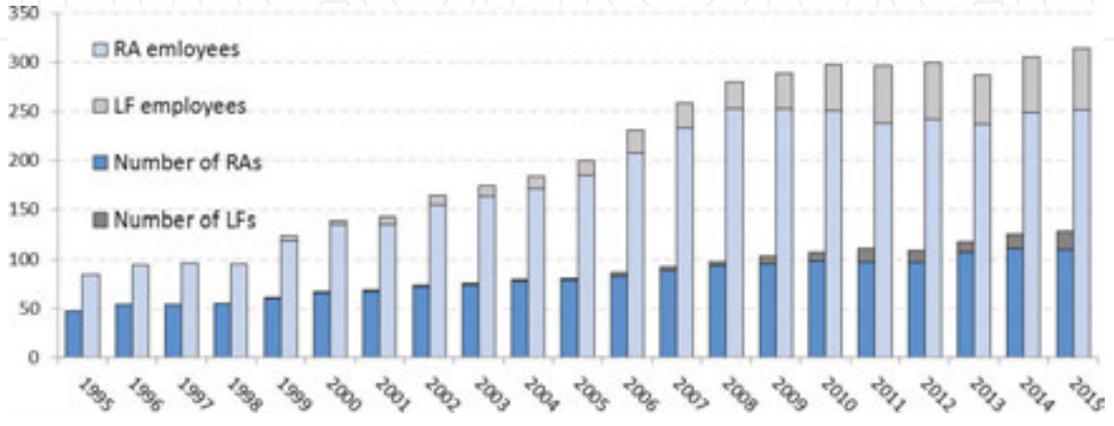


Figure 66. Number of law offices and employees in Celje RAA (1995–2015). Source: ZZZS [16].

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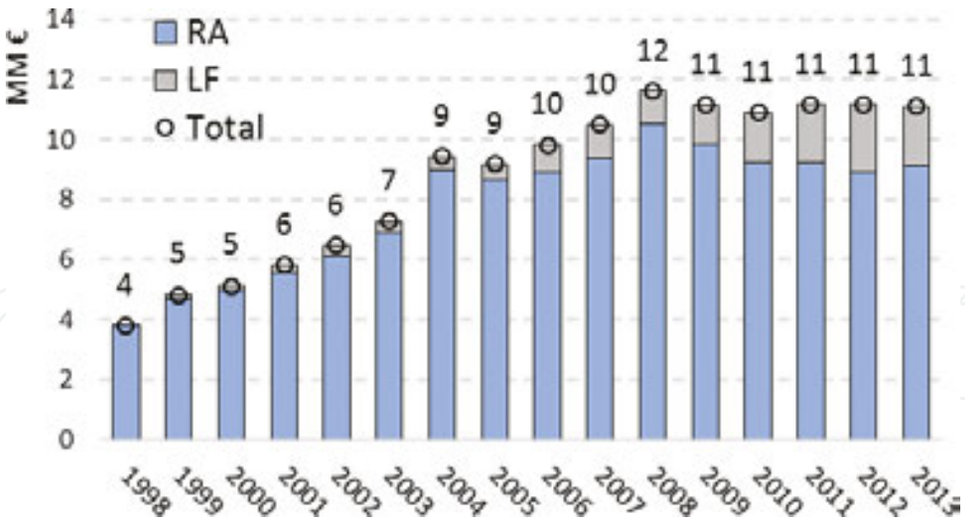


Figure 67. LO revenue in Celje RAA.

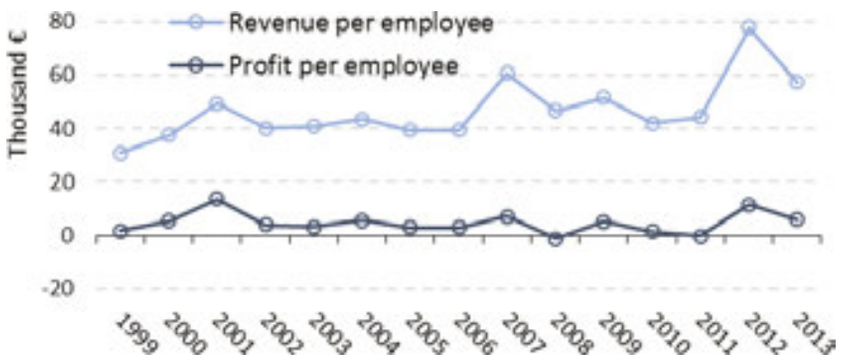


Figure 68. LF revenue and profit per employee (Celje RAA).

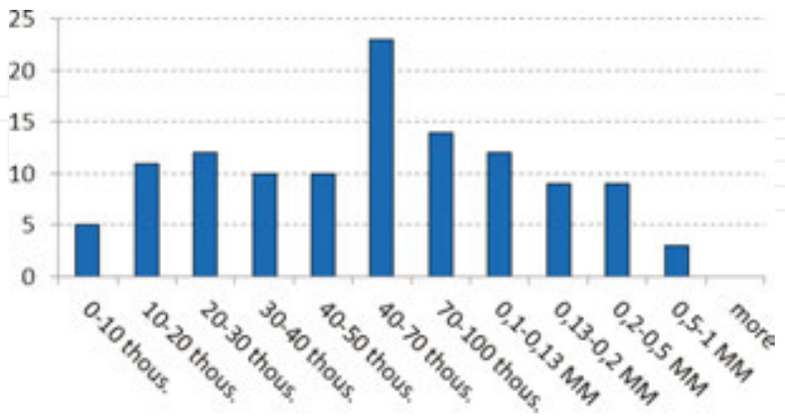


Figure 69. Distribution of revenue in Celje RAA in 2013.

The scatter diagram focuses on the smallest law offices and shows the correlation between net result and revenue. This regional market is less interesting, as each additional unit of revenue contributes, on average, only 0.08 cents to the net result (**Figure 75**).

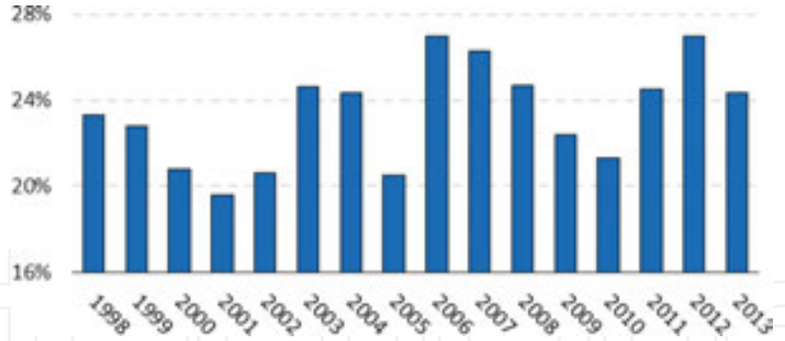


Figure 70. TOP 5 market concentration in Celje RAA.

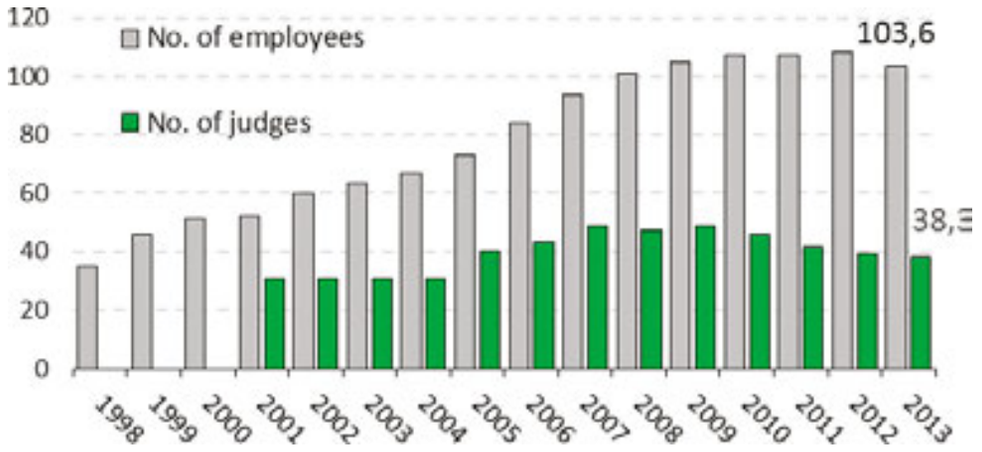


Figure 71. Number of judges and employees in attorneyship per 100,000 inhabitants (Celje RAA).

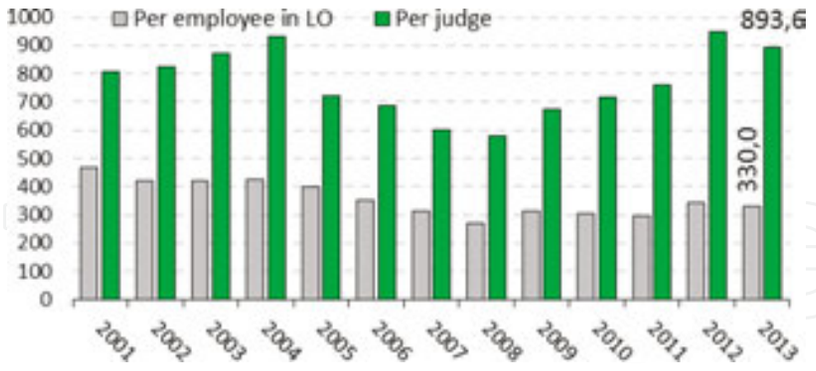


Figure 72. Number of new court cases per judge and per employee in LO (Celje RAA).

The data for Celje RAA show that the smallest law offices were constantly under pressure to lower net profit margin. After 2006, the situation worsened drastically for those who generated a revenue of up to 25,000 €. Quite unusual is the fact that net profit margins of law offices with a turnover of over 50,000 € have already declined in 2004. The negative trend was somewhat alleviated in 2013, as a consequence of tax effects.

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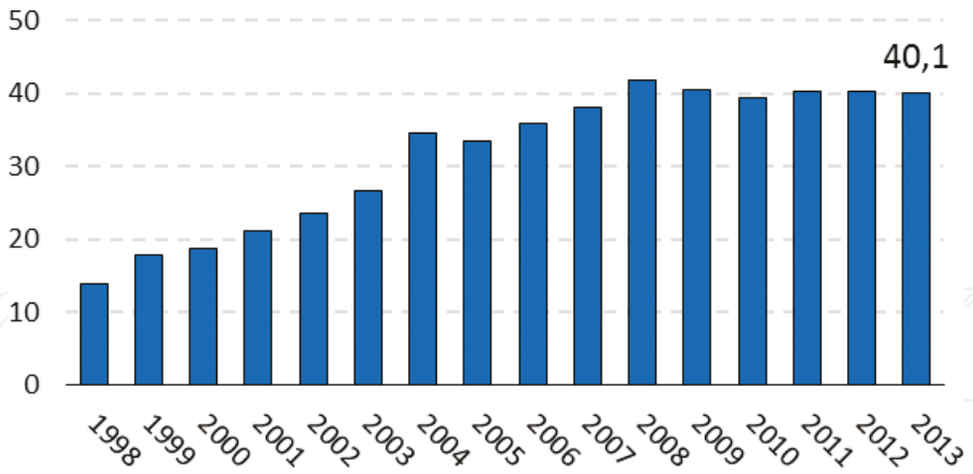


Figure 73. LO revenue per inhabitant (Celje RAA).

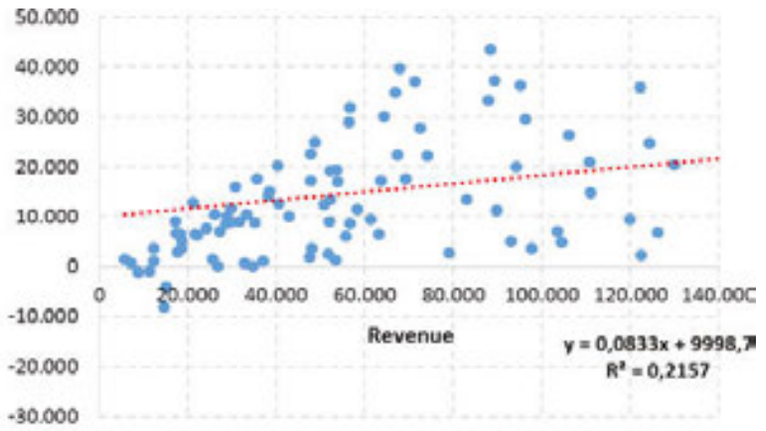


Figure 74. Correlation between net result and revenue.

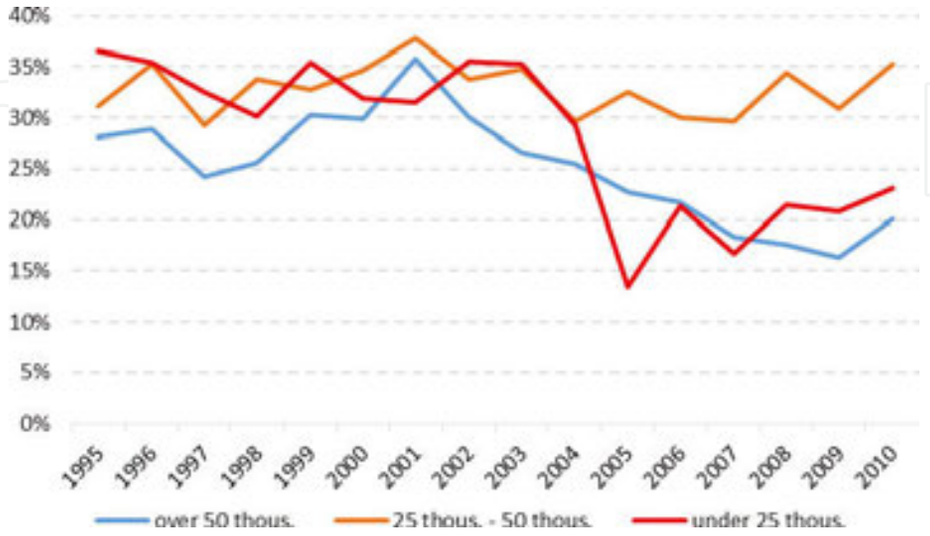


Figure 75. Net profit margin by size class of revenue for law offices.

2.4.4. Koper RAA

Koper RAA comprises the area of the judicial district of Koper, which includes the following general courts: High Court, District Court and 5 county courts, as well as a specialised Labour Court. In 2015, 86 law offices were registered in Koper RAA, which employed 198 persons, of which 61 worked in law firms. The vast majority (82.6%) were registered as a registered attorney, and the rest were registered as a limited liability company (d.o.o.) (**Table 7**).



Organisational form	0–1 employee	2–3 employees	4 and more employees	Total
Limited liability company (d.o.o.)	1 (1.2%)	8 (9.2%)	6 (7.0%)	15 (17.4%)
Attorney	40 (46.5%)	25 (29.1%)	6 (7.0%)	71 (82.6%)
Total	41 (47.7%)	33 (38.3%)	12 (14.0%)	86 (100%)

Table 7. Number of law offices by organisational form and by size class of employment in Koper RAA in 2015.

Almost 48% of law offices in Koper RAA employ a maximum of one employee, while over 38% employ 2–3 employees. A fairly stable growth of employment is evident since 1995, but it slowed down slightly after 2008 (**Figure 76**).

Koper RAA represents a fairly dynamic part of the Slovenian market of attorneys' services, with total revenue increasing by 3 times compared to 1998. A strong trend of transitioning to the organisational form of a law firm can also be identified after 2008. Since 1998, this market has experienced a growth that ended in 2009, when it stabilised at the revenue level of around 7.3 million €. The average revenue per employee in a law firm was growing until 2008 when it reached a turning point and began to decline. The profit per employee in a law firm was growing until 2007 when it began to decline as well.

The distribution of revenue by size classes shows a fairly high number of large law offices. This fact corresponds with a comparatively high market concentration in the market of attorneys'

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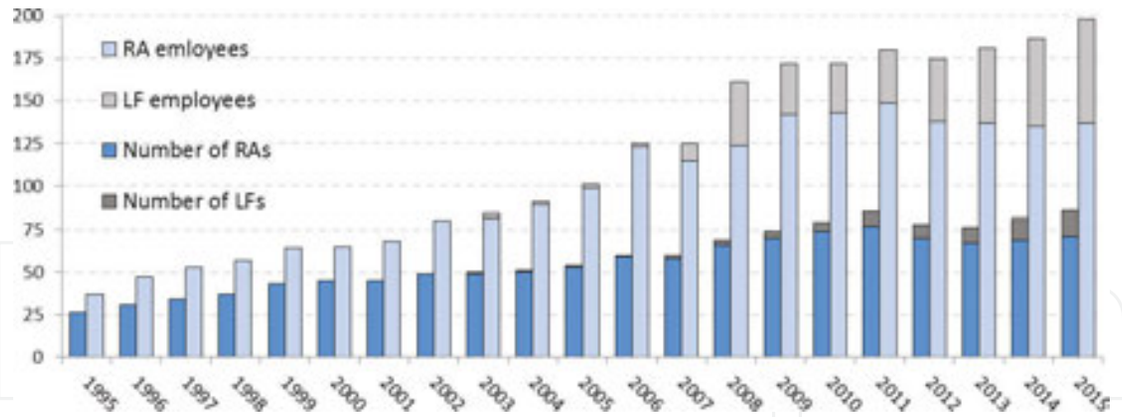


Figure 76. Number of law offices and employees in Koper RAA (1995–2015). Source: ZZZS [16].

services in the territory of Koper RAA, which amounts to around 42% for the TOP5 law firms (**Figures 77–80**).

Attorney network coverage in Koper RAA is at the level of 123 employees in attorneyship per 100,000 inhabitants. The ratio between the number of employees in the attorneyship and the number of judges (2.5 in 2013) is rather favourable. The number of judges is decreasing, while

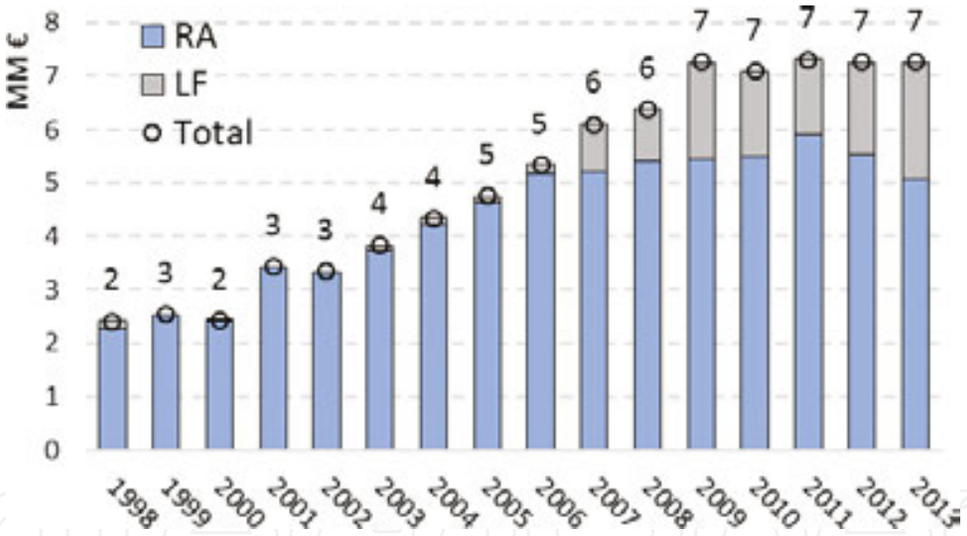


Figure 77. LO revenue in Koper RAA.



Figure 78. LF revenue and profit per employee (Koper RAA).

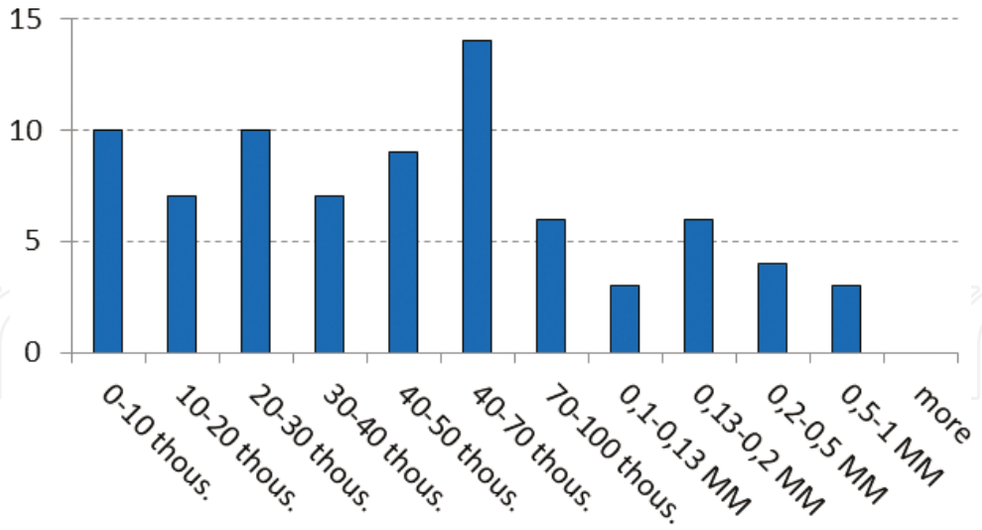


Figure 79. Distribution of revenue in Koper RAA in 2013.

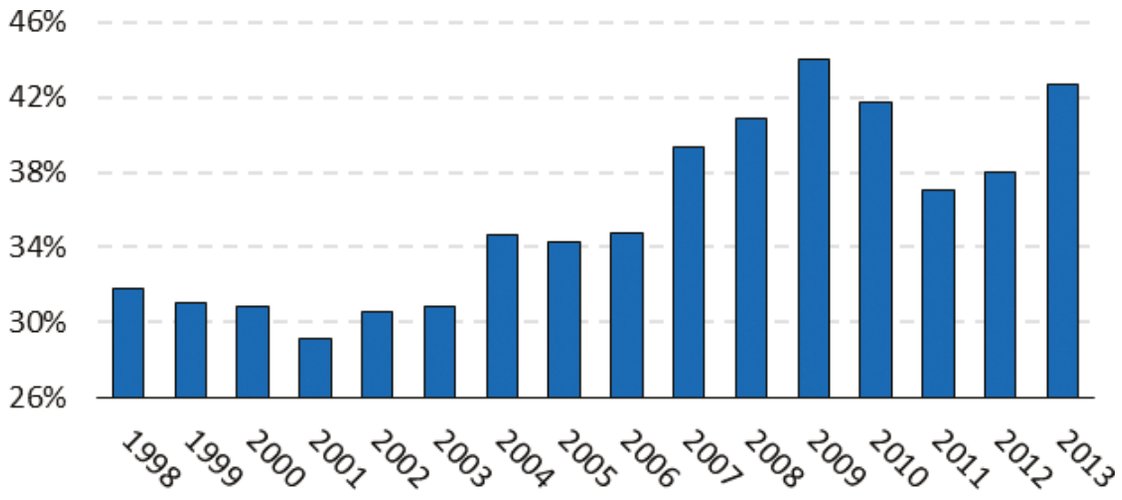


Figure 80. TOP 5 market concentration in Koper RAA.

the number of persons employed in attorneyship came to a halt after 2009. A relatively high number of cases per judge and per employee in attorneyship suggests the possibility of future growth; however, a very low level of revenue of law offices per inhabitant (49.2 €) fails to indicate any possibility of their funding (**Figures 81–84**).

The scatter diagram focuses on the smallest law offices and shows the correlation between net result and revenue. This regional market is very interesting, as each additional unit of revenue contributes, on average, 0.26 cents to the net result (**Figure 85**).

The data for Koper RAA show that the smallest law offices were constantly under pressure to lower net profit margin. After 2003, the situation worsened drastically for those who generated a revenue of up to 25,000 €. It was only in 2013 and 2014 that the law offices with a turnover of between 25,000 € and 50,000 € recovered, as a consequence of tax effects.

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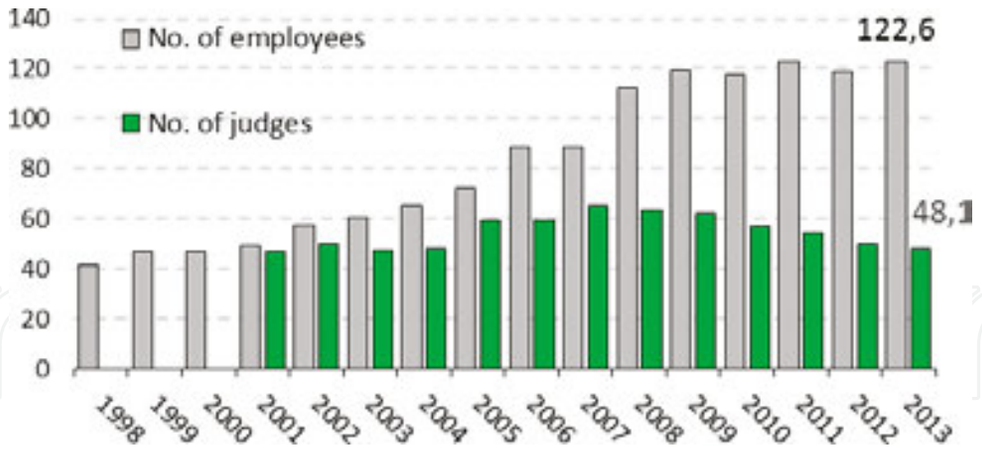


Figure 81. Number of judges and employees in attorneyship per 100,000 inhabitants (Koper RAA).

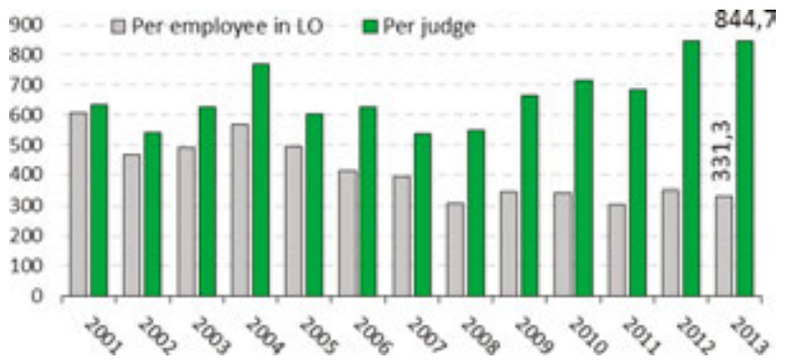


Figure 82. Number of new court cases per judge and per employee in LO (Koper RAA).

