Elephants in the Room

Part I: The Big Four’s Expansion in the Legal Services Market
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Introduction

The Big Four’s recent expansion into the legal market is not the accounting industry’s first foray into providing legal services. Throughout the 1990s, the big accounting firms expanded aggressively from their traditional audit business. After a decade of investment and expansion, the Big Five, as they were then known, built legal arms which rivalled the scale of the biggest law firms. Despite their early success, their ambitions in the legal industry were thwarted by a series of scandals and ensuing regulation, which exposed the potential conflicts of interest stemming from mixing audit with legal advisory services.

The first section of this paper examines the prior expansion of accounting firms into the legal market – a period from which accounting and law firms can learn valuable lessons. The second section looks at the current state of the Big Four in today’s global legal market. Accounting firms have learned valuable lessons from their prior misadventures in the legal industry. They are approaching expansion more cautiously and are using more sophisticated business models that combine traditional aspects of legal services delivery with newer methods. This strategy, combined with the Big Four’s relationships with large clients, have allowed the Big Four to penetrate many areas of the legal industry and, once again, rival the largest law firms in the world.

Despite their many advantages, the Big Four’s success in the legal market is far from guaranteed. Regulators outside of the United States could reverse their current laissez-faire approach to managing the Big Four’s expansion into the legal market. Corporate clients could resist the accounting firm’s attempts to move up market. Law firms, which appear much more prepared to compete this time around, could even outmaneuver the Big Four. An accompanying paper, Elephants in the Room Part II: The Future of Big Four in the Legal Market, assesses the Big Four’s prospects in the legal industry and examines three possible scenarios for their further development.

The expansion of the Big Four into legal services has the possibility to transform the global legal market. In pursuing growth, the Big Four should move cautiously to avoid potential regulatory conflicts. Law firms, on the other hand, must prepare for a significant increase in competition and retool the way their businesses are run.

Figure 1: Law firm’s view of their new competitors

How concerned are you about alternative legal service providers and accounting firms?
Percentage of Respondents

<table>
<thead>
<tr>
<th>Concerned</th>
<th>Very Concerned</th>
<th>Concerned</th>
<th>Undecided</th>
<th>Unconcerned</th>
</tr>
</thead>
<tbody>
<tr>
<td>66%</td>
<td>19%</td>
<td>15%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Which competitors do you consider to be a major threat to your law firm’s market share?
Percentage of respondents reporting competitor as a threat

<table>
<thead>
<tr>
<th>Competitor</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting companies moving into the legal industry</td>
<td>69%</td>
</tr>
<tr>
<td>Expansion of in-house law departments</td>
<td>44%</td>
</tr>
<tr>
<td>Legal process outsourcing companies</td>
<td>28%</td>
</tr>
<tr>
<td>E-discovery vendors moving into a wider range of services</td>
<td>13%</td>
</tr>
</tbody>
</table>

Source: ALM Intelligence

1 Multiple responses allowed
Accounting Firms Prior Expansion in The Legal Services Market

In the late 1980s the Big Five, as the largest accounting firms were known at the time, began to expand out of their core audit businesses into a range of adjacent professional services. The primary motivation for this move was declining growth rates and shrinking margins in their core audit businesses, leading the Big Five to turn to legal and advisory consulting services.

The Big Five Become Major Players in the Legal Market

In the legal industry, the accounting firms initially targeted services adjacent to their core accounting business, including corporate restructuring, forensic accounting, insolvency and litigation support. The Big Five marketed these services aggressively and packaged them with non-legal services in an effort to create a “multidisciplinary” offering to clients. They lured senior lawyers from competing law firms with hefty pay packages and even engaged in several mergers, absorbing entire law firms into their existing partnerships. Importantly, the Big Five declared that their ultimate ambition was to establish a significant position in the legal market which competed directly with law firms.

Figure 2: The accounting firms previous foray into the legal market

Largest 10 legal services providers by number of lawyers (2001)

By the early 2000s the Big Five had developed large legal arms. In 2001, four of the Big Five ranked globally among the ten largest legal services providers in terms of total number of lawyers (see Figure 2). Anderson, the largest of the group, earned $590 million from legal services in 2001, making it the 10th biggest provider of legal services in the world by revenue that year. However, in other key metrics the group did not compare well with law firms. In 2001, Anderson reported a revenue per lawyer (RPL) of $205k. Anderson’s RPL was significantly lower than similarly sized law firms like DLA Piper or Baker & McKenzie, who reported RPL of $248k and $345k respectively. Anderson’s RPL paled in comparison to leading firms like Cravath, which reported a RPL of over $1 million that year. In many ways, this disparity, between the Big Five’s scale and its performance in key financial metrics, reflects their position in the legal market at the time – though they gained significant

1 ALM Intelligence Global 100
ground throughout the 1990s, it was largely through lower value work. The upper end of the market was still dominated by “elite” law firms.

