

Law Firm and Lawyer Market in Korea: Some Stylized Facts and Their Implications

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1. Introduction

- The legal industry is a core part of the business service sector.
- Two Issues
 - Problems of current regulations → Ch.2
 - analyzed in Kim and Lee (2009)
 - How to create a new environments → Ch.3
 - requires in-depth analysis on the industry itself

2. Problems of Korean Legal Industry

Three Problems

- Excessive Exclusive Rights
- Entry Barrier
- Weak Supervision

2. Problems of Korean Legal Industry

Three Problems

- Excessive Exclusive Rights
 - Entry Barrier
 - Weak Supervision
- Exclusive right to represent clients at the court
 - Granting license of patent-agent and tax-agent without any qualification procedure
 - Exclusive rights on legal advice or counseling

2. Problems of Korean Legal Industry

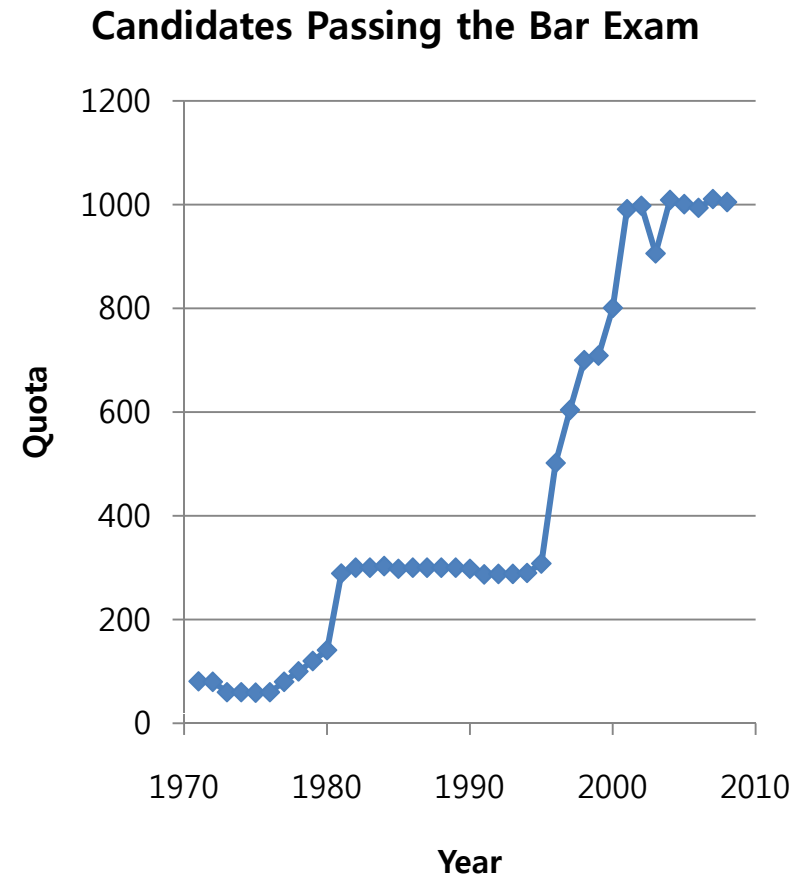
Three Problems

- Excessive Exclusive Rights
 - Entry Barrier
 - Weak Supervision
- The government pre-decide how many applicants will pass the bar exam
 - The quota has been maintained far below the equilibrium level
(Kim (2007), Shin (2007))