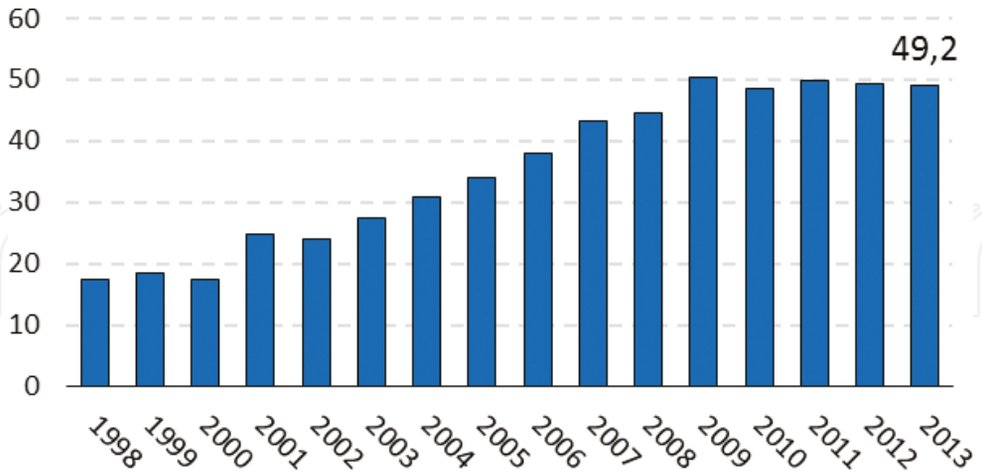


Figure 83. LO revenue per inhabitant (Koper RAA).

2.4.5. Kranj RAA

Kranj RAA comprises the area of the judicial district of Kranj, which includes the following general courts: District Court and 4 county courts. In 2015, 80 law offices were registered in

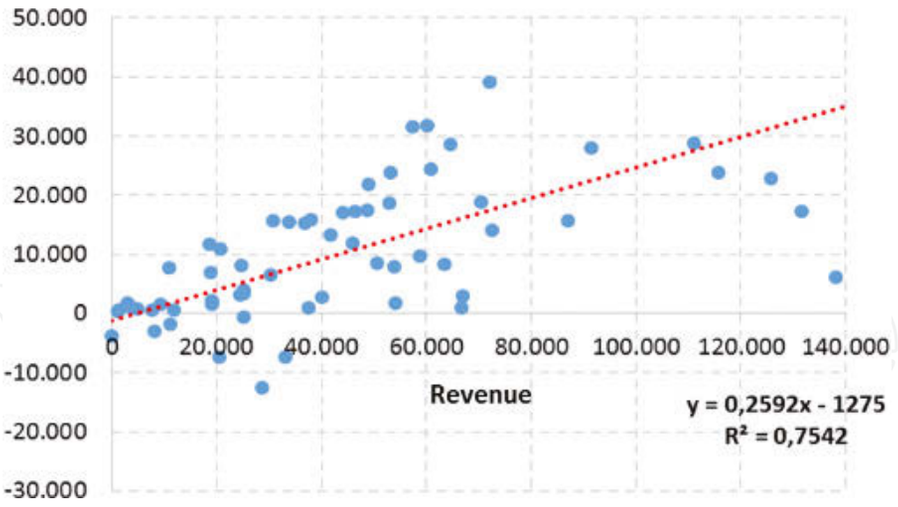


Figure 84. Correlation between net result and revenue.

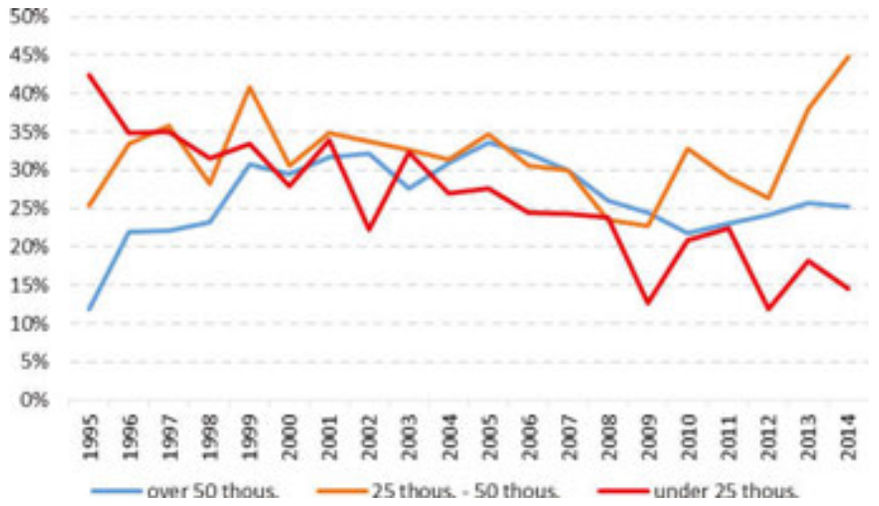


Figure 85. Net profit margin by size class of revenue for law offices.

Kranj RAA, which employed 184 persons, of which 62 worked in law firms. The vast majority (81.3%) were registered as a registered attorney, and the rest were registered as a limited liability company (d.o.o.) (**Table 8**).

Almost 49% of law offices in Kranj RAA employ a maximum of one employee, while 36% employ 2–3 employees. A very strong employment dynamics is evident in the period from 1995 to 2009 but was followed by the stagnation of employment until 2015 (**Figure 86**).

Kranj RAA represents a fairly dynamic part of the Slovenian market of attorneys' services, with total revenue increasing only by about 3.3 times compared to 1998. A strong trend of transitioning to the organisational form of a law firm can also be identified after 2007. Since 1998, this market has experienced declines in revenue in 2005, 2007 and 2012. Despite the strong fluctuations, the average revenue per employee in law firms follows a positive trend.

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Organisational form	0–1 employee	2–3 employees	4 and more employees	Total
Limited liability company (d.o.o.)	3 (3.8%)	5 (6.3%)	7 (8.8%)	15 (18.8%)
Attorney	36 (45.0%)	24 (30.0%)	5 (6.3%)	65 (81.3%)
Total	39 (48.8%)	29 (36.3%)	12 (15.1%)	80 (100%)

Table 8. Number of law offices by organisational form and by size class of employment in Kranj RAA in 2015.

The distribution of revenue by size classes shows a prevailing number of small law offices. Market concentration in the market of attorneys' services in the territory of Kranj RAA has been increasing until 2006 (42.5%), but then it declined to around 31% for the TOP5 law firms (**Figures 87–90**).

Attorney network coverage in Kranj RAA is at the level of 87 employees in attorneyship per 100,000 inhabitants. The ratio between the number of employees in the attorneyship and the number of judges (3.5 in 2013) is rather favourable. The number of judges is slightly decreasing, while the number of persons employed in attorneyship came to a halt after 2008.

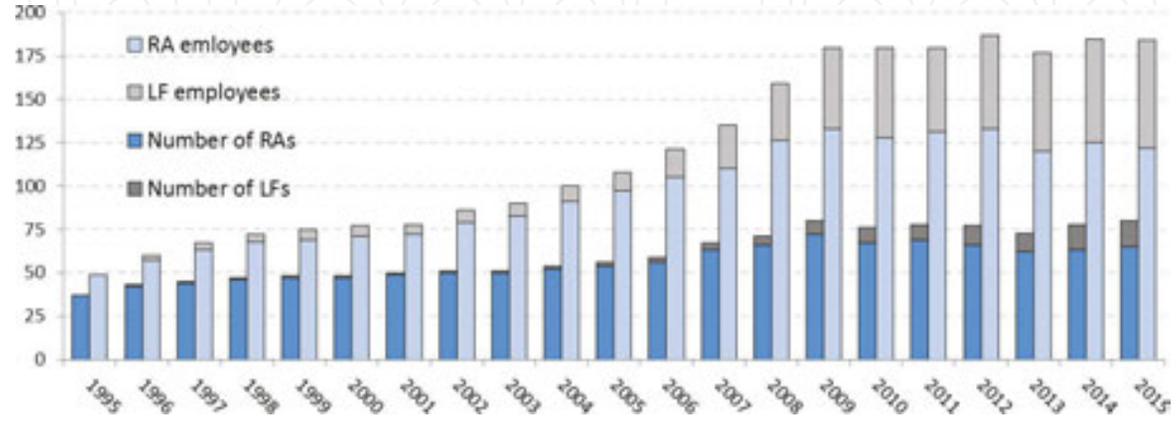


Figure 86. Number of law offices and employees in Kranj RAA (1995–2015). Source: ZZZS [16].

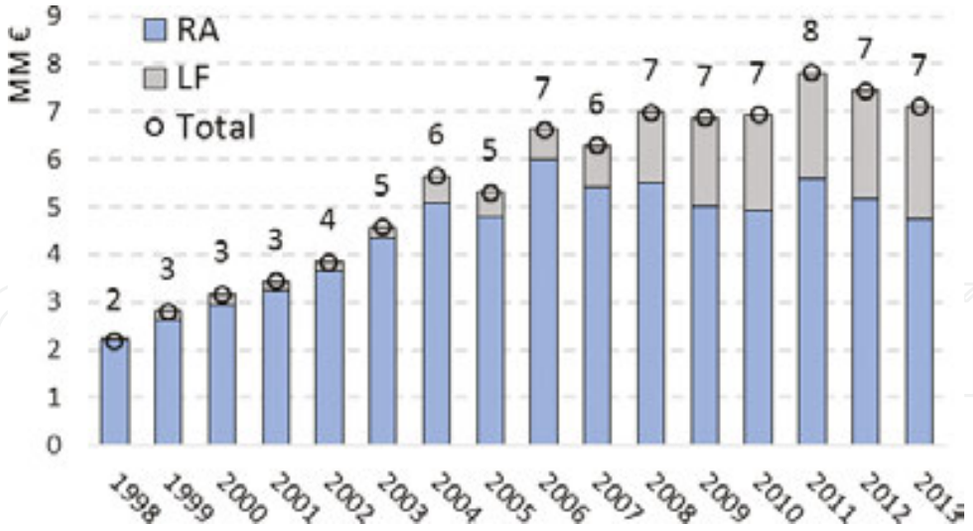


Figure 87. LO revenue in Kranj RAA.

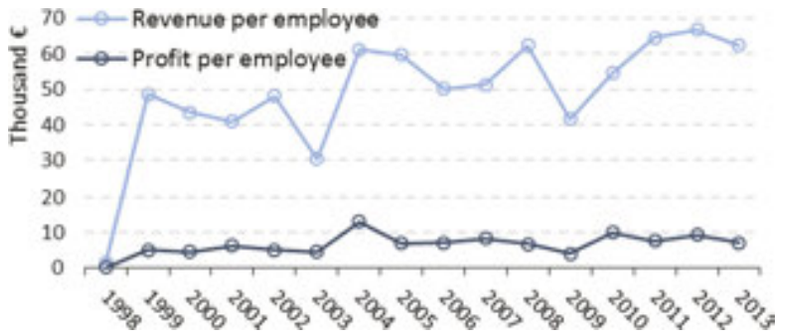


Figure 88. LF revenue and profit per employee (Kranj RAA).

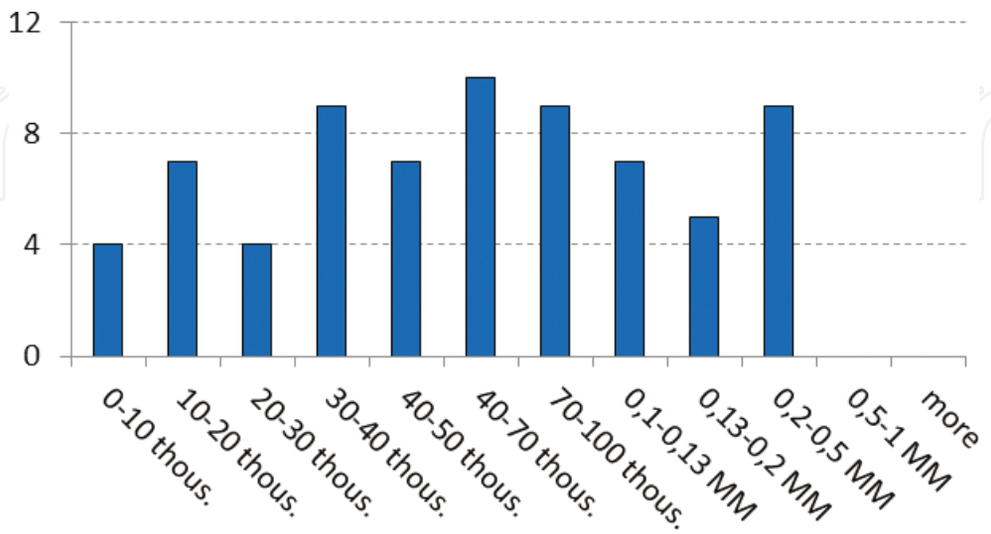


Figure 89. Distribution of revenue in Kranj RAA in 2013.

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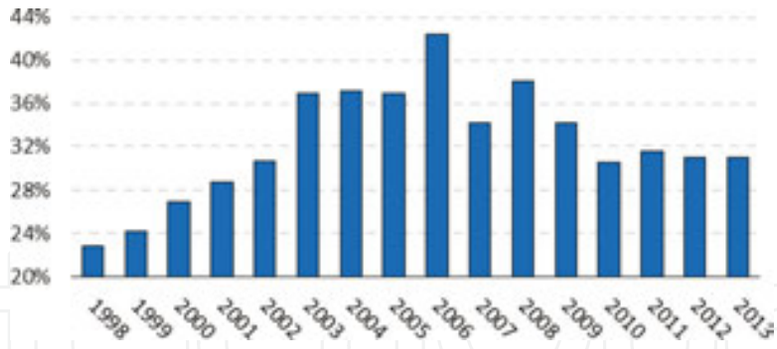


Figure 90. TOP 5 market concentration in Kranj RAA.

A relatively high number of cases per judge and per employee in attorneyship suggests the possibility of future growth; however, a very low level of revenue of law offices per inhabitant (34.9 €) fails to indicate any possibility of their funding (**Figures 91–94**).

The scatter diagram focuses on the smallest law offices and shows the correlation between net result and revenue. This regional market is less interesting, as each additional unit of revenue contributes, on average, only 0.06 cents to the net result (**Figure 95**).

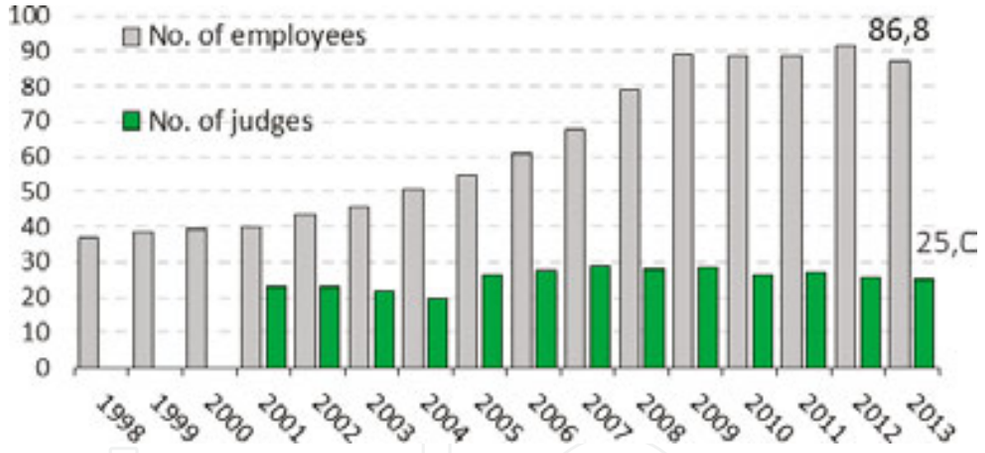


Figure 91. Number of judges and employees in attorneyship per 100,000 inhabitants (Kranj RAA).

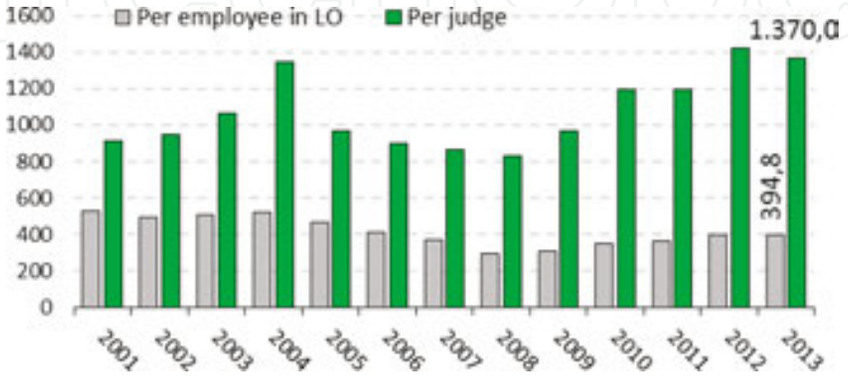


Figure 92. Number of new court cases per judge and per employee in LO.

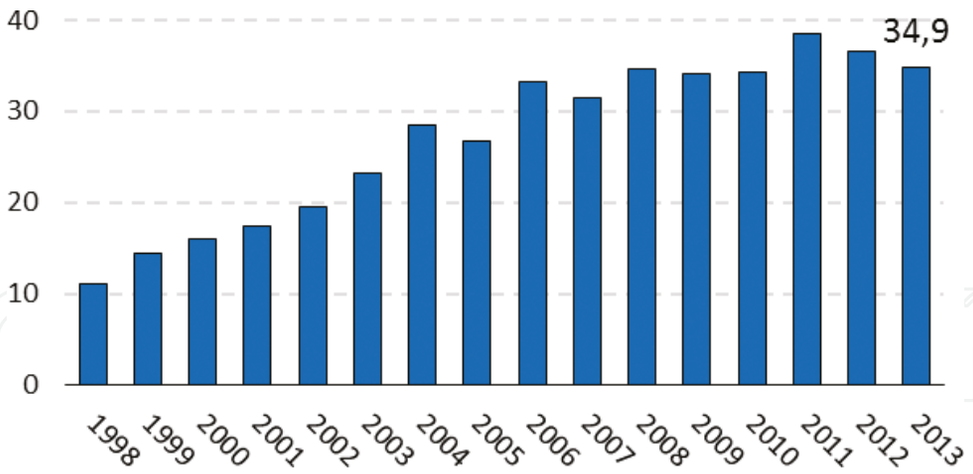


Figure 93. LO revenue per inhabitant (Kranj RAA).

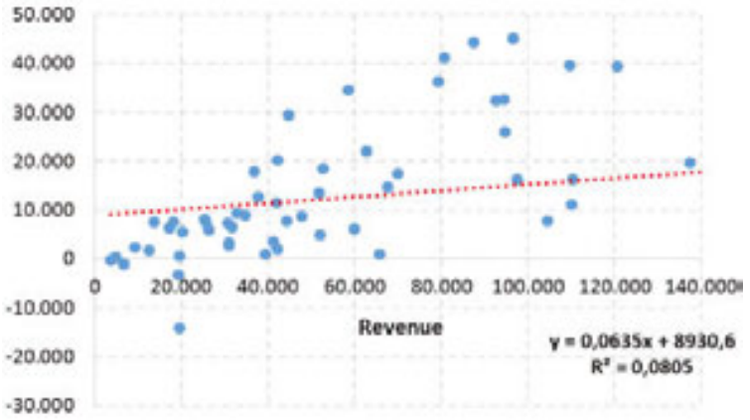


Figure 94. Correlation between net result and revenue.

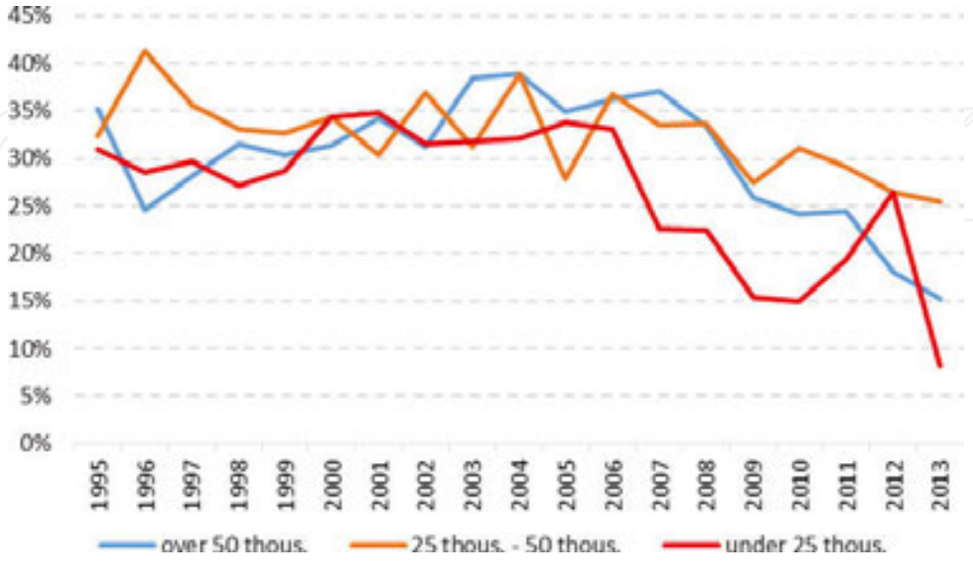


Figure 95. Net profit margin by size class of revenue for law offices.

The data for Kranj RAA show that the smallest law offices were constantly under pressure to lower net profit margin. After 2005, the situation worsened drastically for those who generated a revenue of up to 25,000 €, as well as for those with a turnover of over 50,000 €. Even tax effects have not alleviated this negative trend.

2.4.6. Nova Gorica RAA

Nova Gorica RAA comprises the area of judicial district Nova Gorica, which includes the following general courts: District Court and 4 county courts. In 2015, 45 law offices were registered in Nova Gorica RAA, which employed 102 people, of which 26 worked in law firms.



Organisational form	0–1 employee	2–3 employees	4 and more employees	Total
Limited liability company (d.o.o.)	0 (0.0%)	3 (6.7%)	4 (8.9%)	7 (15.6%)
Attorney	18 (40.0%)	15 (33.3%)	4 (8.9%)	37 (82.2%)
Sole proprietor (s.p.)	1 (2.2%)	0 (0.0%)	0 (0.0%)	1 (2.2%)
Total	19 (42.2%)	18 (40%)	8 (17.8%)	45 (100%)

Table 9. Number of law offices by organisational form and by size class of employment in Nova Gorica RAA in 2015.

The vast majority (82.2%) were registered as a registered attorney, while the rest were registered as a limited liability company (d.o.o.) and one private entrepreneur (**Table 9**).

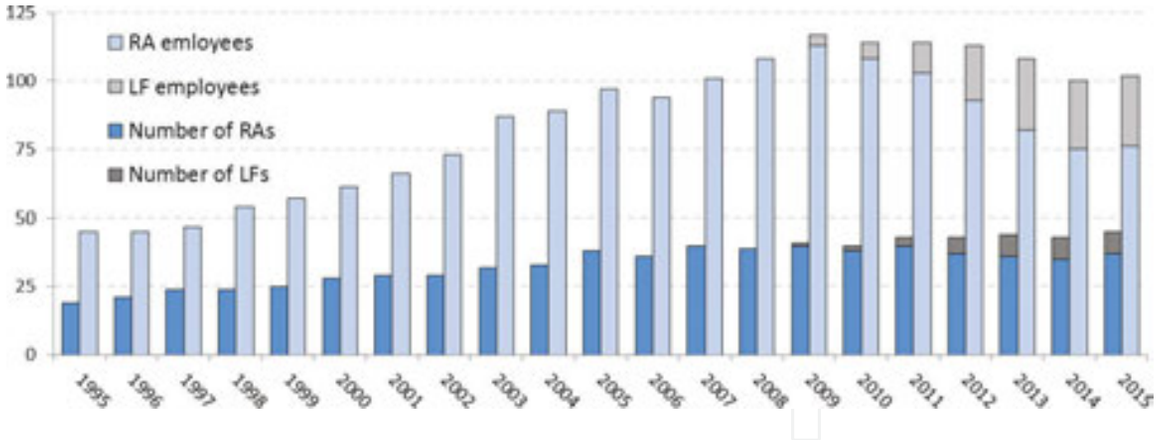


Figure 96. Number of law offices and employees in Nova Gorica RAA (1995–2015). Source: ZZZS [16].

Just over 42% of law offices in Nova Gorica RAA employ a maximum of one employee, while 40% employ 2–3 employees. A very strong employment dynamics is evident in the period from 1995 to 2009, but it later declined (**Figure 96**).

Nova Gorica RAA represents a dynamic part of the Slovenian market of attorneys' services, with total revenue increasing by almost 2.6 times compared to 1998. A strong trend of transitioning to the organisational form of a law firm can also be identified after 2010. Until 2008, this market was experiencing a revenue growth, which was then followed by a slow stagnation. The average revenue per employee in law firms was growing until its turning point in 2010 but has been declining ever since. The profit per employee in a law firm has followed a negative trend since 2008.

The distribution of revenue by size classes shows a prevailing number of small law offices. Market concentration in the market of attorneys' services in the territory of Nova Gorica RAA was relatively high until 2010, but then it declined sharply to around 26% for the TOP5 law firms (**Figures 97–100**).

Attorney network coverage in Nova Gorica RAA is at the level of 91 employees in attorneyship per 100,000 inhabitants. The ratio between the number of employees in the attorneyship and the number of judges (3.4 in 2013) is rather favourable. The number of judges is slightly

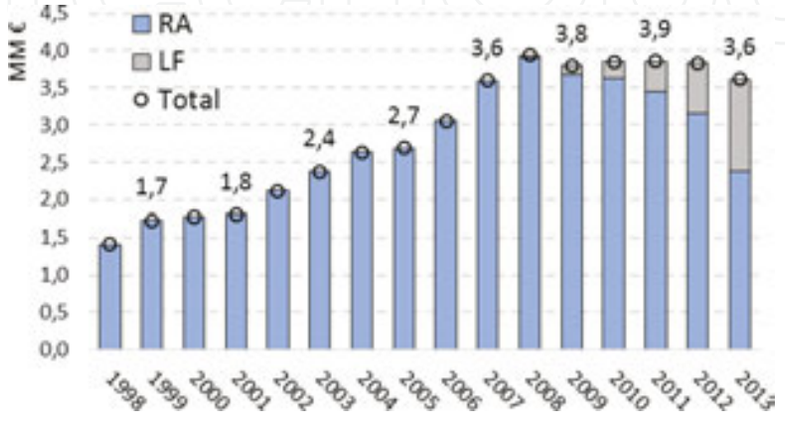


Figure 97. LO revenue in Nova Gorica RAA.

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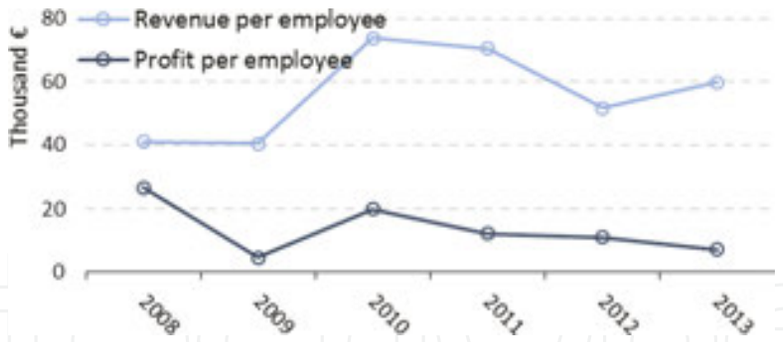


Figure 98. LF revenue and profit per employee (Nova Gorica RAA).

