

Seldeslachts, Jo; Wittenberg, Erich

**Article**

## "Clients prefer flat fee contracts": Ten questions to Jo Seldeslachts

DIW Economic Bulletin

**Provided in Cooperation with:**

German Institute for Economic Research (DIW Berlin)

*Suggested Citation:* Seldeslachts, Jo; Wittenberg, Erich (2016) : "Clients prefer flat fee contracts": Ten questions to Jo Seldeslachts, DIW Economic Bulletin, ISSN 2192-7219, Deutsches Institut für Wirtschaftsforschung (DIW), Berlin, Vol. 6, Iss. 26/27, pp. 300-

This Version is available at:

<https://hdl.handle.net/10419/144189>

**Standard-Nutzungsbedingungen:**

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

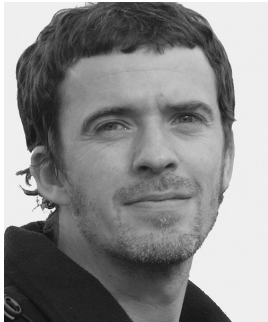
Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

**Terms of use:**

*Documents in EconStor may be saved and copied for your personal and scholarly purposes.*

*You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.*

*If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.*



Prof. Jo Seldeslachts, Ph.D., Research Associate, Department Firms and Markets at DIW Berlin

## TEN QUESTIONS TO JO SELDESLACHTS

# »Clients prefer flat fee contracts«

1. Mr. Seldeslachts, you analyzed a client's choice of contract in auctions where Dutch law firms compete for cases. What was the aim of your investigation? The aim was to look at a completely different environment where lawyers could offer contracts to clients, who were then actually able to choose from among several lawyers and various kinds of contracts.
2. Why did you choose an auction for your investigation? It is a very rare type of competitive environment for legal services and we thought it would be very interesting to look deeper into that.
3. Which type of contract do clients prefer: hourly fees or flat fees? Clearly, at least as far as the data show, clients prefer to have flat fee contracts or fixed fee contracts as opposed to hourly fee contracts.
4. How do you explain the finding that clients prefer flat fees? We really would have liked to have gone deeper into the exact answer to that question, but with the data we have, we cannot really know exactly why. The only thing we can see from the data is that clients do prefer flat fee contracts, and we can hypothesize that perhaps this is because they know what they are getting in terms of monetary value.
5. Would you say that an hourly fee is in the interest of the lawyer instead of the client? That is probably too general. With hourly fee contracts, there is the potential risk that the lawyer will work too many hours and charge too much. This is not the case with a flat fee contract. That we can say for sure. The client knows in advance what he or she is getting. We can say that a flat fee contract reduces the risk of potential overpayment.
6. But how can a client tell if a flat fee is too high? That's a good question. There is no way. A priori the client has no control, but the environment of the auction lets several lawyers compete against each other. At least that is the assumption we make, and this shows up in our data as well. If there are several lawyers who are competing directly against each other, these flat fee contracts will also be competitive.
7. Do business clients make different choices from private clients? Small businesses with relatively small legal cases benefit in the same way from these auctions and this type of contract as do private clients. If the businesses are large, and the cases are large and complex, then of course this type of environment and this type of contract may not be optimal. So essentially, the more complex the case is and the less certain the outcome, the more you might want to go back to a different type of contract.
8. Hourly fees for legal services are very popular. Is this because clients are normally not in the position to choose from among different types of contracts? Yes. We have thoroughly researched this problem in the Netherlands. There are very few law firms that offer a different fee structure apart from hourly fees. So the clients are just faced with this type of contract—and on top of that, they are often told that hourly fees are in their best interest.
9. But again, doesn't that make it very likely that hourly fees are purely for the benefit of the lawyer? We cannot confirm that one hundred percent, but that is indeed our suspicion. In the Netherlands and virtually all other European countries as well as the USA, the legal service industry is very intransparent and not competitive. I think one can assume that hourly fees are more in the lawyers' favor than in the clients' favor. The argument that lawyers put forward is that with hourly fees, they are not limited by a flat fee and are able to do their best work.
10. Were clients who opted for flat fee contracts more satisfied with the service they received than were clients who chose hourly fees? We asked all clients afterwards whether they were satisfied or not. We cannot distinguish whether they were more satisfied with flat fees or with hourly fees, but we know that the level of satisfaction was not very different across different fee structures.

Interview by Erich Wittenberg



DIW Berlin – Deutsches Institut  
für Wirtschaftsforschung e.V.  
Mohrenstraße 58, 10117 Berlin  
T +49 30 897 89 -0  
F +49 30 897 89 -200

#### Publishers

Prof. Dr. Pio Baake  
Prof. Dr. Tomaso Duso  
Dr. Ferdinand Fichtner  
Prof. Marcel Fratzscher, Ph.D.  
Prof. Dr. Peter Haan  
Prof. Dr. Claudia Kemfert  
Dr. Kati Krähnert  
Prof. Dr. Lukas Menkhoff  
Prof. Karsten Neuhoff, Ph.D.  
Prof. Dr. Jürgen Schupp  
Prof. Dr. C. Katharina Spieß  
Prof. Dr. Gert G. Wagner

#### Reviewer

Prof. Dr. Pio Baake  
Dr. Malte Rieth

#### Editors in chief

Sabine Fiedler  
Dr. Gritje Hartmann  
Dr. Wolf-Peter Schill

#### Editorial staff

Renate Bogdanovic  
Dr. Franziska Bremus  
Sebastian Kollmann  
Dr. Peter Krause  
Marie Kristin Marten  
Ilka Müller  
Miranda Siegel

#### Layout and Composition

eScriptum GmbH & Co KG, Berlin

#### Sale and distribution

DIW Berlin  
ISSN 2192-7219

Reprint and further distribution – including extracts – with complete reference and consignment of a specimen copy to DIW Berlin's Communication Department (kundenservice@diw.berlin) only.  
Printed on 100 % recycled paper.