2. Problems of Korean Legal Industry

Three Problems

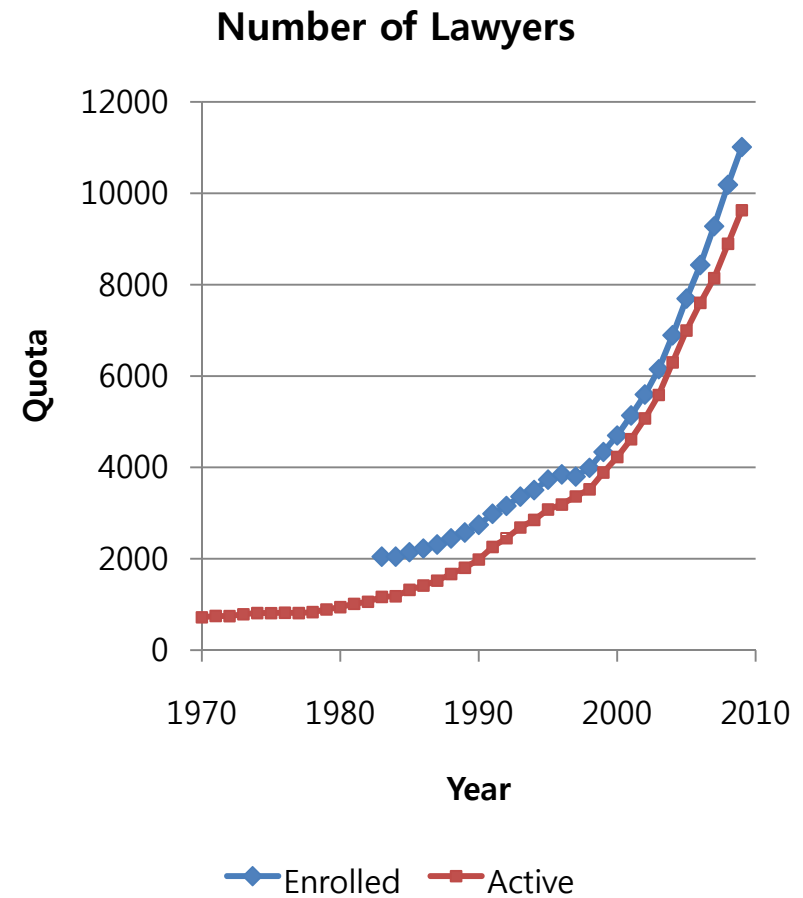
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2. Problems of Korean Legal Industry

Three Problems

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2. Problems of Korean Legal Industry

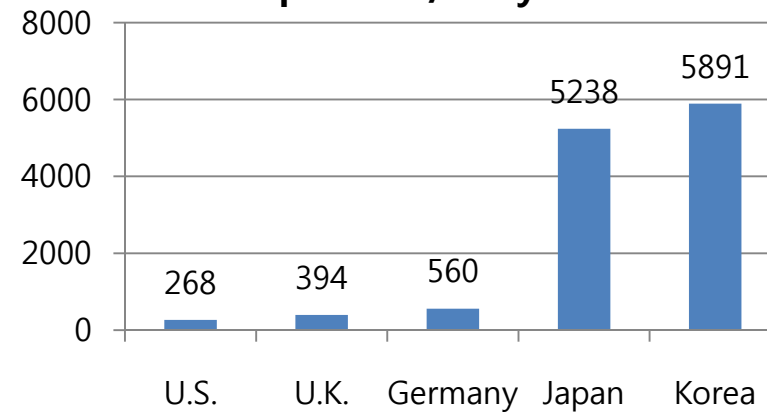
Three Problems

- Excessive Exclusive Rights
- Entry Barrier
- Weak Supervision

Number of Lawyers

Country	Lawyers
U.S	1,162,124
U.K.	155,323
Germany	146,910
Japan	24,302
Korea	8,174

Population/Lawyer



2. Problems of Korean Legal Industry

Three Problems

- Excessive Exclusive Rights
 - Entry Barrier
 - Weak Supervision
- The Ministry of Justice delegated the supervision of lawyers to the Korean Bar Association
 - KBA protects lawyers rather than customers.

* Sanction by the KBA

- only 468 cases (1993-2008)
- level of punishment is low
- Information is not properly provided to customers

2. Problems of Korean Legal Industry

Three Problems

- Excessive Exclusive Rights
- Entry Barrier
- Weak Supervision

Remedies

Reduce the Exclusive Rights

Remove the quota at the Bar Exam

Direct Supervision by the
Government

(Abolition of Mandatory Enrollment
to the KBA)

2. Problems of Korean Legal Industry

Conclusion of the Chapter

- Removal of the government-generated problems is necessary for the growth of Korean legal industry and its contribution to the economic growth.
- Analysis needs to be done on the legal industry for understanding how to optimize regulations on the industry.

