

**Global networks or global firms?
The organizational implications of the internationalisation of law firms**

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Introduction³

The internationalisation of economic activity in the last twenty years has tended to focus on developments in the manufacturing sector. Patterns of FDI in terms of flows across national and regional boundaries can be identified quite clearly and provide data for a rich and evolving field of research concerning their impact and significance for nation-states. From a policy and a practice point of view, the rise of neo-liberalism as a mode of governance of specific economies and the world economy in general has been particularly focused on the development of free trade in manufactured goods. Behind this very visible process of the internationalisation of manufacturing firms and the impact of this on trade balances between economies, there has been a more invisible process at work that relates to the area of 'services'. A conventional distinction between services and manufacturing would be that the gap between production, delivery and consumption is attenuated in the former. Services cannot be stored and transported for later consumption as can cars, steel, food stuffs etc.. In turn this affects the nature of internationalisation. Primarily it means that international providers of services have to be present in the locations in which they want to sell⁴. This immediately opens up the question of access to many markets which have been traditionally highly regulated by nation-states. Traditional service areas located within professional structures, such as law, accountancy, medicine, have tended to be characterised by a combination of state and professional self-regulation, depending on different national contexts. The professional service providers themselves have tended to be regulated and to regulate themselves in such a way that they are organised within partnership or sole practitioner structures, which in turn has major consequences for the governance and evolution of the professional practices involved. In the current era, national regulatory frameworks that inhibit the development of international firms in professional services (by constraining who can practice and how practices can be organised) are increasingly under scrutiny and criticism. From the neo-liberal point of view, such frameworks act as inhibitors on market processes; they constrain firms from achieving the appropriate levels of scale and scope and thus delivering cheaper and higher quality services to their clients. Thus the WTO since its inception has been debating how to achieve free trade in services that enables the opening up of national contexts to broader international competition.

The case of accounting, however, reveals that professional services contexts can be transformed into highly international phenomena. In the current period since the fall of Arthur Andersen, there are just four international firms which conduct the great bulk of auditing business for the major companies around the world. These firms have offices and partners/employees in practically all independent nation-states in the world. Other than Andersen (which grew through establishing its own offices in different countries), it appears that the other firms developed through tie-ins and mergers as local practices (organised along partnership lines) saw the opportunities which came from being part of

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⁴ There are clearly many ways in which 'presence' can be achieved. Franchising and licensing can be applied to services. Also it is possible in some circumstances for service providers to enter foreign markets to perform one-off tasks for their clients rather than establish an office presence.

a global firm and the problems which would occur if they stayed out. This relates to a central reason for the success of these large firms. National professional standards in auditing (the core business of these firms) have increasingly been replaced by international standards which in turn have been driven by demands for simplicity and transparency coming from multinational clients, financial institutions, capital markets, investors and regulators. Currently US GAAP standards are essential for any firm wishing to participate in any form of capital market activity in the US. The competing standards known as IAS have come increasingly close to US GAAP over the years though there remain some national variations in these standards which can be useful for companies that are less integrated with international capital markets. The accounting firms have been both instrumental in creating these international standards and central to their functioning as through their international structure they provide a mechanism for standardisation. As new countries have joined the neo-liberal world order, the accounting firms have been amongst the earliest entrants into these areas, along with investment banks and venture capitalists. Often this has reflected their central role in reshaping the accounts of state enterprises in order to prepare them for privatisation. Related to this, the regime which is emerging is increasingly modelled on that within the US context which for these firms is their largest market as well as their 'official' home. In that sense, the internationalisation of the firms complements the internationalisation of the regulation, both of which reinforce a particular model of transparency and auditing associated with the form of capitalism that has become predominant in the US. In their internationalisation, the accounting firms have become key shapers of the neo-liberal global order.

