

**FOR IMMEDIATE RELEASE**

**Law Firm Managers See Better Times Ahead**

*Half Expect To Add Lawyers*

**Nearly Eight in Ten See Better Partner Profitability**

*Most Pessimistic about Election results*

New Zealand's leading law firms are very optimistic about their own outlooks, but less optimistic about the wider economy for 2005. This contrasts sharply with American and Canadian law firms, whose optimism is strongly based on positive sentiment about their economies' improving in 2005.

Large corporate law firms may offer insights as to the direction of the economy generally, and a barometer of business optimism, because they are involved in planning and documenting business transactions, often many months before the actual transactions take place.

An exclusive survey by Team Factors Ltd, a professional services consultancy, reveals that the managers of New Zealand's large law firms see the economy in general staying pretty much the same (82%), yet expect their own firm's revenues (87%) and profitability (77%) to increase; as a result, a little over half (52%) predict the likelihood as 'somewhat higher' of 'significantly increasing the number of lawyers'.

"Although reflecting some caution, this seems to be reasonably good news for employment figures in the legal industry", says Ron Pol, Director of Team Factors, "provided that law firms' expectations about their own prospects remain viable. The revenue and profitability figures are, however, quite optimistic responses, seemingly not founded on respondents' economic expectations in general".

"Their ability to meet their own positive expectations will require careful execution of quite different growth strategies than their overseas counterparts", says Pol. "Efficiencies must be on the agenda at many firms. A few firms might actively help their clients' economic prospects, and share the benefits through additional workflow. And even if the economy stays much the same, some lawyers may do well even against the broader economic cycle".

**What drives their optimism, and what concerns law firms the most?**

Reported optimism was based on improved levels of business transactions (68%\*), modest interest rates (29%\*), a modest rate of inflation (26%\*) and improved capital spending (23%\*).

The looming general election, however, moderated almost everyone's forecasts. When asked what they were most pessimistic about, 52%\* reported 'election results', outdistancing 'interest rates' (38%\*) and 'inflation' (24%\*). These latter two factors were, however, broadly offset; opinion was divided between those who considered 'interest rates' and 'inflation' as positives, and those who viewed them negatively.

"This might suggest a reasonably non-partisan response to 'election results', which was the main issue of concern" says Pol. "Perhaps the uncertainty of the election result itself, rather than the current policies of any of the parties on these issues, explains much of the concern."

"One thing we do know for sure however, is that 'terrorism' rates as a strongly pessimistic factor for only 17%\* of respondents, against 68%\* in the US. This result

differs markedly from other countries surveyed; 'terrorism' topped the pessimism lists in the US, Canada and Germany."

### Few expansion plans

Considering the state of the economy over the past few years, very few firms are actively considering translating this into growth strategies according to respondents. Against 41% of US law firms suggesting the chances were better than even that they would expand into new locations within a year, only 1 in 10 New Zealand firms predicted similar expansion.

"When you couple that with the fact that more than three quarters of all respondents say that revenues and partner profitability are likely to improve, you get a sense that it will take a significant change in the economy to get a big growth movement among law firms", says Pol. "Broadly speaking, law firms seem pretty happy with their current locations."

### The biggest law firms are a little different

The Full Report highlights a series of differences in the views of the largest law firms (with more than 20 partners). In general terms, New Zealand's largest law firms were more optimistic about the New Zealand economy and their own economic prospects in general, and more strongly forecast increased profitability than even the 77% of all respondents anticipating 'somewhat' higher profitability.

### Conclusion

Overall, the Law Firm Optimism index shows that New Zealand law firms expect revenues and profitability growth above the general economic situation.

High expectations are consistent with the projections of law firms in the US, Canada and Germany, yet the gap between these expectations and New Zealand firms' predictions of general economic growth is far greater than in any of these other countries.

As a result, New Zealand law firms are least likely to increase their number of offices, and least likely to take on significant numbers of additional lawyers. To close the gap, some firms may invest in counter-cyclical areas of specialisation, which may do well if the economy stays much the same or begins to falter. To maintain profitability, most firms will likely keep up the pace of introducing greater efficiencies. A few may even consider innovative ways to work with their clients at a more strategic level, helping their clients succeed so that law firms' can meet optimistic projections for 2005.

----

Additional notes	
<p><b>* Percentages</b> For some questions, respondents were able to provide more than one reply (eg factors about which respondents were most optimistic and pessimistic). In these cases, the sum of percentages could total more than 100%. These are noted above, with an asterisk. Percentages have been rounded, generally to the nearest one percent.</p> <p><b>The Law Firm Optimism Index</b> was conducted as part of an ongoing effort to measure attitudes on a variety of issues among the leadership of law firms. The attitudinal survey was conducted in New Zealand over 4 weeks in December 2004 and January 2005, and reflects the responses of Managing Partners or their</p>	<p><b>Team Factors</b> Ltd is a New Zealand based professional services consultancy which helps improve connections between professional services firms and organisational clients: <a href="http://www.teamfactors.com">www.teamfactors.com</a></p> <p><b>Edge International</b> is a leading law firm consultancy serving clients globally, with partners resident in the US, Canada, the UK, Germany, the British West Indies and South Africa: <a href="http://www.edge.ai">www.edge.ai</a></p>

equivalents and designates. Large national, regional and specialist law firms whose clients are likely indicative of the wider economy were invited to participate. Almost exclusively, this was medium to large law firms (5+ and 21+ partners respectively). In all, 34 firms participated, including nearly all of the country's largest national law firms (21+ partners), and a notable number of large regional law firms (5+ partners). Similar studies were conducted during late 2004 in the United States, Canada and Germany.

**Contact:**

Ronald Pol, Director, Team Factors Ltd  
T: +64-4-562-8444  
E: ronald.pol@teamfactors.com  
A: PO Box 41-036, Wellington 6340, NZ  
M: +64-27-241-1163

**The Full Report is available for purchase from:**

[www.teamfactors.com/research.htm](http://www.teamfactors.com/research.htm)