**Regulatory temperature rises and then falls**

As the Big Five were expanding further into the legal service market, regulators were becoming increasingly uneasy. In 2000, the American Bar Association (ABA) rejected the idea that accounting companies, which operated as “Multidisciplinary Professional Service Organizations” (MDP), could be treated similar to law firms². The ABA was concerned about two essential portions of the Big Five’s business model. First, they balked at the idea that non-lawyers could share in the ownership of a business providing legal advice. Second, they were concerned that selling legal and non-legal services alongside each other could create conflict of interest issues and undermine the independence and privilege lawyers were meant to provide to their clients.

The ABA’s concerns were at least partially proven justified in the ensuing Enron and WorldCom crises. Enron’s sudden failure in late 2001 was largely attributed to conflicts of interest between Arthur Anderson’s audit and advisory business. In response to the crisis, the US congress passed Sarbanes-Oxley (SOX), which prevented audit firms from providing certain non-audit advisory services. While Anderson’s legal arm was not directly involved in the Enron crisis, regulators ultimately decided that similar conflicts of interest existed in legal as in the advisory services which were seen to have precipitated the crisis. The new regulatory framework limited accounting firms from providing many core legal services to their audit clients, in the US. Similar laws were passed globally including by Australia, Canada, China, France, Germany, Japan and Mexico.

Contrary to popular belief, the new regulatory framework did not bar accounting companies from offering legal services altogether. David Wilkins, Director at the Harvard Center on the Legal Profession, notes that many people falsely believe that SOX kicked the accounting firms out of the legal market. In fact, regulators in the US and Europe continued to allow accounting firms to offer non-audit services, including legal services, to companies which they do not serve as auditors. Wilkins notes that “although such companies accounted for only a small percentage of the clients of the accountancy firms’ legal networks in the 1990s, today these ‘non-audit’ companies account for the overwhelming majority of the work going to the Big Four’s legal networks.” Additionally, SOX and other related legislation failed to clearly define where auditing ends and consulting, including “legal consulting”, begins. This, Wilkins adds, “has allowed the Big Four to offer some legally related services even to their core audit clients.” These include legal services in areas related to compliance, financial management, forensics, human resources, merger-due diligence, risk and tax.

In countries beyond the US and Europe, regulators were even more lax. In some countries the Big Four were allowed to continue offering a wide range of legal services through wholly owned subsidiaries that were legally separate from accounting services but were operationally integrated. The end result of SOX was not the exit of the Big Four from the legal industry, but a slowdown of their expansion. The Big Four simply recalibrated their ambitions and became less vocal about their activities.

As memories of the Enron scandal faded in the mid-2000s the Big Four’s ambitions for a larger role in the legal market returned. This occurred due to a confluence of events. First, the accounting companies faced a repeat of the slowdown that occurred in the late 1980s. As growth in their audit-related services slowed, the Big Four were, once again, looking for new sources of growth and profits.

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² ABA Commission On Multidisciplinary Practice
Figure 3: The Attraction of the Legal Industry to the Big Four Explained

The legal industry is large, highly profitable, and highly fragmented

**Market Size**
The global market for legal services, in 2016, was estimated to be $600bn. In comparison, the global market in 2016 for accounting at $450bn and consulting at $271bn, is significantly smaller.

**Profitability**
In 2013, accounting companies were reported to have average profit margins between 20% - 25%. In the same period, the 100 largest law firms in the world averaged profit margins of 37%, with some of the highest earning firms obtaining margins of 66%.

**Fragmentation**
With a combined market share of over 60%, the Big Four dominate the global accounting industry. By contrast no single law firm accounts for more than 1% of the global legal market (see table below).

**Overlap in Clients**
The Big Four’s core client base, Global 1000 companies, are large purchasers of legal services.

**Overlap in Services**
The Big Four’s tax advisory businesses have a natural overlap with legal services related to tax, trade and corporate restructuring. The Big Four’s quickly growing consulting arms have overlaps with law firms in areas related to compliance, human resources and mergers and acquisitions.