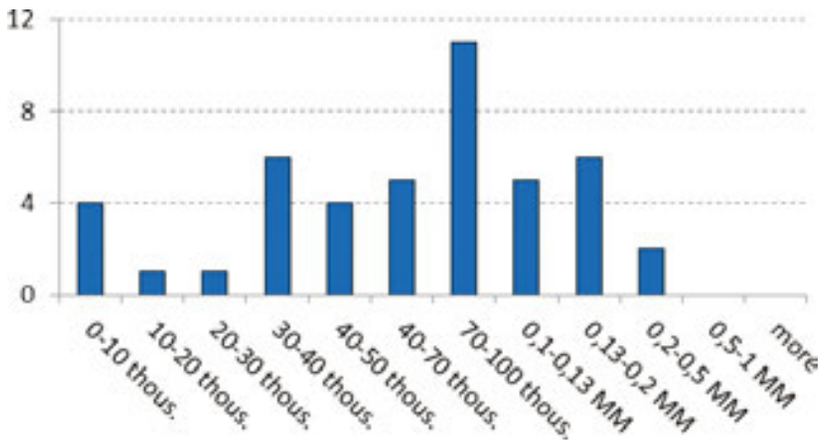


Figure 99. Distribution of revenue in Nova Gorica RAA in 2013.

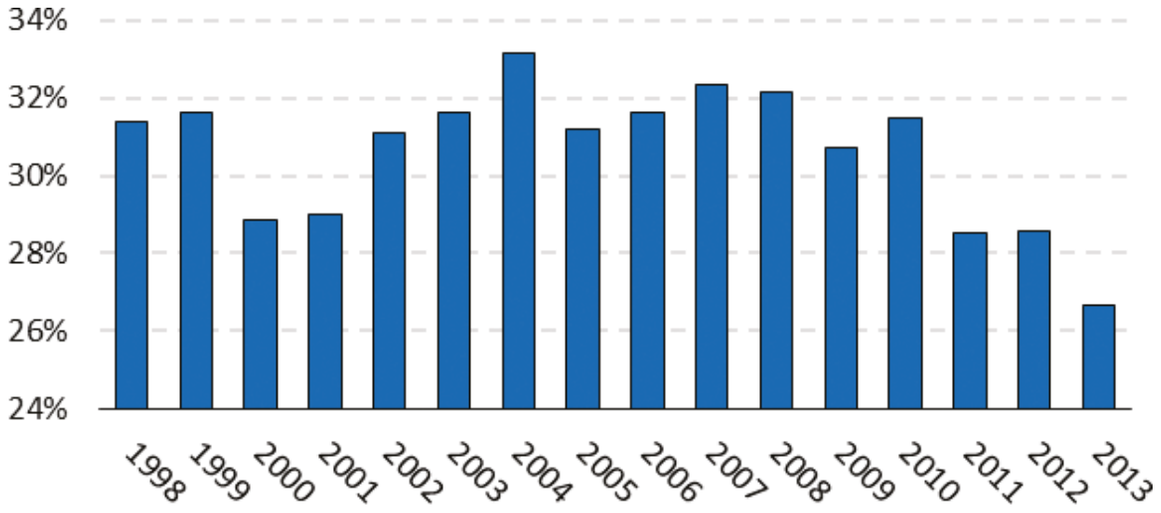


Figure 100. TOP 5 market concentration in Nova Gorica RAA.

decreasing, and the number of persons employed in attorneyship has slightly decreased since 2009 as well. A relatively high number of cases per judge and per employee in attorneyship suggests the possibility of future growth; however, a very low level of revenue of law offices per inhabitant (30.4 €) fails to indicate any possibility of their funding (**Figures 101–104**).

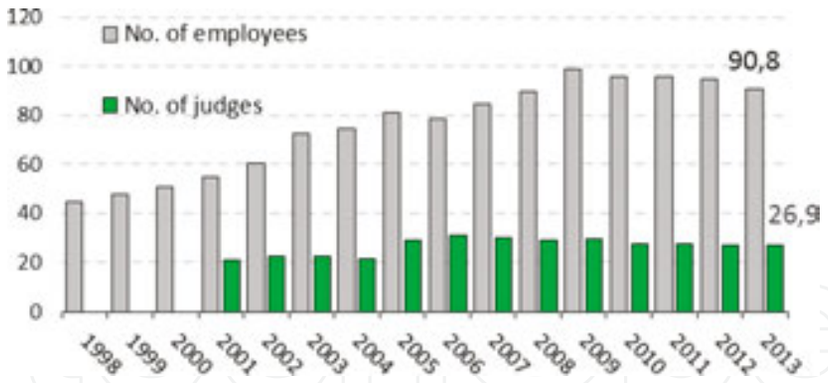


Figure 101. Number of judges and employees in attorneyship per 100,000 inhabitants (Nova Gorica RAA).

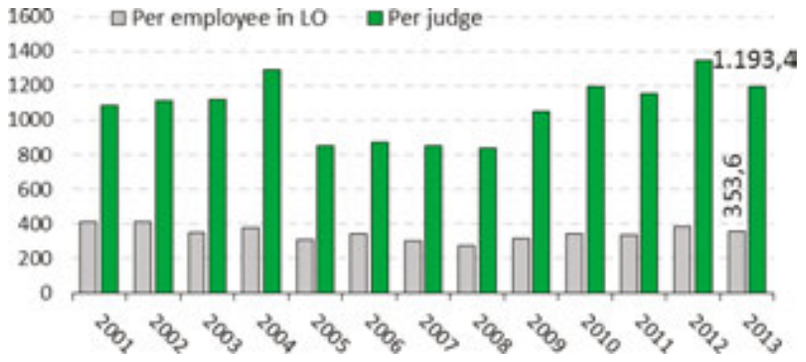


Figure 102. Number of new court cases per judge and per employee in LO (Nova Gorica RAA).

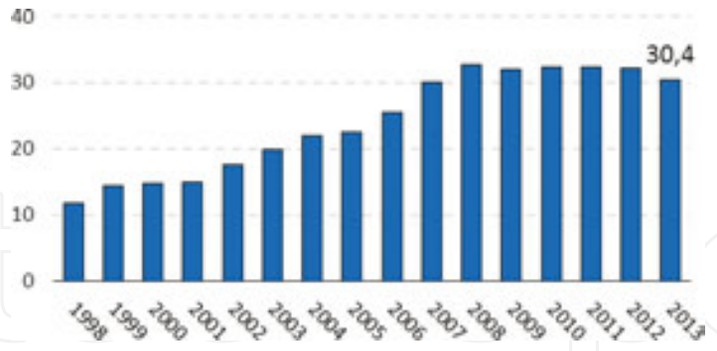


Figure 103. LO revenue per inhabitant (Nova Gorica RAA).

The scatter diagram focuses on the smallest law offices and shows the correlation between net result and revenue. This regional market is less interesting, as each additional unit of revenue contributes, on average, only 0.08 cents to the net result (**Figure 105**).

The data for Nova Gorica RAA are particularly notable, since they show that law offices with a turnover of over 25,000 € did not experience any particular pressure on net profit margins. However, because of a low number of the smallest firms, the interpretation of their value did not make much sense.

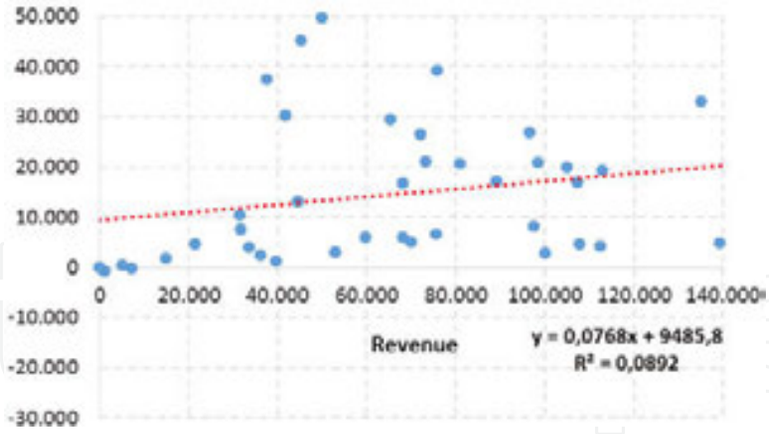


Figure 104. Correlation between net result and revenue.

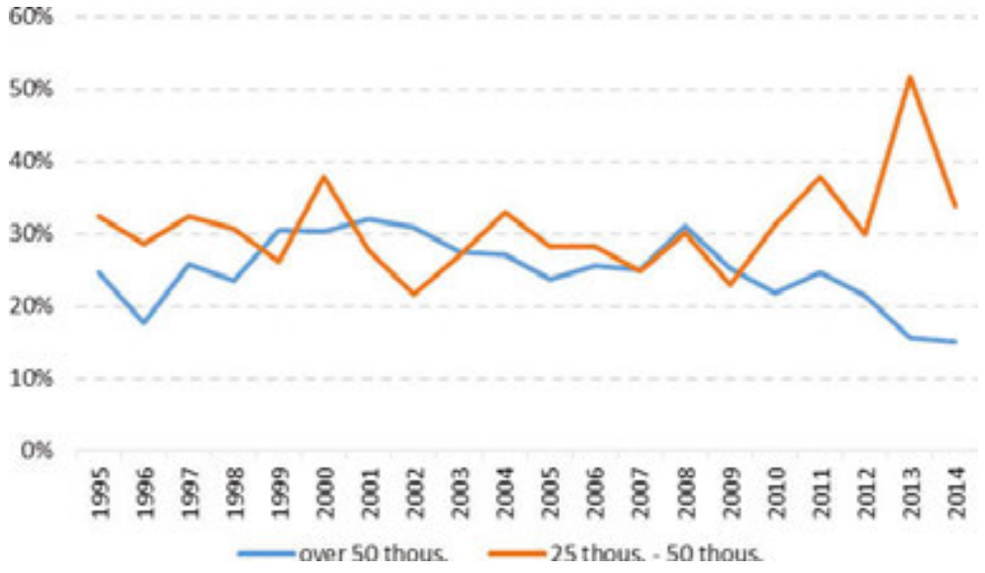


Figure 105. Net profit margin by size class of revenue for law offices.

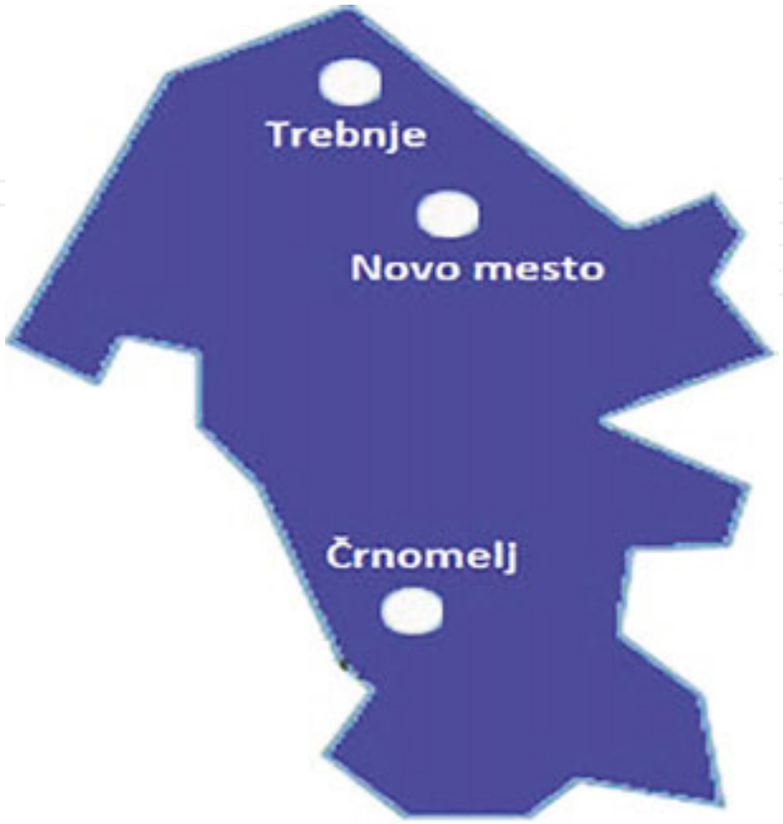
2.4.7. Novo mesto RAA

Novo mesto RAA comprises the area of judicial district Novo mesto, which includes the following general courts: District Court and 3 county courts. In 2015, 42 law offices were registered in Novo mesto RAA, which employed 97 persons, of which 24 worked in law firms. The vast majority (88.1%) were registered as a registered attorney and the rest were registered as a limited liability company (d.o.o.) (**Table 10**).

Just over 40% of law offices in Novo mesto RAA employ a maximum of one employee, while almost 43% employ 2–3 employees. A moderate employment dynamics is evident in the period from 1995 to 2010, but it gained momentum in the period 2007–2015 (**Figure 106**).

Novo mesto RAA represents a fairly dynamic part of the Slovenian market of attorneys' services, with total revenue increasing by 2.4 times compared to 1998. A strong trend of transitioning to the organisational form of a law firm can also be identified after 2002. Since 1998, this market has experienced declines in revenue in 2000 and 2011. The average revenue per employee in law

firms was growing until 2007 when it experienced a significant decline. The profit per employee in law firms has stagnated since 2005.



Organisational form	0–1 employee	2–3 employees	4 and more employees	Total
Limited liability company (d.o.o.)	0 (0.0%)	2 (4.8%)	3 (7.1%)	5 (11.9%)
Attorney	17 (40.5%)	16 (38.1%)	4 (9.5%)	37 (88.1%)
Total	17 (40.5%)	18 (42.9%)	7 (16.7%)	42 (100%)

Table 10. Number of law offices by organisational form and by size class of employment in Novo Mesto RAA in 2015.

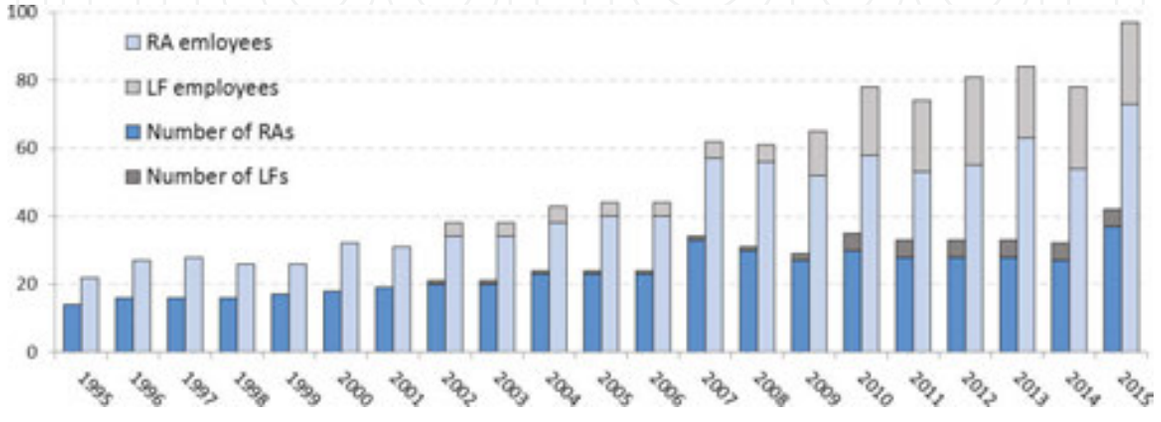


Figure 106. Number of law offices and employees in Novo Mesto RAA (1995–2015).

The distribution of revenue by size classes shows a prevailing number of small law offices. Market concentration in the market of attorneys' services in the territory of Novo mesto was relatively high until 2004 (42.5%), but then it declined to around 26% for the TOP5 law firms (**Figures 107–110**).

Attorney network coverage in Novo mesto RAA is at the level of 76 employees in attorneyship per 100,000 inhabitants. The ratio between the number of employees in the attorneyship and the number of judges (2.6 in 2013) is rather favourable. The number of judges is slightly decreasing, while the number of persons employed in attorneyship shows a positive growth trend. A relatively high number of cases per judge and per employee in attorneyship suggests the possibility of future growth; however, a very low level of revenue of law offices per inhabitant (25.2 €) fails to indicate any possibility of their funding (**Figures 111–114**).

The scatter diagram focuses on the smallest law offices and shows the correlation between net result and revenue. This regional market is less interesting, as each additional unit of revenue contributes, on average, only 0.09 cents to the net result (**Figure 115**).

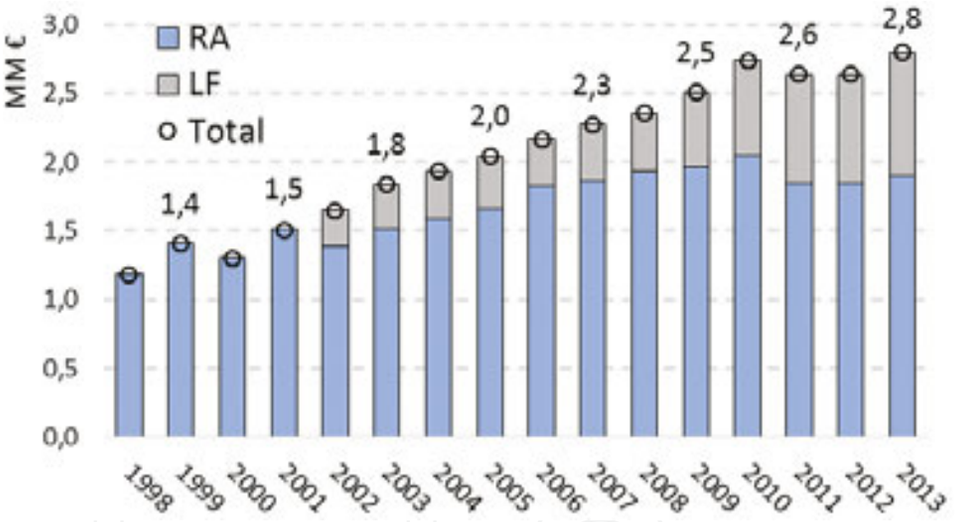


Figure 107. LO revenue in Novo Mesto RAA.



Figure 108. LF revenue and profit per employee (Novo Mesto RAA).

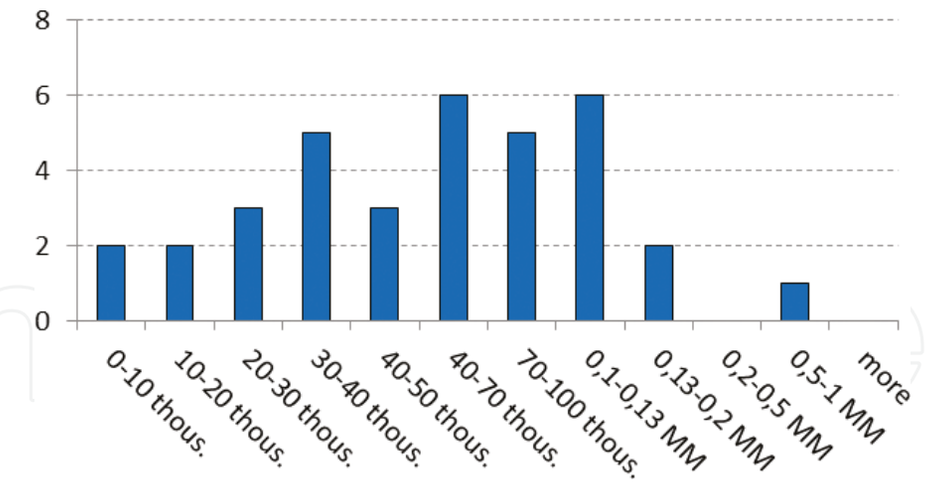


Figure 109. Distribution of revenue in Novo Mesto RAA in 2013.

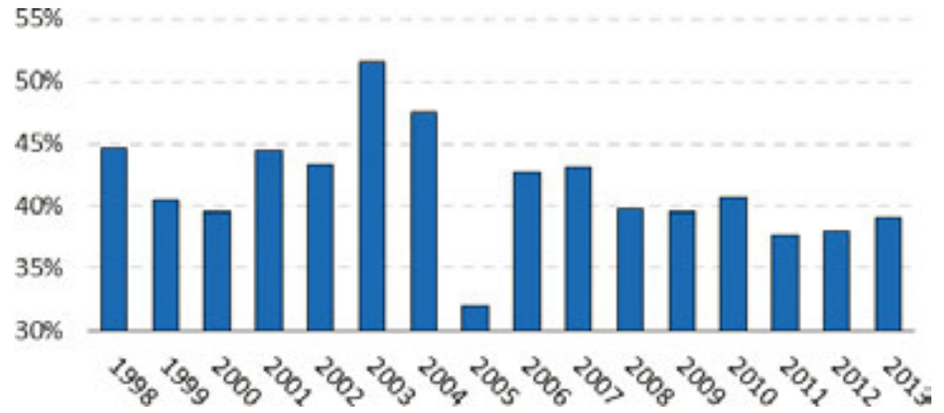


Figure 110. TOP 5 market concentration in Novo Mesto RAA.

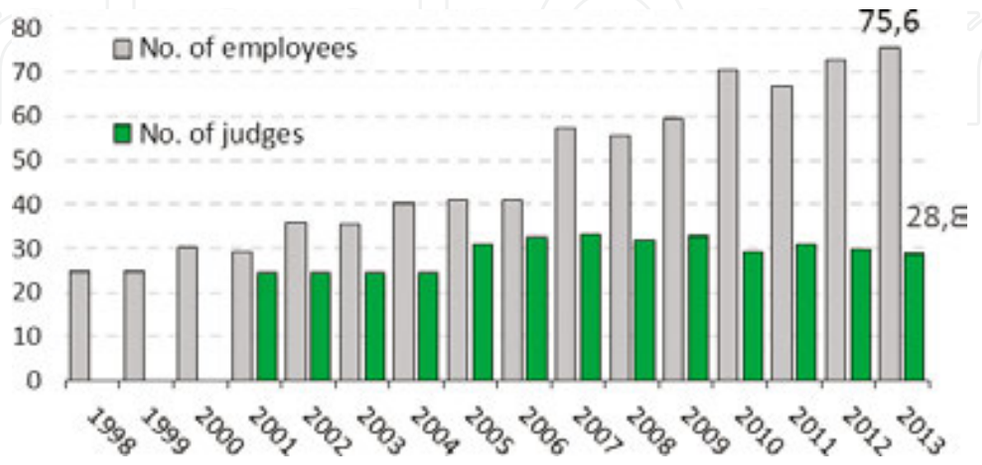


Figure 111. Number of judges and employees in attorneyship per 100,000 inhabitants (Novo Mesto RAA).

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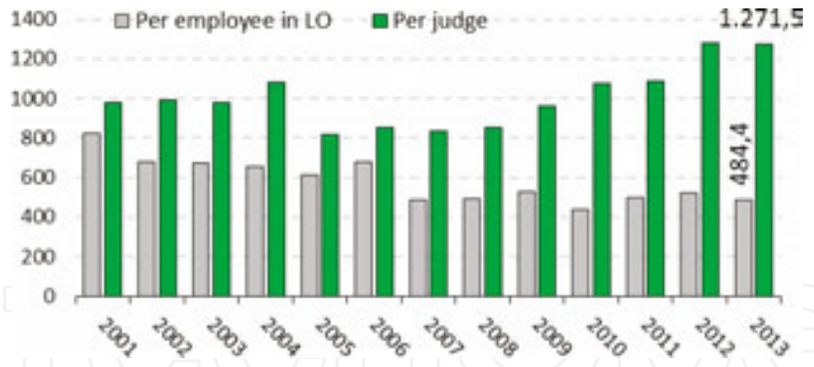


Figure 112. Number of new court cases per judge and per employee in LO (Novo Mesto RAA).

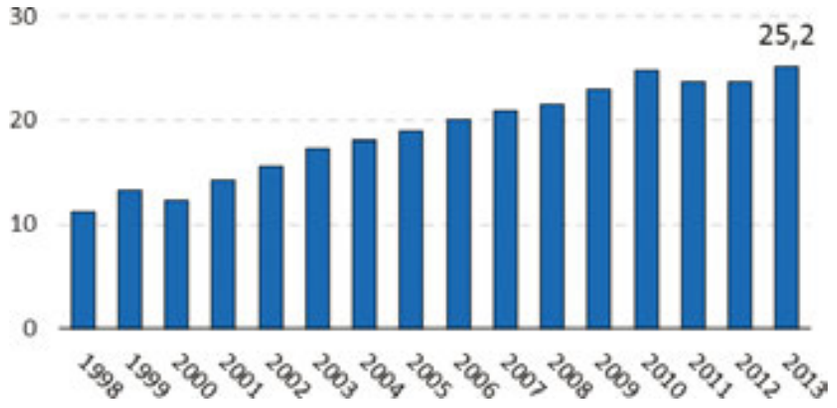


Figure 113. LO revenue per inhabitant (Novo Mesto RAA).

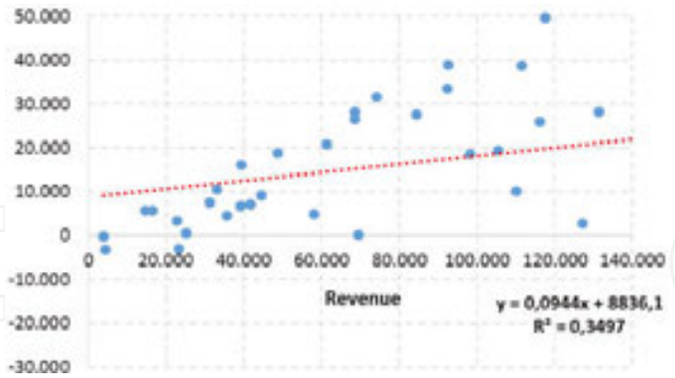


Figure 114. Correlation between net result and revenue.

The data for Novo mesto RAA show that the smallest law offices were exposed to a high volatility of net profit margin. After 2009, the situation worsened drastically for those who generated a revenue of up to 25,000 €. For all other law offices, net profit margin stabilised at the level of around 22% in 2013. The negative trend was somewhat alleviated in 2013, as a consequence of tax effects.