At first sight, law offers a strong contrast to developments in accounting. There has been no similar concentration of the industry into a small number of international firms. Even in a firm like Clifford Chance which is generally considered an exemplar of the global law firm model, the number of countries in which it is present is only 19, many less than the 150 countries in which the Big 4 accounting firms have branches. Clearly part of the answer to this difference lies in the lack of standardisation in national legal regimes compared to the internationalisation of auditing regulation. However, this is changing. In the construction of the neo-liberal world order, lawyers are an essential part as Dezalay and Garth have discussed in relation to Latin America and other parts of the developing world (Dezalay and Garth 2002a; 2002b). Lawyers have been as essential to the privatisation of state enterprises as accountants and bankers. Furthermore lawyers are integrally involved in the construction of transnational regulatory arenas, whether these are at regional levels (such as the EU) or more global (e.g. in debates at the WTO). This involvement is two-sided in that on the one hand, it concerns advising and lobbying governments, international organizations and others on the new international order and on the other hand, it involves advising clients about the implications of current and future developments in these processes. Particularly key areas include corporate law generally and in particular the link through to capital markets, as well as competition law related to merger and acquisitions. Like accountants, corporate lawyers have to deal with the fact that their most significant clients are in themselves likely to be international, requiring advice not only about different jurisdictions but also about emerging transnational regulatory arenas.

So what are the consequences of these changes? In this paper, we present an initial empirical exploration of these issues in relation to law firms. Two points seem of most interest from the comparison with accountants. Firstly, how are law firms attaining international reach? Clearly there is not the same level of concentration occurring though equally clearly there have, in recent years, been some highly significant processes of merger and networking across national boundaries occurring. Secondly, and associated with this, how far is this internationalisation of activity tied in with the development of a particular model of international law and its relationship to the coordination of economic activity more generally? Put bluntly, is the establishment of international law firms a key step in achieving the dominance of Anglo-American legal norms and practices more broadly? Though our main focus is on the former question, the inter-connectedness of the two issues allows us to shed light on the latter.

In order to explore these issues, we focus on two distinctive national capitalisms, the UK and Germany. Our reasons for taking these two countries are the following. Firstly in all the literature concerning ‘varieties of capitalism’, these two countries are presented as exemplars of the difference between some form of liberal market economy and coordinated market economy (Amable 2003; Hall and Soskice 2001; Schmidt 2002; Whitley 1999). This is reflected in the distinctive relationships between law, lawyers and the state which have traditionally existed in both societies. There are clear path dependent trajectories from this history which would be expected to shape current developments. Secondly these two countries are major participants in the EU which is one of the most crucial domains of institution-building in which national law is being restructured through international activities. Thirdly, these two societies have very different relationships with the US and the advent of the US sponsored neo-liberal world order, not least in the area of law where the commonalities of the common law model in the US and the UK make for a level of mutual comprehension which is absent in the clash between Common Law and European style Civil Law .

Our approach is to examine structural changes in the top law firms in these two societies to establish their patterns of internationalisation and relate this to broader issues of institutional change at the sectoral, national and international levels. The paper proceeds in the following steps. In the first section, we briefly outline our understanding of the historical trajectory of the legal profession in these two societies. In the second section of the paper, we examine empirically the pattern of internationalisation of the largest corporate law firms in Germany and the UK in the last two decades. In the final section, we argue that there are three broad patterns of internationalisation and that two of them (which we label as network strategies and organic growth strategies) are common to both German and British law firms in spite of their very distinctive national origins. The third pattern which we describe as the creation of global law firms appears to be confined to British firms. For this reason we examine this in detail to see whether it indicates that the internationalisation process in law is going to follow the accounting model in terms of an increasing hegemony of Anglo-American global firms and Anglo-American legal standards. We find reasons for being cautious about such a conclusion. Finally we relate

this argument to broader discussions regarding institutional change in general and change in Germany in particular.

British and German Law firms in their national contexts

In the comparative analysis of professions, there are two forms of analysis. The first, more straightforward argument, demonstrates that the manner in which characteristics of professionalism, such as licensing, exclusion, certification and organization, are constructed is dependent on the nature of the relationship established between the state and the profession (Johnson 1972; Torstendahl and Burrage 1991).. The more dependent the profession is on the state for its existence, rights and privileges, the less able it is to engage in activities to extend its sphere of influence. In effect, the nature of professional power is a reflection of the way in which the state relates to social groups within it; is the predominant mode of state engagement towards structuring and shaping social groups or is the state itself an outcome of the actions of social groups and not dependent or 'superior' to it? The latter reflects the characteristics of the Anglo-American state whilst the former resembles more continental European models of professional formation. The second form of analysis pushes this further and considers the knowledge that is constructed within the sphere of the professional (Abbott 1988). This second perspective is particularly necessary in relation to law and the legal profession where the inter-relationship between knowledge arenas and professional practices varies in significant ways across national borders. This reflects deep and enduring differences in the nature of law and its relationship to political structures which in European countries goes back into the Middle Ages, predating both the formation of the modern state and the industrial revolution (see e.g. Karpik's study of French lawyers subtitled 'A study on collective action: 1274-1994' Karpik 1999; also Halliday and Karpik 1997). Thus a broad activity such as 'law' and the knowledge and skills associated with it are constructed very differently across legal traditions. Karpik's studies of French lawyers reveal that it was the inter-relationship between different actors – lawyers, advocates and notaries – and how they related to both legal activity and political activity more generally that shaped what was to be known and by whom (Karpik 1991; 1999).

