

**GLOBALIZATION OF PROFESSIONAL SERVICE FIRMS:
A COMPARATIVE STUDY BETWEEN
MANAGEMENT CONSULTING AND LAW FIRMS**

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Xiaoying (Catherine) Zhang¹

ABSTRACT

Professional service firms, due to various motivations, are proactively expanding or seeking to expand their presence outside their home markets. Based on the existing literature on professional service firms, and globalization of manufacturing firms, this paper is an effort to analyze various strategies employed by different professional service firms to expand their geographic presence, and the underlying reasons for those practical choices of strategies.

For the purpose of simplicity and deeper looking into professional service firms' globalization strategy, this paper chooses to compare management consulting and law

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firms, and tries to reveal from this comparative study what a professional service firm should take into account when designing and implementing its globalization strategy.

This paper further explores the future trend of and challenges for further globalization of management consulting and law firms, which may be of certain indicative value to other types of professional service firms.

KEY WORDS

Professional service firms, globalization, strategy, law firms, management consulting firms

I. INTRODUCTION

Globalization was, and still is, a hot trend; and many professional service firms (“**PSFs**”) are expanding their geographic presence across the world.

Taking consulting industry as an example, as multinational companies take advantage of a globalized market, consultants are hired to help firms maneuver in foreign business environments, transform strategic operations and improve performance. Business process outsourcing (“**BPO**”) is one of the major driving forces in this industry’s second consecutive year of double-digit growth in 2006. In 2006, Accenture increased staff in India by 400 percent; and Capgemini doubled the size of its consulting operations in that country in 2006. IDC Research estimates that the value of the BPO market in Asia-Pacific will grow over \$1 billion to \$8.3 billion by the end of 2007. Furthermore, Europe is witnessing its own surge in outsourcing activity. Consulting firms have followed a growing list of banking, financial services and telecom clients who have opened offices in Poland, Romania, the Czech Republic and Hungary. According to

the McKinsey Global Institute, outsourcing activity will triple in Eastern Europe by 2008, adding over 130,000 new jobs to the \$4 billion market.² Therefore, consulting firms are increasingly competing on a worldwide scale.

Legal service industry is traditionally a more jurisdiction-based industry, which is subject to stringent regulatory restrictions on establishing overseas presence and engaging in local practice³. Nevertheless, between 1993 and 2003, 16.7 percent of the increase in the number of attorneys working for Am Law 200 law Firms (from 54,520 to 100,365) occurred in foreign branches offices. Remarkably, U.S. law firms have been opening a large number of foreign offices. Between 1993 and 2004, Am Law 200 law firms opened 29 offices in London, 15 offices in Shanghai, 14 offices in Beijing, 11 offices in Frankfurt, ten offices in Hong Kong, nine offices each in Paris and Singapore, eight offices in Brussels, and four offices in Tokyo.⁴

A. LITERATURE REVIEW

In response to the hot globalization trend, there is rich literature on globalization or international firms, though the majority assumes the image of a manufacturing firm. Porter (1986) sets up the well-recognized framework on the evolution of global industries (as opposed to multidomestic industries), and global strategies in response to industry

² Naomi Newman, et al., *The Vault Guide to the Top 50 Consulting Firms* 38-39 (2008 Ed.)

³ A number of jurisdictions have eased restrictions with respect to multinational legal partnerships. For example, U.K. and Germany now permit locally licensed and foreign licensed attorneys to practice law together in the same office. Thus, U.S. law firms in London are able to hire and have as partners attorneys licensed in U.K. and practice “local” British law.

⁴ William D. Henderson, *The Globalization of the Legal Profession* Vol. 14 #1 Indiana Journal of Global Legal Studies 3, 4 (Spring 2007)

(including market) characteristics.⁵

On the other side, there is certain literature specializing in PSFs, their unique characteristics in value creation, and particular challenges in strategies and management. Lorsch and Tierney (2002) points out that “[T]he central difference – and distinguishing characteristic – of the PSF business model is its reliance, its absolute dependence, on skilled and motivated professionals.”⁶ Lowendahl (2000) summarizes PSFs’ value creation into three core processes, which are (i) selling “a credible promise”; (ii) delivering what has been promised; and (iii) learning from the selling and delivery processes, in order to improve both efficiency and effectiveness in future projects.⁷

Despite the above-mentioned fact that PSFs have very much engaged in the globalization process, there is limited literature particularly analyzing the strategies PSFs employ to globalize, the reasons for various strategies, and the future trend and challenges for PSFs in such internationalization process.

B. RESEARCH METHODOLOGY

This paper is trying to fill in the gap of existing literature, and to explore various strategies employed by PSFs to expand overseas.

PSFs, as a broad category, encompass a long list of industries, including, without limitation, law firms, accounting firms, management consulting firms, marketing and public relation service firms, advertising agencies, and architecture firms. Those PSFs,

⁵ See Michael E. Porter, *Competition in Global Industries* (1986)

⁶ According to Lorsch and Tierney, “firms that attract and retain the best people and motivate them to build enduring client relationships, put the firm first, and follow through on strategic imperatives are the firms that ultimately win”.

⁷ Bente R. Lowendahl, *Strategic Management of Professional Service Firms* 42-44 (2000)

however, are not all the same. They share certain common traits, but operate in very different contexts (in terms of both business environment and regulatory regime). For the purpose of simplicity and deeper looking into certain PSFs' globalization strategies⁸, this paper chooses two representative types of PSFs to compare their respective globalization strategies, i.e., management consulting firms and law firms.

Due to the limited existing literature on this issue, this paper adopts an empirical research, and is based on a number of interviews with selected research sites.⁹ The interviews are not in large scale, and accordingly cannot lead to in-depth quantitative studies; however, such anecdotal interview results represent different types of firms, and reveal various strategic considerations such firms are contemplating over while designing and implementing their globalization plans.

Based on the above-said methodology, this paper is comprised of four parts. Part II is to analyze globalization of PSFs generally, looking into the applicability of general globalization theory to PSFs, the motivations for PSFs to expand overseas, and the strategic challenges they encounter in globalization. Part III is to compare the globalization strategies employed by management consulting and law firms, including their respective forms of market entry, marketing, competition, client relationship, and recruiting strategies. Part IV is to explore the reasons why management consulting and law firms are employing different strategies for global expansion. Part V is to envision the future trends of these two types of PSFs, and the major challenges they are facing

⁸ This approach is opposed to an effort to generalize globalization strategy of all those different types of PSFs, which may not be effective given the different business environments and regulatory regimes those firms are operating in.

⁹ A list of research sites is attached hereto as [Appendix II](#).

with.

II. GLOBALIZATION OF PROFESSIONAL SERVICE FIRMS

Due to the particular characteristics of PSFs, most of the traditional arguments for globalization¹⁰ do not automatically apply to PSFs. In particular, certain well-accepted concepts about globalization strategy, which are important in manufacturing contexts, have limited applicability in PSFs. Above said, the motivations for PSFs to expand globally are also different from manufacturing firms.