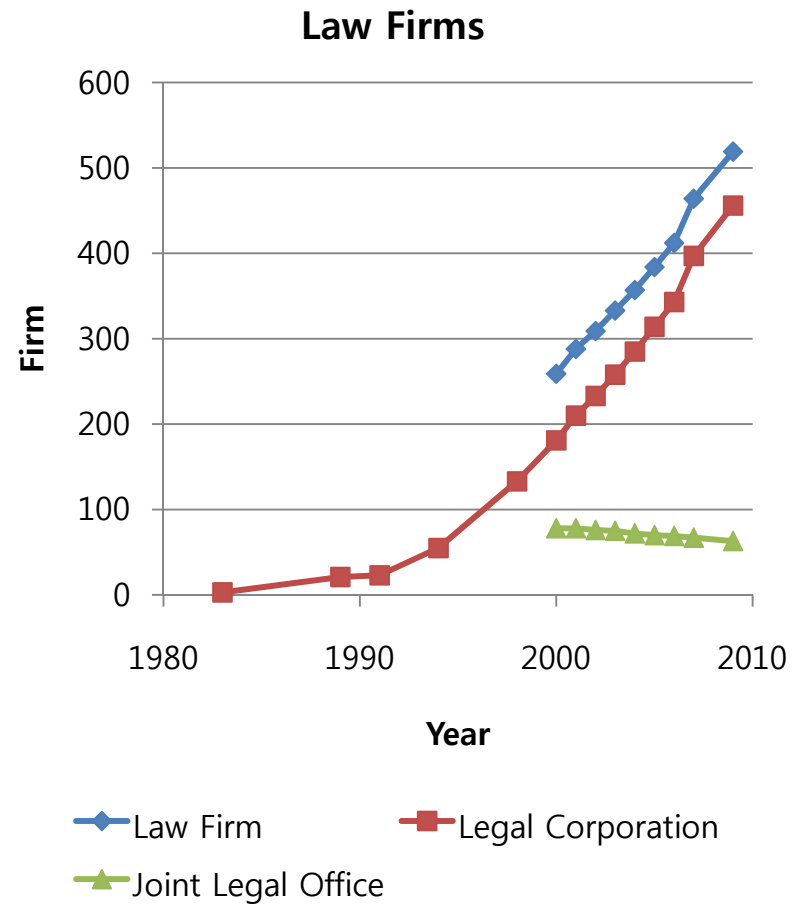
3. Dynamics of the Law Firm Population

- A remarkable fact: Rise of the law firm from the 1990s
- Law firm
 - Legal corporation (법무법인)
 - Limited liability legal corporation (법무법인(유한))
 - Joint legal office (공증인가합동법률사무소)
- Rise of the law firm means three things...