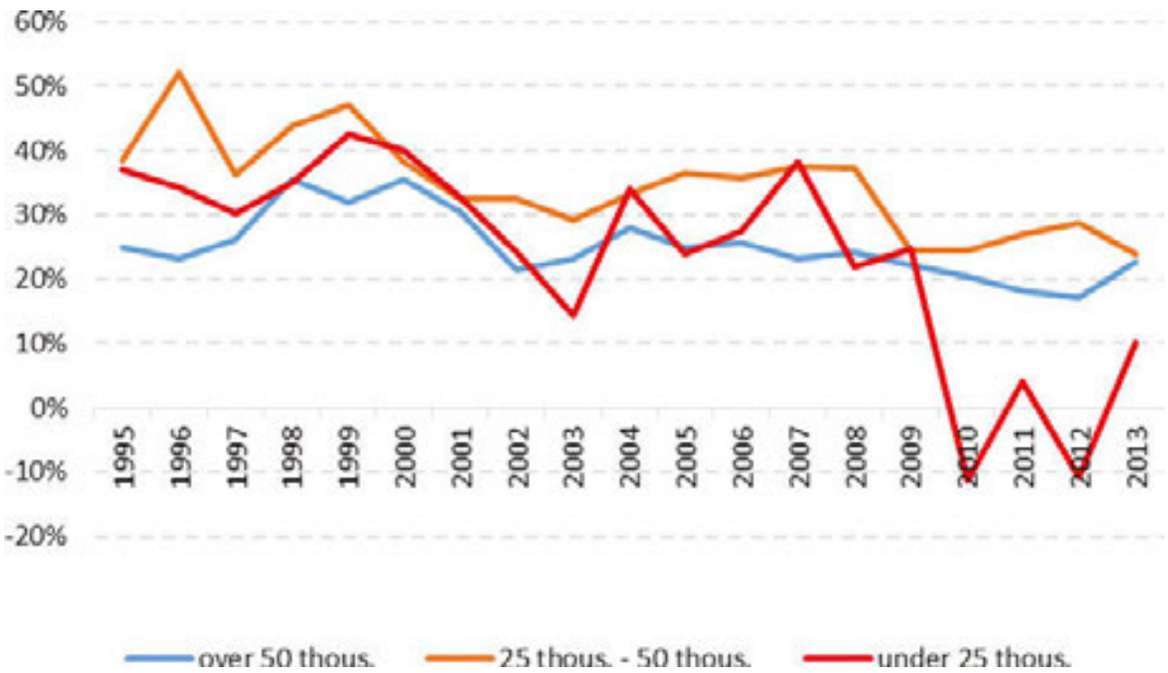


Figure 115. Net profit margin by size class of revenue for law offices.

2.4.8. Pomurje RAA

Pomurje RAA comprises the area of the judicial district of Murska Sobota, which includes the following general courts: District Court and 4 county courts. In 2015, 39 law offices were registered in Pomurje RAA, which employed 76 persons.



Organisational form	0–1 employee	2–3 employees	4 and more employees	Total
Attorney	17 (43.6%)	19 (48.7%)	3 (7.7%)	39 (100%)

Table 11. Number of law offices by organisational form and by size class of employment in Pomurje RAA in 2015.

Almost 404 law offices in Pomurje RAA employ a maximum of one employee, while almost 49% employ 2–3 employees. A very strong employment dynamics is evident in the period from 1995 to 2011, which later only declined (**Figure 116**).

Pomurje RAA represents the least dynamic part of the Slovenian market of attorneys' services, since total revenue in 2013 is at the same level as in 1999 and lower than in 1998. This market experienced growth only in the period 2007 to 2010, which was then again followed by a decline in revenue. The average revenue per employee in a law firm has been growing since 2008. The profit per employee in a law firm was decreasing from 2007 to 2009 and then proceeded to stagnate at a relatively low level.

The distribution of revenue by size classes shows a prevailing number of small law offices. Market concentration in the market of attorneys' services in the territory of Pomurje RAA was relatively high until 1999 (60%), but then it declined to around 37% for the TOP5 law firms (**Figures 117–120**).

Attorney network coverage in Pomurska RAA is at the level of 71 employees in attorneyship per 100,000 inhabitants. The ratio between the number of employees in the attorneyship and the number of judges (2.1 in 2013) is rather favourable. The number of judges is slightly decreasing, while the number of persons employed in attorneyship came to a halt after 2011. A relatively high number of cases per judge and per employee in attorneyship suggests the possibility of future growth; however, a very low level of revenue of law offices per inhabitant (24.6 €) fails to indicate any possibility of their funding (**Figures 121–124**).

The scatter diagram focuses on the smallest law offices and shows the correlation between net result and revenue. This regional market is very interesting, as each additional unit of revenue contributes, on average, 0.33 cents to the net result (**Figure 125**).

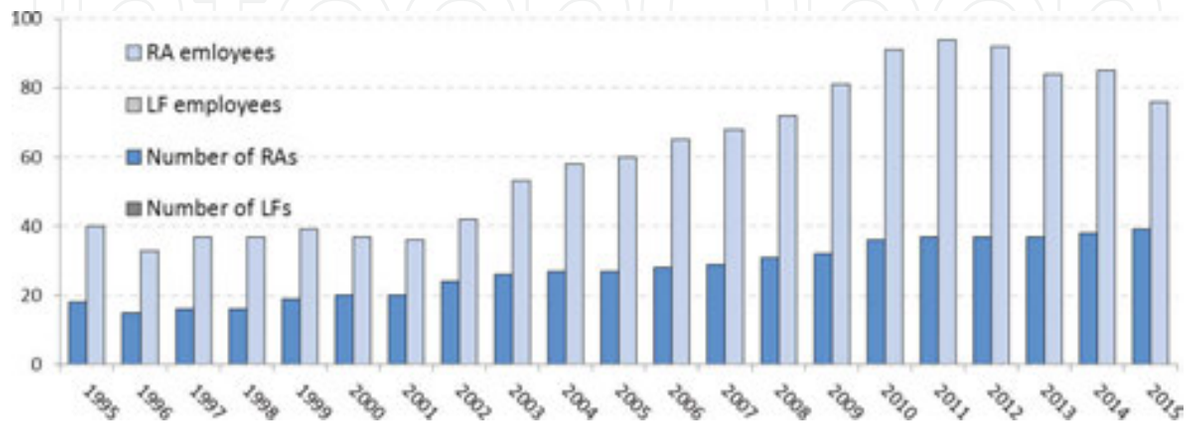


Figure 116. Number of law offices and employees in Pomurje RAA (1995–2015). Source: ZZZS [16].

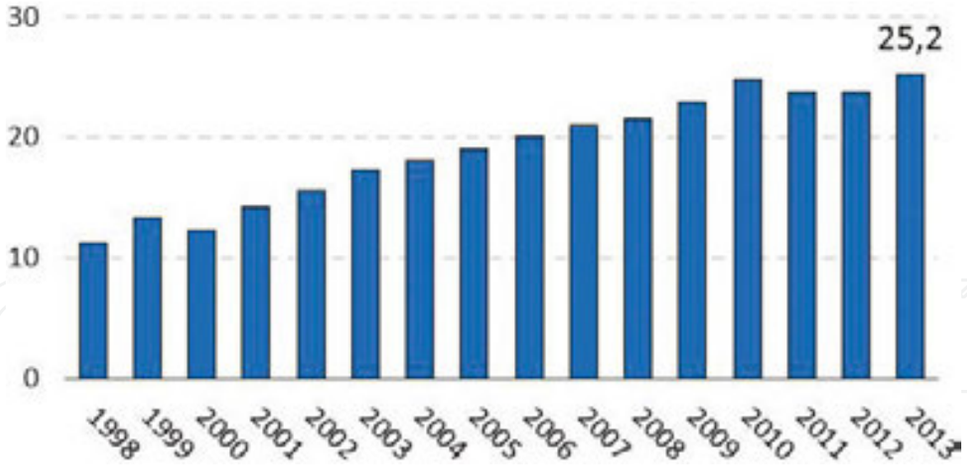


Figure 117. LO revenue in Pomurje RAA.

There are no law firms in Pomurje.

Figure 118. LF revenue and profit per employee (Pomurje RAA). There are no law firms in Pomurje.

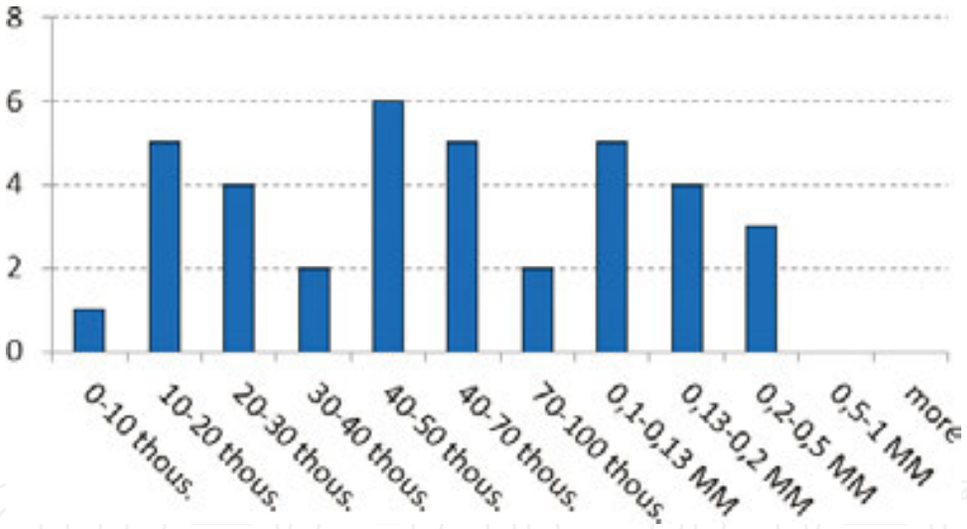


Figure 119. Distribution of revenue in Pomurje RAA in 2013.

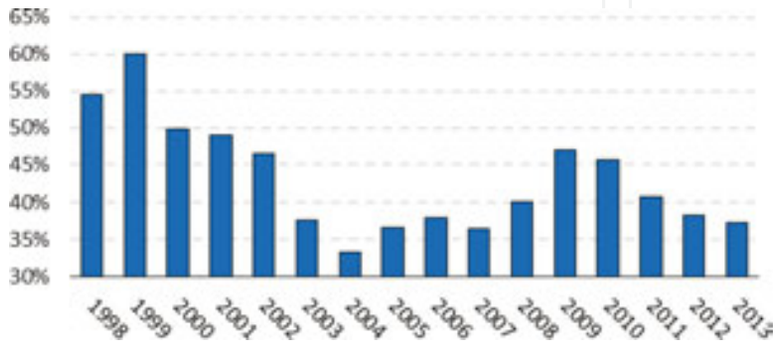


Figure 120. TOP 5 market concentration in Pomurje RAA.

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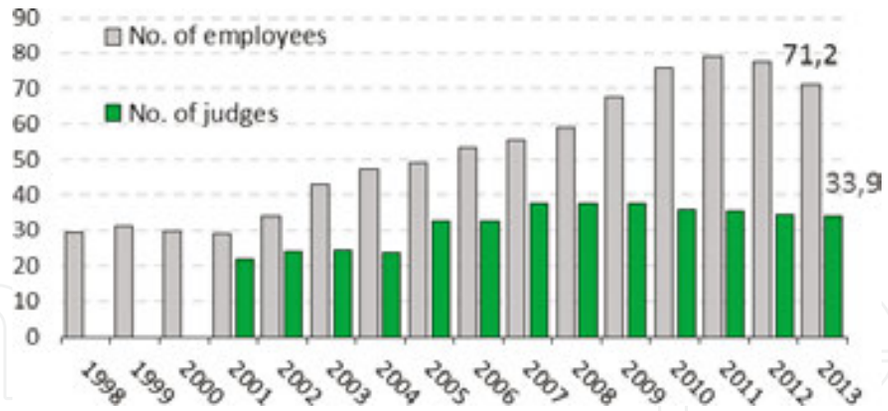


Figure 121. Number of judges and employees in attorneyship per 100,000 inhabitants (Pomurje RAA).

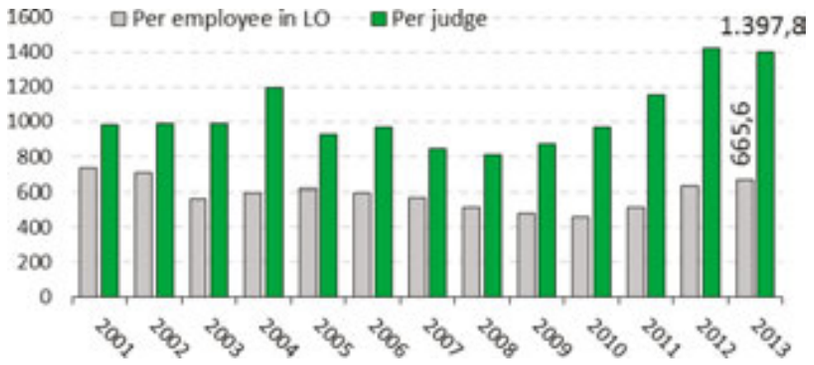


Figure 122. Number of new court cases per judge and per employee in LO (Pomurje RAA).

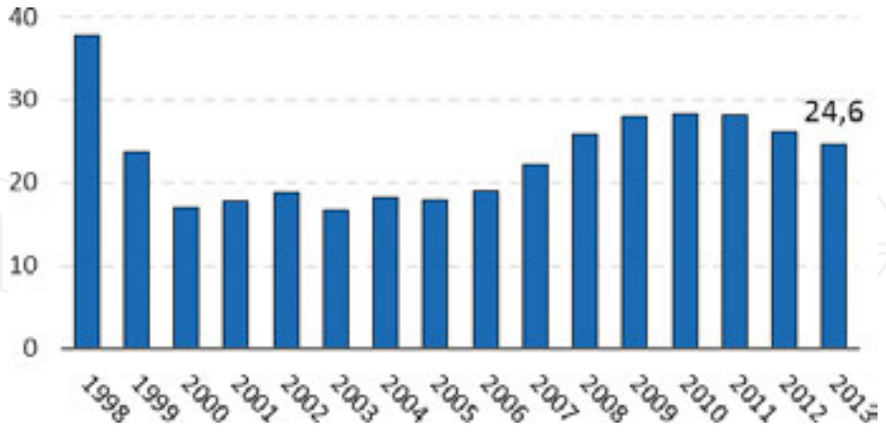


Figure 123. LO revenue per inhabitant (Pomurje RAA).

The data for Pomurje RAA show that the smallest law offices were exposed to a high volatility of net profit margin. After 2003, the situation worsened drastically for those who generated a revenue of up to 25,000 €. The negative trend was somewhat alleviated in 2013, as a consequence of tax effects.

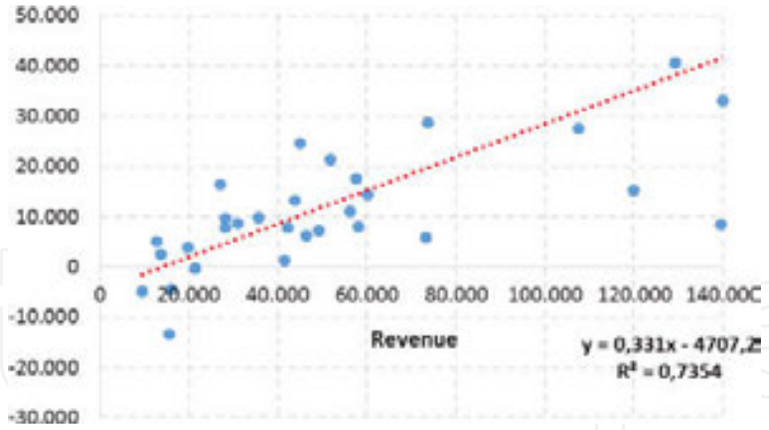


Figure 124. Correlation between net result and revenue.

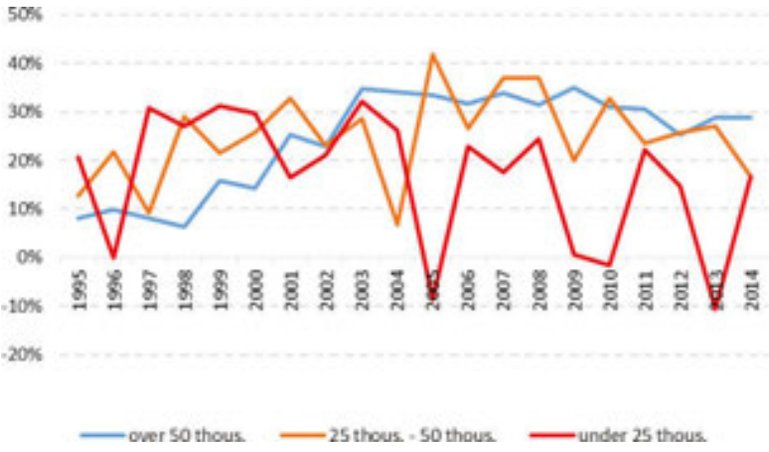


Figure 125. Net profit margin by size class of revenue for law offices.

2.4.9. Ptuj RAA

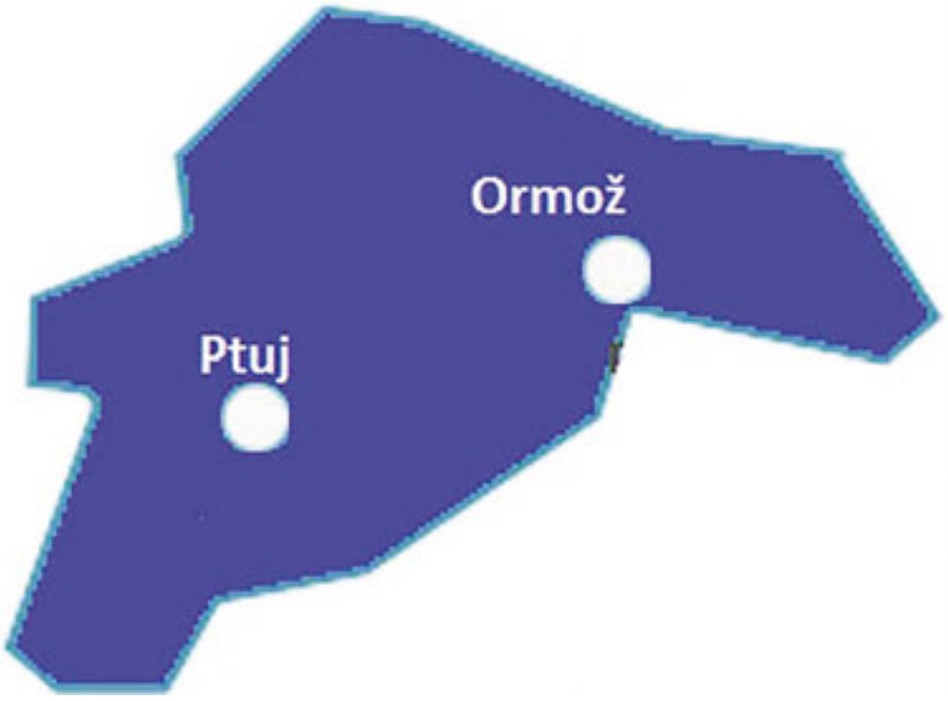
Ptuj RAA comprises the area of the judicial district of Ptuj, which includes the following general courts: District Court and two county courts. In 2015, 22 law offices were registered in Ptuj RAA, which employed 56 persons, of which 13 worked in law firms. The vast majority (86.4%) were registered as a registered attorney, and the rest were registered as a limited liability company (d.o.o.). (**Table 12**)

Just over 36% of law offices in Ptuj RAA employ a maximum of one employee, while 41% employ 2–3 employees. A very strong employment dynamics is evident in the period from 1995 to 2009, but it was followed by stagnation (**Figure 126**).

Ptuj RAA represents a less dynamic part of the Slovenian market of attorneys' services, with total revenue increasing only by around 1.7 times compared to 1998. A strong trend of transitioning to the organisational form of a law firm can also be identified after 2002. Since 1998, this market has experienced declines in revenue in 2005 and 2008. The average revenue per employee in law firms was growing until 2009 and has stagnated ever since.

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The profit per employee in law firms was slowly growing until 2009 but has then experienced a significant decline.



Organisational form	0–1 employee	2–3 employees	4 and more employees	Total
Unlimited liability company (d.n.o.)	1 (4.5%)	0 (0.0%)	0 (0.0%)	1 (4.5%)
Limited liability company (d.o.o.)	0 (0.0%)	0 (0.0%)	2 (9.1%)	2 (9.1%)
Attorney	7 (31.8%)	9 (40.9%)	3 (13.6%)	19 (86.4%)
Total	8 (36.4%)	9 (40.9%)	5 (22.7%)	22 (100%)

Table 12. Number of law offices by organisational form and by size class of employment in Ptuj RAA in 2015.

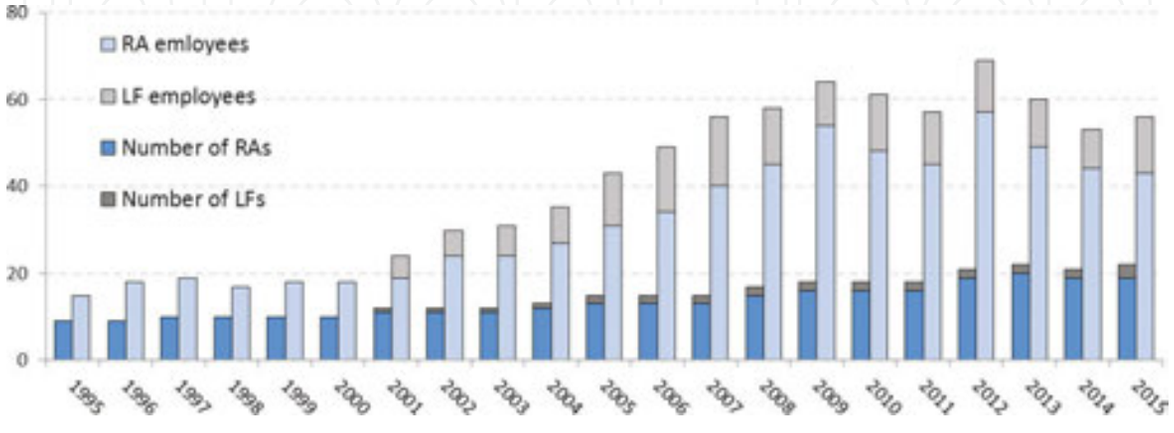


Figure 126. Number of law offices and employees in Ptuj RAA (1995–2015). Source: ZZZS [16].

The distribution of revenue by size classes shows a prevailing number of small law offices. Market concentration in the market of attorneys' services in the territory of Ptuj RAA reached its peak in 2004 (57%), but then it slightly declined to around 53% for the TOP5 law firms (**Figures 127–130**).

Attorney network coverage in Ptuj RAA is at the level of 70 employees in attorneyship per 100,000 inhabitants. The ratio between the number of employees in the attorneyship and the number of judges (1.99 in 2013) is rather favourable. The number of judges is slightly decreasing, while the number of persons employed in attorneyship came to a halt after 2009. A relatively high number of cases per judge and per employee in attorneyship suggests the possibility of future growth; however, a very low level of revenue of law offices per inhabitant (18.9 €) fails to indicate any possibility of their funding (**Figures 131–134**).

The scatter diagram focuses on the smallest law offices and shows the correlation between net result and revenue. This regional market is interesting, as each additional unit of revenue contributes, on average, 0.12 cents to the net result (**Figure 135**).

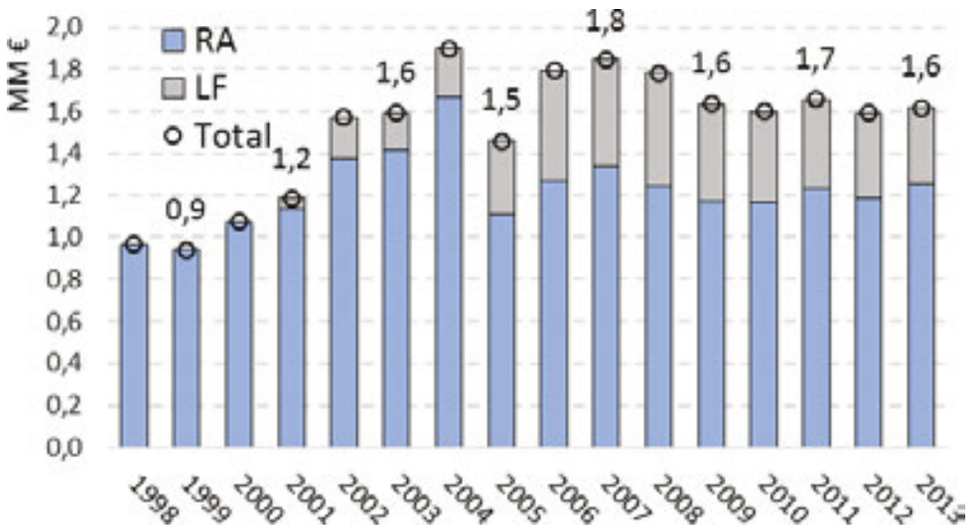


Figure 127. LO revenue in Ptuj RAA.



Figure 128. LF revenue and profit per employee (Ptuj RAA).

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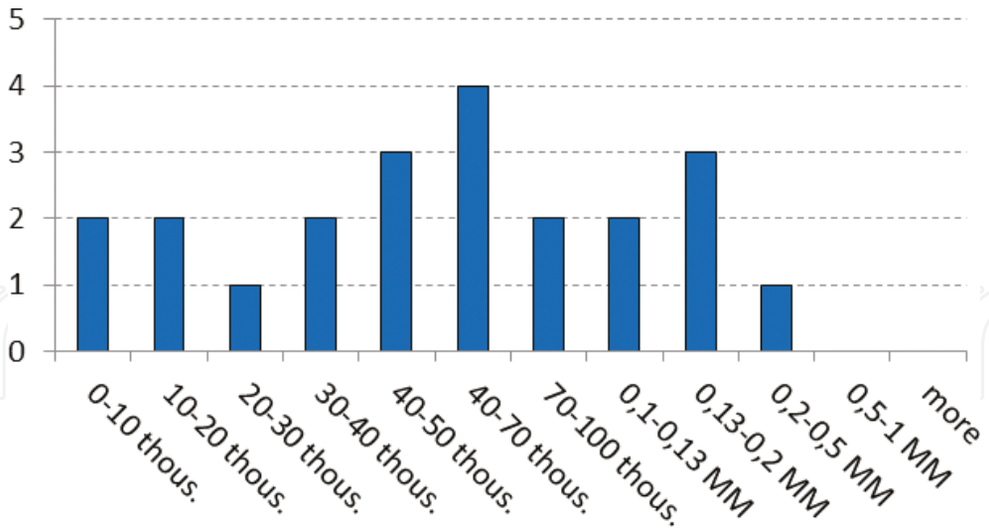


Figure 129. Distribution of revenue in Ptuj RAA in 2013.

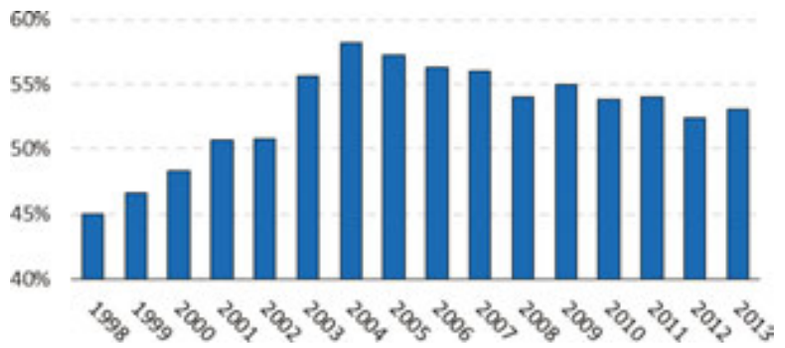


Figure 130. TOP 5 market concentration in Ptuj RAA.

