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Recombining national variety: internationalisation strategies of American and European law firms

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Abstract

Purpose – This paper aims to explore internationalisation strategies of service firms in sectors where markets become increasingly globalised while resource environments still remain distinctively shaped by national institutions.

Design/methodology/approach – A theoretical framework is proposed that suggests that the more firms expand their business activities across borders by building up offices abroad or merging with firms from other countries, the more likely they are to embrace recombinant strategies to blend elements of different societal legacies. Subsequently, a comparative case study of internationalisation strategies, governance modes and organisational forms of European and US law firms is presented to illustrate the value of the framework, followed by the analysis of a novel data set on multi-jurisdictional qualifications of partners in these international law firms.

Findings – By virtue of their integrative organisational model and mobilisation of versatile legal competences, large pan-European law firms are challenging the dominance of US law firms in international legal markets, while the latter in response are revising their own previous export-oriented internationalisation strategy.

Research limitations/implications – The present study provides a starting point for further research on internationalisation in service industries.

Originality/value – The framework is useful to expand effect societal analysis to dynamic international environments.

Keywords Professional service firms, Societal effect, Strategy, Recombination, Multinational companies, Internationalization, Professional services, Service industries, Legal professions

Paper type Research paper

1. Introduction

In July 2001 a decision of the EU competition authorities caused a sensation: the European Commission banned the planned takeover of Honeywell by General Electric (GE) because of its expected adverse effects on competition, although the US authorities had already signalled approval of the merger. Hence, not only was one of the biggest corporate mergers of the turn of the millennium blocked; but the case also sparked a hot public and political discussion about the lack of convergence (and from

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the US standpoint) insufficient expertise and efficiency of the European competition authorities.

Relevant in this context, yet much less well known, is the fact that the law firms that represented GE and Honeywell in this case played a non-negligible role in shaping the outcome. As Glenn Morgan (2006) shows in an in-depth case study, large cross-border mergers and acquisitions (M&A) lawyers are involved in many aspects and levels of the deal, particularly in presenting and negotiating its overall architecture and details with representatives of competition authorities. GE and Honeywell, both multinational corporations headquartered in the USA, were represented by the Wall Street-based Shearman & Sterling and Skadden Arps, both leading international law firms with offices in Brussels and other cities around the world. Morgan argues that lawyers based in the New York and Washington offices who took the lead on this deal did not consult their colleagues in European offices early and sufficiently enough. For example, on 15 June 2001 when a possible failure of the deal became apparent, the *Wall Street Journal* reported: “GE conceded yesterday that the Honeywell deal came together too quickly for it to consult its European merger lawyers” (cited in Morgan, 2006, p. 152).

This case is instructive about a problem with which many international law offices are struggling, as serving demand for cross-border services consists no longer just of referral business but increasingly involves doing law simultaneously and in a coordinated way in multiple jurisdictions (Morgan and Quack, 2006a, p. 218): how to combine and bundle local resources (i.e. knowledge, skills and finance) across borders into transnational competences that provide a significant value-added for the services offered by international law firms compared to those of their national counterparts? In the GE and Honeywell merger, two leading international law firms in the competition field, Shearman & Sterling and Skadden Arps, had, problems in doing so, according to Morgan’s analysis. The benchmark for transnational competence in this case would have been a legal negotiation strategy that integrated the special features of European and American competition regulation and procedures, and incorporated the need for extensive consultation with the relevant authorities on both continents into their overall strategy. This reflects a more encompassing change in international markets for professional services from the export of US- or UK-based services to other parts of the world towards a more multipolar pattern in which transnational and national influences affect both the demand and supply side of markets (for audit services see Buijink *et al.*, 1996; Maijoor *et al.*, 1998).

Whether and how globally operating companies develop transnational competences is a question of much wider concern than only for law firms, or other professional service firms whose internationalisation is more recent than that of manufacturing companies. As the literature on international business and multinational firms indicates, building such transnational competencies rests on a multiplicity of factors and processes which go far beyond just operating a number of offices or subsidiaries across the world (Dörrenbächer and Geppert, 2006; Geppert and Mayer, 2006; Kristensen and Zeitlin, 2005; Morgan *et al.*, 2001). While this research suggests that a majority of multinational companies no longer seem to follow a monolithic internationalisation model steered in a command-and-control way by the headquarters, it also indicates that most of these firms are still far away from what Bartlett and Ghoshal (1989, 2000) laid out as the future model of a transnational

company, which in response to rapidly changing task environments recombines resources from different national subsidiaries on an ongoing basis into appropriate transnational competences.

Representatives of the societal effect approach would hardly be surprised by such discrepancies between ideal models and organisational realities of multinational companies. In fact, the concept of societal effects as developed by Arndt Sorge in collaboration with Marc Maurice and Malcom Warner (Maurice *et al.*, 1980) and further specified by Sorge and colleagues (Sorge, 1991; Maurice and Sorge, 2000) directs us to complex interactions between task and resource environments of organisations, and the institutions shaping them, which arise as they extend economic transactions across national borders. In its more recent elaborations (Harzing and Sorge, 2003; Sorge, 2005), the societal effects approach also urges us to take the paradoxes of internationalisation more seriously than it is usually the case in international business studies. In particular it suggests that degree and depth of internationalisation are likely to vary across markets, industries and institutional spheres. Hence, we should be prepared to see tensions arising where task environments become increasingly internationally integrated while their resource environment remains shaped by national institutions. Furthermore, Arndt Sorge has continuously drawn attention to the pragmatic problem-solving strategies that organisations develop in response to such tensions. This raises broader questions of how organisations, particularly in knowledge-intensive industries, can recombine resources from and across different societal contexts in response to an increasing misfit of their previous strategies with an internationalising task environment.