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The Fragmented Global Legal Market
Revenue Share of the Global Legal Market (2016)

Global Legal Market = $600bn

<table>
<thead>
<tr>
<th>Global Revenue Rank</th>
<th>Firm Name</th>
<th>Revenue $m</th>
<th>Share of Global Legal Market</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Latham &amp; Watkins</td>
<td>$2,612</td>
<td>0.4%</td>
</tr>
<tr>
<td>2</td>
<td>DLA Piper</td>
<td>$2,481</td>
<td>0.4%</td>
</tr>
<tr>
<td>3</td>
<td>Baker McKenzie</td>
<td>$2,430</td>
<td>0.4%</td>
</tr>
<tr>
<td>4</td>
<td>Skadden</td>
<td>$2,315</td>
<td>0.4%</td>
</tr>
<tr>
<td>5</td>
<td>Clifford Chance</td>
<td>$2,226</td>
<td>0.3%</td>
</tr>
<tr>
<td>6</td>
<td>Kirkland &amp; Ellis</td>
<td>$2,150</td>
<td>0.3%</td>
</tr>
<tr>
<td>7</td>
<td>Allen &amp; Overy</td>
<td>$2,112</td>
<td>0.3%</td>
</tr>
<tr>
<td>8</td>
<td>Linklaters</td>
<td>$2,088</td>
<td>0.3%</td>
</tr>
<tr>
<td>9</td>
<td>Freshfields</td>
<td>$2,053</td>
<td>0.3%</td>
</tr>
<tr>
<td>10</td>
<td>Jones Day</td>
<td>$1,850</td>
<td>0.3%</td>
</tr>
</tbody>
</table>

Source: ALM Intelligence
With regulations easing and growth slowing in their core businesses, the stage was set for the Big Four’s re-emergence as a major player in the legal industry. The combination of weakening regulatory pressure, synergies between legal and the Big Four’s existing business lines, and the legal market’s high level of fragmentation made legal a natural target for the Big Four’s growth ambitions (see figure 3 on previous page). Dr. George Beaton, the executive chairman of Beaton Research and Consulting, describes the Big Four as “having shown an insatiable appetite for growth over the past three decades”. Beaton notes that the Big Four “appear to be working off a strategy that is based on the philosophy that they exist to meet most of a client’s professional service needs.” Such a strategy, he notes, “always included legal services”.

Key Takeaways: The Big Four’s Prior Expansion in The Legal Services Market

**Risks for accounting firms**

- **Pressure from legal organizations**: the American Bar Association’s attempts, in 2000, to stop the expansion of accounting companies into the legal industry is systematic of an industry which is largely self-regulated. Accounting companies should expect law firms and lawyers to protect their market share through similar methods.

- **Regulatory pressure**: the regulatory fallout from the Enron crisis should serve as a cautionary tale to accounting companies. Regulators are highly likely to bar accounting companies from non-audit services if they believe audit related services are being undermined by conflicts of interest. Accounting firms would be wise to tread carefully.

- **Difficulties moving up market**: accounting firms’ difficulties penetrating higher value services throughout the 1990s could repeat itself. Clients could remain highly skeptical of accounting firms’ ability to provide complex legal services.

**Risks for law firms**

- **The Big Four never left the legal market**: despite regulatory pressure, the legal arms of the Big Four were never truly dismantled. Consequently, the Big Four are not starting from scratch. Their current expansion is building off a strong base.

- **The Big Four’s ability to gain market share**: the Big Four’s brands, client base, and existing range of services allowed them to penetrate the legal market. This is likely to repeat itself. Services with an accounting or consulting overlap appear particularly at risk.

- **Attractiveness of multidisciplinary approach**: The Big Four’s approach of packaging lawyers alongside accountants and consultants is attractive to clients.
The Current State of the Big Four in the Legal Market

Today the legal arms of the Big Four are by any account, sizeable. In 2016, the legal arms of the Big Four averaged 2,200 lawyers working in 72 countries. It is important to note that these numbers represent only the legal arms of these businesses - not the total number of lawyers working within the overall organization. Cornelius Grossmann, the Global Leader for EY Law, when reporting that his firm’s legal arm had 2,100 lawyers operating in 80 countries, was quick to note “these figures do not include people with a law degree who are accountants or tax consultants, these are lawyers fully dedicated to EY’s legal business excluding tax and immigration.” Grossmann’s insistence on this issue is due to a common misconception that the Big Four are overstating the size of their legal arms. ALM Intelligence’s research further confirms that this is not the case.