A. APPLICABILITY OF GENERAL GLOBALIZATION THEORY TO PROFESSIONAL SERVICE FIRMS

As mentioned above, Porter (1986) sets up the well-recognized frameworks on the evolution of global industries and global strategies in response to industry characteristics. As re-captured by Lowendahl, central to Porter's framework, there lie four issues: (i) to what extent is the market global (as opposed to "multidomestic"); (ii) to what extent do the different activities (in the value chain) need to be centralized versus dispersed; (iii) where should the centralized activities be located, in a global company, and in how many places; and (iv) how should the difference activities be coordinated across sites.¹¹

1. *Market Characteristics: Global vs. Multidomestic*

The first question is to assess the characteristics of the market (or industry), i.e., whether it has evolved into a "global market" or remains at the stage of "multidomestic

¹⁰ The traditional arguments for globalization primarily builds on the theoretical contributions of Michael Porter, particularly Porter (1986), where he discusses globalization in terms of market characteristics as well as in terms of the characteristics of the value creating activities taking place within the firm.

¹¹ Bente R. Lowendahl, *Strategic Management of Professional Service Firms* 144 (2000)

market”.

According to Porter, “in multidomestic industries, competition in each country (or small group of countries) is essentially independent of competition in other countries.¹² A multidomestic industry is one that is present in many countries, but one in which competition occurs on a country-by-country basis. ... The [multidomestic] industry becomes a collection of essentially domestic industries.”¹³

“At the other end of the spectrum”, as Porter defined, “is global industries. The definition of a global industry employed here is an industry in which a firm’s competitive position in one country is significantly affected by its position in other countries or vice versa. Therefore, the international industry¹⁴ is not merely a collection of domestic industries but a series of linked domestic industries in which the rivals compete against each other on a truly world-wide basis.”¹⁵

The distinction between multidomestic and global industries has profound implications under Porter’s framework.

¹² Pursuant to Porter (1986), “in a multidomestic industry, a multinational firm may enjoy a competitive advantage from the one-time transfer of know-how from its home base to foreign countries. However, the firm modifies and adapts its intangible assets in order to employ them in each country, and the competitive outcome over time is then determined by conditions in each country. The competitive advantages of the firm, then, are largely specific to the country.” The representative multidomestic industries, according to Porter (1986), include retailing, consumer packaged goods, distribution, insurance, consumer finance, and caustic chemicals.

¹³ Michael E. Porter, *Competition in Global Industries* 17-18 (1986)

¹⁴ According to Porter (1986), “industries exhibiting or evolving toward the global pattern include commercial aircraft, TV sets, semiconductors, copiers, automobiles, and watches.”

¹⁵ Michael E. Porter, *Competition in Global Industries* 18 (1986)

“In a multidomestic industry, competing internationally is discretionary. A firm can choose to remain domestic or can expand internationally, if it has some advantage that allows it to overcome the extra costs of entering and competing in foreign markets.”¹⁶ If a firm chooses to expand internationally, its international activities can and should be managed like a “portfolio”, which, according to Porter, means that “its subsidiaries or other operations around the world should each control all the important activities necessary to do business in the industry and should enjoy a high degree of autonomy, and the firm’s strategy in a country should be determined largely by the competitive conditions in that country; the firm’s international strategy should be a country-centered strategy.”¹⁷

In a global industry, on the contrary, managing international activities like a portfolio will undermine the possibility of achieving competitive advantage. Instead, “a firm must in some way integrate¹⁸ its activities on a worldwide basis to capture the linkages among countries. Even though a global competitor must view its international activities as an overall system, it still has to maintain some country perspectives. It is the balancing of these two perspectives that becomes one of the essential questions in global strategy.”¹⁹

Whether a PSF in operating in a global or multidomestic market is highly dependent on which industry the PSF belongs to.

¹⁶ Michael E. Porter, *Competition in Global Industries* 18 (1986)

¹⁷ *Ibid.*

¹⁸ According to Porter (1986), “this integration will require more than transferring intangible assets among countries, though it will include such transfer.”

¹⁹ Michael E. Porter, *Competition in Global Industries* 19 (1986)

For legal service industry, obviously it has not reached the level of global industry given that legal service is jurisdiction-specific; however, industry insiders' opinions diverge on whether it is a multidomestic industry or an industry located somewhere between multidomestic and global industry. Some take the view that legal services provided in different jurisdictions are relatively independent from each other, and success in one country does not necessarily translate into success in another country. Others believe that if a law firm fails in London or New York, its practice in Hong Kong or other markets will be affected too.²⁰ In this sense, a law firm's practices in different countries are interconnected, as opposed to independent from each other.

In contrast, management consulting firms are arguably at the other end of the spectrum, especially for those top international firms. The market is more global. Capabilities of such firms in different markets are more interlinked, and intangible assets (including, without limitation, industrial knowledge, expertise, and good will) accumulated in one market are more transferrable to another.

2. Value Creation Activities: Upstream vs. Downstream

Under Porter's framework, after categorizing an industry as "global" or "multidomestic", then comes the second question of how to spread the activities in the value chain²¹ among countries. Porter draws the distinction between "upstream

²⁰ As one of interviewees admitted, "some law firms may operate independently in different markets"; but he further commented that "the better firms, the more cross-border transactions such firms are involved in, the more interaction and interconnection among different markets exists."

²¹ According to Porter, the activities performed by a firm in the value chain include nine generic categories, which can be further grouped into "primary activities" (which are those involved in the physical creation of the product or service, its delivery and marketing to the buyer, and its support after

activities” and “downstream activities” depending on their relationship to the buyer.²² Pursuant to Porter, “the location of downstream activities, those more related to the buyer, is usually tied to where the buyer is located; [while] upstream activities, conversely, could conceptually be decoupled from where the buyer is located in most industries.”²³

Porter further points out two major implications for the distinction between “upstream” and “downstream” activities. First, downstream activities create competitive advantages that are largely country specific;²⁴ whereas competitive advantage in upstream activities often grows more out of the entire system of countries in which a firm competes. Second, multidomestic pattern of international competition more exists in industries where downstream activities or other buyer-tied activities are vital to competitive advantage; while global competition is more common in industries where upstream activities are crucial to competitive advantage.²⁵

sale) and “support activities” (which provide inputs or infrastructure that allow the primary activities to take place on an ongoing basis). The five primary activities are (i) inbound logistics, (ii) operations (i.e., in most cases “manufacturing”), (iii) outbound logistics, (iv) marketing and sales, and (v) services; while the four support activities are (i) firm infrastructure, (ii) human resource management, (iii) technology development, and (iv) procurement.

²² Among the above mentioned nine generic value creation activities, inbound logistics, operations, and part of outbound logistics, plus all support activities are defined to be “upstream activities”, whereas the rest of outbound logistics, marketing and sales, and services are defined as “downstream activities”.

²³ Michael E. Porter, *Competition in Global Industries* 23 (1986)

²⁴ As further explained by Porter, “a firm’s reputation, brand name, and service network in a country grow largely out of a firm’s activities in that country and create entry/mobility barriers largely in that country alone.”

²⁵ Michael E. Porter, *Competition in Global Industries* 23 (1986)

Given the nine generic activities in the value chain as described by Porter, it presumes the underlying image of the firm as a manufacturing firm. Taking the five primary activities as an example, they obviously do not fit into PSFs' model of value creation.