Building and elaborating on the societal effects approach, I will argue in this paper that whenever international convergence of resource environments is limited while goods and service markets are becoming more integrated, organisations will tend to explore and develop associative forms of transnational organisation in which national participants cooperate on project-related tasks, and share and combine knowledge in practice fields. The analysis of internationalisation strategies of large US and European law firms reveals different variants of this associative model. Although these variants are influenced by societal legacies, they also point to firms' capabilities to reposition their strategies in response to misfits with changing international task environments.

The paper is structured as follows: In the first section, I will briefly link the research question to work in the societal effect tradition to outline how their approach can contribute to a better understanding of the processes supporting and limiting the development of transnational competences in organisations. The paper then turns to an empirical analysis of the internationalisation of law firms. The subsequent sections sketch the American model of large law firms which until recently was considered by many observers as a template for effective internationalisation. It then proceeds to analyse the export strategy of large US law firms and the integrative strategy of leading European law firms formed in the 1990s from cross-border mergers between British and German practices. Similarities and differences between these strategies are examined along three dimensions: governance modes, organisational forms, and qualification profiles. While the analysis of the first two dimensions builds on joint work with Glenn Morgan (Morgan and Quack, 2005a, b, 2006a, b), that of the third dimension is based on a novel data set of legal qualifications of partners in large US

and European law firms (Quack, 2009a). The paper concludes by reflecting on the potential of associative forms of organisations to develop transnational competences and the broader lessons to be learned from the present study of law firms for the internationalisation of organisations in other fields characterised by rapidly growing cross-border transactions in contexts with limited convergence of task and institutional environments.

2. Societal effects: from strategic fit to strategic recomposition

The societal effects approach, as originally formulated by Maurice *et al.* (1980) and further developed by Sorge (1991), placed corporate strategy at the intersection between national institutional systems and resource environments on the one hand and contingencies of task and market environments on the other. Organisational processes of differentiation and integration were seen as consistently interacting with societal institutions of education and training, labour relations, and finance, giving rise to nationally different organisational forms with different capabilities. Although differences in societal organisation of training, education, and human resources were seen as supporting distinctive modes of manufacturing, such as mass and diversified quality production, matching different task and market environments, these relations were conceptualised neither as unidirectional nor as deterministic. In fact, Sorge (1991) argued that company success and performance very much depended on the ability to link distinct and opposed task contingencies and strategic elements. The interaction between societal and contingency factors implied enactment and continuous re-enactment leading to innovation and change in business strategy, yet nevertheless resulting in a strategic fit between national institutional systems and the average capabilities of firms which made them more or less successful in different task environments (Sorge, 1991).

While early publications from the societal effects school focused strongly on differences between organisations shaped in the context of distinctive societies and their ability to compete in international markets, Arndt Sorge's later work increasingly encompassed interactions between the global and national and thereby pointed towards the salience of what one might call cross-societal effects. Cross-societal effects refer to influences that actors from one society have on other societies without implying that these influences occur predominantly in the form of cross-border diffusion. Growing cross-border interdependence and expansion of horizons of action across borders can equally imply that local actors creatively adapt strategic or institutional elements from elsewhere, or that they ignore or reject them. Thus, internationalisation leads to various paradoxes, which according to Sorge (2005) arise prominently from the fact that global and local horizons of actors extend to different degrees and at different speeds in respect to economic transactions on the one side and task and institutional contexts on the other. Thus, the transnationalisation of task and institutional environments of organisations often does not proceed at the same speed as their cross-border economic transactions would suggest. Recruitment and career advancement in multinational firms, to mention only one prominent example, remain still shaped by distinctive national labour markets, while markets for products and services become increasingly integrated. This generates opportunities but also tensions in the development of firms' transnational competences. Against this background, the societal effect approach would lead us to expect that companies over

time will develop specific organisational forms that mirror the complexities of their environment as well as allowing them to operate in transnationally integrated though not globally homogenised markets (for the latter see Quack, 2009b).

In contrast to the strategic fit argument, the present article focuses on the recomposition of organisations in response to misfits with changing international task environments. Building on earlier collaborative work, it highlights the ability of firms, when confronted with changing international task environments, to reconsider and adapt their strategic orientation (Morgan and Quack, 2005a). The more firms expand their business activities across borders by building up offices abroad or merging with firms from other countries, the more likely they are to embrace recombinant strategies to blend elements of different societal legacies (Quack and Djelic, 2005; Djelic and Quack, 2007). To the extent that markets for services become increasingly internationalised while resource environments of service firms still remain distinctively shaped by national institutions, recombinant strategies evolve along three dimensions which will be analysed in the following sections: governance modes, associative forms of organisation, and managerial and staff qualifications.

The latter are particularly important in professional service firms, whose capital consists predominantly of the knowledge of its partners and legal staff. In economic sociology, Grabher (1994) has suggested that organisations which develop a varied set of resources and competences, allowing for some redundancy and overlap, will be well equipped for processes of flexible adaptation to rapidly changing environments. More recently, Stark (2009) has shown how the organisation of dissonance between different perspectives on a common issue might help to coordinate otherwise distributed knowledge in such way that it can be mobilised for unforeseeable problem-solving needs.

In the professions, and law in particular, skills, knowledge and credentials traditionally were and still predominantly are defined by national university degrees and regulations issued by the state or professional associations (Morgan and Quack, 2005a). Historically, law firms emerged at a local or national level. Although there had been international referral networks of national law firms since the beginning of the twentieth century, the constitution of a significant number of multinational law firms from the 1980s and 1990s onwards nevertheless constituted a novel development, paralleled by emergent transnational professional networks and practice communities that span across these firms. While the latter constitute an interesting topic in their own regard (Djelic and Quack, 2010; Quack, 2007), the focus of this paper is on firms' internationalisation strategies. The following sections will first analyse the US forerunners, which were long considered as a global template, before turning to the European alternative, which emerged after the turn of the millennium.

