



Law firms

Global elite

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The latest global rankings of law firms

CLIFFORD CHANCE may still be the world's biggest law firm in terms of both turnover—£950m (\$1.7 billion) in 2003-04—and the number of lawyers employed (2,945). But measured by average profits per equity partner (PEP), the struggling London-based firm ranks a mere 14th in the "global elite", according to *Legal Business*, a British trade magazine. Its estimated PEP last year (as private partnerships, law firms never publish their results) was £558,000, down by nearly 13% compared with the previous year. This is less than half of the estimated profits per partner of each of the four New York firms that sit at the top of the list.

To be included in *Legal Business's* global elite, a firm must be among the world's 50 most profitable; have a disproportionately high number of *Fortune* 250 or FTSE-100 clients; be a leader in its home jurisdiction in at least two of three key practice areas—finance, mergers and acquisitions (M&A), or litigation; be regarded as serious competition in either M&A or finance by the top firms on both sides of the Atlantic; have access to the highest quality German lawyers; and have at least one overseas office. As a niche M&A firm without global ambition, New York's Wachtell, Lipton, Rosen and Katz, the world's most profitable law firm with an estimated PEP of nearly \$2.9m in 2002-03, has not been included as it does not satisfy those criteria.

Many factors other than good old-fashioned excellence influence profitability per partner, including the type of work performed (M&A is much more lucrative than, say, litigation), the degree of international outreach (overseas offices are expensive to run) and the proportion of equity partners to the total number of lawyers. (The smaller that proportion, the bigger the profit share-out per partner.) Among the global elite, this ranges from a mere 11% of lawyers who are partners at Herbert Smith to 27% at Latham & Watkins. But in most of the global elite firms, the proportion of partners is around 20%.

Is small necessarily beautiful? Or are America's typically slimmer, less internationally-oriented global elite firms more successful than their English counterparts for other reasons? Opinions differ. Certainly, the top seven on the global ranking are all members of New York's "charmed circle", and all but one have fewer than 850 lawyers. Among the five elite firms with the lowest profits per partner on the other hand, all but one are members of London's "magic circle" with a workforce of 2,300-3,000 lawyers each.

The fact that Slaughter and May, the smallest of London's magic circle firms with 724 lawyers, is also its most profitable would seem to lend further support to this theory. But it is also the least international of the London firms. As with most of New York's top firms, fewer than a quarter of Slaughter and May's lawyers work abroad, compared with well over half at London's other big firms, and

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The law and the profits

Top global law firms, by estimated profits per equity partner (PEP), 2003-04

Firm	PEP £'000	% change*
Cravath, Swaine & Moore	1,289	-1.4
Sullivan & Cromwell	1,265	10.3
Simpson Thatcher & Bartlett	1,204	-2.1
Davis Polk & Wardwell	1,166	-1.5
Skadden Arps	995	-7.0
Cleary Gottlieb	918	-4.7
Shearman & Sterling	862	1.4
Slaughter and May	837	-5.5
Latham & Watkins	790	3.9
Herbert Smith	703	-5.0
Linklaters	670	-8.7
Freshfields	665	-5.0
Allen & Overy	624	-7.6
Clifford Chance	558	-12.7
Sidley Austin Brown & Wood	554	2.0

Source: *Legal Business* *Over 2002-03

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nearly two-thirds at Clifford Chance. So, although it seems to pay to be charmed rather than magic, the real key to lawyerly profit may be to be inside a well-connected circle of some sort, and to remain small enough to focus on the most lucrative work.

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