Figure 4: Global law firms vs. legal arms of global accounting firms
*Top 10 largest law firms by number of lawyers vs. the legal arms of Big Four*

<table>
<thead>
<tr>
<th>Global Rank</th>
<th>Law Firm</th>
<th>Lawyers</th>
<th>Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Dentons</td>
<td>7,445</td>
<td>55</td>
</tr>
<tr>
<td>2</td>
<td>Yingke</td>
<td>6,278</td>
<td>26</td>
</tr>
<tr>
<td>3</td>
<td>Baker McKenzie</td>
<td>4,719</td>
<td>47</td>
</tr>
<tr>
<td>4</td>
<td>DLA Piper</td>
<td>3,616</td>
<td>30</td>
</tr>
<tr>
<td>5</td>
<td>Norton Rose Fulbright</td>
<td>3,505</td>
<td>27</td>
</tr>
<tr>
<td>6</td>
<td>CMS Legal Services</td>
<td>2,719</td>
<td>35</td>
</tr>
<tr>
<td>6</td>
<td>Hogan Lovells</td>
<td>2,609</td>
<td>22</td>
</tr>
<tr>
<td>6</td>
<td>Jones Day</td>
<td>2,523</td>
<td>18</td>
</tr>
<tr>
<td>9</td>
<td>Clifford Chance</td>
<td>2,466</td>
<td>23</td>
</tr>
<tr>
<td>10</td>
<td>King &amp; Wood Mallesons</td>
<td>2,397</td>
<td>16</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Global Rank</th>
<th>Accounting Firm</th>
<th>Lawyers</th>
<th>Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>PwC</td>
<td>2,500</td>
<td>85</td>
</tr>
<tr>
<td>2</td>
<td>KPMG</td>
<td>2,200</td>
<td>53</td>
</tr>
<tr>
<td>3</td>
<td>EY</td>
<td>2,100</td>
<td>80</td>
</tr>
<tr>
<td>4</td>
<td>Deloitte</td>
<td>1,800</td>
<td>69</td>
</tr>
</tbody>
</table>

Source: ALM Intelligence

The legal arms of the Big Four range from 2,500 to 1,800 lawyers (see Figure 4). The largest, PwC’s, would rank as the 6th largest legal service provider in the world in terms of total number of lawyers, if counted as a standalone entity. PwC’s legal arm is similar in lawyer numbers to Jones Day, CMS, and Clifford Chance. However, the Big Four still pale in comparison to the largest law firms. Dentons has nearly three times the number of lawyers as PwC. Baker & McKenzie, the second largest law firm in the world, is nearly twice as large.
In revenue terms, the legal arms of the Big Four appear relatively small next to the largest firms in the world. PwC earned $500 million from legal services in 2016, roughly equivalent to the 82nd largest law firm in the world and Deloitte, the second largest, earned only $250 million. By contrast, Latham & Watkins, the largest firm, earned $2.8 billion last year.

While the Big Four cannot yet compare to the largest firm in the world by revenue, they are catching up. All four have reported double digit year-on-year revenue growth in recent years. Cornelius Grossmann, Global Law Leader at EY, told ALM Intelligence that EY Law grew by 20% last year adding that group has “grown by more than 10% per year for five consecutive years”. This, combined with similar growth rates at other Big Four legal arms, suggests the Big Four are quickly gaining ground on larger law firms.

**The Big Four’s Client Focus**

The Big Four boast an enviable client list. Due to their leading audit and consulting businesses PwC, Deloitte, EY, and KPMG work with many of the biggest companies across the globe. PwC, for example, works with 84% of the Global Fortune 500 and 82% of the US Fortune 500. Importantly, the majority of these clients are customers of PwC’s non-audit services. Fifty-five percent of the Global Fortune 500 purchase PwC’s non-audit advisory services as opposed to 29% which purchase audit services. This is important because in some markets, like the United States, regulations limit the range of legal services accounting firms can provide their audit clients. There are significantly fewer on non-audit clients.

The legal arms of the Big Four have yet to transform their companies’ vast portfolio of large corporate clients into legal services customers. When asked to rate the penetration of accounting firm’s legal arms by industry, law firm leaders reported relatively weak penetration across a wide range of industries (see Figure 5).

Worrying for law firms, the reported level of penetration was highest in two key industries. Fifty two percent of law firm leaders reported that accounting firms had a moderate level of penetration in financial services. Nearly half, 48%, reported a moderate level of penetration with technology clients. This makes sense. The Big Four have strong ties to these industries through their advisory businesses. The fact that they have been able to leverage those ties to win legal work, should be concerning to law firm leaders.