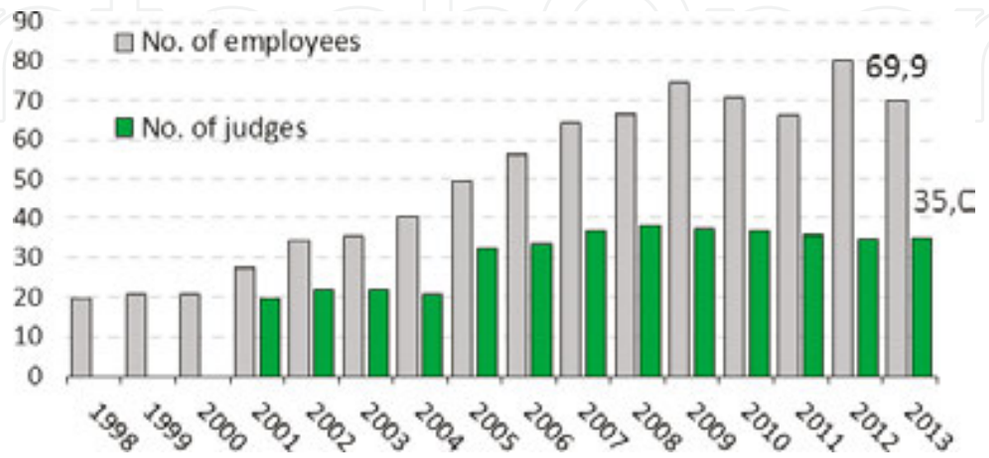


Figure 131. Number of judges and employees in attorneyship per 100,000 inhabitants (Ptuj RAA).



Figure 132. Number of new court cases per judge and per employee in LO (Ptuj RAA).

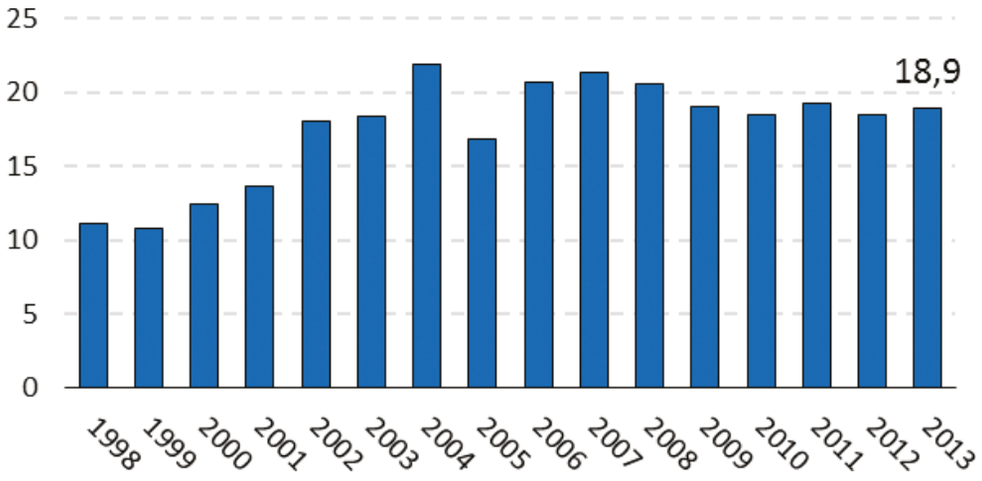


Figure 133. LO revenue per inhabitant (Ptuj RAA).

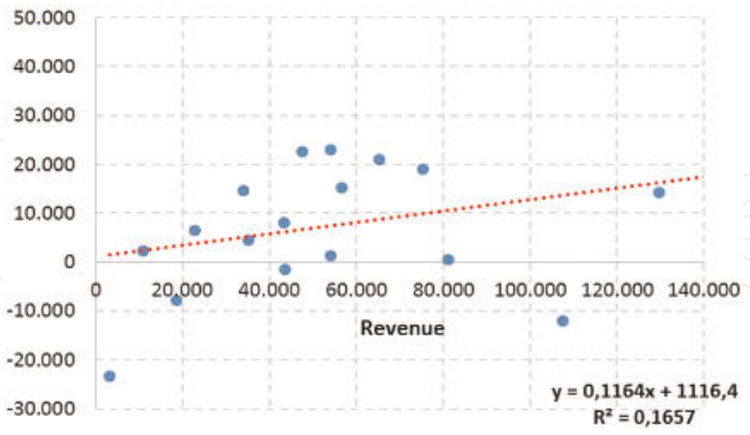


Figure 134. Correlation between net result and revenue.

The data for Ptuj RAA show that law offices were exposed to a high volatility of net profit margin. After 2003, the situation worsened drastically for all segments of law offices. However, because of a low number of the smallest firms, the interpretation of their value did not make much sense.

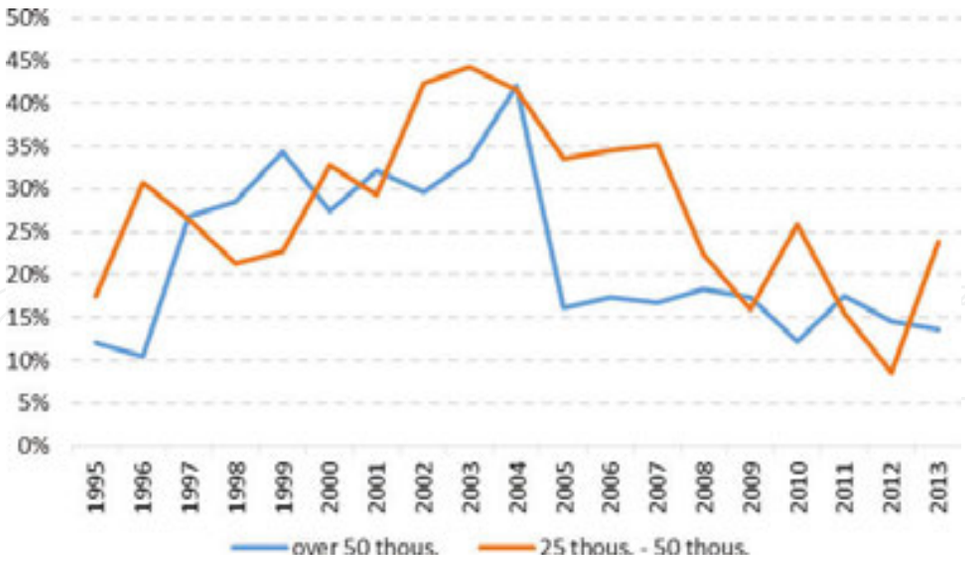


Figure 135. Net profit margin by size class of revenue for law offices.

2.4.10. Slovenj Gradec RAA

Slovenj Gradec RAA comprises the area of the judicial district of Slovenj Gradec, which includes one district and one county court of general jurisdiction. In 2015, 16 law offices were registered in Slovenj Gradec RAA, which employed 49 persons, of which 20 worked in law firms. The vast majority (81.3%) were registered as a registered attorney, and the rest were registered as a limited liability company (d.o.o.) (**Table 13**).



Organisational form	0–1 employee	2–3 employees	4 and more employees	Total
Limited liability company (d.o.o.)	0 (0.0%)	1 (6.3%)	2 (12.5%)	3 (18.8%)
Attorney	6 (37.5%)	4 (25.0%)	3 (18.8%)	13 (81.3%)
Total	6 (37.5%)	5 (31.3%)	5 (31.3%)	16 (100%)

Table 13. Number of law offices by organisational form and by size class of employment in Slovenj Gradec RAA in 2015.

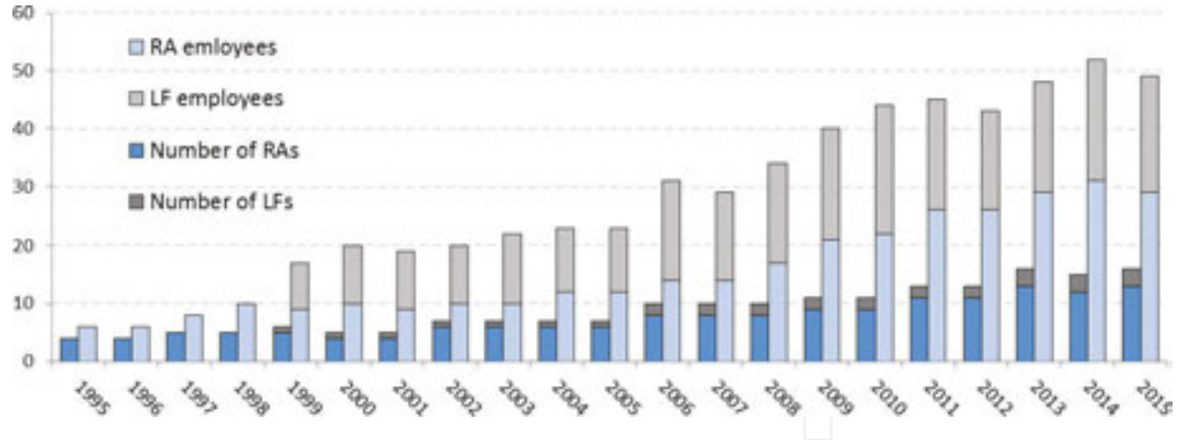


Figure 136. Number of law offices and employees in Slovenj Gradec RAA (1995–2015). Source: ZZZS [16].

Just over 37% of law offices in Slovenj Gradec RAA employ a maximum of one employee, while just over 31% employ 2–3 employees. A very strong employment dynamics is evident in the period from 1995 to 2015 (**Figure 136**).

Slovenj Gradec RAA represents a fairly dynamic part of the Slovenian market of attorneys' services, with total revenue increasing by 2.5 times compared to 1998. A strong trend of transitioning to the organisational form of a law firm can also be identified after 1999. Since 1998, the market in question has experienced frequent declines in revenue. The average revenue per employee in a law firm was predominantly stagnant. With the exception of the years 2003 and 2004, the profit per employee in law firms has been continuously declining.

The distribution of revenue by size classes shows a prevailing number of small law offices and some medium-sized firms. Market concentration in the market of attorneys' services in the territory of Slovenj Gradec RAA last reached its peak in 2011 (around 85%), but then it slightly declined to around 72% for the TOP5 law firms (**Figures 137–140**).

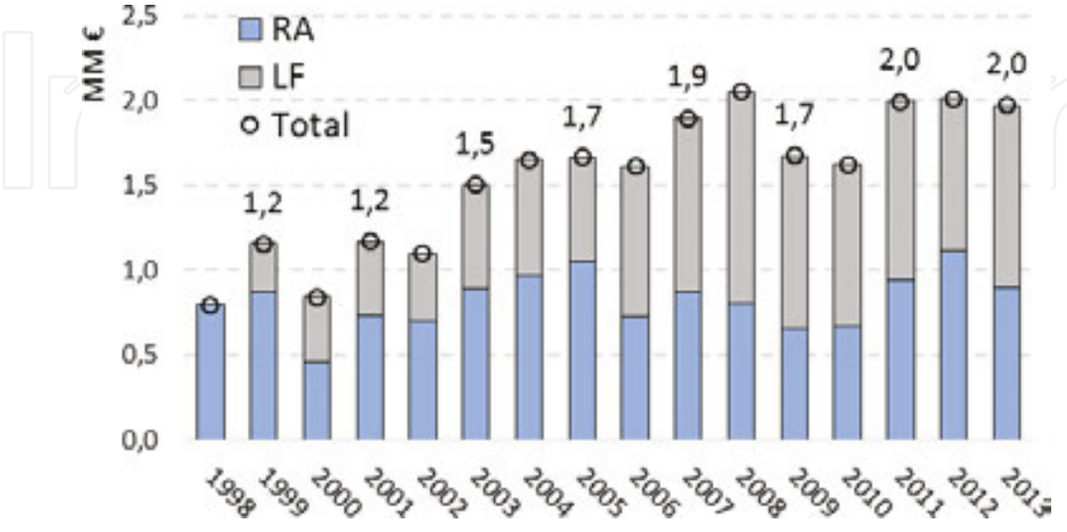


Figure 137. LO revenue in Slovenj Gradec RAA.

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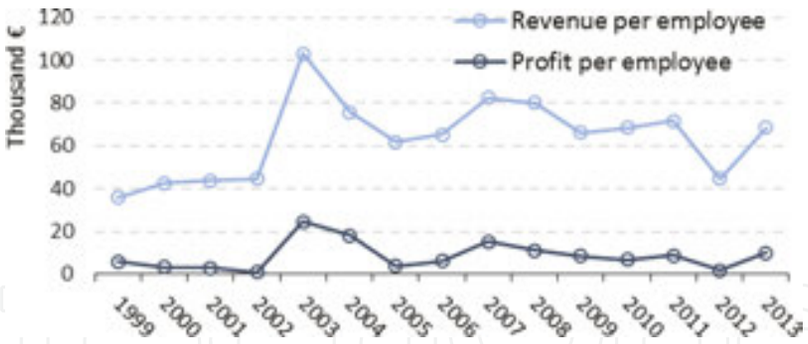


Figure 138. LF revenue and profit per employee (Slovenj Gradec RAA).

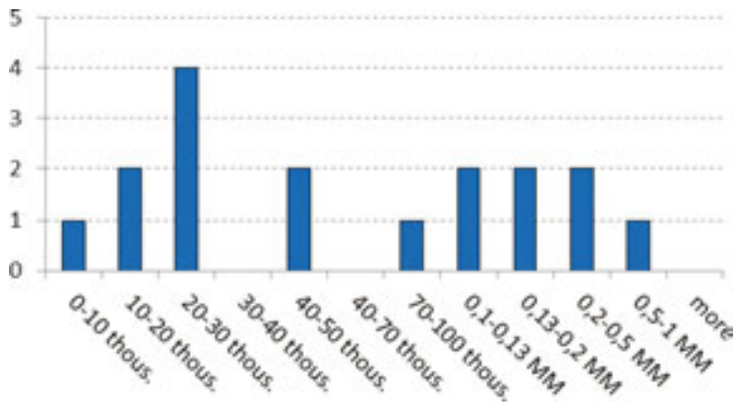


Figure 139. Distribution of revenue in Slovenj Gradec RAA in 2013.

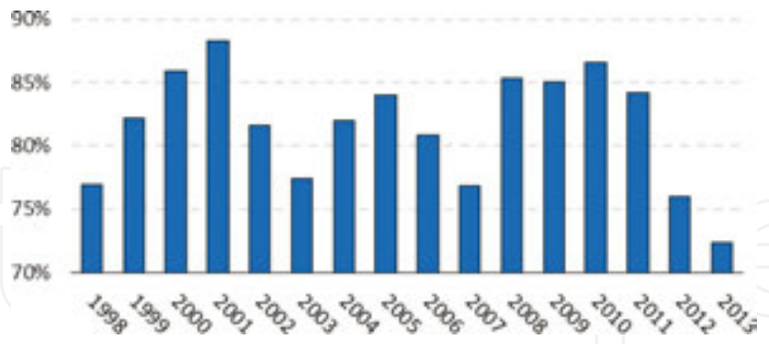


Figure 140. TOP 5 market concentration in Slovenj Gradec RAA.

Attorney network coverage in Slovenj Gradec RAA is at the level of 67 employees in attorneyship per 100,000 inhabitants. The ratio between the number of employees in the attorneyship and the number of judges (2.5 in 2013) is rather favourable. The number of judges is slightly decreasing, while the number of persons employed in attorneyship shows a slightly positive growth trend. A relatively high number of cases per judge and per employee in attorneyship suggests the possibility of future growth; however, a very low level of revenue of law offices per inhabitant (27.4 €) fails to indicate any possibility of their funding (**Figures 141–144**).

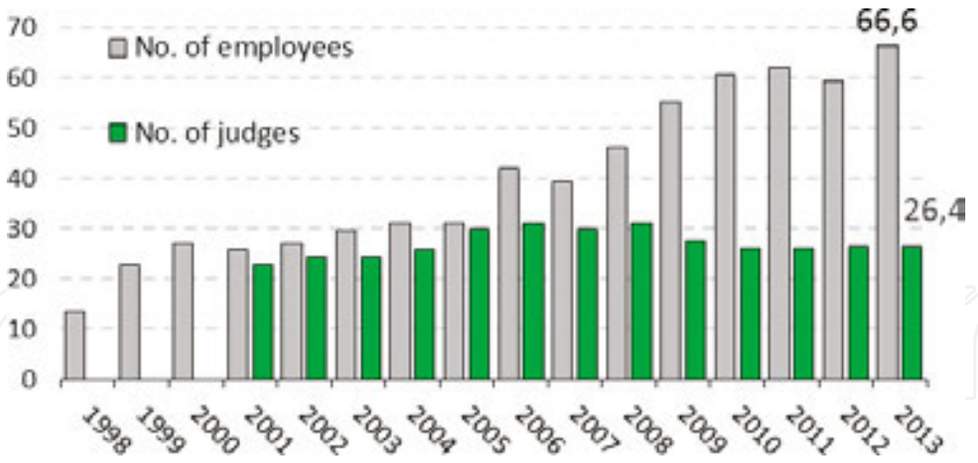


Figure 141. Number of judges and employees in attorneyship per 100,000 inhabitants (Slovenj Gradec RAA).

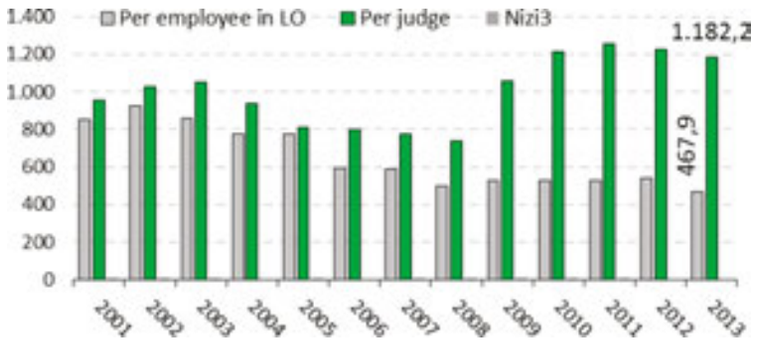


Figure 142. Number of new court cases per judge and per employee in LO (Slovenj Gradec RAA).

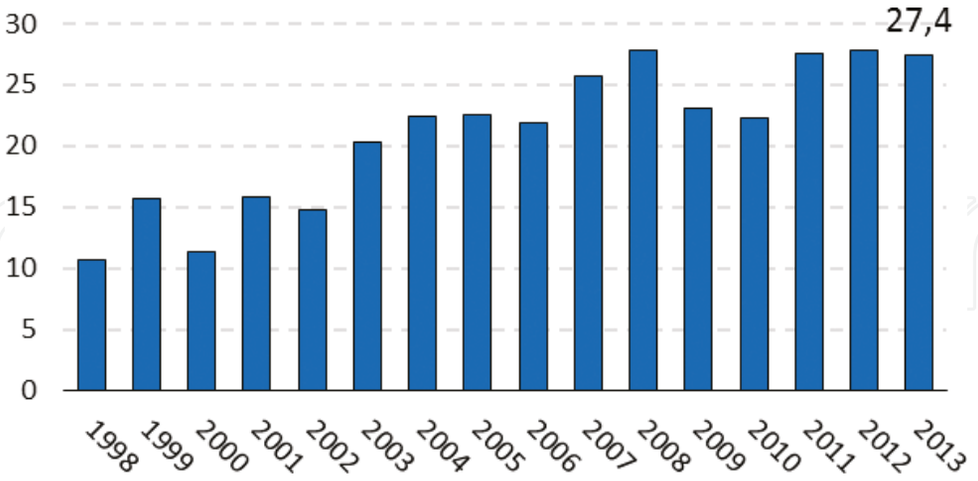


Figure 143. LO revenue per inhabitant (Slovenj Gradec RAA).

The scatter diagram focuses on the smallest law offices and shows the correlation between net result and revenue. This regional market is less interesting, as each additional unit of revenue contributes, on average, only 0.04 cents to the net result (**Figure 145**).

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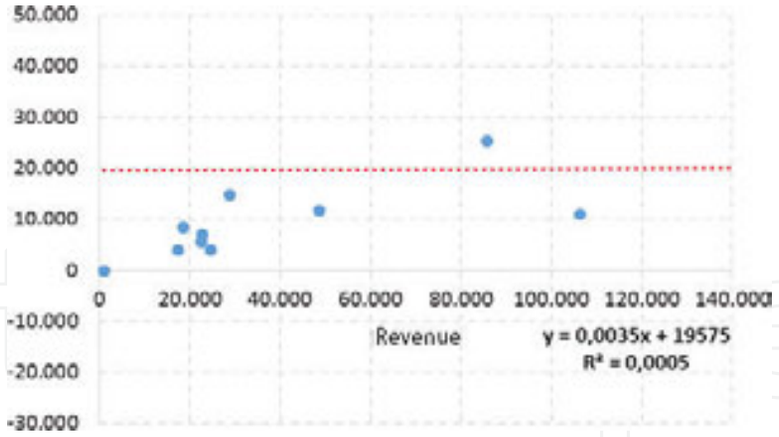


Figure 144. Correlation between net result and revenue.

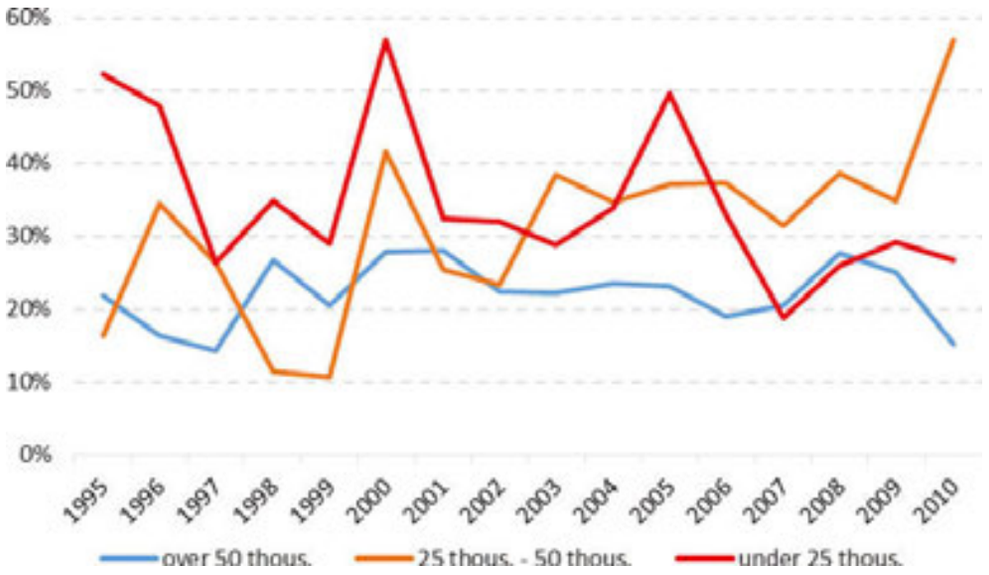


Figure 145. Net profit margin by size class of revenue for law offices.

The data for Slovenj Gradec RAA are particularly notable since they show that law offices with a turnover of over 25,000 € did not experience any particular pressure on net profit margins. In this regard, it is worth reminding that this is the market with the highest rate of market concentration (over 70%). Regardless, the data demonstrate a high volatility of net profit margin for smaller law offices, which reflects the increased business risk. The negative trend was somewhat alleviated in 2013, as a consequence of tax effects.

2.4.11. Krško RAA

Krško RAA comprises the area of the judicial district of Krško, which includes one district and three county courts of general jurisdiction. In 2015, 14 law offices were registered in Krško RAA, which employed 43 persons, of which 8 worked in law firms. The vast majority (92.9%)



Organisational form	0–1 employee	2–3 employees	4 and more employees	Total
Limited liability company (d.o.o.)	0 (0.0%)	0 (0.0%)	1 (7.1%)	1 (7.1%)
Attorney	5 (35.7%)	6 (42.9%)	2 (14.3%)	13 (92.9%)
Total	5 (35.7%)	6 (42.9%)	3 (21.4%)	14 (100%)

Table 14. Number of law offices by organisational form and by size class of employment in Krško RAA in 2015.

were registered as a registered attorney, and the rest were registered as a limited liability company (d.o.o.) (**Table 14**).

Just over 36% of law offices in Krško RAA employ a maximum of one employee, while almost 43% employ 2–3 employees. A very strong employment dynamics is evident in the period from 1995 to 2010 (**Figure 146**).

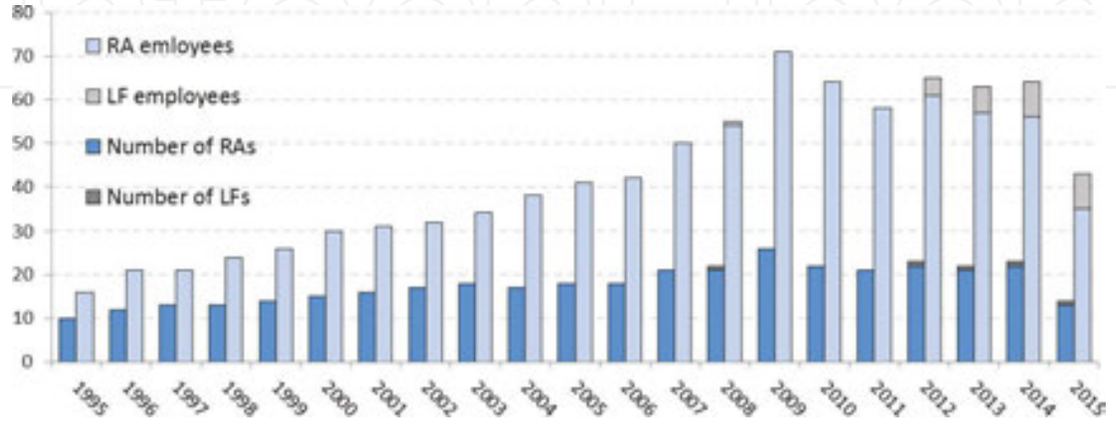


Figure 146. Number of law offices and employees in Krško RAA (1995–2015). Source: ZZZS [16].

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Krško RAA represents a fairly dynamic part of the Slovenian market of attorneys' services, with total revenue increasing by 3 times compared to 1998. A very slow transition to the organisational form of a law firm can also be detected after 2012. From 1998 to 2008, this market was growing constantly. The average revenue per employee in a law firm is not representative because we only have data for one firm in 2012–2013 at our disposal.

The distribution of revenue by size classes shows a prevailing number of small law offices and some medium-sized offices. Market concentration in the market of attorneys' services in the territory of Krško RAA last reached its peak in 2013 (around 54%), even though it was still at its minimum for the TOP5 law firms in 2005 (**Figures 147–150**).