As summarized by Lowendahl (2000), PSFs' value creation includes three core processes, i.e., (i) selling "a credible promise"; (ii) delivering what has been promised; and (iii) learning from the selling and delivery processes, in order to improve both efficiency and effectiveness in future projects.²⁶

The first core process represents the major difference between PSFs and manufacturing firms. The value creation of PSFs starts from selling "a credible promise"²⁷, which, put in another way, is to convince clients of the firm's value creating capability. The second process involves the set of activities required in order to deliver what has been promised and involves both the client firm and the professionals assigned. In this process, the firm is concerned with both the actual quality of what is delivered, the perceptions of quality by all relevant client firm representatives, and the efficiency of the delivery. The third process is about "learning from the project and institutionalizing this learning to the extent that it can be utilized for both improved service quality and improved efficiency with future clients."²⁸

Due to the unique process of value creation by PSFs, the notions of "upstream"

²⁶ Bente R. Lowendahl, *Strategic Management of Professional Service Firms* 42-44 (2000)

²⁷ According to Lowendahl, the credibility of promise depends on "firm reputation, their ability to document success from previous projects, and the professionals the firm says it will assign to the project."

²⁸ Bente R. Lowendahl, *Strategic Management of Professional Service Firms* 43 (2000)

and “downstream” activities lose much of their original meaning, as the only activity which may be removed from the client/buyer is the final process, i.e., the internal and institutionalized learning process of PSFs. Therefore, Porter’s idea of disaggregating the value creating activities and organizing such activities in different locations where costs are lowest and value creation is greatest does not apply to PSFs.

3. *Global Strategy: Configuration vs. Coordination*

According to Porter, when designing and implementing global or international strategy, a firm faces an array of options in “configuration”²⁹ and “coordination”³⁰ for each activity in the value chain. Configuration options range from “concentrated” (which means “performing an activity in one location and serving the world from it”) to “dispersed” (which is “performing the activity in every country”). Coordination options range from none to many. A firm operating in different countries can have tightly coordinated or centralized management system, or grant full autonomy to its local subsidiaries at the other extreme.³¹

As mentioned above, the value creation process of a PSF is completely different from that of a manufacturing firm as characterized by Porter. When using Porter’s model in explaining a PSF’ value creation, most of a PSF’s value creation activities are tied to the buyer/client, and global strategies should be comparatively less common. Nevertheless, this does not seem to be in line with the phenomenon that many PSFs are

²⁹ Configuration of a firm’s activities is to determine the location(s) in the world where each activity in the value chain is performed, including in how many places.

³⁰ Coordination refers to “how like or linked activities in different countries are coordinated with each other.”

³¹ Michael E. Porter, *Competition in Global Industries* 25 (1986)

expanding overseas proactively.

To certain extent, a PSF, when expanding its geographic presence, faces configuration and coordination issues too, but in a different way as compared to manufacturing firms. Again, this is due to the different value creation process these two types of firms have. For example, since there is no point to distinguish “upstream” and “downstream” activities for PSFs, it is hard for PSFs to follow Porter’s rule that downstream activities should be more tied to the location of buyer, and upstream activities can be more centralized and decoupled from where the buyer locates when configuring activities in different locations across the world.

B. COMMON CHALLENGES FOR GLOBALIZATION OF PROFESSIONAL SERVICE FIRMS

When going globalized, due to the unique nature of PSFs, they are encountering some common challenges as compared with manufacturing firms. Particularly, certain well-accepted concepts about globalization strategy, which are important in manufacturing contexts, have limited applicability in PSFs.

1. Benefits of Scale

Many PSFs are growing, consolidating and expanding overseas in part based on a belief in the benefits of scale. There is, however, little hard evidence to support such belief. On the contrary, for PSFs, bigger does not necessarily equal to better, economically or competitively. This is due to the fact that clients don’t value scale unless it directly affects the quality and efficiency of services provided. As illustrated by Lorsch and Tierney, “a client doesn’t necessarily care whether a firm’s local office has fifty or five hundred professionals, but that client does care about the quality of the professionals

assigned to their account. Conversely, a multinational client may demand global service (which implies some scale)³², but depending on the type of service, may not care much about the location and number of a firm's offices. For clients, bigger isn't better; better is better."³³

Furthermore, scale can even be problematic. As the firm grows and a sense of intimacy is lost, its professionals can become demotivated and leave. This could be particularly destructive for a sector which is highly dependent on "skilled and motivated professionals". In addition, the increased cost and complexity of scale may outweigh any incremental benefits for which clients will be willing to pay.

2. *Relative Market Share*

In sharp contrast to manufacturing firms in which relative market share correlates with profitability, increased share does not necessarily yield positive consequences for PSFs in their own economics.

The primary reason why it is problematic to apply the notion of relative market share to PSFs is due to the fact that it is difficult to define precise business boundaries for PSFs. The question of relative market share invites a series of issues, such as relative to which competitor, in what business, and how a firm's business is defined³⁴.

³² For example, the "Big Four" accounting firms dominate the field of audit to international firms because of their unmatched ability to conduct high-quality audits at multiple locations.

³³ Jay W. Lorsch and Thomas J. Tierney, *Aligning the Stars: How To Succeed When Professionals Drive Results* 46 (2002)

³⁴ How a PSF's business is defined is much more complicated than it appears to be. Pursuant to Lorsch and Tierney, it could be defined "by geographic boundaries, professional activity, service levels, price, the skills and personality of its people, or even the skills and personality of one person".

Furthermore, as pointed out by Nanda, relative market share does not automatically translate into recognition as a leader in service provision either. Instead, small, focused firms (e.g., Goldman Sachs in financial services and Wachtell Lipton in law) often develop reputation for quality and exert considerable bargaining power over potential clients.³⁵

3. *Competition on Cost*

One of the two types of competitive advantages for a firm as identified by Porter is low cost.³⁶ Competing on cost, however, is a much less attractive option for PSFs. In PSFs, the major part of the cost structure is related to people (followed by space and increasingly, technology). As explained by Lorsch and Tierney, “to attract and retain talented people, [a PSF] needs to offer compensation packages that are at least as good as [its] competitors’. In fact, if a firm’s costs are too low, it may indicate that the firm is not investing enough in its talents and is becoming a second-tier player”.³⁷

For PSFs, cost, of course, still affects profitability³⁸, but it does not drive profitability, nor does it translate into competitive advantage as it does in manufacturing industries. Furthermore, a low-cost strategy in PSFs is often associated with reducing professional compensation or increasing leverage, both of which might result in quality

³⁵ Ashish Nanda, *Strategy and Positioning in Professional Service Firms* 4 (2004)

³⁶ Michael E. Porter, *Competition in Global Industries* 20 (1986)

³⁷ Jay W. Lorsch and Thomas J. Tierney, *Aligning the Stars: How To Succeed When Professionals Drive Results* 49 (2002)

³⁸ According to Lorsch and Tierney, “temporary emphasis on cost can reflect sound management. In soft economic times, for example, PSF managers may be even more stringent about performance reviews to accelerate turnover and adjust their cost structure.”

decline.³⁹

C. MOTIVATIONS FOR GLOBALIZATION OF PROFESSIONAL SERVICE FIRMS

Since the general theory of globalization is not completely fit for the situation of PSFs, and many well-accepted concepts about globalization strategy in manufacturing contexts do not apply to PSFs, unlike manufacturing firms, PSFs are not going internationalized for lowering cost and improving value creation. Then, what drives PSFs to expand their geographic presence? It is commonly cited that PSFs are going overseas to “follow their clients”; however, this may not be the whole picture.