3. The American model of the large law firm

Until well into the 1990s, the largest internationally active law firms all came from the USA. Their organisational forms and business models were perceived by many actors in the field, including law firms from other countries, as a template for internationalisation of professional services firms. Yet, the American model of the large law firm, which enabled their unique international expansion in the 1980s and 1990s, had inherent limitations that became increasingly apparent as they tried to expand their presence in foreign markets. Both their rapid internationalisation in the

first period and their limited capacity to deepen penetration of foreign markets in the second period point to the institutional context in which the American model of the large law firm historically developed and its imprint on their internationalisation strategies. Before moving to the analysis of law firms' internationalisation strategies, it therefore seems appropriate to review briefly the development of the American model of large law firms.

The USA has an exceptional legal system that has been characterised by a combination of "legal entrepreneurialism" (Trubek *et al.*, 1994) and "adversarial legalism" (Kagan, 2001). While the former refers to the proactive and commercially inspired approach of American lawyers to exploiting new market opportunities for legal services, the latter highlights a professional ethos of zealous advocacy of clients' causes based on an understanding of law as a manifestation of ongoing struggles between groups for economic advantage. These features of legal style, together with the fragmentation of substantive law in the common-law tradition, generated an exceptional system in which policymaking, policy implementation, and dispute resolution are predominantly a matter of lawyer-dominated litigation.

This legal system gave birth to a unique way of organising legal services on a large scale. Following a new recruitment model pioneered in the early twentieth century by Paul D. Cravath, law firms started to hire large numbers of young lawyers from law schools and to employ these associates within a highly stratified career system with senior partners at the top. Following the up-or-out career principle, a few of these associates were eventually promoted to partnership, while the large majority eventually had to leave the firm. By the 1940s, leading US law firms had developed into so-called "mega-law" firms (Galanter, 1983), whose economic success had become dependent on a continuous inflow of large law suits and huge clients in order to maintain the "tournament of lawyers" (Galanter and Palay, 1991). After the Second World War, US law firms continued their growth, outdistancing their European counterparts both in terms of lawyers and turnover well into the 1980s.

The American mega-law firm, however, was not only a product of the American legal system but also a producer of its entrepreneurial and adversarial professional ethos, since these features served the commercial logic of the mega-law firm. American law firms were extremely innovative in generating new forms of contracts, eager to challenge authority and quick to design new litigation strategies. Senior partners in these firms were key figures in the creation and defence of a legal ethos that embodies entrepreneurialism and adversarial legalism.

The mega-law firm has received renewed attention in the analysis of the globalisation of law, which is often described as a process of Americanisation (Shapiro, 1993; Wiegand, 1996). In this context, US law firms are seen as important actors in the diffusion of their domestic legal model to other countries, in particular to Europe (Trubek *et al.*, 1994; Dezalay and Garth, 1996; Kelemen and Sibbitt, 2004). US mega-law firms, according to this argument, fulfil the necessary preconditions and they have access to important channels for diffusing their model worldwide. In terms of structural preconditions, US global business and political hegemony constitute the broader framework, which makes the American legal model attractive for actors in other countries (Dezalay and Garth, 1996). In particular, the institutional fit of the American legal tradition with new modes of global governance makes this approach

appear superior to continental European legal traditions, which being based on a specific civil code are less flexible (Shapiro, 1993; Silver, 2000; Flood, 2002).

A number of countervailing factors, however, produce resistance to or rejection of the American legal model, as the critics of the globalisation of American law thesis have pointed out (Gessner, 1994; Levi-Faur, 2005; Kagan, 1997). The continued diversity of national legal systems goes hand-in-hand with the persistence of differences in substantive law, forms of professional interest representation, and legal style (Dezalay, 2007; Kagan, 1997; Morgan and Quack, 2005a; Lace, 2001; Silver, 2000; Smets, 2006). Within Europe, there are common and civil law systems, while within the latter, there is a great variety in the substance of law. The same is true for legal style. Even among common-law countries, British legal style is notably less adversarial and litigious than that of the USA (Damaska, 1986).

Gessner (1994) summarises these arguments pointing to the cultural and institutional dimensions of law. These imply that domestic actors will not simply copy the US legal model, but will instead negotiate the meaning of law, legal style or organisational format in each application. Hence any attempt at cross-border transfer of the US legal model law is likely to be subject to a considerable degree of cultural and institutional translation and adaptation, recombination if not resistance, by the receiving actors (Levi-Faur, 2005; Teubner, 1998).

Furthermore, in the 1990s, the creation of several large European law firms challenged the omnipotent position of US firms in international legal markets. These firms arose essentially from British-German mergers, combining knowledge on substantive law, legal style, and organisational features from different national jurisdictions (Morgan and Quack, 2005a, 2006b). These Euro law firms have successfully expanded internationally, and since the mid-1990s rank alongside US mega-law firms among the top ten global law firms.

In the next two sections of the paper, I will describe in more detail the internationalisation strategies of US law firms and their European counterparts and how the associational forms of transnational organisation that they developed over the past two decades came to differ as the result of interactions between recombinant strategies and societal legacies. We start with a brief history of the recent internationalisation of legal services.

4. Internationalisation of large US and European law firms

The internationalisation of law firms started in the 1970s with the rise of multinational companies and transnational financial markets. International flows of trade, finance, and production generated a growing market for legal services that transcended the traditional national boundaries of legal systems. Law firms from the leading industrial countries followed their customers – particularly multinational companies – abroad and discovered the lures of foreign legal markets.