Attorney network coverage in Krško RAA is at the level of 89 employees in attorneyship per 100,000 inhabitants. The ratio between the number of employees in attorneyship and the number of judges (2.7 in 2013) is rather favourable. The number of judges is slightly decreasing, while the number of persons employed in attorneyship has stagnated in recent years. A relatively high number of cases per judge and per employee in attorneyship suggests the possibility of future growth; however, a very low level of revenue of law offices per inhabitant (25.6 €) fails to indicate any possibility of their funding (**Figures 151–154**).

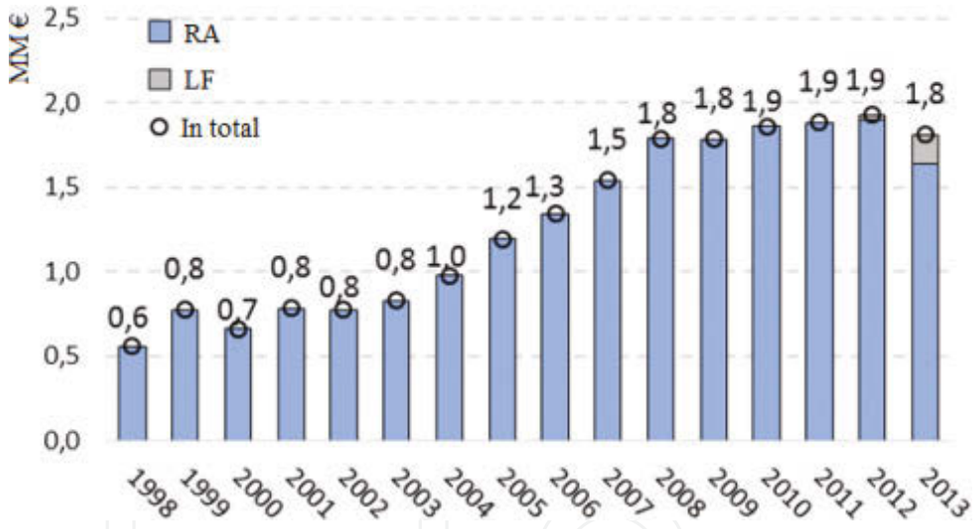


Figure 147. LO revenue in Krško RAA.



Figure 148. LF revenue and profit per employee (Krško RAA).

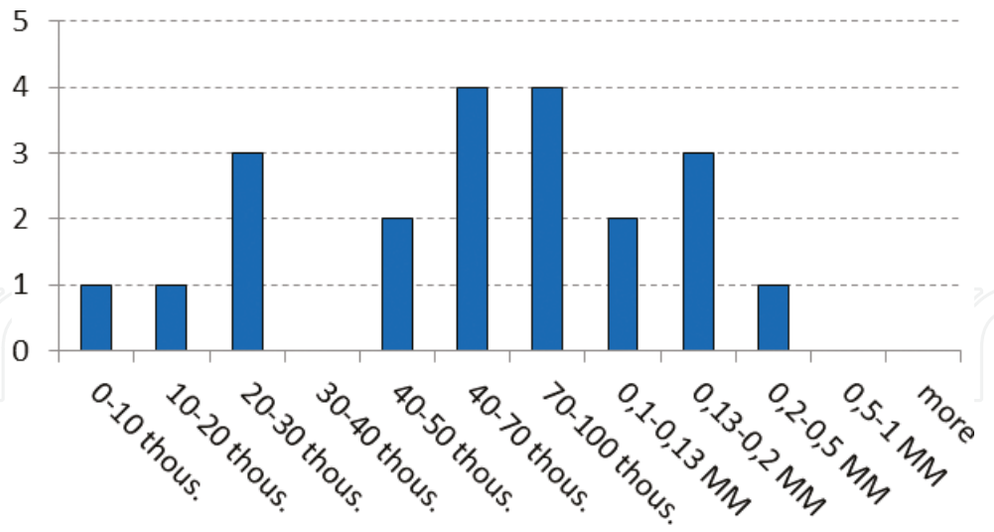


Figure 149. Distribution of revenue in Krško RAA in 2013.

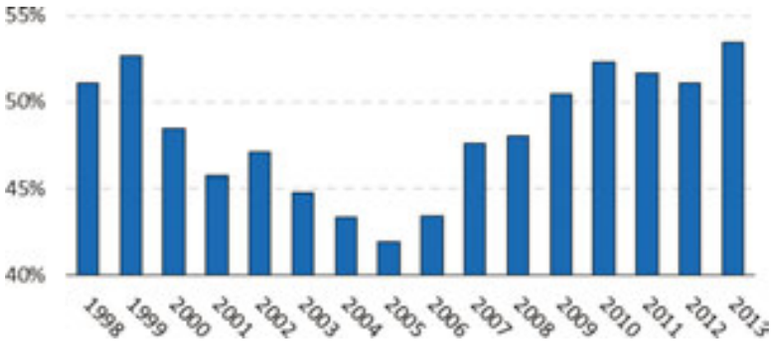


Figure 150. TOP 5 market concentration in Krško RAA.

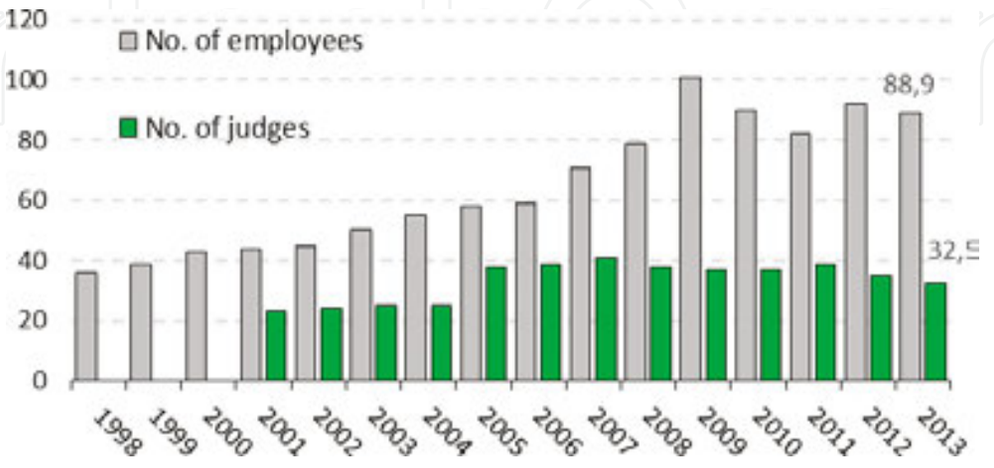


Figure 151. Number of judges and employees in attorneyship per 100,000 inhabitants (Krško RAA).

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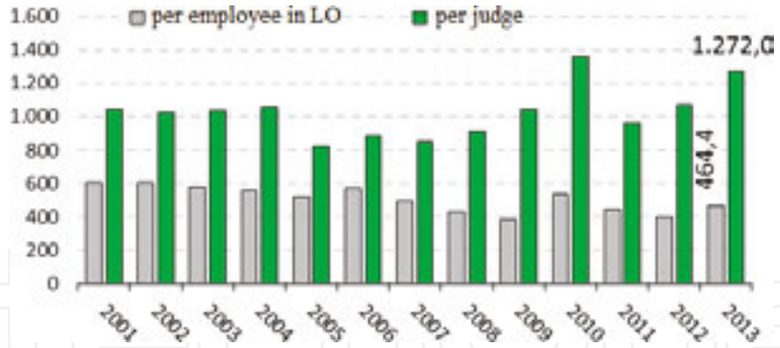


Figure 152. Number of new court cases per judge and per employee in LO (Krško RAA).

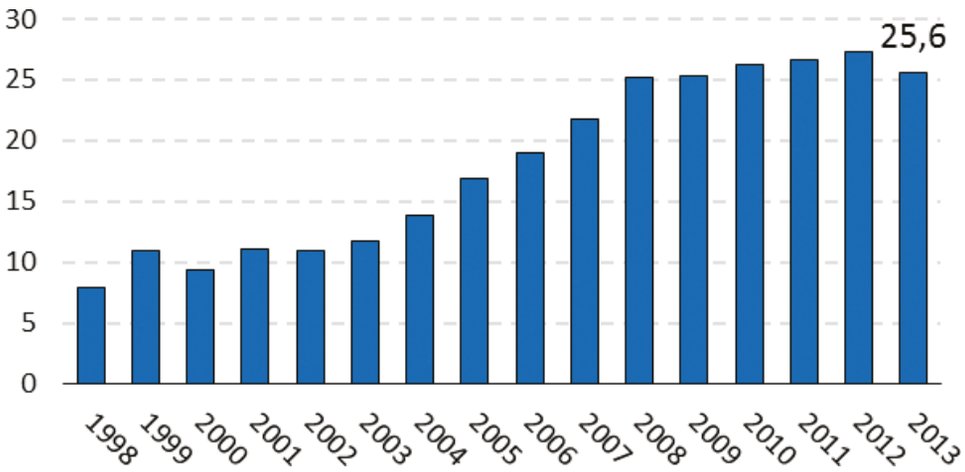


Figure 153. LO revenue per inhabitant (Krško RAA).

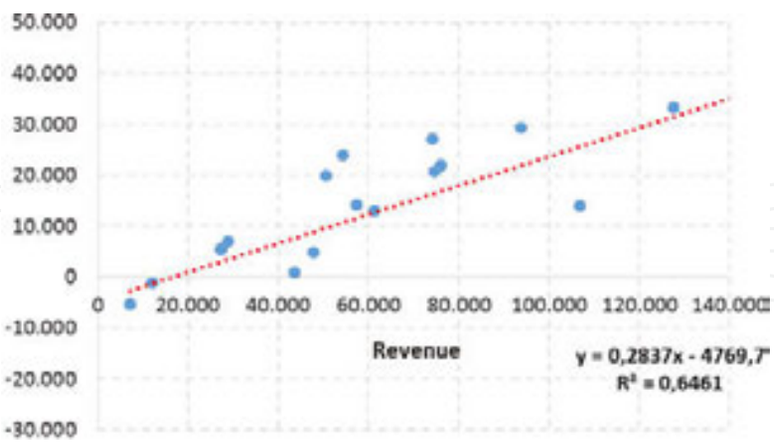


Figure 154. Correlation between net result and revenue.

The scatter diagram focuses on the smallest law offices and shows the correlation between net result and revenue. This regional market is very interesting, as each additional unit of revenue contributes, on average, 0.28 cents to the net result (**Figure 155**).

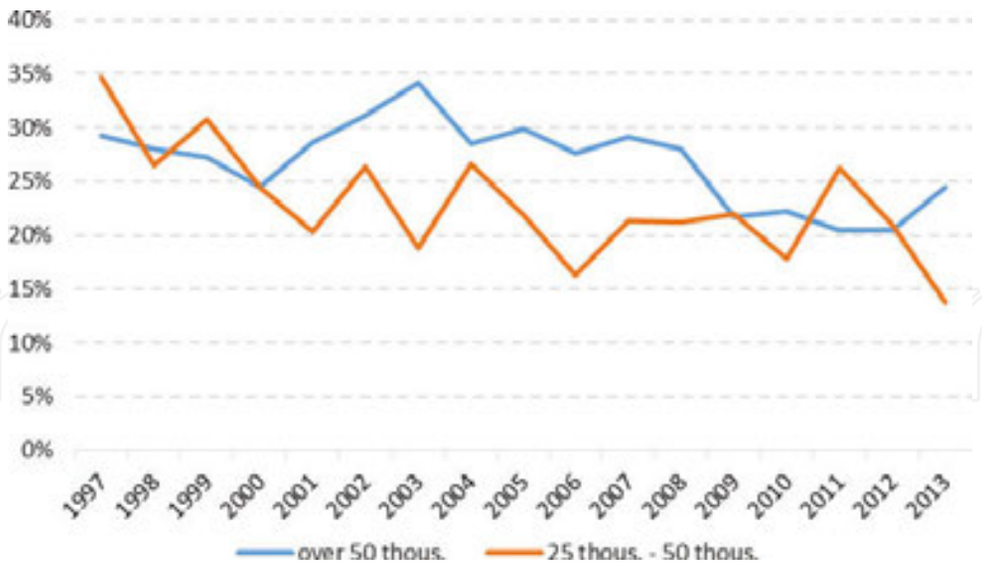


Figure 155. Net profit margin by size class of revenue for law offices.

The data for Krško RAA show that law offices were constantly under pressure to lower net profit margin. After 2003, the situation also worsened for those with a turnover of over € 50,000. However, because of a low number of the smallest firms, the interpretation of their value did not make much sense.

2.4.12. Interim conclusions based on the analysis of RAAs

Eleven analysed RAAs represent 11 regional markets with a fairly similar development of organisational forms of law offices and with similar employment trends. Under the other observed criteria, significant deviations have been detected, which are mainly the result of the economic strength of each regional centre. Thus, the basic correlation between revenue and net profit already reveals that there are only three RAAs (Ljubljana, Koper and Krško), where an additional unit of revenue contributes more than 0.25 cents to the net profit or loss.

Basic economic circumstances of individual regional markets differ considerably, depending on the population density and the presence of corporate entities. Consequently, greater differences can also be detected in the coverage with the network of law offices and judges. The calculation of the revenue of law offices per the number of inhabitants in each RAA shows large differences, from 19 € in Ptuj and 40 € in Celje to 56 € in Maribor and 153 € in Ljubljana.

Market concentration in the market of attorneys' services achieved very high values in conditions of smaller regional markets (a small number of providers as a result of a limited demand). The five largest providers (TOP5 for 2014) controlled only about 19% of the market in Ljubljana (close to the Slovenian average), 30% in Maribor, 42% in Koper, about 53% in Ptuj and in Krško, and as much as 73% in Slovenj Gradec.

On the basis of a limited sample of data for law firms, we found that the majority of regional markets of attorneys' services demonstrates labour productivity at the level of around 60,000 €, whereas Maribor and Ljubljana account for 80,000 €, while Ptuj accounts for just over 40,000 €.

The analysis of net profit margin by RAAs almost uniformly shows a decline after 2003, when the value of attorney tariff point was effectively frozen. In all RAAs, the smallest law firms with a turnover of up to 25,000 € were the most affected, as demonstrated by the negative trend in the net profit margin and its high volatility (variability) by years, which reflects an increased business risk. Slovenj Gradec RAA, where the highest market concentration is recorded, was the only RAA where no obvious negative trends for net profit margin could be identified.

In some cases (Ptuj, Kranj, Celje and Krško), even law firms with a turnover of over 50,000 € experienced significant losses in net profit margin.

3. Attorney tariff

3.1. A brief history of attorney tariff

The first uniform tariff for attorneys' services was issued in 1991 (Official Gazette of the Republic of Slovenia, No.10/1991, 26 August 1991). The assessment of the value of attorneys' services was based on points, which is the consequence of uncertain inflation expectations. Tariff points were introduced in order to avoid a constant adjustment of the entire tariff (as was the practice in usual price lists) and 100% indexation through the expression of values in a foreign currency. Their value is only occasionally adjusted to the reduction in the real value of money, when the officially established inflation (from the last change in the value of a point) exceeds a 10% threshold.

Attorney tariff based on tariff points and determination of the value of a point in monetary units was in force until the adoption of amendments and supplements to the Attorneys Act /ZOdv-B/ (*Zakon o odvetništvu*, Official Gazette of the Republic of Slovenia, No. 54/2008), which amended Article 19 of the Attorneys Act /ZOdv/ by referring to a special law regulating the attorney tariff. The new Attorney Tariff Act /ZOdvT/ (Official Gazette of the Republic of Slovenia, No. 67/2008) entered into force on 1 January 2009.

This was the time after Slovenia joined the Eurozone, which finally reduced inflationary expectations and thus also enabled the expression of the value of services in a measure comprehensible to all, which is represented by the euro currency. The basic structure of the tariff part of the Act represents an adapted version of German solution from the year 2004 (*Rechtsanwaltsvergütungsgesetz* [RVG]). It no longer mentions any points or their values. Each service is designated a certain basic remuneration in the euro currency or a coefficient of the remuneration that increases (coefficient above 1) or decreases (coefficient of up to 1) the basic remuneration.

Attorney Tariff Act /ZOdvT/, which was comparable to other acts at the European level, has expired with the entry into force of amendments to the Attorneys Act /ZOdv-C/ (Official Gazette of the Republic of Slovenia, No. 35/2009) but has remained applicable until the act regulating attorney tariff entered into force. The currently valid attorney tariff was adopted on

the basis of Article 19 of Attorneys Act /ZOdv/ by the Bar Association of Slovenia on 23 September 2014. The tariff is once again based on the system of tariff points and the value of a point and is thus very similar to the version from 1991.

3.2. Basic characteristics of applicable attorney tariff

Pursuant to Article 1 of Attorney Tariff, the latter determines the method of valuation, charging and payment of attorneys' services and expenses that the parties or clients are required to pay to attorneys or law firms for legal services rendered.

Under Article 3 of Attorney Tariff, the services are valued according to the following criteria:

- Professional complexity,
- Responsibility,
- Value of the matter at issue,
- Specialist knowledge,
- Expertise in other disciplines,
- Knowledge of foreign legal sources,
- Use of a foreign language,
- The time required for the completion of the task,
- Number of represented persons,
- Other criteria determined by the tariff.

The value of service is determined through the number of points or set by an attorney through the number of points in accordance with the value of the matter at issue as listed in the scale under tariff heading 18 of the special part of the tariff. In accordance with Article 12 of Attorney Tariff, the price of service is equal to the sum of points for each individual service, multiplied by the value of the point. At the time when this study was conducted, the value of the point was 0.459 €.

Under Article 22 of Attorney Tariff, the Administrative Board of the Bar Association of Slovenia provides clarifications and mandatory explanations on the use of the tariff. In the context of procedural rules, these clarifications and mandatory explanations are also binding for the courts and other bodies that make decisions on the costs of legal representation within the scope of their powers.

3.2.1. Adjustment of attorney tariff and the value of attorney tariff point

According to the data of the Bar Association of Slovenia, obtained from the Official Gazette of the Republic of Slovenia, attorney tariff was adjusted 13 times in the independent Republic of Slovenia. The first adjustment was recorded in the Official Gazette of the Republic of Slovenia No. 10/1991 of 26 August 1991, and the last adjustment was recorded in the Official Gazette of

the Republic of Slovenia No. 67/2003 of 11 July 2003. Up to 2003, the value of attorney tariff point has been adjusted almost every year (with the exception of 1996, 1999 and 2002). While 1995 represents another year when the value of attorney tariff point was not adjusted, the attorney fee itself was changed instead (**Table 15**).

A fairly rapid increase in the nominal value of attorney tariff point in the 1990s is undoubtedly the consequence of high inflation and balancing of the system of relative prices in the direction of developed market economies. It is evident from the historical data since 1994 (figures included below) that the value of attorney tariff followed the trend of inflation, although the indexation was not complete. It can also be observed that a relatively strong increase in the value of attorney tariff usually followed with a time lag of 1–2 years after the real value of money had considerably decreased as a result of inflation. The average rate of adjustment of the value of attorney tariff in relation to changes in inflation used to be 85% but has started to slowly decline after 1999.

Described adjustments were carried out until 2003, when the value of attorney tariff was practically frozen at the level of 110.0 SIT or 0.459 €, which was also provided by Article 13 of Attorney Tariff (adopted at the Assembly of the Bar Association of Slovenia on 23 September 2014). The second paragraph of this article further provides that the value of the point is being adjusted in view of the increase in consumer prices or the increase in judges' salaries. A basic requirement for the adjustment of the value of the point is also stipulated for when the increase in consumer prices or the increase in judges' salaries exceed 10% in the period since the last

Amendment in the Official Gazette of the RS	Value
Official Gazette SRS, No. 7/1991 of 22 February 1991	16.0 DIN
Official Gazette RS, No. 10/1991 of 26 August 1991	16.0 DIN
Official Gazette RS, No. 22/1991 of 6 November 1991	24.0 SIT
Official Gazette RS, No. 14/1992 of 27 March 1992	40.0 SIT
Official Gazette RS, No. 13/1993 of 12 March 1993	60.0 SIT
Official Gazette RS, No. 4/1994 of 28 January 1994	62.0 SIT
Official Gazette RS, No. 16/1994 of 25 March 1994	63.5 SIT
Official Gazette RS, No. 35/1994 of 17 June 1994	65.0 SIT
Official Gazette RS, No. 76/1994 of 9 December 1994	66.5 SIT
Official Gazette RS, No. 7/1995 of 4 February 1995 – amended attorney tariff	66.5 SIT
Official Gazette RS, No. 3/1997 of 25 January 1997	76.5 SIT
Official Gazette RS, No. 62/1998 of 11 September 1998	87.4 SIT
Official Gazette RS, No. 39/2000 of 12 May 2000	90.0 SIT
Official Gazette RS, No. 78/2001 of 5 October 2001	100.0 SIT
Official Gazette RS, No. 67/2003 of 11 July 2003	110.0 SIT

Source: Official Gazette RS.

Table 15. Overview of changes in the value of attorney tariff point.

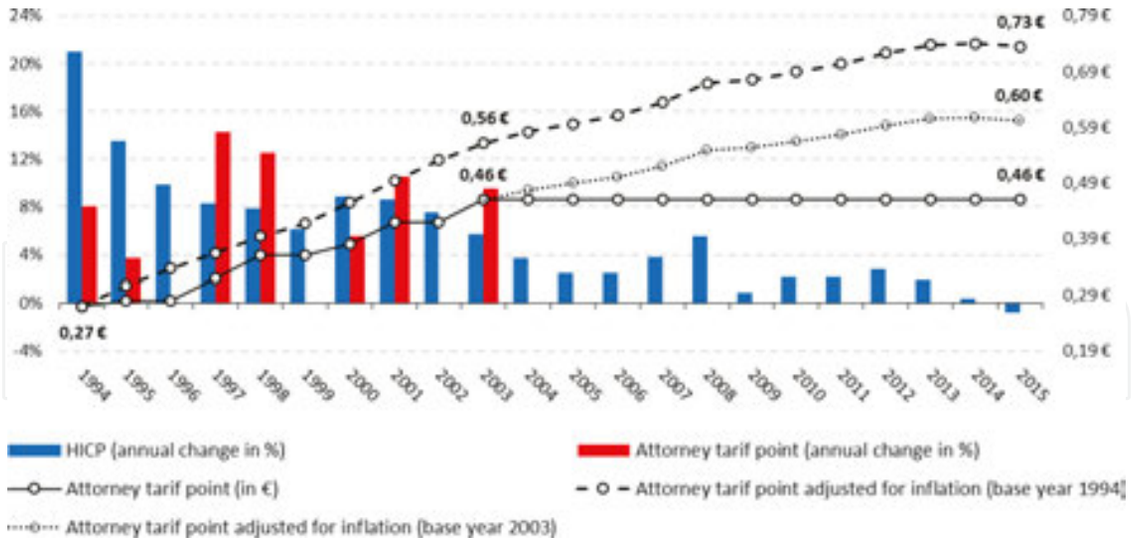


Figure 156. Value of attorney tariff point and inflation. Source: Official gazette RS.

increase. The adjustment of the value of the point is determined by the Bar Association of Slovenia under the criteria described above. Moreover, the Minister for Justice grants consent to the decision of the Administrative Board (**Figure 156**).

In comparison with a hypothetical value of attorney tariff that would be fully adjusted to the growth of inflation (dashed line in the figure above), we find that the freezing occurred at the rate of 81.4% of the adjustment to changes in price levels. In the analysed period up to 2015, moderate inflation was still present in Slovenia, as demonstrated by blue columns below, which is why the difference between the curves of the actual value of attorney tariff point and the hypothetical value that is fully adjusted to the inflation has been constantly increasing after 2003. Consequently, at the end of 2015, the value only reached the level of 62.2% when compared to inflation. A dotted curve shows a minimum increase in the value of attorney tariff point if it were adjusted to the inflation at least after 2003 (discrepancy of 23.3%). This would result in the nominal value of attorney tariff point at 0.60 € in 2015. A proper adjustment to changes in inflation from the year 1994 would result in the nominal value of attorney tariff point at 0.73 € in 2015.

3.2.2. Accessibility of attorneys' services to the population

The accessibility of attorneys' services to the population is linked to a physical proximity of law offices (especially for the less mobile part of the population) and the affordability of attorneys' fees. The effective freezing of attorneys' fees primarily leads to a greater economic accessibility to the population with lower income but, in the long run, threatens the economic independence or even the survival of law offices in less developed areas. Consequently, a permanent accessibility of attorneys' services will be ensured if we maintain the adjustment of prices of attorneys' services that will support the balance between marginal costs of law offices (especially in economically less developed areas) and marginal net income of the population or households (provided that we derive from a balanced situation, e.g., in the year 2003).

The assessment of the economic accessibility of attorneys' services was conducted on the basis of a comparison of changes in the average value of a law office's billable hour and changes in the average net salary or average household income. The analysis covered the period from 2003 to 2012, since this was the period when SURS provided relevant data for households. The annual income of both groups was converted into hours that could be procured at the average value of a law office's billable hour in a given year (**Figure 157**).

The figure above reveals that net income of persons receiving the average salary (as well as households) was increasing considerably faster than the average value of a law office's billable hour. The comparison between 2003 and 2012 shows that the average household can procure additional 50% of law office's billable hours, while the average net salary can procure additional 41% of law office's billable hours. This means that stagnation of the value of law office's billable hour has already effectively caused a significant reduction in prices of attorneys' services in the period 2003–2012. In this regard, the most suitable observed unit of demand is a household, since it includes all income from the widest range of sources and since the decision to initiate a demand for attorneys' services is generally made at the household level as well.

Based on the collected data, we conclude that a direct economic justification for the adjustment of the value of attorney tariff is to be found in special characteristics of the non-tradable sector (attorneys' service), which has few internal reserves to raise productivity. Salaries represent the majority of expenses in attorneyship (close to 60%), which is why changes in salaries are a good approximation of their cost function, which dictates a strong correlation between changes in salaries in the economy and changes in the value of attorney tariff point. Until 2003, at least partial preservation of the correlation between inflation and the value of attorney tariff point ensured a balanced development of law offices of all sizes, whereas, after 2003, this balance was disturbed to the detriment of smaller law firms.