**Figure 5: Accounting firms penetration in the legal market by industry**

*Percentage of respondents rating accounting firm’s level of penetration into each industry*

<table>
<thead>
<tr>
<th>Industry</th>
<th>Low Penetration</th>
<th>Moderate</th>
<th>Significant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real Estate</td>
<td>71%</td>
<td>19%</td>
<td>10%</td>
</tr>
<tr>
<td>Health Care</td>
<td>57%</td>
<td>33%</td>
<td>10%</td>
</tr>
<tr>
<td>Transport</td>
<td>57%</td>
<td>33%</td>
<td>10%</td>
</tr>
<tr>
<td>Public Sector</td>
<td>48%</td>
<td>33%</td>
<td>19%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>48%</td>
<td>33%</td>
<td>19%</td>
</tr>
<tr>
<td>Technology</td>
<td>38%</td>
<td>48%</td>
<td>14%</td>
</tr>
<tr>
<td>Finance</td>
<td>33%</td>
<td>52%</td>
<td>14%</td>
</tr>
</tbody>
</table>

*Source: ALM Intelligence*
The Big Four’s Practice Area Focus

The disconnect between the Big Four’s size in headcount and total revenue, shows that their place in the legal market hasn’t changed much since the early 2000s. While they continue to be among the largest legal service providers in headcount terms, their relatively low revenue figures indicates that they are squarely focused on lower value services, though this is beginning to shift.

Currently, the Big Four’s strongest practices include tax, labor and employment, and immigration. Their strength in tax-related legal services is a natural offshoot of their leading audit and tax advisory business units. In tax, they offer a wide range of legal services related to entity management, international business reorganizations, investigations, transfer pricing, and issues related to VAT. While the Big Four have tended to stay away from litigation-related services to avoid conflicts with potential clients, most offer legal services related to tax litigation. Tax litigation, unlike corporate litigation, tends to involve representing clients in law suits against governmental bodies, creating few conflicts with potential clients.

In the immigration sector, the Big Four have shown some particular dominance. All four of the top accounting firms have developed strong offerings in immigration related legal services. PwC has built a particularly strong position. In a discussion, on the Big Four, with a leading partner at a global labor and employment law firm, the partner noted that “PwC basically owns the immigration market now”. Similarly, Chambers and Partners, a company which ranks legal service providers, grades PwC as one of the two best providers in the world in immigration related legal services.

The Big Four’s strength in immigration related legal services is a telling example of how these firms can leverage their size and existing capabilities against law firms. In their assault of the immigration related legal market, the Big Four had two primary strengths. Firstly, their network of offices is significantly larger than most leading labor and employment firms. This is a clear advantage in a market which is inherently global. Equally important are The Big Four’s “global mobility programs”. Large accounting firms employ hundreds of thousands of individuals. Many of their employees are constantly on the move, shifting the country they live and work in based on client demands. Ensuring these moves happen seamlessly has forced the Big Four to develop strong internal immigration related capabilities. Developing these capabilities into an external product offering, for clients, was an obvious next step the Big Four. This displays how their scale and operational complexity can be turned into a competitive weapon against law firms.

A growing strength for the Big Four is in areas related to mergers and acquisitions, due to strong overlaps with the Big Four’s consulting and tax advisory business. For smaller, less complex mergers, the accounting firm’s integrated multi-disciplinary approach is attractive to clients. By combining consultants, tax and legal advisors into a single team, the Big Four can offer clients something law firms cannot – a complete M&A offering. The Big Four’s lawyers typically handle pre-merger due diligence and post-merger entity management, though the geographic focus of each is currently different. Chambers rankings show that Deloitte has a growing reputation in M&A related legal services in mainland Europe. PwC appears to be focusing on growing their M&A offering in the UK. EY Law’s network firm in India, PDS Legal, was ranked among the top-ten advisors in completed M&A deals in 2015.

Similar to other practice areas, the accounting firms still focus on lower value deals (below $500m), whereas the market above that threshold is still largely dominated by law firms. This could change however. In a survey of law firm leaders on the topic of the Big Four’s expansion in the legal market, ALM found that law firms believed the Big Four posed a significant threat. Nearly

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4 Venture Intelligence has ranked EY member firm PDS Legal among the Top 10 Advisors for the number of M&A deals completed in India throughout 2015
two thirds of firm leaders believed that the Big Four were well positioned to win moderate to high value work. Nearly 70 percent of respondents identified M&A as an areas where the Big Four were well positioned to take market share from law firms (see Figure 6). Tellingly, law firms ranked M&A alongside labor & employment, an area where the Big Four have already made strong inroads. These findings suggest law firms believe the Big Four are capable of moving up market.