As argued in earlier work (Morgan and Quack, 2005a), these changes attracted US law firms, particularly to London, where they saw the opportunity to leverage their own existing Wall Street-based knowledge in a new environment. Spar (1997, p. 12) reports that by 1989, the 250 largest US firms had established 180 overseas offices in London, up from 124 in 1985. By 1991, the number had increased to 252 (see also Cullen-Mandikos and MacPherson, 2002, p. 495). The liberalisation and privatisation in

Western Europe in the 1980s and the transformation of Eastern European economies in the 1990s then led US firms to expand their offices beyond London.

The arrival of American law firms had a “galvanising effect” on their European counterparts, who saw that if they were to defend or expand existing business, they would need to compete with the US firms. This was particularly true for City law firms in London, whose numbers of lawyers had grown steadily since the mid-1980s (Morgan and Quack, 2005a). Likewise in Germany, one of the largest and most profitable markets for legal services in the European Union, the increasing competition from USA and British firms became gradually felt by the domestic law practices, which, at that time, were relatively small and still restricted to a single locality (Quack, 2003; Wiegand, 1996).

In the 1990s, European law firms began to experiment with a multiplicity of internationalisation strategies, ranging from reliance on traditional referral networks, the establishment of more tightly coordinated formal networks of medium-sized law firms, and closely-knit “best friend” networks of elite law firms in different countries to the establishment of their own overseas offices (Morgan and Quack, 2006a). Silver (2007) reports a similarly broad array of internationalisation strategies for US law firms; yet with the difference that the sheer size advantage of the leading American firms over their European counterparts enabled them to achieve much faster growth of the number and staff in their overseas offices. At the time, this growth could hardly be matched even by Europe’s largest law firms headquartered in London.

As a response, the most significant development in Europe after the turn of the millennium was a series of mergers and acquisitions between law firms from different countries. Three of today’s largest global law firms were constructed by means of pan-European mergers: In August 2000, the London City firm Freshfield merged with the German law firms Bruckhaus and Deringer; in the same year, the British firm Linklaters merged with German lawyers Oppenhoff & Rädler as part of a multiple merger with four other European firms; finally, the London based law firm Clifford Chance merged with the German law firm Pünder *et al.* while joining forces with the US law firm Roger Wells. As a result of these essentially British-German mergers, German law firms became important participants in the newly formed European law firms, which in turn caught up in size and reach to the leading US firms. For example, the number of lawyers in Clifford Chance and Freshfields grew by over 100 per cent between 1993 and 2002, while the growth rate of American law firms was much lower over the same period, for example 35 per cent in Skadden Arps and just 24 per cent in Jones Day (United Nations Conference on Trade and Development, 2004, p. 326).

Table I provides an overview of the top ten global law firms as of 2007, based on statistics published by *The American Lawyer*. According to these figures, European law firms had an equal if not broader geographical reach – measured as the number of countries in which they maintain foreign offices – compared to US law firms. The European law firms had also a considerably larger proportion of their lawyers working outside of the home country than the protagonists of the dominant US law firm model, notably Skadden Arps, Latham & Watkins, Jones Day and Sidley, Austin, Brown & Wood[1]. Baker & McKenzie and White & Case belong, as Silver (2007) shows, to a small group of American law firms with a divergent model. All together, the “recent wave of British and European law firm combinations, thus reflects a

Rank	Name	Home location	Gross revenue (\$US, millions)	Number of equity partners/lawyers	Number of countries	Lawyers outside home country (per cent) ^b
1	Clifford Chance	Europe/UK	2,201	390/2,654	20	61
2	Linklaters	Europe/UK	2,067	422/2,197	23	63
3	Skadden Arps	USA	1,850	392/1,775	12	16
4	Baker & McKenzie Freshfields Bruckhaus	USA	1,830	714/3,600 ^a	38	81
5	Deringer	Europe/UK	1,818	443/2,009	15	68
6	Allen & Overy	Europe/UK	1,635	360/1,895	19	56
7	Latham & Watkins	USA	1,624	411/1,810	10	23
8	Jones Day Sidley, Austin, Brown	USA	1,310	776/2,300 ^a	14	27
9	& Wood	USA	1,247	327/1,584	8	13
10	White & Case	USA	1,185	280/1,826	24	63

Table I.

Top ten law firms in the world by gross revenue in 2007

Notes: ^aData taken from websites www.bakernet.com and www.jonesday.com (accessed 20 May 2008); ^bEuropean firms: lawyers outside the UK

Source: *The American Lawyer* (2007)

comprehensiveness with regard to location that is uncommon for US law firms”, as Silver (2000, p. 1124) observes.

5. Variants of associative transnational organisation

As noted earlier, large law firms from the USA and Europe responded to the internationalisation of their corporate clients by establishing and expanding their offices in other jurisdictions. Transnational coordination within these international law firms moved beyond ad hoc forms of cooperation practiced earlier in international referral networks (Morgan and Quack, 2006a). This coordination now established more permanent processes and procedures in support of the development of boundary spanning competences; yet, it did not meld the different national participants into one unified global law firm. Instead, law firms developed different variants of an associative organisational model in which national participants cooperated on task-related projects. As shown in Morgan and Quack (2006a), a major distinction arose between large US law firms, which from the 1980s onwards followed an export-oriented strategy, and the more integrative strategy through which large European law firms expanded into international markets after the turn of the millennium.