1. *Driven by Existing Clients*

Admittedly, one of the major drivers for PSFs to globalize is their existing home country clients. In the globalization economy, multinational companies have increasing global presence, and may even have their majority of revenues coming from outside their home markets. Furthermore, even for smaller companies, they can be global in terms of outsourcing certain parts of their operational activities to low-cost countries. Therefore, client firms are operating globally, and seek service providers that are able to offer uniform service at multiple locations. For most PSFs that expand into overseas markets, this is their primary motivation.

This motivation also encompasses two dimensions: one is from the competition point of view; and the other is from the perspective of interconnection among different markets. As one of the interviewees elaborated, “if we have specific clients that have China-related deals, and hope us to represent them in China, it would be better for us to establish presence in China and build up capabilities there. If we don’t do so, some other

³⁹ Ashish Nanda, *Strategy and Positioning in Professional Service Firms* 4 (2004)

firms will serve those clients, and thereby developing relationship with them. In that case, we are not only losing those China-related deals, but also hurting our relationship with those existing clients, which imposes a negative impact on our home market.”

2. *Driven by Demand*

Another common driver is the existence of a large market that a PSF feels that it needs to tap into at certain point in order to capture its future potential. For example, some PSFs deem China as a big emerging market, feel it necessary to set up presence there despite their lack of knowledge how it might work, but they believe that if they are there, something will happen. Such PSFs are investing in the future of certain market, and establishing presence overseas is mainly to make sure that they are on the radar screen of that market.

If the demand of an emerging market is a “pull”, there is also a “push” for certain PSFs. As one of the interviewees mentioned, “some PSFs have shrinking home market, therefore, they have to expand into markets where they can grow their business and sustain it.”

“Such market demand driven approach”, however, as commented by one of the interviewees, “is much harder than the home country client driven approach”.⁴⁰

3. *Driven by Supply*

The third driver is to tap into the local talent supply pool. This is particularly true for certain management consulting firm’s expansion into India because the firm has high percentage of India-originated consultants. According to one of the interviewees, “India

⁴⁰ According to this interviewee, this is illustrated by some of the first batch of international law firms that enter China market early, but retract from China later due to lack of business.

is a major source of massive talents for management consulting industry given its education system. Indians usually go to engineering school first, and then directly go to MBA programs, which leads to the result that Indians at the age around 25 are ready for management consulting, while the average age for their American counterparts is 30. This gives Indian talents an age advantage in their career development with management consulting firms.”

Above-mentioned are the three major types of motivations for a PSF to globalize. In real life, a PSF may seriously consider globalization due to combination of different motivations. For example, a law firm may have certain existing clients with ready China work which requires the firm to serve in China, and in the meantime, the firm may also hope to tap into the growing China market, and wish to develop Chinese clients or other China-related business there.

III. COMPARISON OF GLOBALIZATION STRATEGIES

EMPLOYED BY MANAGEMENT CONSULTING AND LAW FIRMS

Strategy is defined as a stream of decisions, made over time, which reflects the goals of the firm and the means by which the firm achieves those goals.⁴¹ The strategic decisions surrounding a PSF’s target clients are bound up in issues of geographic strategy as well as customer differentiation. These elements lead directly to the final element of strategy: the value proposition⁴² a PSF offers its target clients in its chosen

⁴¹ Kenneth R. Andrews, *The Concept of Corporate Strategy* 18 (Revised Ed. 1980)

⁴² The concept of a value proposition is deceptively simple because at one level it equates with the lines of business in which a PSF engages; however, the client is purchasing a service, which implies a certain level of attention as well as a particular kind of capability. The true value proposition of a PSF

geographies.⁴³

In particular, we further explore the series of decisions management consulting and law firms respectively make when expanding overseas, from form of market entry to marketing strategy, from competition in local market to client relationship.

A. MARKET ENTRY STRATEGY

Top management consulting firms primarily develop their overseas presence through organic growth. The basic approach is to send people who have been trained or have substantial experience in home market (primarily, North America) to targeted market, hire people with similar background and interest, and develop organically in that market. This is to ensure consistent services provided across the globe.

For law firms, there are primarily three types of market entry strategy. Firstly, a law firm may acquire a local law firm to build up its capability in that market. For instance, Clifford Chance expanded into the U.S. market via its merger with New York-based firm Rogers & Wells. Nevertheless, merger and acquisition between law firms are proved to be difficult and costly.⁴⁴ In this case, some of the most profitable partners from Rogers & Wells have left the firm due to differences of management style, compensation

to its targeted clients is all-inclusive, encompassing both the comprehensive service the PSF provides, and the process with which the PSF provides it.

⁴³ Jay W. Lorsch and Thomas J. Tierney, *Aligning the Stars: How To Succeed When Professionals Drive Results* 39 (2002)

⁴⁴ According to Lorsch and Tierney, “mergers and acquisitions [for PSFs] are not only difficult to implement but also extremely costly, in terms of partners’ time as well as money.”

and structure.⁴⁵ These problems are not unique to Clifford Chance. Rather, issues of cultural fit, management style, firm structure, and compensation remain significant concerns when two firms are considering merger and acquisition.

Nevertheless, in some markets, such mergers and acquisitions are not feasible due to regulatory restrictions. For example, in China, foreign law firms are not allowed to hire Chinese lawyers⁴⁶ or acquire local law firms⁴⁷. To set up a presence in China, law firms either grow organically, or start from lateral hire, and then grow organically from that.

For instance, some international law firms take a pure organic growth approach when entering into China's legal service market. They send senior people from home market to a new location, embed them in local community, hire talents with local background, cultivate them into the firm's culture, and gradually develop local resources.

Some firms take a different approach as they may not have the internal resources to support such pure organic growth. As one of the interviewees stated, "to follow a pure organic growth approach, you must have the right person with the right background and

⁴⁵ See Anthony Lin, *Clifford Chance Turns to Partner From London to Halt U.S. Slide*, N.Y. L.J. 1, March 21, 2005

⁴⁶ Article 16, *Wai guo lv shi shi wu suo zhu hua dai biao ji gou guan li tiao li* [*Administrative Regulations on Chinese Representative Offices of Foreign Law Firms*], promulgated by the State Council and effective on January 1, 2002

⁴⁷ Article 39, *Guan yu zhi xing wai guo lv shi shi wu suo zhu hua dai biao ji gou guan li tiao li* [*Rules on Implementing the Administrative Regulations on Chinese Representative Offices of Foreign Law Firms*], promulgated by the Ministry of Justice of the People's Republic of China, and effective on September 1, 2002

skill sets who are willing to move to the new location and do the work there.⁴⁸ For those who lack such resources, they have to hire laterally in the targeted market⁴⁹, ensuring that they have the right people on the ground with deep local knowledge and language skills to start with, and then grow organically from that.

B. MARKETING STRATEGY

Marketing strategy for management consulting firm depends on what fundamentally drives the firm to internationalize, and spread across a continuum between low profile approach and “big splash” way of marketing.