A detailed analysis of 11 RAAs also revealed, in a regionally precise manner, areas with potential problems in the accessibility of high-quality legal services to the population. In this

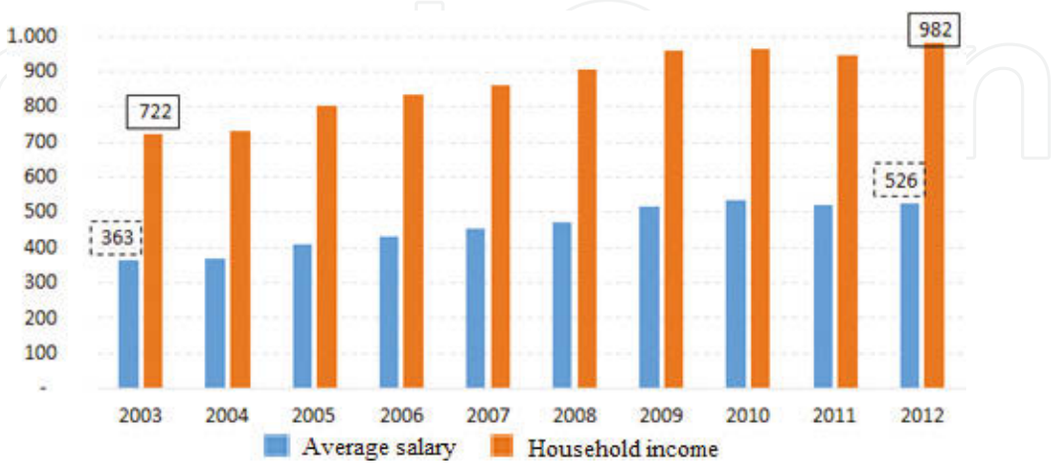


Figure 157. Average annual net salary and household income expressed in attorney's average value of billable hours. Source: SURS [22].

regard, we found that only in the territory of RAAs of Ljubljana, Koper and Krško does an additional unit of the attorneys' revenue on average result in an additional contribution to his or her net profit. Furthermore, we noted that in many areas, the state will have to provide greater financial assistance to ensure adequate legal protection for the less wealthy population. Coverage with a high-quality network of attorneys' services is the most compromised because of a small market potential of individual regional markets that are economically less developed.

Our analysis has shown that in the entire population of law offices, as many as 25% are at risk of going out of business since they are operating with a minimum or even a negative net profit margin (up to 10%). This fact is more relevant for a proper coverage with the network of high-quality attorneys' services in economically less developed areas, which is where the smallest entities are primarily operating. Among law offices with a turnover of up to 50,000 € (almost half of all law offices), the share of those that are most at risk has increased to almost 30% by 2014. If we consider only smaller law offices (with a turnover of up to 50,000 €), by leaving out RAAs of Ljubljana, Nova Gorica, Koper and Celje, the share of law offices at risk increases to almost 40%. Regardless of the observed size sample of law offices, the share of law offices at risk has generally doubled after the turning point in 2003. Unfortunately, there are no alternative solutions in the described circumstances, since law firms have no hidden internal reserves or other market- and legally-conforming alternatives (additional activities, price rises, aggressive marketing, etc.) that would enable financial sustainability (**Figure 158**).

The adjustment of attorney tariff is usually linked to the question of economic accessibility of attorneys' services to the population with lower income. Based on the collected data, however, we can determine that the economic situation of the population has improved considerably in the last decade, since the average net salary already leads to a conclusion that one had to work 6 hours for the average hour of attorneys' services in 2003 but only 4 hours in 2012. Therefore, if we maintained the ratio from 2003, this would mean that the average hour of law offices could increase by 50% without detriment to the economic accessibility of attorneys' services (when compared to the year 2003). The minimum adjustment (based on five times the average salary/hour and the value of law office's billable hour) would require a 24% increase.

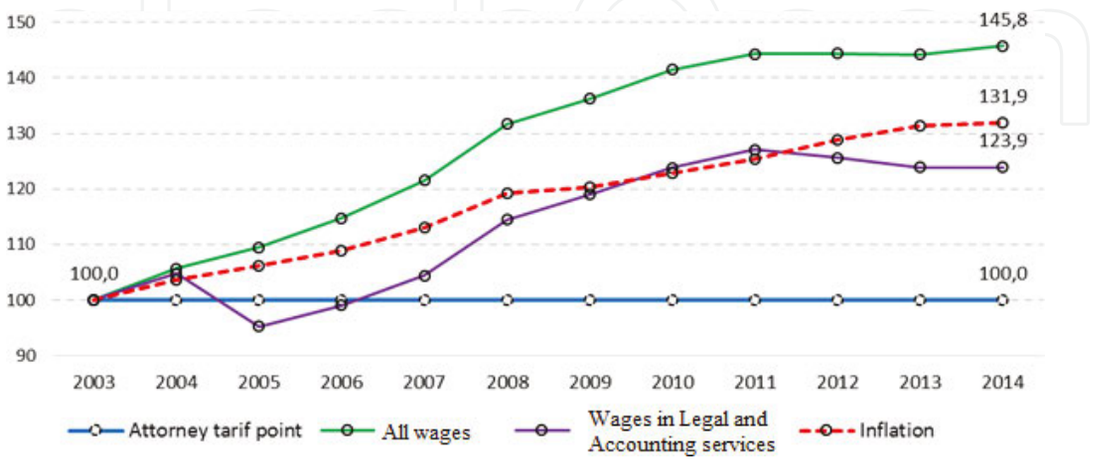


Figure 158. Attorney tariff point value, salaries and inflation cumulative growth since 2003.

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3.3. Comparative legal overview of the regulation of attorney tariff in selected EU member states

Attorney tariff represents a significant part of costs within judiciary, which is why in most Member States, attorney tariffs or attorneys' fees are determined by either the state (legislature, government, ministry) (e.g., Bulgaria, Greece, Germany, Austria, the Czech Republic, Poland, Finland), associations of attorneys (bar associations) on the basis of a law (e.g., Spain, Croatia, Slovenia) or the courts. However, while such tariffs or fees are usually not binding on attorneys, their upper or (also) lower limits are set. In some EU Member States' practice, we can recognise the trend of deregulation thereof or a complete liberalisation (e.g., Belgium, Denmark, Estonia, Latvia, Lithuania, Luxembourg, Hungary, the Netherlands, Portugal, Romania, Sweden), where attorneys' payments are determined through 'free' negotiations between an attorney and a client; however, these systems are not substantially comparable to the constitutional concept of the regulation of attorneyship in Slovenia. For that reason, we will focus on a comparative legal overview of the regulation of attorney tariff in selected EU Member States (Germany, Austria and Croatia), which are in terms of their substance comparable to the constitutional concept of the regulation of attorneyship in Slovenia.

3.3.1. Germany

Germany recognises a single profession of 'lawyer' (*Rechtsanwalt*) and does not distinguish between different types of lawyers. Lawyers' fees are charged either in accordance with the Lawyers' Remuneration Act (*Rechtsanwaltsvergütungsgesetz*) (RVG) or on the basis of fee agreements. In principle, agreements on remuneration are always possible as an alternative option to the statutory prices. However, lawyers must nevertheless comply with the provisions of Article 49b of Federal Lawyers Code (*Bundesrechtsanwaltsordnung*) (BRAO) and Articles 3a to 4b of Lawyers' Remuneration Act. Especially if the lawyer represents the client in court, the remuneration cannot be lower than the remuneration laid down by the law. It is always possible to agree on the remuneration that is higher than the one determined by the law. The list of remunerations attached to RVG (Annex 1 to RVG) provides either fixed fees or fee ranges applicable to individual actions. The amount of remuneration is usually determined on the basis of the value of the claim. The range of fees that are based on the value of the claim stipulate the maximum and minimum remuneration payable. The actual fee rates based on the value of a claim are set out in the fees table (Annex 2 to RVG). In each case, the appropriate fee from a certain range must be determined according to the principle *ex aequo et bono*, by taking into account all the circumstances, especially the scope and difficulty of the work involved, the importance of the case, as well as the client's income and financial circumstances. If the lawyer assumes a particular risk of liability, this may also be taken into consideration when determining the amount of his or her remuneration. Fee ranges with statutory minimum and maximum amounts apply in a number of specific fields, most notably criminal matters and matters of social law (European e-Justice: https://e-justice.europa.eu).

Tariff section of RVG describes individual lawyers' services and corresponding maximum remunerations under the tariff in great details (Annexs 1 and 2 of RVG). Values of each lawyers' service are defined in euros and/or tariff rates arising from the value of a dispute

(Annex 2 is summarised in **Table 16**). We added the information on the share of lawyers' service in the total value of a dispute to the basic data from a relevant lawyer tariff. The calculation shows that, because of fixed costs that arise when dealing with any dispute, the disputes concerning smaller claims of up to around 10,000 € are relatively the most expensive, with lawyers' service representing between 9 and 5.6%. In cases of disputes of higher values, the relative cost of lawyers' service rapidly decreases until it reaches 0.6% for disputes over 500,000 €. The minimum possible amount is € 15.

For example, a regular consultation with a lawyer (unless it includes other paid services), costs 35 € (tariff item 2501). In the case of an action for termination of the lease, the client has to pay 1.3 times the normal value of the service in accordance with the size class of the dispute. In the case where a dispute concerns an annual rent of 9600 €, a regular value of disputes concerning

Value of dispute up to	Value of service	% of the value of service in relation to dispute	Value of dispute up to	Value of service	% of the value of service in relation to dispute
500	45	9.0%	50.000	1.163	2.3%
1.000	80	8.0%	65.000	1.248	1.9%
1.500	115	7.7%	80.000	1.333	1.7%
2.000	150	7.5%	95.000	1.418	1.5%
3.000	201	6.7%	110.000	1.503	1.4%
4.000	252	6.3%	125.000	1.588	1.3%
5.000	303	6.1%	140.000	1.673	1.2%
6.000	354	5.9%	155.000	1.758	1.1%
7.000	405	5.8%	170.000	1.843	1.1%
8.000	456	5.7%	185.000	1.928	1.0%
9.000	507	5.6%	200.000	2.013	1.0%
10.000	558	5.6%	230.000	2.133	0.9%
13.000	604	4.6%	260.000	2.253	0.9%
16.000	650	4.1%	290.000	2.373	0.8%
19.000	696	3.7%	320.000	2.493	0.8%
22.000	742	3.4%	350.000	2.613	0.7%
25.000	788	3.2%	380.000	2.733	0.7%
30.000	863	2.9%	410.000	2.853	0.7%
35.000	938	2.7%	440.000	2.973	0.7%
40.000	1.013	2.5%	470.000	3.093	0.7%
45.000	1.088	2.4%	500.000	3.213	0.6%

Note: Values are in EUR.
Source: *Rechtsanwaltsvergütungsgesetz* – RVG [32].

Table 16. Overview of the tariff for lawyers' services in Germany.

the amounts of up to 10,000 € is set at 558 € under the tariff. According to the tariff, such dispute is assessed with a tariff rate of 1.3, which results in the final value of this lawyers' service in the amount of 725.40 €.

The largest part of lawyer tariff is dedicated to the description of individual services, divided into 7 areas. Their basic unit of account is, obviously, the euro currency. The highest percentage rate, which is calculated from the value of the dispute, frequently arises as well.

3.3.2. Austria

Austrian Attorneys Act (*Rechtsanwaltsordnung*) provides that the remuneration paid to the attorney for services rendered can be freely agreed upon between the client and the attorney. Remunerations may be determined on the basis of an hourly rate or a flat-rate amount, regardless of the work performed and the time involved. If no remuneration is expressly agreed upon, an agreement on a reasonable payment is deemed to have been concluded on the basis of the tariff scales set out in the Attorney Tariff Act (*Rechtsanwaltstarifgesetz*) or the General Remuneration Criteria for Attorneys (*Allgemeine Honorar-Kriterien für Rechtsanwälte*). The Code of Civil Procedure (*Zivilprozessordnung*—ZPO) and the Attorney Tariff Act stipulate that in civil proceedings, the court shall determine the share of the costs that the losing party must reimburse to the successful party. These costs are based on the value of the claim and the duration and nature of the proceedings.

On the other hand, Attorney Tariff Act applies to the parties directly only if this has been agreed upon beforehand between the attorney and the client. In criminal proceedings, any person (accused/defendant, the party bringing a private prosecution, third-party participant) who has authorised an attorney to represent them must bear the resulting costs. This is also the case where defence counsel was appointed ex officio unless the conditions for the granting of free legal aid are satisfied. Costs differ according to the type of the court and the composition of the panel (e.g., a district court ("*Bezirksgericht*"), a single judge, a panel of lay judges ("*Schöffengericht*"), or a jury ("*Geschworenengericht*") at a regional court ("*Landesgericht*") (European e-Justice: https://e-justice.europa.eu).

3.3.3. Croatia

In Croatia, attorney tariff is determined by the Croatian Bar Association on the basis of Attorneys Act (*Zakon o odvjetništvu*, Official Gazette No. 09/1994, 117/2008, 50/2009, 18/2011). The tariff determines the method of valuation, charging and payment of attorneys' services and expenses that the parties or clients are required to pay to attorneys or law firms for legal services rendered. Costs of representation that are charged to the party (the client) comprise of attorneys' services increased by the value added tax and other expenses for the provision of requested attorneys' services. It should be emphasised that the tariff separately regulates issues related to the reimbursement of costs for different types of procedures (criminal, misdemeanour, civil, etc.). In accordance with Attorneys Act and Attorney Tariff, the attorney is required to comply with the tariff and issue an invoice to the client when calculating the costs of attorneys' services provided. The prices of attorneys' services in the Tariff are set and can be increased by 100%, if a specific professional and specialist knowledge are required to solve the

case or if the case is particularly complex or if greater responsibility is required in order to carry out the work. Taking into account the circumstances in which the work was carried out, as well as the client's benefits, the attorney can also reduce individual prices of attorneys' services by 50% (European e-Justice: https://e-justice.europa.eu; Tariff for Attorneys' Fees (*Tarifa o nagradama i naknadi troškova za rad odvjetnika*, Official Gazette, 142/2012)).

4. Conclusions

4.1. Characteristics of the population of law offices

The analysis of attorneyship in Slovenia in the period from 1995 to 2014 shows a very dynamic development of the market of attorneys' services, in terms of both the turnover of law offices and the number of new market participants, which is typical for this type of intellectual service activity. The increased number of new cases in the courts was followed by a balanced increase in the number of law offices, whereas larger law offices were increasingly being organised as law firms. Comparisons with similar transitional countries and neighbouring Austria show that we would need about 21 additional attorneys per 100,000 inhabitants or 420 attorneys to achieve a similar coverage with the network of attorneys.

The interim growth in revenue of law offices suggests a high resilience to the crisis in the economic environment. The value of the market, measured by the revenue of law offices, has increased by five times from 1996 to 2014 and reached 162 million €. Consequently, the share of the market of attorneys' services in GDP increased from 0.26% in 1996 to 0.43% in 2014, whereas a similar share in Germany already amounted to 0.76% of GDP in 2014. Net profit margin for the entire population was maintained at around 31% until 2004 and then began to steadily decline until it reached the lowest level since 1995 (around 25%). The dynamics of employment in attorneyship slowly followed the dynamics of revenue, which is why the labour productivity of the entire population of law offices kept increasing until 2004, when it reached the amount of 47,720 €/employee. This was followed by a decade of slight stagnation, as this level was only exceeded in the year 2014.

In smaller law offices, the prevailing costs are typically labour costs, at around 60%, while the costs of services represent just under 1/3 of all costs. On the other hand, the cost structure of large law firms is considerably more diverse.

Two decades of the development of attorneys market that was subject to this study reveal a major shift in the market structure, which is a result of the increased market concentration and significant differences in the profitability of the portfolio of attorneys' services. Consequently, the market in question demonstrates a strong polarisation, with 80% of law offices representing only 20% of the entire market, whereas their turnover amounts to less than 100,000 €. Smaller law offices with up to three employees, which represent as many as 82% of all law offices, are usually the most economically vulnerable. Such offices are generally organised as registered attorneys who are forced to offer a very wide range of attorneys' services, which additionally impairs the economic efficiency of their operation.

Due to the polarisation of the market of attorneys' services, aggregate data fail to demonstrate a properly differentiated situation. The maturing of the market of attorneys' services and more complex legal disputes also influenced the decrease in revenue/employee in law firms with a turnover of more than 100,000 €, resulting in the decrease in their average hourly rate from 177 € in 2003 to 72 € in 2014. The value of the hourly rate for the entire population of law offices ranged between 22 and 23 € in recent years, which suggests that smaller law offices with a turnover of less than 100,000 € are operating with considerably lower hourly rates.

The development of the market of attorneys' services resulted in a higher market concentration, with the largest five firms controlling 14.6% and the largest 10 firms controlling almost 22% of all revenue. Markets of attorneys' services are usually limited to regional centres, which is why the actual market concentration is even higher in individual regional markets. Considerable differences between law offices are reflected in a strong positive asymmetry of revenue distribution. Thus, the average value in 2014 was 126.805 €, while the median was only 55.884 €.

The assessment of the economic situation of smaller law offices and the impact of the effective freezing of attorney tariff was further enriched with the analysis of net profit margin by size segments of a turnover (up to 25,000 €, 25,000–50,000 €, more than 50,000 €). After 2003, we have thus recognised a negative trend of net profit margin in the conditions of a dynamically growing market, which is the consequence of the combination of effects of increased competition, which puts pressure on the margins, as well as the consequence of preventing price adjustments in the segment of less profitable or unprofitable services, which must lead to the accumulation of losses. By doing so, we managed to reveal significant differences in the effects of attorney tariff, which is fairly irrelevant for major players in the market but can be almost fatal for the smallest. The unsustainable nature of low net profit margin is also supported by data from the EU28.

The main reason for a varied sensitivity of net profit margins in law offices to changes in the parameters of attorneys market lies in the structure of the attorneys' portfolio. Thus, in economically less developed areas, tariff services for less demanding and less wealthy population, or tariff services for ensuring a state-funded legal protection, prevail. Predominant in economically more developed areas are more profitable attorneys' services, or the so-called projects, where the parties agree on hourly rates or remuneration that are tied to the value of the subject matter of dispute. Such remuneration for attorneys is very different from tariff values. Domestic databases currently do not allow such analysis, but data from German market of attorneys' services clearly show that smaller law offices are mostly dealing with low-profit services, which are cross-subsidised within the limits of their capacities.

Based on the evidence collected, our conclusion is that the increased market concentration, specialisation of attorneys' services, geographical concentration and the economic crisis all led to objective circumstances in which a major part of smaller law offices became even more dependent on low-profit services. Furthermore, legislation of greater complexity demands more time for a high-quality preparation and implementation of tasks. Consequently, we are of the opinion that the freezing of attorney tariff following the year 2003 represents the greatest threat to the economic efficiency of business models of the smallest law offices, which puts at

risk their economic independence and the quality of services rendered, as well as, in the long run, the adequate coverage with a network of attorneys' services.

4.2. Regulation of attorney tariff

The regulation of prices of goods or services in the market is a form of state intervention, which must serve a clearly defined public interest, and is, therefore, in modern market economies used under special circumstances.

Such circumstances must be specially justified with a wider public interest, preservation of high professional standards, or particularities of market structure that would otherwise excessively limit the effective functioning of the relevant market.

The adaptation of the tariff that is based only on a complete or partial adjustment to the inflation (without taking into account specific features of a relevant market) represents a minimal approach to market regulation, which makes it possible to maintain the level of real prices of services. From the perspective of the regulation of a relevant market, the freezing of the value of attorney tariff in Slovenia, which has been in place since 2003, is professionally unacceptable, since it is also used as a minimum regulatory instrument in markets that are considerably more developed (e.g., Germany). Since 2014, Slovenian legislation is in line with the "*Acquis Communautaire*," and following the introduction of common European currency, EUR (in 2007), relative prices of goods and services have been largely harmonised as well, which is the essence of the single market. In such process of consolidation, equilibrium prices of (non-transferable) services are rising faster, while prices of merchandise are generally decreasing.

In the service industry, the dynamics of price growth depend primarily on the dynamics of salary growth, as salaries represent the largest share in the cost structure. Higher salaries in the non-tradable service sector are often not the result of increased productivity (as is the case with salaries in the industry) but merely imitate the dynamics of salaries in the tradable sector by trying to maintain past relationships. In the service industry, increased costs cannot be compensated by higher productivity (the hairdresser does not cut more hair per time unit, just as the attorney is not able to provide a high-quality advice and represent more clients per time unit). Therefore, in order to maintain a sustainable business model, a substantial part of the increased costs translates into higher prices of services, which are in the process of integration with the single European market, the main contributor to the rising prices or inflation. Consequently, the "normal" price growth in the service sector is higher than in all others, which is known as the Balassa-Samuelson effect in economic theory.

With the "de facto" freezing of the value of attorney tariff point, the Government of the RS administratively prevented the usual process of the adjustment of attorneys' services prices in the segment of tariff services. This resulted in the accumulation of price imbalances, which are, in the long run, impairing the development of attorneys' services market in terms of the number of participants and from the perspective of ensuring a sustainable quality of services. The latter is particularly true for smaller regional centres, where the possibilities for cross-subsidisation between tariff services and more profitable commercial transactions, in which the attorney's payment depends on the value of dispute (especially in the segment of corporate

clients), are very limited. As a consequence, many lawyers in smaller regional markets, where tariff services prevail, were forced to increase their productivity, which is not even theoretically possible without affecting the quality of services in the given circumstances of this activity. Such regulation causes additional market inefficiencies in the form of covert use of dumping prices and additional costs, even in cases where the party wins the dispute.

Unfortunately, attorneys in most countries do not enjoy the same social standing as health care providers due to attorney's indirect impact on personal and social welfare (despite economic similarities of both services). In this circumstances, our interdisciplinary study based on our unique dataset for the period 1995–2015 becomes even more relevant for attorneys and policy makers in order to identify and prevent long-term negative spill-over effects. Thus, this first long-term analysis of attorney's services in Slovenia provides a comprehensive model and various (empirically tested) guidelines for the European discussion on deregulation. Considering the fact that Slovene legislative system is based on German legal tradition, we assume our model's relevance for the broader central-European area.

The primary objective of any market regulation must be to increase, or at least maintain, the prosperity of a society through regulatory instruments that permanently reduce market inefficiencies. However, the experience shows (also in the case of attorneys' services) that ill-considered regulation increases or creates new market inefficiencies, which are the consequence of political influences and bureaucratic processes. Especially in the period of dynamic socioeconomic changes, a constant monitoring of regulatory effects with regard to the starting situation and long-term objectives of administrative intervention is indispensable. Good practices dictate that the regulator of a relevant market should present a report (at least once every 2 years) that addresses regulatory measures and their impact in relation to the set objectives. In order to prepare such report, the regulator must also establish the appropriate reporting system for regulated companies, which will allow a direct insight into their business models and parameters of the market as a whole.

Passive regulation of the market of attorneys' services in the segment of price regulation, which has developed in very different market and wider economic conditions, is a good example of bad practices in market regulation. For quite some time, the later has been causing negative economic consequences, which have not been identified or neutralised by the regulator. The reason for this situation lies in the process of the adjustment of regulated prices for a very exposed professional group, such as attorneys. The core of the problem lies in temporal dynamics of such adjustments and in a "political process" of the adjustment of attorney tariff. The longer the period of non-adjustment of prices of attorneys' tariff services to changes in prices or comparable salaries lasts, the higher the relatively high rate of justified growth accumulates, which partly compensates for the past deprivation.

The described pressure of public opinion and election calculations of government parties often lead to the postponement of such decisions or to adjustments that fail to comply with economic or business arguments or have little in common with the implementation of clearly defined objectives of market regulation. In the case of fairly developed markets of attorneys' services that maintain the regulation of "minimum prices", which serves primarily to maintain the coverage with a network of attorneys' services, the solution can be very simple; namely, a

periodic adjustment of the value of attorney tariff points to the selected growth index (of prices or salaries). Nevertheless, special attention should be paid to the adjustment of tariff items to the lowest rated services and the attempt to bringing them closer to their fair market value.

During the last decade, we witnessed several attempts of the liberalisation of markets, which had been promising predominantly positive effects without any in-depth economic analysis. Based on the acquired experience, we find that the understanding of particularities in individual markets is crucial for a successful deregulation; otherwise, the costs can quickly outweigh the benefits (e.g., negative effects of a broad access to medicines or a reduced access to pharmaceutical care in less populated areas; [19]). Caution is also needed when examining econometric analyses of the effects of liberalisation of professional services (e.g., [20]), which compare attorneys' services, accounting, architectural and engineering services in a non-differentiated manner. Such comparison of professional services is conceptually completely inappropriate, as the particularities of user segments in attorneys' services and exceptional specifics of the market of attorneys' services may lead to incorrect conclusions. Experience has shown that deregulation often brings positive effects for the segment of attorneys' services for companies but generally leads to a lower quality of services and reduced access to effective legal protection in the segment of natural persons and small businesses [15].

Taking into account our in-depth analysis of all relevant components of the market of attorneys' services, we estimate that the partial adjustment of the value of attorney tariff to the inflation that occurred after 1994 and the freezing of its value after 2003 were professionally unfounded. Based on our calculations, we conclude that the appropriate adjustment after 2003 should have resulted in the nominal value of attorney tariff point at 0.60 € in 2015. Complete adjustment to changes in the inflation from the year 1994 would result in the nominal value of attorney level point at 0.73 €. It should be noted that this is a conservative estimate that does not yet take into account the Balassa-Samuelson effect, which implies that equilibrium prices in the non-tradable sector (services) generally grow faster than the average price level expressed by domestic inflation.

4.3. Net profit margin and the value of a law office's billable hour by the size of law offices

The accumulation of negative effects of unjustified interference with the adjustment of prices to the level of fair market price for attorneys' services has been particularly evident after 2004. The analysis of the entire population, segmented by the achieved net profit margin (negative, low (0–10%), medium (10–30%) and high[9] (over 30%)) showed a pronounced increase in the share of law offices that operated with negative or low net profit margin. Until 2004, around 3% of law offices demonstrated losses, around 10% of attorneys demonstrated low net profit margin, while the largest share of attorneys demonstrated either medium (close to 40% of

[9]Based on the analyses of the domestic market of attorneys' services and international comparisons, we estimated the equilibrium value of net profit margin at around 25%. In order to assess the risk faced by individual law offices, we determined the range of net profit margins of up to 10% as (unsustainable) low. Net profit margin was set as high at the level of 30% in relation to past changes in these values at the market, while the remaining range (10–30%) represents the medium performance according to net profit margin.

attorneys) or high (around 50% of attorneys) margin. In the period from 2004 to 2014, the losses almost tripled, and the share of law offices with low net profit margin almost doubled. We should keep in mind that the margin of law offices with a turnover of up to 50,000 € most likely represents the extreme variant of rationality (with some costs even at a disproportionately low level) and that it can worsen considerably as a result of minor negative impacts on the business model (high sensitivity of profit or loss to risk). On the contrary, larger law firms hold larger rationalisation reserves for the times of crisis as a result of their business volume, which corresponds to a lower sensitivity of profit or loss to risks.

A sample of the most economically sensitive law offices with a turnover below 50,000 € displays even worse results, since the share of attorneys with a negative net result has been increasing since 1999 and has increased by almost 5 times until 2014. Therefore, the two groups of attorneys that are most at risk (with a turnover of up to 50.000 €) together constitute almost 30% of law offices. The results are even worse if we exclude large regional centres from the sample, such as Ljubljana, Koper, Nova Gorica and Celje.