Originally, the approach of American law firms towards establishing overseas offices was primarily driven by the aim of serving their home-based clients and was gradually expanded to serving foreign customers as well insofar as their demand required knowledge of US law. Thus, large US law firms serviced their clients predominantly through the application of their home-based law in overseas settings (Morgan and Quack, 2006b, p. 226f). US law firms exported “deal experience” that relied on their intimate relations with the worlds’ leading investment banks and their links with the leading global financial centres (Silver, 2000). Up to the 1990s, the large

Wall Street law firms, for example, had established only a limited number of overseas offices which were concentrated in global financial cities, such as London, Frankfurt, Paris, Tokyo, Singapore and Hong Kong, whose business was mainly to advise clients based on their expertise and experience with the legal aspects (mostly framed in New York State law) of large financial market transactions and M&A cases (Flood, 2002; Silver, 2007).

Large US law firms were known for their relatively hierarchical structure whereby the headquarters controlled and managed the foreign offices according to domestic professional standards and practices. Silver (2007, p. 74) reports, that “until quite recently, nearly all of the lawyers working for major US law firms earned the basic three-year J.D. from a US law school”. She concludes that uniformity of training was regarded by US law firms as a way to achieve consistency in the quality of the advice and services provided independently of location. Foreign offices were usually managed by American expatriates, organised along the lines of the domestic mega-law firm, and career paths of delegated staff were often directed towards a return to the domestic home office and closely intersected with its remuneration system (Silver, 2001; Faulconbridge and Muzio, 2007).

As result, American law firms following an export strategy tended to engage minimally with the local or regional law systems, in so far as they were more likely to provide advice on New York or US law to large multinationals than to serve small and medium-size companies on issues intersecting with the local jurisdictions. Overall, they were focused on legal advice rather than representing clients in the courts, a function that required legal qualifications and admission to the bar to be acquired through the complicated recruitment of locally trained lawyers. In the early 1990s, US firms attempting to expand their practices in Germany in order to serve clients in local law still found it difficult to open additional offices and to recruit experienced German lawyers in sufficient numbers (Lace, 2001; Rogowski, 1995).

In contrast, the large European law firms formed through British-German mergers at the turn of the millennium developed a different variant of a transnational associative model (Morgan and Quack, 2005a, 2006a). Large European law firms, like their US counterparts, sought to attract the largest and most profitable transactions in the areas of financial law or M&A. Yet the declared purpose of their integrative strategy was to combine different locally based capabilities and experience, backed up by the knowledge and experience of the wider firm, to serve clients from both their home jurisdictions and the host countries of their foreign offices. Their strategy therefore promised access to a broader range of potential clients and business opportunities if these firms would be able offer a boundary-spanning and multi-jurisdictional competence arising from the multiplicity of legal qualifications of their lawyers and the exchange and cooperation between them.

This integrative strategy was mirrored by different organisational processes and governance modes. Following their mergers, European law firms organised themselves as international partnerships. Hence, their governance was characterised by stronger horizontal cooperation and steering, giving stronger influence to partners from the key participant countries than partners of foreign offices had in the US export model. This trend was most pronounced in the merger between Deringer-Bruckhaus and Freshfields, which subsequently has been described as “one-third English, one-third German and one-third the rest of the world”, since the merger had “two of almost

everything: two senior partners and two heads of every practice group, one English, one German” (*The Lawyer*, 2004). As analysed in detail in Morgan and Quack (2005a, p. 1779), the group of German partners in Freshfields in 2002 was almost as big as that of UK partners, while in Clifford Chance, the European law firm with the largest US presence, German partners made up the second largest grouping. Although remuneration systems in these firms, particularly in their London offices, have become more similar to those of US firms (Faulconbridge and Muzio, 2007), they continued to differ from the latter in other respects.

In particular, by relying on a more diverse pool of partners and lawyers trained in different countries, these “new hybrid types of firms” recombined elements from different national models (Morgan and Quack, 2006a, p. 406). Apart from the mix of staff qualifications in local offices (analysed in the next section), practice groups bringing together partners from different national contexts practicing in the same area of law form a key element of this strategy. While most international law firms, independently of their origin, have established such practice groups to support knowledge exchange and the building of boundary-spanning competences, the composition of the partners involved in European law firms’ practice groups showed a greater geographical and national variety than that of partners in US law firms (Morgan and Quack, 2006b).

In many ways, the integrative approach of European law firms, while originally shaped by the different resource environments of the merging national participants, showed a better strategic fit with shifting patterns of demand and supply in the market for international legal services since the 1990s. With more and ever growing international law firms entering the market, competition moved from advice on home-country law towards legal services which involved doing law in a simultaneous and coordinated way in multiple jurisdictions, as well as legal advice in the law of the host country. Having a diverse repertoire of qualifications and capability for boundary-spanning recombination was also advantageous as an insurance strategy against market fluctuations for specific types of legal advice.

According to Silver (2007), American law firms did not remain unaffected by the rise of their European competitors and changes in demand. Analysing staffing policies in US law firms’ foreign offices, she finds that in those locations where regulation permits, they increasingly combine advisory services in American and local law for a more mixed group of clients than they did in the past. Consequently, they “have softened a bit their goal of consistent and uniform services” and increasingly rely on local lawyers educated and licensed in the jurisdiction where the office is located (Silver, 2007, p. 76).

Thus, both large US and European law firms since the 1990s have undergone processes of strategic recomposition in response to misfits with their task environments. These recompositions occurred with a time delay (the US firms being first movers in internationalisation and the European firms responding to their challenge), and led to the development of different associative transnational organisational models (shaped by both the societal contexts and the chosen expansion strategy). Yet these models are not fixed once and for all, as recent readjustments of large American law firms in response to the recombinant approach of large European law firms indicate.

