Taking on the World: The Big Four in the Global Legal Market

To see the threat posed by accounting firms, just look at the number of countries where these newly re-energized players are offering legal services.

By Nicholas Bruch, David B. Wilkins and Maria J. Esteban Ferrer | October 18, 2017

Many falsely believe the Big Four were kicked out of the legal industry in the early 2000s. The Economist even went so far as to state, after the Enron scandal drove regulators to limit the range of legal services audit firms could provide, that “accountancy firms’ drive in the legal arena is dead.”

Such reports—as Mark Twain once famously said when he was informed of a rumor of his own death—were greatly exaggerated. There is increasing evidence that law firms are finally waking up to this reality. Two recent reports by ALM Intelligence show that law firm leaders see the Big Four as a significant threat to their firms’ revenue streams and market positions. They also report that the Big Four appear well-placed to expand into a wider range of services, including those higher up the value chain.
A Global Footprint

To see the threat posed by the Big Four, one need only look at the number of countries where these newly re-energized players are currently offering a wide range of legal services.

As documented in a recent article by Harvard Law School’s Center on the Legal Profession (CLP) and an accompanying academic article in the Law & Social Inquiry journal of the American Bar Foundation, during the last decade the Big Four have been quietly expanding their legal arms. By May 2016, PricewaterhouseCoopers had established legal practices in 85 countries worldwide, KPMG in 53 countries, and Deloitte and EY in 73 countries.

Taken together a total of 106 countries are currently hosting at least one of the Big Four’s legal practices, giving them a significant presence in every important legal market in the world with the notable exception of the United States. Moreover, these legal practices are growing rapidly in strength and stature. In France, Spain, Italy and Russia, law firm rankings now put the Big Four’s legal practices in the top 10 in terms of revenue. In Germany and the United Kingdom, the Big Four are showing double-digit annual revenue growth.

The Big Four’s progress in emerging markets is even more impressive. Accounting firms have been investing heavily in Asia, Africa and Latin America. ALM Intelligence research shows that Asia-Pacific and Latin America collectively account for 76 percent of the Big Four’s lateral partner hires in the legal industry since the start of 2016.

Those investments, and others like them, are beginning to pay off. In 2015, EY Law’s network firm in China—EY Chen & Co.—was ranked by a Chinese law journal in the top third for “Eminent Performance” in capital-market related legal services. That same year, PDS Legal—EY’s law network firm in India—was ranked by Venture Intelligence among the top 10 advisers in completed M&A deals.

The Big Four’s gains are important. A significant amount of the growth in the legal market over the past five years has originated in emerging markets. If law firms lost the war for these markets, it would deprive them of much-needed growth opportunities.

The Drivers of Expansion

As ALM Intelligence and CLP’s research underscores, three interrelated factors seem likely to fuel the Big Four’s rapid expansion. First, while Sarbanes–Oxley and other related statutes severely restrict the Big Four’s ability to sell non-audit services, it does not ban them from the legal market altogether. While accounting firms are barred from selling legal and other non-audit services to their audit clients, nothing prevents them from marketing such services to non-audit clients, which they all now aggressively do.

A second force driving acceleration for the Big Four is the unique model they are using to penetrate the legal industry. In many jurisdictions the regulation of the legal profession either explicitly or implicitly permits “alternative business structures,” including the kind of multidisciplinary practices (MDP) championed by the Big Four. The MDP model, which aims to combine law, accounting, tax, finance, strategic consulting, and information technology into one integrated service offering, is the Big Four’s unique selling point against law firms. By committing themselves to this multidisciplinary approach—as opposed to trying to copy Big Law as they did in the 1990s—the Big Four are increasingly able to market themselves as “globally integrated business solutions providers.”

In areas where the Big Four can package legal services alongside their strengths in tax and advisory services, the multidisciplinary model has been popular with clients. This is particularly true in areas such as tax and labor and employment, where the Big Four are now seen as leading providers of legal services. But it is also true in higher value areas like M&A, where the Big Four are rapidly expanding.

A third force is the Big Four’s growing investment in the intersection of law and technology. Over the past several years, the
Big Four have been developing an array of services which look more similar to those offered by alternative legal service providers than traditional law firms. These services, aim to combine process improvement, technology and talent to deliver legal services at a lower cost than traditionally offered by law firms.

Deloitte’s investments in these areas are illustrative of this trend. In 2014, Deloitte purchased ATD Legal, one of the few providers of managed document review services in Canada. In 2016, they followed with a purchase of Conduit Law, a provider of outsourced lawyers. Most recently, they formed a strategic alliance with Kira Systems, which has been described by the company’s CEO Noah Waisberg as “the largest professional services AI [artificial intelligence] deployment anywhere, period.”

PwC’s recently announced partnership with GE provides one example of what a managed legal services future might look like. In 2017, PwC signed an agreement with GE to provide integrated, enterprise managed tax services on a global basis for a five-year period. 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.

To be sure, most of the tax work that PwC will be doing for GE would not be considered premium by the tax departments of most top law firms. But as the global head of one of the Big Four’s legal arms underscored, their goal is not to concentrate on “bet the company” cases, as most large law firms obsessively do, but instead on “run the company” cases. Such a strategy will give the Big Four a seat at the table as companies strive to reign in the cost of providing legal and other related services in the new global age of more for less.

The Threat to Big Law

Whether these and other similar moves by the Big Four will enable these newly energized players to significantly disrupt the market for corporate legal services remains to be seen. Law firm leaders, for their part, appear concerned. In a recent report by ALM Intelligence, titled “Elephants in the Room: The Big Four’s Expansion in the Legal Services Market,” 66 percent of law firm leaders reported they were concerned about the expansion of the Big Four. Tellingly, they reported accounting firms as the competitor they were most concerned about, ranking them ahead of expanding in-house teams or other alternative legal service providers.

Most concerning were the practice areas that law firm leaders identified as areas where the Big Four were well-positioned to steal market share. More than 70 percent of survey respondents reported that the Big Four posed a threat in finance-related practice areas. Sixty-seven percent were concerned about M&A practices. These findings suggest two things. First, law firms appear to be collectively waking up to the threat the Big Four pose. Second, that threat is likely larger and faster-moving than many initially thought.

Law firm leaders need not look farther than the consulting industry for an example of the Big Four’s potential for disruption. After divesting their consulting arms in the 1990s and early 2000s, over the past decade, the Big Four have regrown their consulting practices to become the largest competitors in the market, with a combined market share of 16 percent. Last year, they collectively earned $42.2 billion in revenue from consulting services. If the Big Four were half as successful in the $600 billion global legal market as they were in consulting, and built a combined 8 percent share, their annual revenue from legal services would be $46.7 billion. The majority of this revenue would come at the cost of market share currently owned by law firms.

Such a scenario is not guaranteed of course. Client conflicts could limit the Big Four’s ability to build market share. The localized nature of legal services, as opposed to the more globalized consulting market, could dull the potency of the Big Four’s scale and global networks. More worrying is a scenario where regulators, once again, grow uneasy over the potential conflicts of interest created by combining audit and advisory services. A scandal, such as the one which brought down Arthur Andersen in the early 2000s, could precipitate such a change in mood.
What is clear is that law firms should not underestimate the Big Four. Their size, brands, strength in process management, and strong relationships with corporate clients make them formidable competitors. The expansion of the Big Four into legal services has the possibility to transform the global legal market. Law firms must prepare for a significant increase in competition.