Applying these discussions to the English and German examples, the following points are immediately obvious. English lawyers preceded the formation of the modern state and were in many ways central to its formation where the rise of Parliament and the legislature in the 17th century cemented an independent position for the legal professions. This was built on the foundation of English Common Law with its emphasis on case law and the use of interpretation and precedent to extend the legal decision-making arena (Osiel 1990). Self-regulation of the legal profession has been a central pillar of this process though it has undergone transformations and change in recent decades (Abel 2003). An essential element of this model has been the potential for entrepreneurialism. In other words, rather than restrict its own activities or allow the state to do so, the English legal profession has sought to extend its own mandate and jurisdictions. This is particularly relevant in relation to the development of economic activities such as the establishment of joint-stock companies and the development of new financial instruments (such as bonds and later mutual funds in the 1930s moving on in more recent times to the

legal construction of more complex financial products such as derivatives and futures)⁵. A small number of City based law firms became integrally involved in facilitating the construction of 'imaginary' financial products and aiding in their legal constitution. Although this may have led to jurisdictional disputes, particularly with merchant banks (less so with accountants who were generally low status in this particular corner of the English class system), in the main, the symbiotic relationship between the City and these firms worked highly effectively in providing a legal environment in which financial institutions could experiment and develop new products. Though this entrepreneurialism did not extend to the same extent to provincial law firms it nevertheless gave a distinct direction to the further development of large British law firms⁶.

The same can be said of the entrepreneurial role of London City law firms in the early internationalisation. The British empire provided a frame in which the English legal tradition could be exported. In the inter-war years, the Dominions of Canada, South Africa, Australia and New Zealand became especially important outposts of the biggest English law and lawyers trained in that tradition. In the post-war period this was extended to other areas such as Singapore and Hong Kong which emerged as major entrepôts for European and US trade into Asia. The Anglo-American legal tradition of Common Law spread internationally and implanted itself in a number of areas that became highly significant commercial centres as world trade grew in the post-war period. This tradition and its associated practices and professional structures, therefore, implanted itself internationally in a way that other European law traditions failed to do. It became the common currency of much international trade, a position which it has continued to sustain.

Another aspect of how the English common law developed related to the broader social context. Historically, the institutional context in Anglo-Saxon countries has fostered the development of privately provided intermediary services. This relates to the fragmented and arms-length Anglo-Saxon business environment (Whitley 1999) in which law firms (amongst other types of private professional services firms) emerged at an early stage in order to solve problems of uncertainty in funding, contracting and compliance. Both in the US and Britain private service intermediaries played from an early stage of industrialization a prominent role in bridging information gaps and fragmented societal spheres typical to the Anglo-Saxon type of business environment. Particularly in the US, but also in Britain, professionals in business services developed entrepreneurial qualities in generating new and additional business, often undertaking professional and brokering tasks at the same time within the context of largely self-regulated professions (Lane et al. 2000; Sugarman 1983; Osiel 1990). The financial rewards for law firms and for individual lawyers from linking in this way, particularly with the City of London, were high and further encouraged this process. In terms of commercial law, this created a pyramid effect with the City lawyers at the top linked into the city markets and other provincial law partnerships beneath linked into their own local elite. Thus most of the

⁵ By contrast, Karpik states that in the 19th century French lawyers deliberately avoided involvement in economic issues as they felt this compromised their independence (Karpik 1991).