3. Dynamics of the Law Firm Population

Rise of the law firm

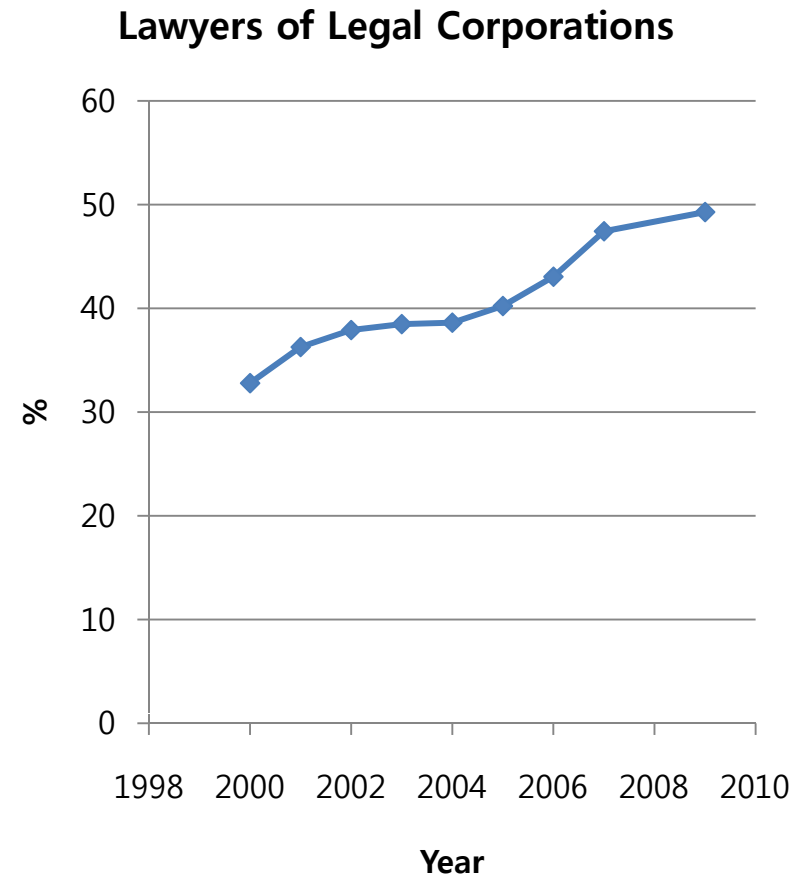
1. Number of law firms ↑



3. Dynamics of the Law Firm Population

Rise of the law firm

- 1. Number of law firms ↑
- 2. Share of law firm lawyers ↑

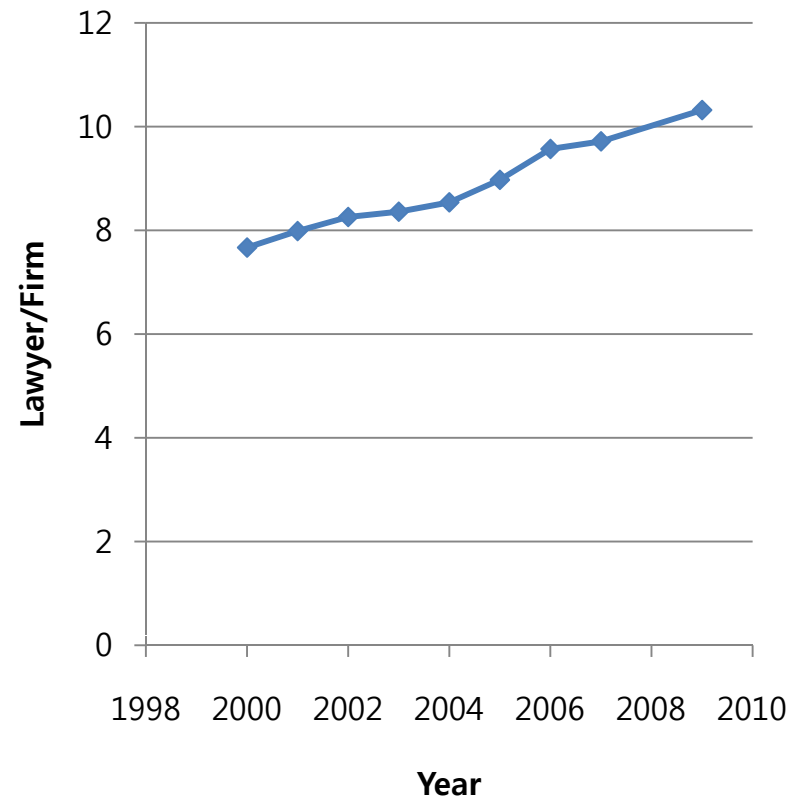


3. Dynamics of the Law Firm Population

Rise of the law firm

1. Number of law firms ↑
2. Share of law firm lawyers ↑
3. Size of law firms ↑

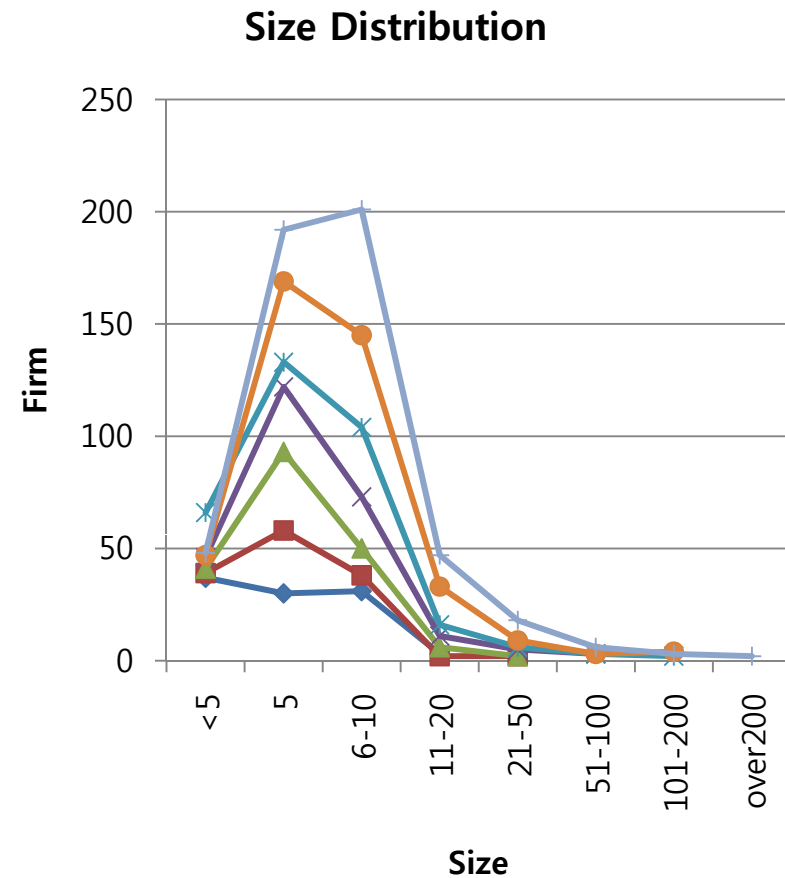
Average Size of Legal Corporations