**Figure 6: Law firm’s view of accounting firm’s ability to steal market share**

<table>
<thead>
<tr>
<th>Practice Areas</th>
<th>Percentage Reporting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax</td>
<td>95%</td>
</tr>
<tr>
<td>Finance</td>
<td>71%</td>
</tr>
<tr>
<td>M&amp;A</td>
<td>67%</td>
</tr>
<tr>
<td>Labor</td>
<td>62%</td>
</tr>
<tr>
<td>Private Client</td>
<td>43%</td>
</tr>
<tr>
<td>Immigration</td>
<td>38%</td>
</tr>
<tr>
<td>Insurance</td>
<td>24%</td>
</tr>
<tr>
<td>Real Estate</td>
<td>24%</td>
</tr>
<tr>
<td>Anti-Trust</td>
<td>19%</td>
</tr>
<tr>
<td>Litigation</td>
<td>14%</td>
</tr>
</tbody>
</table>

Source: ALM Intelligence
Note: 1 Multiple responses allowed

**The Big Four’s Geographic Focus**

Global coverage is where the Big Four excel. In early 2017, The Harvard Center on the Legal Profession released a study on the Big Four, titled The Re-emergence of the Big Four in Law\(^5\), which revealed the extent of their global offering. ALM Intelligence’s data on law firms shows that the 10 largest law firms in the world average a presence in 31 countries. The Harvard study showed the legal arms of the Big Four average a legal presence in 71 countries. This provides evidence for why the Big Four have made inroads in tax, labor and employment, compliance, and mergers and acquisitions. Each of these practice areas benefits strongly from a global offering.

\(^5\) https://thepractice.law.harvard.edu/article/the-reemergence-of-the-big-four-in-law/
The Harvard Study shows that the legal office networks of the Big Four are largest in Europe (see Figure 7). In lawyer terms the networks are even more European centric. Deloitte, for example has 49% of its legal offices based in Europe. The firm, however, has 79% of its lawyers in the region (see Figure 8). Fifty percent of the Deloitte’s lawyers across the globe are located in four European markets - France, Spain, Belgium and Germany. The reason for the Big Four’s concentration in Europe is due to the fact that nearly all of their legal arms began there. The Big Four’s global network today is a reflection of those beginnings.

Source: The Harvard Law School’s Center on the Legal Profession

Figure 7: Geographic footprint of Big Four legal arms
Percentage of countries where the Big Four promote a wide range of legal services

<table>
<thead>
<tr>
<th>Firm</th>
<th>Europe</th>
<th>Americas</th>
<th>Africa &amp; Middle East</th>
<th>Asia Pacific</th>
</tr>
</thead>
<tbody>
<tr>
<td>PwC (85 Countries)</td>
<td>45%</td>
<td>22%</td>
<td>21%</td>
<td>12%</td>
</tr>
<tr>
<td>EY (69)</td>
<td>51%</td>
<td>15%</td>
<td>20%</td>
<td>14%</td>
</tr>
<tr>
<td>Deloitte (69)</td>
<td>49%</td>
<td>23%</td>
<td>19%</td>
<td>9%</td>
</tr>
<tr>
<td>KPMG (53)</td>
<td>64%</td>
<td>23%</td>
<td>6%</td>
<td>7%</td>
</tr>
</tbody>
</table>

Source: The Harvard Law School’s Center on the Legal Profession; ALM Intelligence

Figure 8: Deloitte’s Geographic Footprint
Percentage of Offices and Lawyers by Global Region

<table>
<thead>
<tr>
<th>Region</th>
<th>Offices</th>
<th>Lawyers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>49%</td>
<td>79%</td>
</tr>
<tr>
<td>Americas</td>
<td>23%</td>
<td>12%</td>
</tr>
<tr>
<td>Africa &amp; Middle East</td>
<td>19%</td>
<td>1%</td>
</tr>
<tr>
<td>Asia Pacific</td>
<td>9%</td>
<td>8%</td>
</tr>
</tbody>
</table>

Source: ALM Intelligence; The Harvard Law School’s Center on the Legal Profession
The European practices of the Big Four are growing quickly in both strength and stature. In France, Spain, Italy and Russia, law firm rankings now put the Big Four’s legal practices in the top ten in terms of revenue. In Germany and the UK, the Big Four are showing double-digit annual revenue growth\(^6\).

Beyond their concentration and growing strength in Europe, other similarities exist between the Big Four’s global networks of legal offices. Most have a large network of offices in the Americas, with the Canadian market being a major recent focus. Francis Hackett, who leads KPMG’s legal services business in Ireland and is a member of KPMG’s Global Legal Services Steering Committee, told ALM Intelligence that Canada is one of KPMG’s largest markets by revenue. “We have a major presence in the tax and immigration market in Canada” Hackett explained, nothing that “the firm is currently considering a major expansion in Canada”.