⁶ This distinction between London City and 'country' solicitors remains neglected in the otherwise very useful studies of Osiel (1990) and Abel and Lewis (1989) on the history of the British legal profession.

profession could benefit from this linkage though some benefited more than others. When restrictions on the size of partnership were lifted in the 1967⁷, the size of corporate law firms dealing with the City of London (the Magic Circle) began to increase. Megalawyering, similar to that which had occurred in the US in the early part of the 20th century, grew as firms sought to increase their level of specialisation in particular areas of corporate law and develop stronger and more frequent relationships with their emerging multinational clients using the opportunity to expand significantly (Flood 1989). By 1988, the largest firm in England (Clifford Chance) had 168 partners and the 20th largest (berwin Leighton) had 40 (Flood 1989: 577)

This ‘break through’ of London City solicitor firms into the top league of the world largest law firms came in the 1980s. According to Flood (1989; 1996), British business and consequently its law firms underwent tremendous change during this period, particularly during the years of the Thatcher government. The deregulation and reregulation of Britain’s financial services industry, including the Big Bang and the Financial Services Act in 1986, generated a rapidly expanding securities industry with a dramatically increased demand for legal professionals with the appropriate specialities. The growing influence of stock markets and investment funds on corporate control led to a rapid increase of takeovers and M&A⁸ which generated a growing demand for legal expertise on corporate matters. Further important factors were the large number of privatisations under the Thatcher governments and the internationalisation of corporate companies (both British MNEs going abroad, and foreign MNEs locating their production in the UK). London City law firms responded by expansion (partly through organic growth, partly through mergers among each other). According to Flood (1989), City firms became not only bigger and more internationalised (see below) but they also demonstrated an increasing identification with clients, undertook larger and longer projects for large clients, were using more creative methods of lawyering and expanding into a wider range of law-related services. Growth in size and use of megalaw did not remain restricted to London as law firms from other British regions began to merge into larger units in order to compete with City firms for attractive M&A and privatisation business.

In sum, English law firms, particularly those situated in the City of London, have been increasingly characterised by (a) entrepreneurialism – a willingness to involve themselves in new areas of activities (b) internationalisation – through the experience of empire (c) a positive orientation to business, mostly around acting as intermediaries that facilitate new forms of activity (rather than acting as a constraint on that activity).

German law firms offer an interesting contrast. Their role in the development of German organized capitalism was rather limited as the state and associations undertook more of

⁷ Previous to this, the maximum number of partners in a UK law firm was 20 though even the most important City law firms before this stage rarely had the maximum number. Leverage (i.e. the ratio between partners and other legal staff) was also very low. The economies of scale and scope achieved through megalawyering were significantly related to increases in leverage to allow a single partner to oversee a wider amount of specialist work.

⁸ Lane (1995) states that in the 1980s, three out of four takeover bids in the European Community occurred in the UK.

these coordination functions. Industrialization in Germany took place within the framework of highly developed state bureaucracies (even though still to be unified), codified and rather comprehensive civil law regulations concerning trade and economy, and a Prussian authoritarian state tradition that regarded law as an unquestioned order to which citizens had to comply (Rueschemeyer 1973). In this context, the legal profession emerged as a state-sponsored project under the dominance of public judges in which business lawyers, even though a respected group, in terms of numbers and institutionalised power held a rather peripheral position (Blankenburg and Schulz 1988; McClelland 1991). Up into the 1970s, the bulk of German law graduates went into the judiciary and the civil service. Another quarter went into private companies and only around 25% went into private practice. The choice of which direction to take after graduation was crucial as there was not much shifting around between the categories. High performers tended to choose the judiciary with its elements of security of tenure, salary and pension as well as status. Legal education reflected this with a predominant emphasis on constitutional and administrative law and little on areas like contract drafting or tax law. ‘Transactional lawyering’ (dealing with the details of contract and business law) as opposed to litigation, advocacy and court related work in general was of second order significance in the German system (whereas the City of London law firms were highly transactional in their business structure).

Apart from the distinct development of the legal profession, the broader social and institutional context of ‘coordinated’ capitalism shaped the development of business law firms in Germany. Overall, it can be argued that throughout most of the 20th century, the emergence of relatively strong non-market and non-contractual forms of coordination limited the demand for market-based legal advice in Germany. The concentration and cartelisation development at the turn of the 19th century, for example, took place within a social context that regarded the increasing size and power of industrial and banking conglomerates as desirable, or at least acceptable, and therefore did not give rise to large business law firms as part of the ‘legal wars’ which surrounded the transformations of US capitalism during the same period (Roy 1997). German capital markets evolved along the lines of a bank-based financial system, tightly regulated by the state and the Central bank, and dominated by the large commercial banks leaving little space for a market of legal financial advice as it existed in the City of London. Thus, there were fewer opportunities for German law firms to be innovative in this area. Up into the 1970s and 1980s, new financial products were positively discouraged and risks kept to the minimum as a result of the experience of the inter-war years (Morgan and Quack 2000). There was no equivalent of the City of London to drive German law firms on with its lure of high profits. In addition, large industrial companies and banks internalised from early on a considerable amount of the legal advice in their counselling departments.