6. Distribution of composite partner qualifications

But a shift towards greater localisation as documented by Silver (2007) is not necessarily identical with a recombinant internationalisation strategy targeting boundary-spanning legal services. In principle, an international law firm might offer both export and local services without developing equally strong capabilities of legal counselling in a coordinated way on business transactions involving multiple jurisdictions simultaneously. In a knowledge-intensive industry, such as legal services, recombining national variety into such transnational competences has also a strong personnel dimension: Apart from governance and organisational procedures in support of blending legal knowledge across jurisdictional boundaries, it also relies on the legal qualifications of law firm partners.

Partners of law firms are of particular interest since, as owners of the firm, their qualifications constitute its core competences. They are usually responsible for attracting and dealing with large clients and huge legal transactions, they manage project-related teams of lawyers from different jurisdictions, and they are figureheads signalling the firm's competence. One would expect partners who have been trained and worked in more than one legal jurisdiction to be in a better position to explore cross-boundary business opportunities, to attract high-yield contracts, and to manage and coordinate multi-jurisdictional lawyer teams effectively. The underlying claim is that international law firms need a substantial number of partners with such composite qualifications for their associative transnational organisation to operate effectively in the market for multi-jurisdictional legal advice. Yet very little is known about the combinations of qualifications of law-firm partners.

Hence, the following section investigates the composite qualifications of partners in a sample of law firms drawn from the top global practices in 2005 listed by *The American Lawyer*, focussing on their legal qualifications and the national jurisdiction(s) in which they were obtained[2]. The data for this study was compiled from the internet pages of large international law firms and the Martindale Hubbel legal directory[3]. It contains information on 3,618 partners from eight international law firms as of 2005, including the geographical location of their office and the number and national origin of their law degrees. For each of the eight law firms covered in the study, the personnel information was comprehensive and had a good coverage, ranging from 60 per cent to 80 per cent of all partners in the firm. The data were analysed using the statistical software SPSS. Inter-group differences were tested for statistical significance with a Z-test at the two-tailed 99 per cent confidence level using the Dimensions Research calculator.

Lawyers were coded as partners only if they were explicitly listed as a partner or counsel of the firm; not included are persons who were listed on the webpage as junior partners, "of counsel" and members, as well as partners in associated firms. A foreign law degree is defined as a degree obtained outside the national jurisdiction of the office in which the partner was located in January 2005[4]. In addition, we included information on whether the foreign law degree was obtained in the USA, UK or elsewhere. Unclear or ambiguous titles of law degrees were resolved with the help of national experts and/or professional bodies. Coding was double checked between two coders. In the following discussion, the results are presented separately for domestic and foreign offices, and more specifically offices in Asia which lie outside of the "home" region of European and US law firms. To account for the pan-European nature of

recent law firm mergers in Europe, all offices in Western European countries are considered domestic offices of European law firms. For American law firms, domestic refers to their offices in the USA[5].

Partners in the home offices of European law firms hold a foreign law degree, in addition to their local qualification, significantly more often than their counterparts in US law firms. As documented in Table II, one in five partners in the home offices of European law firms obtained a second qualification abroad, most frequently at a US law school, whereas this was the case for only 4 per cent of the partners in the domestic offices of US law firms. The higher proportion of partners with multiple law degrees in domestic offices of European law firms can be traced back to institutional differences in their resource as well as task environment. Firstly as far qualification systems for lawyers are concerned, legal elites from continental Europe have a history of acquiring additional law degrees abroad. Starting with the technical exchange programmes of the Marshall Plan after the Second World War, and fostered by the creation of the European Community, additional foreign degrees were considered a desirable additional qualification for those aspiring to become partners in a leading corporate law firm (for Germany see Morgan and Quack, 2005a, p. 1770). Nothing similar existed in the USA (Silver, 2000, 2007). Secondly, as for the task environment, it has been described above how the market for corporate legal services in European countries has been internationalised, including a growing importance of US law, since the 1990s, whereas the market for legal services within the US continues to focus on domestic law. As a consequence, it is not surprising that European law firms have paid more attention than their US counterparts to double qualifications in their decisions on promotion to partnership. Note that the variation observed within both groups, as documented in Table AI in the Appendix, suggests complementary organisational, societal, and internationalisation effects (Mueller, 1994).

As Table III shows, 49 per cent of US law firm partners working abroad held, in addition to the local qualifications of the place of their office, a law degree from a US law school, 9 per cent a British degree and 10 per cent a degree from elsewhere. The prominence of US law degrees can be seen as reflecting the export strategy that American law firms pursued until the 1990s. In contrast, the overall higher proportion in European law firms of partners with exclusively local law degrees (57 per cent as opposed to 40 per cent for their US counterparts), as well as the more equal spread of law degrees from different countries among those who have multiple degrees resonate

	<i>n</i>	Partners with foreign law degrees (percentage of all partners)			
		Total	USA	UK	Other
European law firms	730	20	11	–	8
US law firms	1,590	4	–	2	2
Sum	2,320	9	–	–	4
Z value, two-tailed, 99 per cent level		12.395*	–	–	6.834*

Table II.
Partners in home offices
by foreign law degree,
2005

Notes: Analysis of online CVs of partners of a sample of law firms selected from the ranking of world largest 15 law firms. Download of CVs from January 2005

with their integrative strategies. Of European law firms' foreign office partners, 19 per cent held a degree from the USA, another 19 per cent from the UK and 12 per cent from third countries. Differences between proportions of partners with foreign law degrees of European and US law firms were statistically significant for total, US and UK degrees.