3. Dynamics of the Law Firm Population

Rise of the law firm

1. Number of law firms \uparrow
2. Share of law firm lawyers \uparrow
3. Size of law firms \uparrow
 - Big firms get bigger
 - Small-medium sized firms also increased their size



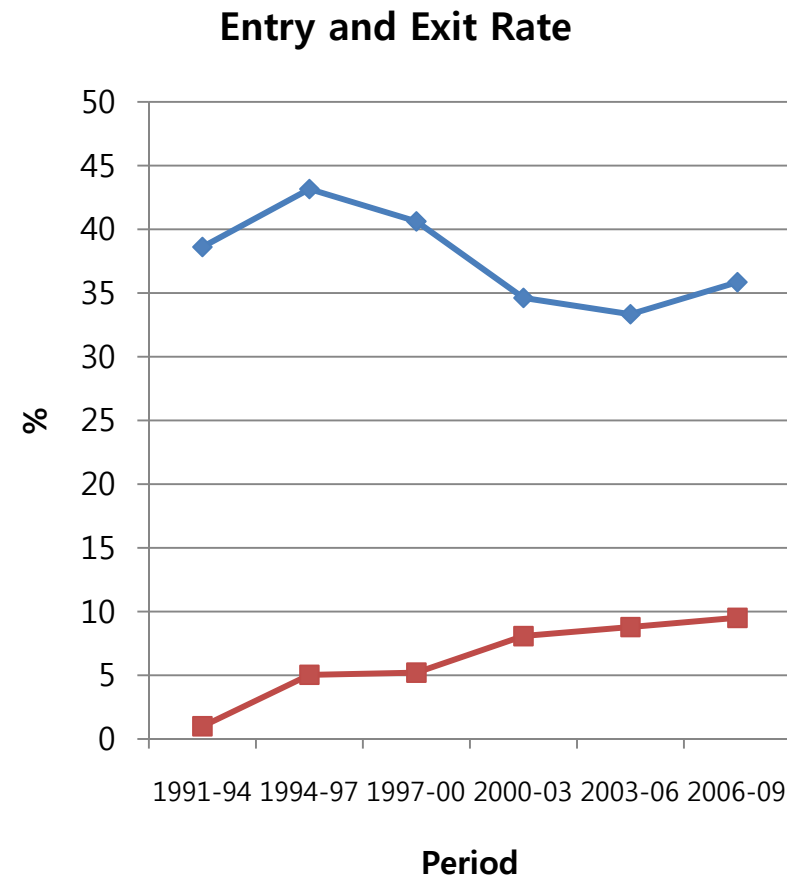
3. Dynamics of the Law Firm Population

- For understanding this growth of firm population, we analyze entry, exit, and survival pattern.
- Data
 - *Member Directory of the Korean Bar Association*
 - Computerized volumes of every three years from 1991 to 2009