Many of the Big Four report that they are highly focused on growth in Asia. Cornelius Grossmann, Global Law Leader at EY, told ALM Intelligence that EY’s legal arm is focusing heavily on China and Hong Kong. “We have 100 lawyers in China and are making significant investments to further increase our presence in this area.” Other Big Four competitors are making similar investments. A review of the lateral hires made by the Big Four since the beginning of 2016 shows that 45% have been in Asia (see Figure 9).

There are several reasons for the Big Four’s focus on Asia. First, strong economic growth in Asian markets provide a natural base to grow from. Second, Australia, a large legal market, has one of the most liberal regulatory environments as it relates to investment and ownership in the legal industry. Australia’s regulations allow the Big Four complete ownership of their legal arms, providing for greater integration.

In the area of branding the Big Four have a distinct advantage in Asian markets. While their brands are among the most well-known globally, in Asia they are particularly strong. They have been active in Asian markets for decades, with PwC for example, opening its first office in China in 1906. Many leading local corporations first engagement with western professional service organizations was with one of the Big Four. “Their brands are synonymous with globalization in Asia,” says George Beaton, “the Big Four, in many cases, introduced leading local corporations to the global economy.” This process has allowed the Big Four to develop strong local knowledge of Asian markets and deep trust with Asian clients.

A similar case could be made for Africa, Latin America and other emerging markets. While the brands of the Big Four may not be as strong in these markets as they are in Asia, they are significantly more well-known than most leading law firms thanks to their leading audit and consulting businesses. This advantage poses opportunities for the Big Four and significant risks for law firms. Most of the growth in the legal market over the past half a decade has originated out of fast-growing emerging markets. If law firms lost the war for these markets, it would deprive them of much-needed growth opportunities. This, in turn, could weaken law firms’ position globally, creating further opportunities for the Big Four’s expansion.

\(^6\) Harvard Center on the Legal Profession

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**Figure 9: Lateral Hires by the Big Four**

Hires by Region (2016 – 2017)

- Americas: 32%
- Europe: 24%
- Asia-Pacific: 44%

Source: ALM Intelligence
The Big Four’s Evolving Operational Model

Until recently, the legal arms of the Big Four had largely operated as multidisciplinary practices (MDP). This operational model packages accountants, consultants, and lawyers into a single integrated service offering. This unique approach to solving complex problems has been shown to be successful in areas where there is a natural overlap between tax, advisory, and legal services. It is partially responsible, for example, for the Big Four’s strong presence in tax related legal services and their growing strength in mergers and acquisitions.

While the Big Four are unlikely to abandon the MDP Model, they have signaled, through a series of investments over the past several years, that they are adopting a second operational model focused on delivering a range of managed legal services to corporate clients. This model combines technology, process management, and talent to deliver legal services at a lower cost than traditionally offered by law firms. Importantly, the services delivered through this model are likely to look more similar to those offered by alternative legal services providers than traditional law firms.

An example of the Big Four’s adopting of the managed services model is Deloitte’s Margin Matrix service. This service, which was developed through a collaboration with Allen & Overy, simplifies the regulatory burden associated with derivatives trading by leveraging technology. The Head of Strategy of a leading global law firm told ALM Intelligence that “Margin Matrix is a game changer” adding that his firm is forecasting “a significant reduction in revenue next year” due to the growing adoption of the service by corporate clients.

Deloitte has made other managed legal services moves in the past several years. In 2014, Deloitte purchase of ATD Legal, one of the few providers of managed document review services in Canada. In 2016, Deloitte purchased Conduit Law, a Canadian firm which operates on a secondment model similar to Lawyers on Demand. This model effectively rents contract lawyers to law departments at lower fees than those offered by law firms. Both of these investments were made in Canada but could easily be exported globally.

Other examples, beyond Deloitte, exist as well. EY Law recently hired a director from Axiom, a leading legal process outsourcer, to manage a center in Belfast focused on due diligence support. The most pertinent example of the managed services model was announced in February by PwC. The firm entered into a long term contract to manage GE’s tax department. As part of the deal, PwC agreed to hire more than 600 members of GE’s tax team, including many lawyers. PwC announced that these individuals will not only service GE, but will also be available for other clients. Mark Mendola, PwC’s vice chairman and U.S. managing partner, told the Wall Street Journal that firm was contacted by dozens of other Fortune 1000 companies in the days after deal the deal was announced. This suggests other, similar deals, are likely to follow.

Key Takaways: The Current State of the Big Four in the Legal Market

**Risks for accounting firms**

- **Current capabilities are focused on Europe:** the global networks of the Big 4 are highly focused on European markets. These markets feature slow growth and stiff competition from legacy law firms.