If the argument about the more integrative strategies of European law firms is valid, it should be also supported by observations in contexts whose societal configuration differ strongly from that of the home region of international law firms. Undoubtedly, law firms' internationalisation strategies need to take into account a number of factors specific to the country and regional location of their offices, some of which have important implications for the qualification profile of the partners managing these affiliates. Among the most important factors are:

- country regulations requiring partners to have a law degree and/or admission to the local bar, which sets incentives for international law firms to recruit partners from local lawyers (this is for example the case in some Eastern European countries, as well as in China);
- local demand patterns and customer preferences in relation to law firm partners speaking the local language and knowing the local law system; and
- the existence of local legal elites with a cosmopolitan as compared to a parochial orientation, which will effect the availability of local lawyers with multi-jurisdictional qualifications.

While such host-country effects might lead one to expect that differences in internationalisation strategy and qualification profile between large US American and European law firms would tend to be wiped out in contexts where these factors are particularly strong, our argument suggests that different patterns of combining national variety should nonetheless be visible – even if adapted to the specific national and regional context.

These alternative propositions can be best analysed for that which are located in countries that at the beginning of the new millennium constituted foreign terrain for both European and US law firms. Thus foreign offices in Asia were chosen, which share the characteristic that they are mostly located in emerging economies where institutions establishing and implementing a strong rule of law are often still under construction. The proportion of partners with a foreign law degree or multiple law

	<i>n</i>	Partners with foreign law degrees (percentage of all partners)			
		Total	USA	UK	Other
European law firms	598	43	19	19	12
US law firms	700	60	49	9	10
Sum	1.298	53	35	13	11
Z value, two-tailed, 99 per cent level		6.056 *	11.222 *	5.152 *	1.061

Notes: Analysis of online CVs of partners of a sample of law firms selected from the ranking of world largest 15 law firms. Download of CVs from January 2005

Table III.
Partners in foreign offices
by foreign law degree,
2005

degrees is very high in this region because international economic transactions are often undertaken in the law of foreign jurisdictions such as the US or UK (see Table IV).

While in Asian offices the overall ratio of partners with at least one foreign law degree to those with exclusively local law degrees was similar, European and US law firms differed significantly in the proportion of partners who held an US degree (62 per cent in US law firms as compared to 15 per cent in European law firms), a UK degree (22 per cent as compared to 50 per cent) or another degree (8 per cent as compared to 32 per cent) in addition to a degree of the local jurisdiction they were working in. The law degrees of partners in Asian offices of European law firms clearly reflect the colonial and Commonwealth past of many countries in this region. Every second partner with a foreign law degree obtained this degree in the UK, while partners with "other" law degrees received them from Commonwealth countries in the region, like Australia or New Zealand. In Asian offices of US law firms, in contrast, the vast majority of partners with a foreign law degree obtained this degree in the USA (62 per cent). These are predominantly American lawyers who have been sent abroad to run the Asian offices for a couple of years before returning to the USA, and to a lesser extent local lawyers who have obtained a degree at an American law school before being promoted to partnership. In sum, the data for Asian offices, many of them of a rather small size, suggests that in this region multiple qualifications of partners have become the rule independently of the origin of the international law firm. Yet the spread of country qualifications that partners of European law firms can draw on is much broader than that of US law firms. Although American firms are becoming more similar to their European counterparts in reliance on local qualifications, as Silver (2007) argues, they still follow a quite different path that combines knowledge in US law with that of the local jurisdiction. In contrast, European law firms, as the combined result of the colonial past of their UK participants and the more recent expansion of their German participants, combine in their Asian offices partners with a broader range of composite qualifications from different jurisdictions.

The results of the analysis, thus, support the influences of the factors outlined at the beginning of this section. In particular, they point to the importance of the acquisition history of the office and the degree of cosmopolitan orientation of the local legal elite prior to the establishment of the office as the factors that shape the qualification profile of partners in the foreign offices of law firms. Overall, the findings show a more composite and integrative qualification profile of partners of large European law firms

	<i>n</i>	Partners with foreign law degrees (percentage of all partners)			
		Total	USA	UK	Other
European law firms	34	94	15	50	32
US law firms	157	90	62	22	8
Sum	191	91	54	27	12
Z value, two-tailed 99 per cent level		0.400	4.791*	3.113*	3.542*

Table IV.
Partners in Asian offices
by foreign law degree,
2005

Notes: Analysis of online CVs of partners of a sample of law firms selected from the ranking of world largest 15 law firms. Download of CVs from January 2005

as compared to the stronger bipolar orientation of large American law firms on degrees from the USA and the local jurisdiction of the office.

7. Conclusion

This paper investigates how large law firms strategically adapt to changes in their task and market environment. Law firms were chosen as a paradigmatic case of organisations faced with tensions arising from different speeds and extent of cross-border integration in the task and market environment, on the one hand, and the resource environment, particularly in respect to training institutions and labour markets, on the other hand. The findings show that as markets for services have become increasingly internationalised while training and recruitment remained shaped by national institutions, large law firms from the USA and Europe explored and developed associative forms of transnational organisation in which national participants cooperate on project-related tasks and share knowledge in practice-fields.

The comparison of internationalisation strategies of large US and European law firms along three dimensions – i.e. governance mode, organisational form, and partner qualifications – showed how over time they strategically repositioned themselves in response to market changes that challenged the strategic fit of their pre-existing business models. First, in the 1980s and 1990s, large US law firms developed their export strategy to accommodate growing demand of multinational companies and financial market institutions for US legal services abroad. Secondly, large European law firms seized the opportunity to recombine national capabilities in pan-European mergers, which allowed them to compete with their US counterparts at a global level. More recently, there are indications of a further repositioning of international law firms from the USA towards localisation of their legal advice. Yet the analysis of partner qualifications presented in this paper suggests that collectively, partners in European law firms, combine a more varied and versatile mix of legal qualifications from a broad range of countries, particularly in respect to those with multiple degrees, which continues to distinguish them from partners in American law firms, whose collective qualification repertoire seems to be evolving more along dualistic combinations of US and local qualifications.