3. Dynamics of the Law Firm Population

Entry, Exit and Survival

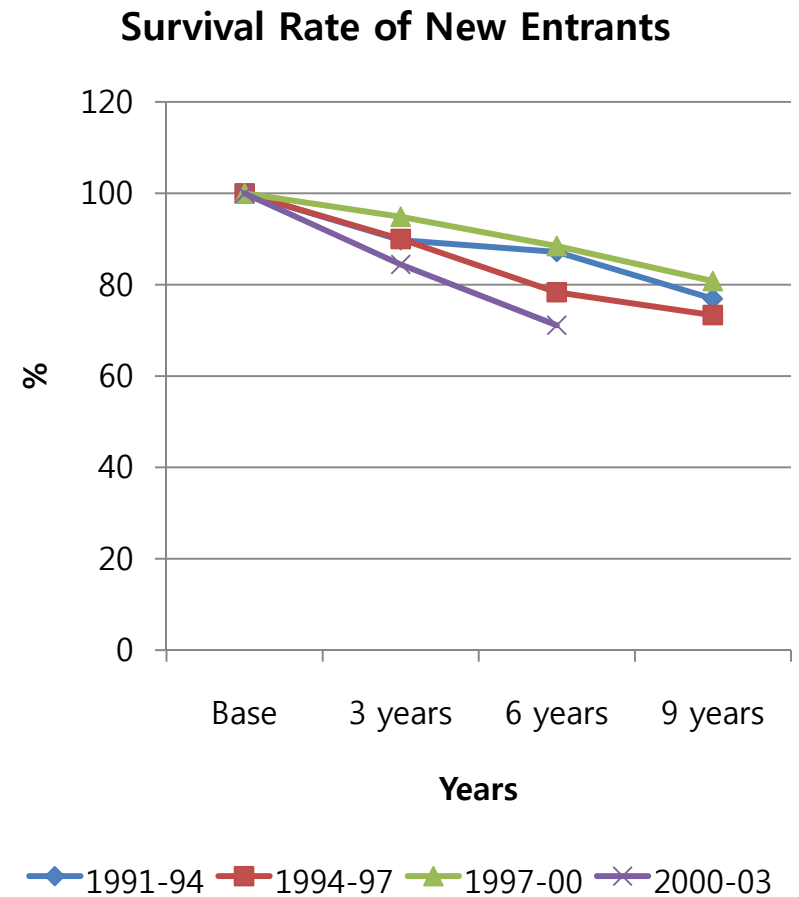
- Entry Rate = $\frac{N_t}{T_{t-1}}$
- Exit Rate = $\frac{X_t}{T_{t-1}}$



3. Dynamics of the Law Firm Population

Entry, exit and survival

- "High entry-low exit"
- Corollary: High survival rate



3. Dynamics of the Law Firm Population

- Firm level: Long duration
- Lawyer level: High mobility
 - About 50-60% of law firm lawyers are new to the firm in the three year period.
 - About 80% of law firm lawyers are new to the firm in the six year period.

Entry of Lawyer to a Law Firm

	Lawyers b elonging to a Law Firm	Changes (%)			
		New Entrant s	Moving from another Law Firm	Moving from non-Law Firm	Stay at the Same Firm
Three Year Period					
2006	3,654	16.1	10.1	29.7	44.1
2009	6,406	23.9	13.3	28.8	34.0
Six Year Period					
2009	6,403	50.7	11.1	19.7	18.6

3. Dynamics of Law Firm Population

- Firm level: Long duration
- Lawyer level: High mobility
 - About 30-40% of law firm lawyers move to other position within three years.

Exit of Law Firm Lawyers

	Lawyers Belonging to a law firm	Changes (%)			
		Moved to another law firm	Moved to a non-law firm position	Unenrolled	Same
Three Year Period					
2003	2,421	15.2	11.2	7.0	66.6
2006	3,651	23.4	9.0	8.0	59.6
Six Year Period					
2003	2,417	29.3	9.3	12.1	49.3

3. Dynamics of the Law Firm Population

Summary of the Chapter

- Growth of the law firm population
 - High entry and low exit
- Long duration of law firms
- High turnover at the individual lawyer level

4. Concluding Remarks

- Current regulations on legal industry are based on what has been developed at the manufacturing industry.
- The firm dynamics of the legal industry implies that this might not work properly.
- New approaches should be made for advancement of Korean legal industry.

Thank You!