If the key driver is to serve existing home country clients in overseas market, there is no major difference from what has been done previously, and such management consulting firm can remain relatively low-key in that market.

If the driver is both existing home country clients and local clients, the marketing strategy can be low-profile campaign and to build a brand on the back of existing clients or relationship, and no massive push is required.

If the driver is more demand or supply driven (i.e., develop local clients or recruit local talents), a broader or “big splash” marketing strategy is employed. For example, as mentioned above, certain management consulting firm’s expansion into India is to both serve local clients and recruit local talents, thus the firm employs a much broader strategy, such as more brand-related campaigns, exposure to media, participation in conferences, among others.

⁴⁸ As one of the interviewees mentioned, “it is a challenge to move people around. A partner may not be willing to work in Beijing due to various professional or personal reasons”.

⁴⁹ Such lateral hire could be a number of leading practitioners or senior partners in the targeted market or even a team from a competing firm in that market.

For law firms, generally no splash marketing strategy is employed. Traditionally, law firms tend to believe that the best “marketing strategy” is to do a good job for clients, make clients happy, develop long-term relationship, and get more business from those clients. Some law firms neither buy advertisements, nor purchase articles on publications. Even though some lawyers do write articles, speak at conferences, and visit clients from time to time, they still think such activities’ effect or value is limited.⁵⁰

Nevertheless, there are some other international law firms that do not take the traditional marketing strategy of “let the phone ring”. Instead, some firms are more proactive in marketing themselves, and develop various indirect marketing tactics (which refer to activities that do not feel like marketing, but have similar impact like marketing, helping the firm to build up strong brand awareness in legal community, to increase the firm’s visibility, and good will).⁵¹ Furthermore, some other firms have invested heavily to develop global branding and positioning strategy to get better known to their external constituencies.

C. COMPETITION STRATEGY

For management consulting firms, local competition does not matter because the value proposition of those top international management consulting firms is very different from that of their local counterparts. For that reason, international big names’ fee rates are completely different from those of local consulting firms. Therefore, they

⁵⁰ As one of the interviewees stated, they believe “business more comes from reputation, quality, relationship and referral.”

⁵¹ Such indirect marketing tactics include sponsoring legal scholarships in local markets, and regularly hosting informational events for clients to introduce major changes in the regulatory regimes of local markets, among others.

are not at the same level of doing business, and do not compete with each other. Furthermore, no cooperation is required between these two either, given the different value proposition and nature of services.

For law firms, whether there exists competition with local law firms depends on the value proposition of such international law firm in the targeted geography.

Taking China's legal service market as an example, some international law firms, though setting up presence in China, primarily target U.S. capital market work or Chinese companies' outbound investment representations.⁵² Therefore, they have no real interest in developing Chinese law capability. For such firms, they don't see competition with local law firms. Instead, they view those top Chinese law firms as collaborators, and work closely with them on PRC law issues in cross-border transactions.

On the other hand, for some other international firms that have dived deeper into the local legal service market⁵³, there is certain level of competition, which is primarily with top local Chinese firms, but also depends on what types of clients and work are involved. For industrial clients, as large multinational companies have relatively established presence in China, and thereby increasingly localized, more local Chinese firms are engaged to serve such multinational clients, which is particularly true for mega multinational companies that have strong team of local in-house counsels in China.⁵⁴ For

⁵² These firms hold the view that purely domestic market is more for local law firms, and their focus is on transactions involving complicated international issues.

⁵³ For example, some international law firms position themselves as focus on both local law capability and international deal capability.

⁵⁴ In practice, many mega multinational companies engage both international and local counsels, and give different pieces of work to different outside counsels, for instance, local operational issues (such

financial institution clients, if the deal is primarily a China deal which involves limited international components, a sophisticated client may highly rely on a top Chinese law firm to advise on and execute the transaction. For instance, Fangda & Partners represented Newbridge Capital in relation to its acquisition of the controlling stake in Shenzhen Development Bank Co., Ltd., which is the first time that a foreign investor is allowed to acquire a controlling stake in a listed commercial bank in China since 1949.⁵⁵ Conversely, if the deal is a cross-border transaction which involves multi-jurisdictions and China is only a tiny part of the whole deal, international law firms are playing a more important role⁵⁶ even though a Chinese law firm may also be engaged to advise on Chinese law issues.

Even for such firms that have ambition in local Chinese legal service market, there can be cooperation between international and local law firms due to regulatory restrictions. For example, in China, international law firms are not allowed to represent clients in Chinese court rooms⁵⁷, therefore, for Chinese litigation matters, international law firms have no choice but to collaborate with local firms.

as local lease, labor) are more given to local law firms; whereas cross-border merger and acquisition work is more given to international law firms.

⁵⁵ Fangda & Partners, *News*, available at <http://www.fangdalaw.com/news.php>, last visited on May 8, 2008

⁵⁶ As one of the interviewees commented, “international law firms’ value proposition must be deals that have implications beyond local market, for which hiring international law firms makes more sense and adds more value from a client perspective”.

⁵⁷ Article 15, *Wai guo lv shi shi wu suo zhu hua dai biao ji gou guan li tiao li* [*Administrative Regulations on Chinese Representative Offices of Foreign Law Firms*], promulgated by the State Council and effective on January 1, 2002

Apart from competition and collaboration, in China, international law firms sometimes play another role, which is to guide local law firms and make sure that local law firms are delivering good services. This is due to the fact that China's legal service market is still at its preliminary stage, and the legal services delivered by different local firms are quite uneven. Therefore, multinational clients without sufficient local resources heavily rely on international law firm that they have long-term relationship with to tell bad services from good ones.

D. CLIENT RELATIONSHIP

Management consulting firms have a combination of home-country clients and local clients in a targeted geography. As one of the interviewees commented, "a lot of people assume that consulting firms are following their existing clients to go overseas; however, this is only responsible for one-fourth of the market, and the remaining three-fourths are local market clients."

Client composition of different international law firms in overseas market varies, depending on the value proposition of the firm and the characteristics of the targeted geography.

Taking China's legal service market as an example, some international law firms have a high percentage of Chinese clients in representing them in U.S. listing or outbound investment transactions, while other firms have a more balanced composition of client base, representing both multinational clients which have investment in China, and Chinese companies seeking initial public offering or investment overseas. There are also some international law firms that are primarily serving their multinational clients or foreign financial institutions on their investment in China or other China-related deals.

In terms of client development, management consulting firms' approach is much more proactive. As one of the interviewees mentioned, when a management consulting firm enters a new market, it will cold call top local companies to meet with their chief executive officers ("CEOs") in person with no knowledge whether they need any consulting services. After selling the service door to door, the consultants will further follow up with letters, e-mails, and the firm's publications.

On the contrary, law firms' approach in client development is more conservative. Cold call or uninvited client visit is relatively rare in legal service industry, and is generally deemed impractical or ineffective. The reasons are three-folded. Firstly, it is part of the tradition of legal service industry. As one of the interviewees commented, "legal service is presumed to be more academic, intellectual or prestigious; therefore, lawyers don't want to do cold call or advertise to pitch clients."⁵⁸ Secondly, in-house counsels are looking for lawyers based on personal connections with and trust and confidence in legal professionals.⁵⁹ Last but not least, legal service, as compared with management consulting firms, is relatively more based on substance, which means that there is usually a deal or litigation in place that a lawyer is needed.⁶⁰ This is in sharp

⁵⁸ As one of the interviewees commented, "law firms are less sophisticated in advertising as compared with other PSFs and their client firms. Since advertising of legal services is previously prohibited, it takes time for legal professionals to change their perspectives on advertising and the way to develop business."