Moreover, the status that allows determination of tax base by taking account of flat rate expenses does not guarantee a lasting improvement in the economic viability of small law offices but rather represents a special form of tax advantages. The said solution of tax policy is primarily intended to promote entrepreneurial activity at an early stage in the life cycle of services companies with a turnover of up to 50,000 € or 100,000 €, which have a harder time bearing the usual tax burden and the risks involved. Such artificial improvement in business performance of the smallest law offices through tax subsidies cannot end up as an excuse for imposing imbalanced dumping prices on the providers of attorney's services that are mainly subject to the tariff, who frequently fail to cover even rationally set cost prices and minimum development funds (competitive profits).

Differences between large and smaller law offices in the profitability of the portfolio of services can also be expressed through the average value of revenue per hour per employee in attorneyship. Based on data for the German market, we found that the average value of 1 hour increased to 38.4 € in 2014. For the purpose of comparison, we also added data for the entire population of Slovenian law firms, which reached the value of 23.4 € per hour per employee, while data referring solely to law firms with a turnover above 100.000 € reveals values at the level of 71.6 €. Considerable gap between the average for larger law offices and the average for the entire population again indicates a significantly lower revenue/hour in smaller law offices, which in our simplified estimation reached about 12.60 € in 2014. However, these data are not identical to the market price of the attorney's hour charged on an invoice, which is set higher by about 2.5 times in order to cover all direct and indirect costs, the required returns and taxes.

Relatively high remuneration for employees in the most successful law firms is creating the impression that all attorneys receive high salaries. The data obtained from the sample of 10 small law firms show that the median of salary per employee is 1141 €, with four firms demonstrating a gross salary of 1000 €. On the other hand, the median of average gross salary in the largest law firms amounted to 2698 € and even exceeded 3400 € in three cases.

The collected data show that the smallest law offices can afford, at most, the lowest base salaries, while even the most successful law firms barely manage to match the salary of a county judge.

4.4. Regional markets by RAA

Eleven analysed RAAs represent 11 regional markets with a fairly similar development of organisational forms of law offices and with similar employment trends. Under the other observed criteria, significant deviations have been detected, which are mainly the result of the economic strength of each regional centre. The calculation of the revenue of law offices per number of inhabitants in each RAA shows large differences in economic power, from 19 € in Ptuj and 40 € in Celje to 56 € in Maribor and 153 € in Ljubljana.

The five largest providers (TOP5 for 2014) controlled only about 19% of the market in Ljubljana (close to Slovenian average), 30% in Maribor, 42% in Koper, about 53% in Ptuj and in Krško and as much as 73% in Slovenj Gradec. A major part of regional markets demonstrates labour productivity at the level of around 60,000 €, whereas Maribor and Ljubljana account for as much as 80,000 €.

A detailed analysis of 11 RAAs also revealed, in a regionally precise manner, areas with potential problems in the accessibility of high-quality legal services to the population. In this regard, we found that only in the territory of RAAs of Ljubljana, Koper and Krško does an additional unit of the attorneys' revenue on average result in an additional contribution to his or her net profit. Furthermore, we noted that in many areas, the state will have to provide greater financial assistance to ensure adequate legal protection for the less wealthy population. Coverage with a high-quality network of attorneys' services is the most compromised because of a small market potential of individual regional markets that are economically less developed.

The analysis of net profit margin by RAAs almost uniformly shows a decline after 2003, when the value of attorney tariff point was effectively frozen. In all RAAs, the smallest law firms with a turnover of up to 25,000 € were the most affected, as demonstrated by the negative trend in net profit margin and its high volatility (variability) by years, which reflects an increased business risk. Slovenj Gradec RAA, which displayed the highest market concentration, was the only RAA where no obvious negative trends for net profit margin could be identified. In some cases (Ptuj, Kranj, Celje and Krško), even law firms with a turnover of over 50,000 € experienced significant losses in net profit margin.

4.5. Accessibility of attorneys' services to the population

The accessibility of attorneys' services to the population is linked to a physical proximity of law offices (especially for the less mobile part of the population) and the affordability of attorneys' fees. The effective freezing of attorneys' fees primarily leads to a greater economic accessibility to the population with lower income but, in the long run, threatens the economic independence or even the survival of law offices in less developed areas. Consequently, a permanent accessibility of attorneys' services will be ensured if we maintain the adjustment of prices of attorneys' services that will support the balance between

marginal costs of law offices (especially in economically less developed areas) and marginal net income of the population or households.

The adjustment of attorney tariff is usually linked to the question of economic accessibility of attorneys' services to the population with lower income. Based on the collected data, we can determine that the economic situation of the population has improved considerably in the last decade since the average net salary already leads to a conclusion that one had to work 6 hours for the average hour of attorneys' services in 2003 but only 4 hours in 2012. Therefore, if we maintained the ratio from 2003, this would mean that the average hour of law offices could increase by 50% without detriment to the economic accessibility of attorneys' services (when compared to the year 2003). The minimum adjustment (based on five times the average salary/hour and the value of law office's billable hour) would require a 24% increase.

One of the main reasons why caution is needed in the deregulation of the market of attorneys' services is the diversity of user segments. Studies have shown [15] that, when weighing the benefits and costs of liberalisation, it is necessary to carefully consider the most vulnerable users of attorneys' services, such as natural persons and small businesses. The latter have fewer possibilities to choose between providers and are less able to evaluate the quality of services offered.

Our analysis has shown that in the entire population of law offices, as many as 25% are at risk of going out of business since they are operating with a minimum or even a negative net profit margin (up to 10%). This fact is all the more relevant for a proper coverage with the network of high-quality attorneys' services in economically less developed areas, which is where the smallest entities are primarily operating. Among law offices with a turnover of up to 50,000 € (almost half of all law offices), the share of those that are most at risk has increased to almost 30% by 2014. If we consider only smaller law offices (with a turnover of up to 50,000 €), by leaving out RAAs of Ljubljana, Nova Gorica, Koper and Celje, the share of law offices at risk increases to almost 40%. Regardless of the observed size sample of law offices, the share of law offices at risk has generally doubled after the turning point in 2003. Unfortunately, there are no alternative solutions in the described circumstances, since law firms have no hidden internal reserves or other market-conforming and legally conforming alternatives (additional activities, price rises, aggressive marketing, etc.) that would enable financial sustainability.

Abbreviations

LF law firms

LO law office

RA registered attorney

RAA regional assembly of attorneys

RVG Rechtsanwaltsvergütungsgesetz

A. Annexes

Annex 1a: Number of legal entities in attorneyship (Slovenia 1995–2015).

Regional council & Form	*1995*	*1996*	*1997*	*1998*	*1999*	*2000*	*2001*	*2002*	*2003*	*2004*
CELJE	**48**	**54**	**54**	**55**	**61**	**67**	**69**	**74**	**76**	**80**
Company with unlimited liability										
Limited liability company					1	1	2	2	2	2
Attorney	48	54	54	55	60	66	67	72	74	78
Slovenian affiliate										
Sole proprietor										
KOPER	**26**	**31**	**34**	**37**	**43**	**45**	**45**	**49**	**50**	**51**
Limited liability company									1	1
Attorney	26	31	34	37	43	45	45	49	49	50
Slovenian affiliate										
Sole proprietor S.p.										
KRANJ	**37**	**43**	**45**	**47**	**48**	**48**	**50**	**51**	**51**	**54**
Limited liability company		1	1	1	1	1	1	1	1	2
Attorney	37	42	44	46	47	47	49	50	50	52
KRŠKO	**10**	**12**	**13**	**13**	**14**	**15**	**16**	**17**	**18**	**17**
Limited liability company										
Attorney	10	12	13	13	14	15	16	17	18	17
Sole proprietor										
LJUBLJANA	**182**	**206**	**250**	**266**	**298**	**314**	**332**	**355**	**376**	**406**
Company with unlimited liability		1	1	1	2	2	2	2	2	2
Limited liability company	5	6	6	9	10	11	12	15	15	21
Attorney	177	199	243	256	286	301	318	338	359	383
Foreign affiliate										
Sole proprietor										
MARIBOR	**62**	**67**	**71**	**73**	**74**	**74**	**81**	**82**	**87**	**91**
Limited liability company										
Attorney	62	67	71	73	74	74	81	82	87	91
NOVA GORICA	**19**	**21**	**24**	**24**	**25**	**28**	**29**	**29**	**32**	**33**
Limited liability company										
Attorney	19	21	24	24	25	28	29	29	32	33
Sole proprietor										
NOVO MESTO	**14**	**16**	**16**	**16**	**17**	**18**	**19**	**21**	**21**	**24**
Limited liability company								1	1	1
Attorney	14	16	16	16	17	18	19	20	20	23
POMURJE	**18**	**15**	**16**	**16**	**19**	**20**	**20**	**24**	**26**	**27**
Attorney	18	15	16	16	19	20	20	24	26	27
PTUJ	**9**	**9**	**10**	**10**	**10**	**10**	**12**	**12**	**12**	**13**
Company with unlimited liability										
Limited liability company							**1**	**1**	**1**	**1**
Attorney	9	9	10	10	10	10	11	11	11	12
SLOVENJ GRADEC	**4**	**4**	**5**	**5**	**6**	**5**	**5**	**7**	**7**	**7**
Limited liability company					1	1	1	1	1	1
Attorney	4	4	5	5	5	4	**4**	**6**	6	6
SLOVENIJA	**429**	**478**	**538**	**562**	**615**	**644**	**678**	**721**	**756**	**803**
Company with unlimited liability	0	1	1	1	2	2	2	2	2	2
Limited liability company	5	7	7	10	13	14	17	21	22	29
Attorney	424	470	530	551	600	628	659	698	732	772
Slovenian affiliate	0	0	0	0	0	0	0	0	0	0
Foreign affiliate	0	0	0	0	0	0	0	0	0	0
Sole proprietor	0	0	0	0	0	0	0	0	0	0

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Annex 1b: Number of legal entities in attorneyship (Slovenia 1995–2015).

Regional council & Form	*2005*	*2006*	*2007*	*2008*	*2009*	*2010*	*2011*	*2012*	*2013*	*2014*	*2015*
CELJE	**81**	**87**	**93**	**98**	**103**	**107**	**111**	**109**	**118**	**126**	**129**
Company with unlimited liability		1	1	1			1				
Limited liability company	2	3	3	3	6	7	10	10	11	15	19
Attorney	79	83	89	94	96	99	98	98	107	111	110
Slovenian affiliate					1	1	1				
Sole proprietor							1	1			
KOPER	**54**	**60**	**60**	**69**	**74**	**79**	**85**	**78**	**76**	**81**	**86**
Limited liability company	1	1	2	3	4	4	6	8	9	12	15
Attorney	53	59	58	66	70	74	77	70	67	69	71
Slovenian affiliate						1	1				
Sole proprietor s.p.							1				
KRANJ	**56**	**59**	**67**	**71**	**80**	**76**	**78**	**77**	**73**	**78**	**80**
Limited liability company	2	3	4	5	8	9	9	11	11	15	15
Attorney	54	56	63	66	72	67	69	66	62	63	65
KRŠKO	**18**	**18**	**21**	**22**	**26**	**22**	**21**	**23**	**22**	**23**	**14**
Limited liability company								1	1	1	1
Attorney	18	18	21	21	26	22	21	22	21	22	13
Sole proprietor				1							
LJUBLJANA	**444**	**473**	**501**	**533**	**565**	**573**	**575**	**588**	**614**	**648**	**681**
Company with unlimited liability	3	2	3	5	3	4	4	4	4	3	3
Limited liability company	25	27	31	32	57	79	88	100	127	141	155
Attorney	416	444	467	496	504	489	482	482	481	502	519
Foreign affiliate					1	1	1	2	2	2	3
Sole proprietor											1
MARIBOR	**92**	**103**	**109**	**114**	**122**	**126**	**123**	**127**	**132**	**135**	**146**
Limited liability company			1	1	2	7	10	12	14	14	18
Attorney	92	103	108	113	120	119	113	115	118	121	128
NOVA GORICA	**38**	**36**	**40**	**39**	**41**	**40**	**43**	**43**	**44**	**43**	**45**
Limited liability company					1	2	3	6	8	8	7
Attorney	38	36	40	39	40	38	40	37	36	35	37
Sole proprietor											1
NOVO MESTO	**24**	**24**	**34**	**31**	**29**	**35**	**33**	**33**	**33**	**32**	**42**
Limited liability company	1	1	1	1	2	5	5	5	5	5	5
Attorney	23	23	33	30	27	30	28	28	28	27	37
POMURJE	**27**	**28**	**29**	**31**	**32**	**36**	**37**	**37**	**37**	**38**	**39**
Attorney	27	28	29	31	32	36	37	37	37	38	39
PTUJ	**15**	**15**	**15**	**17**	**18**	**18**	**18**	**21**	**22**	**21**	**22**
Company with unlimited liability	1	1	1	1	1	1	1	1	1	1	1
Limited liability company	**1**	**1**	**1**	**1**	**1**	**1**	**1**	**1**	**1**	**1**	2
Attorney	13	13	13	15	16	16	16	19	20	19	19
SLOVENJ GRADEC	**7**	**10**	**10**	**10**	**11**	**11**	**13**	**13**	**16**	**15**	**16**
Limited liability company	1	2	2	2	2	2	2	2	3	3	3
Attorney	6	8	8	8	9	9	11	11	13	12	13
SLOVENIJA	**856**	**913**	**979**	**1.035**	**1.101**	**1.123**	**1.137**	**1.149**	**1.187**	**1.240**	**1.300**
Company with unlimited liability	4	4	5	7	4	5	6	5	5	4	4
Limited liability company	33	38	45	48	83	116	134	156	190	215	240
Attorney	819	871	929	979	1.012	999	992	985	990	1.019	1.051
Slovenian affiliate	0	0	0	0	1	2	2	0	0	0	0
Foreign affiliate	0	0	0	0	1	1	1	2	2	2	3
Sole proprietor	0	0	0	1	0	0	2	1	0	0	2

Annex 2a: Number of employees in attorneyship (Slovenia 1995–2015).

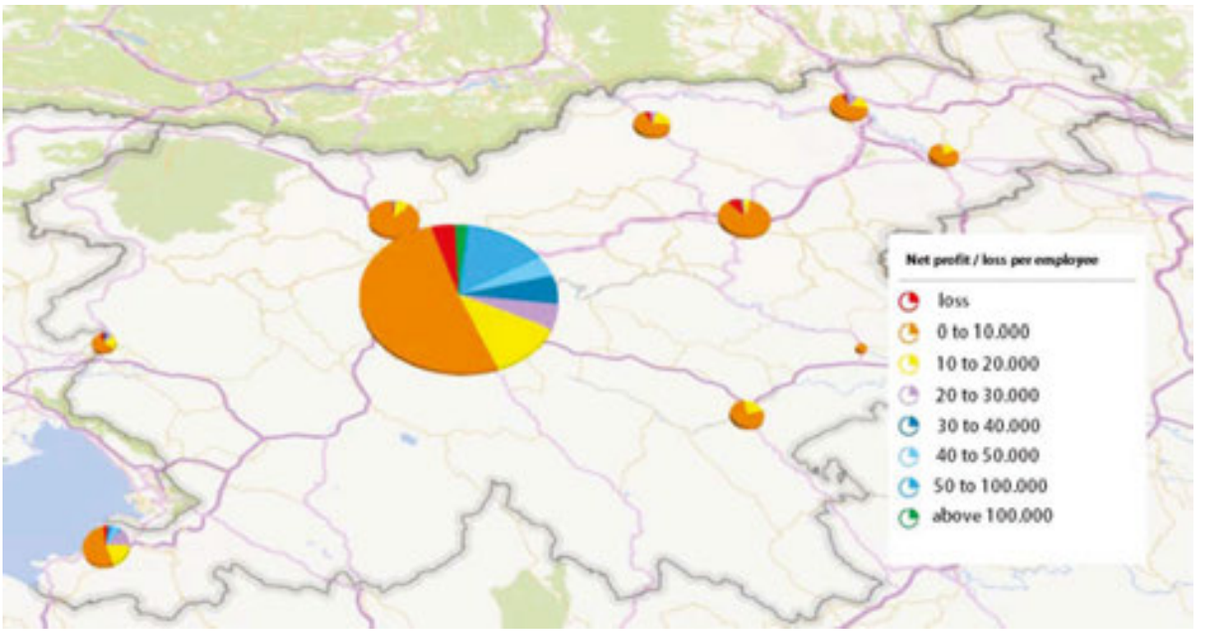
Regional council & Form	*1995*	*1996*	*1997*	*1998*	*1999*	*2000*	*2001*	*2002*	*2003*	*2004*
CELJE	**85**	**95**	**97**	**96**	**124**	**140**	**143**	**164**	**174**	**184**
Company with unlimited liability										
Limited liability company					5	4	7	10	11	13
Attorney	85	95	97	96	119	136	136	154	163	171
Slovenian affiliate										
Sole proprietor										
KOPER	**37**	**47**	**53**	**57**	**64**	**65**	**68**	**80**	**84**	**91**
Limited liability company									3	2
Attorney	37	47	53	57	64	65	68	80	81	89
Slovenian affiliate										
Sole proprietor S.p.										
KRANJ	**49**	**60**	**67**	**72**	**75**	**77**	**78**	**86**	**90**	**100**
Limited liability company		3	4	4	6	6	6	7	7	9
Attorney	49	57	63	68	69	71	72	79	83	91
KRŠKO	**16**	**21**	**21**	**24**	**26**	**30**	**31**	**32**	**34**	**38**
Limited liability company										
Attorney	16	21	21	24	26	30	31	32	34	38
Sole proprietor										
LJUBLJANA	**341**	**419**	**476**	**543**	**617**	**672**	**742**	**774**	**882**	**1.027**
Company with unlimited liability		4	4	5	9	9	8	10	12	10
Limited liability company	77	75	76	91	105	108	124	140	151	216
Attorney	264	340	396	447	503	555	610	624	719	801
Foreign affiliate										
Sole proprietor										
MARIBOR	**97**	**102**	**103**	**111**	**121**	**126**	**145**	**157**	**176**	**199**
Limited liability company										
Attorney	97	102	103	111	121	126	145	157	176	199
NOVA GORICA	**45**	**45**	**47**	**54**	**57**	**61**	**66**	**73**	**87**	**89**
Limited liability company										
Attorney	45	45	47	54	57	61	66	73	87	89
Sole proprietor										
NOVO MESTO	**22**	**27**	**28**	**26**	**26**	**32**	**31**	**38**	**38**	**43**
Limited liability company								4	4	5
Attorney	22	27	28	26	26	32	31	34	34	38
POMURJE	**40**	**33**	**37**	**37**	**39**	**37**	**36**	**42**	**53**	**58**
Attorney	40	33	37	37	39	37	36	42	53	58
PTUJ	**15**	**18**	**19**	**17**	**18**	**18**	**24**	**30**	**31**	**35**
Company with unlimited liability										
Limited liability company							**5**	**6**	**7**	**8**
Attorney	15	18	19	17	18	18	19	24	24	27
SLOVENJ GRADEC	**6**	**6**	**8**	**10**	**17**	**20**	**19**	**20**	**22**	**23**
Limited liability company					8	10	10	10	12	11
Attorney	6	6	8	10	9	10	**9**	**10**	10	12
SLOVENIJA	**753**	**873**	**956**	**1.047**	**1.184**	**1.278**	**1.383**	**1.496**	**1.671**	**1.887**
Company with unlimited liability	0	4	4	5	9	9	8	10	12	10
Limited liability company	77	78	80	95	124	128	152	177	195	264
Attorney	676	791	872	947	1.051	1.141	1.223	1.309	1.464	1.613
Slovenian affiliate	0	0	0	0	0	0	0	0	0	0
Foreign affiliate	0	0	0	0	0	0	0	0	0	0
Sole proprietor	0	0	0	0	0	0	0	0	0	0

http://dx.doi.org/10.5772/intechopen.75422

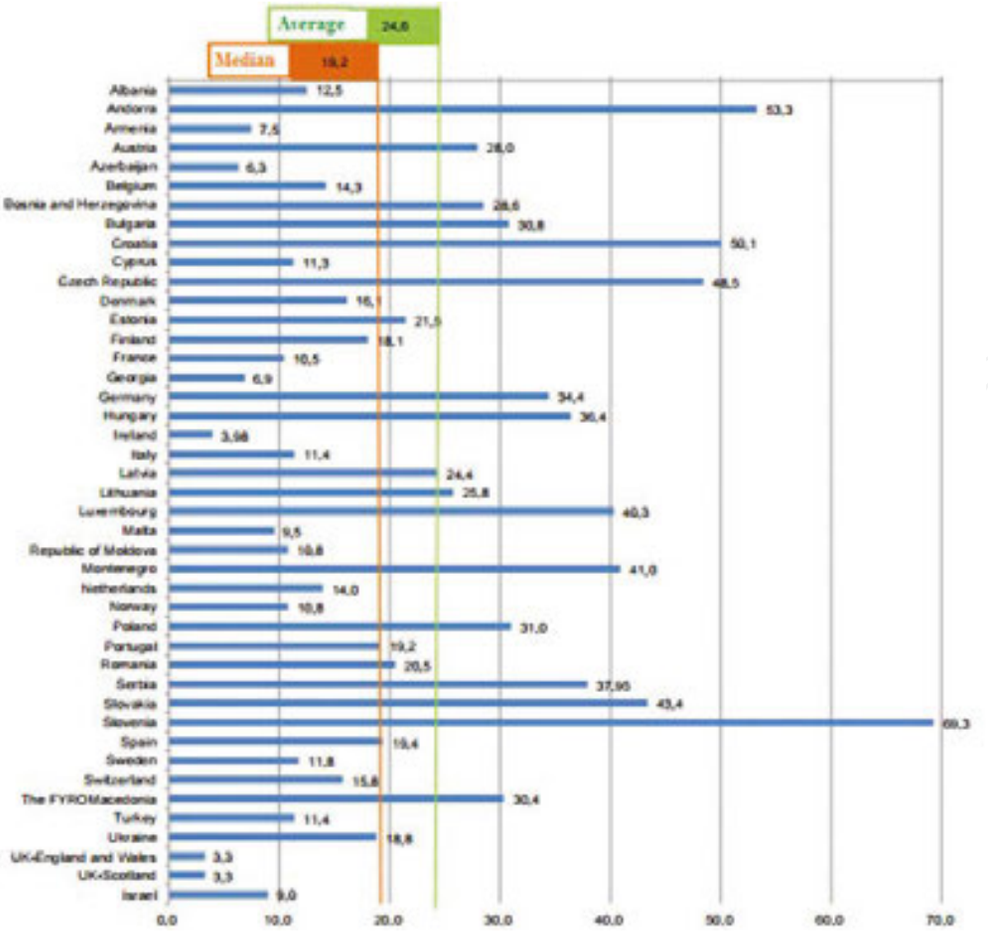
Annex 2b: Number of employees in attorneyship (Slovenia 1995–2015).

Regional council & Form	*2005*	*2006*	*2007*	*2008*	*2009*	*2010*	*2011*	*2012*	*2013*	*2014*	*2015*
CELJE	**200**	**231**	**258**	**280**	**289**	**298**	**297**	**300**	**287**	**306**	**314**
Company with unlimited liability		5	6	7			6				
Limited liability company	15	19	19	20	33	45	50	57	50	57	62
Attorney	185	207	233	253	253	251	238	242	237	249	252
Slovenian affiliate					3	2	2				
Sole proprietor							1	1			
KOPER	**101**	**125**	**125**	**161**	**172**	**172**	**180**	**175**	**181**	**187**	**198**
Limited liability company	2	2	10	37	30	27	29	37	44	52	61
Attorney	99	123	115	124	142	143	149	138	137	135	137
Slovenian affiliate						2	1				
Sole proprietor S.p.							1				
KRANJ	**108**	**121**	**135**	**159**	**180**	**180**	**180**	**187**	**177**	**185**	**184**
Limited liability company	11	16	25	33	47	52	49	54	57	60	62
Attorney	97	105	110	126	133	128	131	133	120	125	122
KRŠKO	**41**	**42**	**50**	**55**	**71**	**64**	**58**	**65**	**63**	**64**	**43**
Limited liability company								4	6	8	8
Attorney	41	42	50	54	71	64	58	61	57	56	35
Sole proprietor				1							
LJUBLJANA	**1.204**	**1.254**	**1.377**	**1.474**	**1.657**	**1.714**	**1.720**	**1.694**	**1.812**	**1.888**	**1.953**
Company with unlimited liability	16	11	15	20	15	16	18	12	12	12	8
Limited liability company	290	287	322	354	507	636	701	692	789	853	920
Attorney	898	956	1.040	1.100	1.125	1.049	990	975	979	972	963
Foreign affiliate					10	13	11	15	32	51	61
Sole proprietor											1
MARIBOR	**210**	**230**	**254**	**275**	**309**	**316**	**309**	**317**	**318**	**320**	**346**
Limited liability company			4	4	11	27	46	50	56	58	71
Attorney	210	230	250	271	298	289	263	267	262	262	275
NOVA GORICA	**97**	**94**	**101**	**108**	**117**	**114**	**114**	**113**	**108**	**100**	**102**
Limited liability company					4	6	11	20	26	25	25
Attorney	97	94	101	108	113	108	103	93	82	75	76
Sole proprietor											1
NOVO MESTO	**44**	**44**	**62**	**61**	**65**	**78**	**74**	**81**	**84**	**78**	**97**
Limited liability company	4	4	5	5	13	20	21	26	21	24	24
Attorney	40	40	57	56	52	58	53	55	63	54	73
POMURJE	**60**	**65**	**68**	**72**	**81**	**91**	**94**	**92**	**84**	**85**	**76**
Attorney	60	65	68	72	81	91	94	92	84	85	76
PTUJ	**43**	**49**	**56**	**58**	**64**	**61**	**57**	**69**	**60**	**53**	**56**
Company with unlimited liability	5	6	5	4	3	3	3	3	3	3	3
Limited liability company	**7**	**9**	**11**	**9**	**7**	**10**	**9**	**9**	**8**	**6**	10
Attorney	31	34	40	45	54	48	45	57	49	44	43
SLOVENJ GRADEC	**23**	**31**	**29**	**34**	**40**	**44**	**45**	**43**	**48**	**52**	**49**
Limited liability company	11	17	15	17	19	22	19	17	19	21	20
Attorney	12	14	14	17	21	22	26	26	29	31	29
SLOVENIJA	**2.131**	**2.286**	**2.515**	**2.737**	**3.045**	**3.132**	**3.128**	**3.136**	**3.222**	**3.318**	**3.418**
Company with unlimited liability	21	22	26	31	18	19	27	15	15	15	11
Limited liability company	340	354	411	479	671	845	935	966	1.076	1.164	1.263
Attorney	1.770	1.910	2.078	2.226	2.343	2.251	2.150	2.139	2.099	2.088	2.081
Slovenian affiliate	0	0	0	0	3	4	3	0	0	0	0
Foreign affiliate	0	0	0	0	10	13	11	15	32	51	61
Sole proprietor	0	0	0	1	0	0	2	1	0	0	2

Annex 3: Law firms structure by the profit or loss per employee in RAAs.



Annex 4: Number of judges and court assistants (Rechtpleger) per 100,000 inhabitants.



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