Whether and to what extent both international law firms from the USA and Europe will be able to use transnational competences to gain competitive advantage depends on a number of factors, of which two require particular attention in further research. The first refers to organisational processes through which legal qualifications are combined by law firms into transnational competences. While the evidence presented in this paper suggests that large European and US law firms are experimenting with project- and practice-area related procedures of cross-border knowledge exchange and collective learning that could foster the creation of transnational competences, comparative evidence across organisations, societal and task contexts is still too weak to draw reliable conclusions. In particular, the question of how the tensions arising from combining partners and employing lawyers from a “variety of national professionalisms” (Faulconbridge and Muzio, 2007) within the hitherto hierarchical and ethnocentric American mega-law firm model can be resolved still needs more detailed research. More generally, there is an urgent need for comparative studies, particular in-depth organisational ethnographies which would shed more light on processes of transnational knowledge formation in both, US and European international law firms, tracing developments at the individual, group and organisational level over time.

The second factor refers to interactions between firms' strategies and changes in task and market environments under increasing market competition. As mentioned above, European and US firms repositioned their strategies in response to apparent misfits with changing environments. More recently, faced with the appearance of European global law firms offering a more generalist and polycentric range of legal services, US law firms are, according to Silver (2007) once more reconsidering their internationalisation strategies in favour of a stronger orientation towards local customers in their overseas business. These findings do indeed show that so-called archetypes of professional service firms (Brock, 2006) must be considered as a moving target rather than a fixed template. Yet, interactions between changes in market demand, firms' strategies and organisational and societal conditions are not yet well studied. In particular, it would be promising to investigate to which extent a re-diversification of law firms' strategies is taking place within or across large US and European law firms targeting different practice areas or segments of international markets for legal services.

The argument presented in this paper is by no means limited to the legal industry, nor is it necessarily confined to professional services. To the extent that the functioning and effectiveness of management teams, as well as competitiveness in the delivery of high-quality goods and services, is driven by the composition and combination of the managers' and expert staffs' knowledge across the national participants in a firm, we would expect their strategising to be similarly dependent on interactions between organisational, market, and societal conditions. The challenge for future research lies in developing the analytical and methodological tools to study the complex interactions between organisational strategies, task environments and societal effects in a historical and comparative perspective that could help to build a dynamic, recombinant theory of strategic fit.

Notes

1. Note that the calculations provided by *The American Lawyer* refer to the UK as home country of Freshfields, Linklaters, Clifford Chance and Allen & Overy, and hence count German participants as "lawyers outside home country". Calculations by Morgan and Quack (2005a, p. 1778) based on websites and annual reports of law firms show that the proportion for partners outside of these countries was 34 per cent in Freshfields, 40 per cent in Linklaters, 46 per cent in Clifford Chance and 48 per cent in Allen & Overy in 2004.
2. While the aim was to cover the ten top law firms in 2005 listed by the *American Lawyer*, three of these law firms had to be excluded from the analysis because their webpage provided only very incomplete and fragmentary biographical information for their partners at the time of the study, which, particularly for Europe, could not be adequately complemented from data from the Martindale Hubbel. In order to keep the overall balance between US (two drop-outs) and European firms (one drop-out), the next largest law firm originating from the USA was added to the sample.
3. The data is primarily based on the information provided in the internet which proved to be more comprehensive across European and American law firms than the legal directory of Martindale Hubbel. Since lawyers or their law firms need to pay for an entry in this directory, which in addition tends to be used more often in the Anglo-Saxon countries, continental European partners of law firms often did not appear in it.
4. For example, a British law degree of a partner located in the Cologne-based German office of an international law firm is counted as a foreign law degree in respect to this office, rather than in relation to the individual nationality of this person.

5. For the purpose of this study it seems justified to abstract from differences in state-based admission to the bar in the USA. Available documentation suggests that statutes and standards of legal practice converge across states (Gillers and Simon, 2008) to a larger extent than they do in Europe.

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Table A1.
Partners in large
European and US
international law firms
by foreign law degree,
2005

	Law firm's home offices					Law firm's foreign offices				
	<i>n</i>	Total	Partners with foreign law degrees (percentage of all partners)			<i>n</i>	Total	Partners with foreign law degrees (percentage of all partners)		
			USA	UK	Other			USA	UK	Other
<i>European law firms</i>										
Euro law firm 1	234	25.2	17.5	–	5.1	149	42.3	19.9	15.4	14.8
Euro law firm 2	293	18.8	7.8	–	9.2	233	38.2	16.1	21.0	8.2
Euro law firm 3	203	17.2	7.9	–	10.3	216	49.5	20.1	20.4	13.4
Total European law firms	730	20.4	11.1	–	8.2	598	43.3	18.7	18.9	12.1
<i>US law firms</i>										
US law firm 1	367	1.6	–	0.3	1.4	58	81.0	69.0	5.3	12.1
US law firm 2	521	1.3	–	0.8	0.6	124	52.4	42.7	12.5	4.8
US law firm 3	367	3.3	–	2.5	0.8	129	54.3	47.3	6.1	10.9
US law firm 4	210	7.6	–	2.9	5.2	299	50.8	32.4	10.2	14.0
US law firm 5	125	5.6	–	1.6	4.0	90	63.3	52.2	8.5	10.0
Total US law firms	1,590	3.9	–	1.6	2.4	700	60.4	48.7	8.5	10.4
Notes: Analysis of online CVs of partners of a sample of law firms selected from the ranking of world largest 15 law firms. Download of CVs from January 2005										

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