⁵⁹ Some lawyers believe that such personal connection and trust is more likely to be developed through workshops or seminars where lawyers are giving speeches on their specialty areas.

⁶⁰ It should be noted that to what extent legal service is based on substance varies from country to country. As commented by Alford, in the United States, there is a great deal of forward planning,

contrast with consulting services as if a management consulting firm is creative enough, it can generate the demand of its clients to buy such consulting services.

Both management consulting and law firms cross sell their expertise in various geographies. For instance, if a European expert of a management consulting firm in steel industry happens to be in town of a foreign market, he will go to pitch the CEO of top local steel companies, and in fact, deep industrial knowledge in overseas market is always welcomed by local CEOs, and this approach is effective in attracting new local clients. On the law firm side, such cross-selling has a slightly different version in practice. For example, when a partner of an international law firm in Germany meets with his German client, and finds that the client needs legal help in China, the partner will introduce the firm's Chinese law capability, and refer the client to China practice group so that Chinese team of the firm can continue to serve the client in China.

E. RECRUITING STRATEGY

In terms of recruiting strategy, management consulting firms target at top MBA students with both international skills and local knowledge. Furthermore, management consulting firms generally offer the same introductory training for all new hires, which takes place at the same location. This global basis training is an important guarantee for consistent services worldwide. In addition, international management consulting firms rarely hire from local counterparts. Therefore, there is almost no talent movement between international management consulting firms and their local counterparts.

business strategy or general advising well in advance of a deal or a litigation. Nevertheless, in other less-developed legal service markets such as China, clients are engaging law firms when a deal or litigation, even if not fully substantiated, at least shows its appearance of taking place.

Law firms' recruiting strategy in overseas market is closely linked with their value proposition in that market. To elaborate, if an international law firm, as mentioned above, primarily focuses on U.S. capital market work and Chinese companies' outbound investment, its value proposition in China is basically serving Chinese and/or international clients, but mainly targeting at U.S. legal work (as opposed to local China law practice). In this sense, such firm does not really recruit in China, let alone recruiting from its local counterparts. Instead, its recruiting strategy emphasizes on hiring U.S.-qualified lawyers with Chinese backgrounds and competent language skills.

On the contrary, for those international law firms that target at both local law and international deal capabilities, they need both U.S. and Chinese lawyers, and recruit a broader range of people. Furthermore, they also recruit from top local competitors, and give more value to solid local practice experience as compared with the above-mentioned group of international law firms.

IV. REASONS FOR DIFFERENT GLOBALIZATION STRATEGIES

EMPLOYED BY MANAGEMENT CONSULTING AND LAW FIRMS

Although both management consulting and law firms are representative PSFs, the series of strategies they employ for overseas expansion are different from each other, as analyzed above. The reasons for such different globalization strategies lie in the deeper roots of difference between management consulting and law firms as illustrated in Table 1-1 below.

Table 1-1: Comparison between Management Consulting and Law Firms

| | Management Consulting Firms | Law Firms |
|---|--|--|
| Regulatory regime | <ul style="list-style-type: none"> - Less regulated or restricted - No public responsibility of delivering justice - Less stringent professional standards | <ul style="list-style-type: none"> - Highly regulated; subject to various practice licensing in different geographies - Shouldered with public responsibilities - Subject to higher professional responsibility standards |
| Organization structure | <ul style="list-style-type: none"> - Corporation (though partnership in name) - Longer time horizon | <ul style="list-style-type: none"> - Partnership - Shorter time horizon |
| Brand / Concentration | <ul style="list-style-type: none"> - Limited recognized brands - Higher concentration of market | <ul style="list-style-type: none"> - More recognized firms - Much lower concentration of market |
| Characteristics of services | <p>Strategy consulting services:</p> <ul style="list-style-type: none"> - more intangible; - harder to measure or evaluate (less transparent); - more generalized; and - not based on jurisdiction, different market knowledge is transferrable among each other | <p>Legal services:</p> <ul style="list-style-type: none"> - legal documents or results to deliver; - track record for measurement or evaluation; - more specialized; and - more jurisdiction-specific |
| Purchaser | <p>CEOs</p> <ul style="list-style-type: none"> - Usually no budget for purchase - Usually no consulting background | <p>General Counsels</p> <ul style="list-style-type: none"> - Under pressure for cost control - Usually with law firm backgrounds and understand law firm economics |
| Reasons for purchase | <ul style="list-style-type: none"> - Not based on substance, but the intention for improvement of strategy and its implementation - No legal requirement | <ul style="list-style-type: none"> - Based on substance (a deal or case) - Required by law or due to the complexity and specialty of work involved |
| Purchaser's engagement of service providers | Usually one management consulting firm based on brand, capability and relationship | Usually several law firms due to specialization (domain knowledge), jurisdiction coverage, and conflict of interest |

A. REGULATORY REGIME

Management consulting and law firms are subject to different regulatory regimes in different targeted geographies. Generally speaking, law firms are more highly regulated, and subject to various practice licensing requirements in different geographies⁶¹, and more stringent professional standards.

Taking China as an example, management consulting services belong to permitted⁶² business under the *Catalogue of Industrial Guidelines for Foreign Investment* (“**Catalogue**”)⁶³, which is subject to few limitation in terms of form of incorporation and scope of business that can be provided in China. In contrast, legal service is listed under the limited category in the Catalogue. Specifically, foreign law firms are only allowed to set up representative offices in China, and permitted to provide a limited scope of legal services in China, excluding any Chinese legal services.⁶⁴

⁶¹ As one of interviewees mentioned, “different jurisdictions have distinct licensing regime for legal services. For example, in Hong Kong, international law firms are permitted to hire local lawyers and practice local law; while in some other jurisdictions like India and Korea, the legal service market is much more restricted, and international law firms almost cannot do anything there.”

⁶² Under the Catalogue, there are four categories of business for foreign investment, i.e., encouraged, permitted, limited, and prohibited. Encouraged, limited, and prohibited categories of business for foreign investment are explicitly listed in the Catalogue, and those that are not enlisted in the Catalogue belong to permitted category.