- **Focus on lower value services:** the Big 4 have largely been unable to break out of their focus on lower value services.
Key Takeways: The Current State of the Big Four in the Legal Market (Continued)

**Conclusion: The Future of the Big Four In the Legal Market**

The legal industry has seen a deluge of new entrants over the past half-decade due to the rise of alternative legal service providers. There is a temptation to see the Big Four as part of this trend - just “another new competitor” in the already crowded legal market. This is a mistake - the Big Four come to the legal market with a unique combination of strengths. Their size, global presence, and existing relationships with corporate clients make them a formidable competitor. Their well known strength in project management and process improvement is envied by many law firms. Most importantly, they have a history of successfully expanding into new markets and consolidating market share.

In a forthcoming accompanying paper, titled *Elephants in the Room Part II: The Future of Big Four in the Legal Market*, ALM assesses the Big Four’s prospects in the legal industry and examines possible scenarios for their further expansion.

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**Risks for law firms**

- **Success in lower value services**: the Big Four’s success in lower value services could remove an important revenue stream for some law firms.

- **Moving into higher value services**: a majority of law firm leaders believe the Big Four are well placed to expand into medium and higher value services. Such a shift would hurt law firm’s growth opportunities and potentially decrease their profitability.

- **The Big Four’s Large Client Base**: the Big Four’s strong relationships with corporate clients, through their leading positions in audit and advisory consulting services, could be leveraged to expand in the legal services market.

- **The Big Four are growing quickly**: the Big Four have grown quickly since the downturn, albeit from a low base. This shows they are capable of gaining market share in the legal industry and that there is demand for their multidisciplinary approach.

- **The Big Four are large and geographically varied**: the Big Four have built large, highly global legal arms capable of competing with the largest law firms in a range of service areas.

- **The Big Four’s Evolving Operational Model**: the Big Four’s push into managed legal services could accelerate corporate client’s growing use of non-law firm vendors for lower value services.
Survey Results
Survey Respondents

Job title of survey respondents
Percentage of respondents

- Partner: 91%
- Managing Partner: 9%

Firm size of respondents by number of lawyers
Percentage of respondents

- 1 - 100 Lawyers: 13%
- 101 - 250: 13%
- 251 - 500: 19%
- 501 - 1000: 28%
- 1,000+: 28%

The Big Four: Law Firm’s Level of Concern

How concerned are you about law firm’s ability to compete with alternative legal service providers and accounting firms?
Percentage of respondents

Concerned: 66%
- Very Concerned: 25%
- Somewhat Concerned: 41%
- Neither Concerned or Unconcerned: 19%

Unconcerned: 16%
- Somewhat Unconcerned: 6%
- Very Unconcerned: 9%
The Big Four: Law Firm’s Level of Concern (Continued)

Which competitors do you consider to be a major threat to your law firm’s market share?
Percentage of respondent’s reporting competitor as a threat (multiple responses allowed)

- Accounting companies moving into the legal industry: 69%
- Expansion of in-house law departments: 44%
- Legal process outsourcing companies: 28%
- E-discovery vendors moving into a wider range of services: 13%
- Other: 19%

Which threat are you most concerned about?
Percentage of respondent’s reporting competitor as biggest threat

- Accounting companies moving into the legal industry: 64%
- Expansion of in-house law departments: 14%
- E-discovery vendors moving into a wider range of services: 7%
- Legal process outsourcing companies: 7%
- Other: 7%

Accounting firms penetration in the legal market by industry
Percentage of respondents rating accounting firm’s level of penetration into each industry

- Real Estate: Low Penetration 71%, Moderate 19%, Significant 10%
- Health Care: Low Penetration 57%, Moderate 33%, Significant 10%
- Transport: Low Penetration 57%, Moderate 33%, Significant 10%
- Public Sector: Low Penetration 48%, Moderate 33%, Significant 19%
- Manufacturing: Low Penetration 48%, Moderate 33%, Significant 19%
- Technology: Low Penetration 38%, Moderate 48%, Significant 14%
- Finance: Low Penetration 33%, Moderate 52%, Significant 14%
Research Methodology
The methodology used for this report consisted of a combination of research tactics, including results of the ALM Intelligence's survey on *The Big Four’s Legal Service Offering*, interviews with law firm leaders, interviews with leaders of the Big Four legal arms, analysis of ALM Legal Intelligence’s proprietary data sources, the authors’ practical knowledge from working in the legal industry, and a review of the body of research conducted by others on the topic of account companies expansion into the legal market.