⁶³ Wai shang tou zi chan ye zhi dao mu lu [*Catalogue of Industrial Guidelines for Foreign Investment*], promulgated and amended by the State Development and Reform Commission and the Ministry of Commerce on October 31, 2007 and effective as of December 1, 2007

⁶⁴ Under Article 15 of the *Administrative Regulations on Chinese Representative Offices of Foreign Law Firms*, foreign law firms are only permitted to (i) provide home-country’s legal advices and advices on

Furthermore, lawyers are crucial to the process of delivering justice, and thereby shoulder significant public responsibilities, which management consultants do not. As a result, lawyers are subject to much more stringent rules of professional conduct that are quite unlike anything for management consultants. This partly explains many different choices of management consulting and law firms in their plans for globalization, such as client development strategies. For instance, the American Bar Association (“**ABA**”) has advocated a conservative approach for lawyers’ contact with potential clients to attract business. The *ABA Model Rules of Professional Conduct* prohibits “a lawyer from soliciting, whether by in-person, live telephone or real-time electronic contact, professional employment from a prospective client when a significant motive for the lawyer’s doing so is the lawyer’s pecuniary gain”.⁶⁵ Although the U.S. Supreme Court’s decision in *Bates v. State Bar of Arizona*⁶⁶ loosened restrictions on lawyers’ use of advertising, “attorney promotion has been the subject of numerous cases as the court’s attempt to determine the delicate balance between promotion in the public interest and promotion that deserves no constitutional protection”.⁶⁷

B. ORGANIZATION STRUCTURE

Law firms are generally partnerships, while management consulting firms, though

international treaties and customs; (ii) represent foreign clients to engage Chinese law firms to handle with Chinese legal matters; (iii) maintain longer-term relationship with Chinese law firm to handle relevant legal matters, and (iv) provide information with respect to China’s legal environment.

⁶⁵ Rule 7.3, *ABA Model Rules of Professional Conduct*, available at <http://www.abanet.org/cpr/mrpc>, last visited on May 8, 2008

⁶⁶ *Bates v. State Bar of Arizona*, 433 U.S. 350, 97 S. Ct. 2691, 53 L. Ed. 2d 810 (1977)

⁶⁷ William J. Winston, *Marketing for Attorneys and Law Firms* 21 (1993)

in the name of partnership, are more operating like corporations, as commented by one of the interviewees.

In partnership firms, top-down strategy implementation is much more difficult as the subordinates of law firm leaders are also partners, who are the owners too, and whose approval is necessary before leaders can make strategic decisions. Further, as such partners are both producing professionals and managers, they have little time or inclination to engage in extended discussions about ambiguous collective-action plan, which results in the difficulty of either pushing through strategic action or getting professionals in the firm to focus on developing and executing strategy.⁶⁸ As commented by one of the interviewees, “generally speaking, law firms are slow to react due to the partnership structure”.⁶⁹

On the contrary, in management consulting firms which are more operating in a corporate way, strategy can be executed from the top down. If senior management is clear about the direction to pursue, it can execute strategic moves without taking subordinates into its confidence.

The distinction between partnership and corporate forms results in a significant implication. Law firms have relatively short term vision due to partnership structure, while management consulting firms have a longer time horizon. As one of the

⁶⁸ Ashish Nanda, *Strategy and Positioning in Professional Service Firms* 5 (2004)

⁶⁹ As the interviewee further elaborated, “even for a closely-knit partnership which has around 150 equity partners, you have to get everybody on board, and establish deep consensus on the next strategic move. Otherwise, it won’t happen. Therefore, for a law firm to act strategically, it has to make sure that every equity partner is behind that, and such decision-making process is more cautious and time-consuming.”

interviewees commented that, “generally, law firms only allow three to five years for an overseas office to succeed⁷⁰; but for management consulting firms, they have a much longer time frame of 20 years or so to profit from a targeted market.”⁷¹

C. PRODUCT FEATURES

Products of management consulting and law firms are very different from each other.

Consulting services are more intangible and much harder to measure or evaluate. Therefore, delivery of consulting services is less transparent. On the contrary, law firms generally have to deliver certain legal documents or litigation results. Unlike management consulting firms, there are still certain track records for measurement or evaluation, although less of such is provided in some countries where legal services are increasingly moving towards more complicated forward planning or business strategy related work.⁷²

In addition, legal services are more specialized and jurisdiction-specific; however, consulting services are more generalized, and industrial knowledge in different markets is

⁷⁰ As commented by another interviewee, “this is generally true for law firms”; however, there are exceptions that some international law firms have longer time horizon in developing overseas presence, including developing talents and clients in that market.

⁷¹ As one of the interviewees commented, law firms’ relative short time horizon is partly due to their lack of external source of capital as compared with other PSFs. Therefore, partners expect to see returns, in a short term, on overseas expansion, which requires huge capital investment.

⁷² It should be noted that to what extent a law firm has to deliver certain legal document or litigation outcome also varies from country to country. As commented by Alford earlier, in the United States, there is a great deal of forward planning, business strategy or general advising, in which cases, no track record is or can be provided.

more transferrable among each other.

D. CLIENT RELATIONSHIP

Purchasers of consulting and legal services are different, and so are their respective reasons for purchase, and settings in purchasing such services.

Generally speaking, decision makers to purchase consulting services are CEOs.⁷³ CEOs usually have less stringent budget for such purchase. On the contrary, purchasers of legal services are general counsels, who are under pressure of cost control.⁷⁴ Furthermore, general counsels are generally moving from law firms, and thereby understanding the economics of law firms very well. Therefore, they can manage outside counsels more effectively. For management consulting firms, few CEOs have consulting backgrounds, with limited knowledge of consulting firms' economics.⁷⁵

Reason for purchase of legal services, though complicated, is usually based on or related to substance. As mentioned earlier, there is generally a deal or case in place before a client approaches a law firm (exception exists in advanced legal service markets, such as that in U.S. where attorneys are more involved in forward planning or business strategy-related work, as elaborated above), and the primary reasons for a client to

⁷³ For example, McKinsey & Company has its well-established "top management approach", which means that "it will go to work only with the approval and liaison of its client's chief executive officer; that once it's at work it will want to probe deeply the over-all aims and abilities of its client."

⁷⁴ As one of the interviewees commented, "one of the major criteria for a good in-house counsel is cost control."

⁷⁵ One of the interviewees also mentioned that, "for the few exception of those CEOs who have consulting backgrounds, they will run consultants more like a partner in a management consulting firm to check what is done, and how."

purchase legal services are due to either the regulatory requirement or complexity and specialty of the work involved (also, a related reason arising out of such complexity and specialty of work is that general counsels are concerned with inappropriate judgment calls on legal matters, and thereby inclined to use outside counsels to reduce risks and protect themselves). For consulting services, reason for purchase is not necessarily based on or related to substance (a case or deal), instead, the intention of a client for improvement of strategy and its implementation.⁷⁶

With respect to the settings in which a purchaser engages service providers, a client generally engages one management consulting firm based on its brand, capability and relationship with the client. On the contrary, a multinational client usually engages more than one law firm to provide legal services. There are several reasons behind that. Firstly, different law firms have various specialty or domain knowledge, and multinational clients prefer leveraging different firms' strength during the purchase. Secondly, each law firm's jurisdiction coverage may be limited. For example, if a law firm that a multinational client has long term relationship with does not have presence in the overseas market where the client is operating and needs legal services. The client has no choice but to engage another firm to provide legal services in that market. Thirdly, for law firms, there is always a possibility for conflicts of interest, under which, the client may have to engage another law firm to represent it.

⁷⁶ As commented by one of the interviewees, "even if there is no existing problem for the client, there still can be room for improvement".

V. LOOKING FORWARD: FUTURE TREND AND CHALLENGES

Management consulting and law firms employ different globalization strategies, the reasons for which are deeply rooted in the difference between these two types of PSFs. Looking forward, what are the future trends of these two types of PSFs, and what kinds of challenges they will encounter in the process of further globalization.

A. FUTURE TREND: IS GLOBALIZATION A MUST?

When looking into the future trend of globalization of PSFs, we start from pursuing the question whether it is a must for PSFs to go globalize. Insiders in both management consulting and legal services industries believe that globalization is more for large PSFs, and small and medium sized PSFs can find their niche markets, serve local clients, and work well. Interestingly, when further exploring whether globalization is a must for top PSFs, management consulting firms and law firms are giving different responses to this question.

For management consulting firms, the answer is clearly yes. As one of our interviewees commented, “[G]lobalization provides competitive advantage for top management consulting firms. It is a must for big management consulting firm as it raises entry barrier and fewer firms will be able to compete on a global basis.”⁷⁷

On the contrary, international law firm partners are not that sure on this issue. For those firms that have established substantial overseas presence, they believe globalization is important for their firms due to the geographic diversification and strategic significance

⁷⁷ As this interviewee further mentioned, “globalization may be less important for niche areas such as human resources / labor issues which are more localized. Nevertheless, for economic or strategy issues, they are increasingly international, and organizational issues are somewhere in between the above two extremes.”

such overseas expansion offers. Furthermore, some other firms that have set up more extensive global presence even go one step further - they don't want to be perceived as U.S. or U.K. firms with overseas offices; instead, they intend to be truly global firms, and be perceived as "global" both internally and externally. Nevertheless, such international law firms don't see globalization as a must for every top law firm. It seems that a law firm does not have to be global to be successful yet.

One reason for such belief in legal service industry is due to the fact that there is very limited number of top U.S. law firms (such as Wachtell Lipton) that are very profitable without setting up overseas office. Such firms limit their practice area to a small niche, develop high level of expertise, experience, skills and quality in this sector, and only take on professionally and personally rewarding matters. They believe that it would be difficult to maintain the quality and expertise if they get bigger and have a lot of offices around the world. Nevertheless, this does not mean that such firms are losing the share of cross-border transactions. Instead, they are taking a "coordinating firm" role in those multi-jurisdictional deals, i.e., coordinating external and internal resources to serve large transactions which involve multiple jurisdictions.

In addition, Slaughter and May, unlike the other four firms in the U.K.'s "Magic Circle" that have all engaged in major efforts to globalize,⁷⁸ is taking a different approach to international strategy. It has developed a network of "Best Friends", a tight working arrangement with leading independent firms around the world.⁷⁹ The firms in the "Best

⁷⁸ The other four firms in the U.K.'s "Magic Circle" are Clifford Chance, Linklaters, Freshfields, and Allen & Overy. All of these firms have been opening offices across the world, acquiring firms, and laterally hiring away partners or groups of professionals.

⁷⁹ Slaughter and May, *Our International Strategy*, available at :

Friends” network not only worked closely together, but their leaders spent substantial time managing the relationships between the firms so “their clients would find the network’s multinational service as good as or better than that from a single firm with offices in different countries.”⁸⁰

B. FUTURE CHALLENGES

With respect to future challenges, recruiting is a top concern for management consulting firms as consulting firms can’t seem to hire fast enough to keep up with the demand for services. Overall, recruiting budgets are up, and teams are hitting campuses in droves to meet ambitious hiring targets. Kennedy Information projects that headcount at the junior-consultant level will more than quadruple in 2007. The push to reign in new staff is a bold mark of confidence, indicating that firms anticipate a healthy flow of future engagements. In addition to bringing in new staff, firms are contending with a high rate of attrition - the result of a recent talent squeeze. The current demand for specialized skills has made it more costly for firms to retain talent, as consultants are lured away by other firms or private industry jobs with promises of higher compensation.⁸¹

For an international law firm, on top of the list of major challenges is to develop a real one-firm practice, as opposed to collection of local entities.

As one of the interviewees commented, “[L]egal service markets in different countries are different; what you can get from clients is different; and what you can offer lawyers is different. Therefore, some law firms are imposing different fee rates, pay

http://www.slaughterandmay.com/international/default_international.asp?xmlfile=international.xml&elNodeId=1010, last visited on April 19, 2008

⁸⁰ Robert G. Eccles and Partha P. Bose, *Uria Menendez (A)* 9 (2008)

⁸¹ Naomi Newman, et al., *The Vault Guide to the Top 50 Consulting Firms* 40 (2008 Ed.)

scale, and people quality in various markets. It is not an easy task to achieve ‘one firm, one culture, and one business’.”⁸² Such challenge has wide implications. It imposes the vital issue on international law firms whether they are able to deliver consistent high quality services regardless where the work is done. It leads to further challenge in efficient and effective risk management (which is critical for the business of legal services) for those firms with various presences across the world. Furthermore, it also results in the difficulty of developing the firm culture and sense of ownership that play an important role in retaining talented legal professionals.

VI. CONCLUSION

Globalization is a huge undertaking for a PSF⁸³; however, what strategies to employ to globalize are vital for the firm. Particularly, a firm’s globalization strategy highly depends on what industry the PSF belongs to (including, whether this is a global or multidomestic industry, and what business and regulatory environment of this industry is in the targeted market), and specific characteristics of this firm (including, how the firm positions itself in the targeted market, and what unique circumstances the firm is operating under). The comparison of globalization strategies employed by management consulting and law firms has revealed the importance of such analysis for a PSF when designing and implementing strategies for overseas expansion.

⁸² As one of the interviewees commented, “due to the limited access to external capital, law firms’ mind sets are less accustomed to long-term development”.

⁸³ As one of the interviewees commented, “it firstly requires courage to do it, and the firm must be committed to that, persuade its best people to move there to grow the overseas office, and attract the best of the local market.”

Given the limited scope of this paper, it does not avail itself with large-scale empirical research, but rather bases its findings on interviews with several industry insiders in the management consulting and legal service sectors. With more empirical research in this sector, more in-depth and insightful findings can be drawn. In addition, it would be interesting to further explore the issue whether globalization is a must for PSFs, especially given legal service industry insiders' divergent opinions on the same.

All in all, globalization may need to be re-defined for PSFs, a theoretical framework tailored to PSFs should be created, and more practical guidance can be offered on PSFs' design and implementation of their strategies to globalize.

APPENDIX I

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APPENDIX II

RESEARCH SITES

(IN THE ALPHABETIC ORDER OF INTERVIEWEES' LAST NAMES)

- Partha Bose, Director and Head of Marketing, Oliver Wyman
- Frank Burch, Partner and Joint Chief Executive Officer, DLA Piper
- Howard Chao, Asia Co-chair, O'Melveny & Myers, LLP
- Robert Chu, Partner, Sullivan & Cromwell, LLP
- A Senior Partner at Boston Consulting Group⁸⁴
- Janine M. Dascenzo, Associate General Counsel, General Electric Company
- Adam O. Emmerich, Partner, Wachtell, Lipton, Rosen & Katz
- Douglas C. Markel, Partner, Simpson Thacher & Bartlett LLP
- Jiangang Shang, Founding Partner, Shanghai Diligence Law Firm
- Mike Starr, Chief Operating Officer, Grant Thornton International
- Libin Zhang, Partner, Baker & Botts, LLP
- Jonathan Zhou, Founding Partner, Fangda & Partners

⁸⁴ The interviewee prefers to remain his name in confidence.