Last but not least, traditional conceptions of the attorney’s function as well as competition of banks, accountants, and other new professions and institutions limited the emergence of ‘transactional approach’ towards business law (Rueschemeyer 1973). Professional associations maintained a status-group orientated approach towards professional standards which, according to Siegrist (1996), expressed the overall social and cultural distance of dominant parts of the legal profession towards the needs and

interests of the emerging bourgeoisie. The influence of the Civil Law tradition was strong. This defined law in term of statute and was highly conservative. Osiel states that the dominant view of law in German case saw it a 'purely analytical, intellectual construct, a sealed system of logically interconnected propositions impermeable to the economic pressures of the business world. That conception of law not only precluded German judges from transforming doctrine in order to facilitate economic development but also thereby impeded German lawyers from insinuating themselves into the most powerful positions within the private corporations that would eventually come to dominate even the German economy....Whatever new opportunities for work and wealth the evolving social needs of the time presented to lawyers were thereby lost' (Osiel 1990: 2052-3).

Up into the recent past, this approach was visible in the many restrictions which lawyers faced in private practice. Law firms were for much of the period prevented from advertising or from advertising themselves as specialised in any particular area of law, though both of these restrictions were relaxed in the 1990s. To prevent what was deemed as unfair competition and to maintain a high standard of professionalism, fees levels were regulated by statute and implemented by the Chamber of Advocates under the supervision of the judicial authorities.

Lawyers could not form partnerships with lawyers in other cities; they could not open up other branches; they could not choose freely their residence or law office. Many lawyers practised on their own and few partnerships were bigger than 10 even into the late 1980s, long after restrictions on partnership size had been removed in England. Lawyers acted as technical specialists and advisors within the constraints of a predominantly state regulated profession, rarely engaging in entrepreneurial activity. Not until 1989 were restrictions on partnership size and the ability to create unified law practices across different cities removed, enabling the establishment of national firms. Not until 2002 were lawyers free to practice anywhere in Germany once they had qualified rather than just in the area of the Court which recognised them. German law firms were therefore highly constrained in what they could do and were rarely proactive in establishing new areas of law. In return, lawyers had a strict monopoly over their own tightly defined areas of expertise and other professions were prevented from encroaching on their areas⁹.

Similarly, German law firms did not spread significantly outside Germany itself. Although there were borrowings and similarities in commercial law with Germany's

⁹ The effect of this narrowness, however, was to create a debate amongst the German legal profession about their relationship to these other professions. In particular, two trends emerged which were distinctive from the British context. Firstly, it became not uncommon for German lawyers to take on a second professional qualification as a tax adviser or an accountant. The second trend was to include within the same office other professionals from these categories. Thus German law firms began to evolve a different internal structure from that of the British firms, advancing down the track of what are termed 'multi-disciplinary practices' well before lawyers based in Anglo-American jurisdictions. A New York State Bar Association report in 2000 on the issue of multidisciplinary practices noted that of the 50 largest legal practices in Germany '15 consist only of lawyers, 30 are lawyer controlled MDPs, 4 are affiliated with four of the Big Five [accounting firms] in non-integrated MDPs and 1 fits into none of the foregoing categories'.

Northern European neighbours, this was in no way comparable with the opportunities which the British Empire offered English law firms. In effect, there was no strong tradition of internationalisation for German law firms nor was there any serious material basis for it in any other country. Germany's legal regime was highly developed and highly integrated into its own model of coordinated capitalism but it had no obvious transferability element in it¹⁰.

Things started to change in the mid-1980s when some local business law practices in Germany attempted to expand in size and geographical reach within and beyond Germany, becoming also more active in Brussels as a response to the Single European Act of 1986¹¹. All these activities still took place on a rather small scale. Within Germany, the growth of law firms gained momentum in 1989 after rulings of the German Supreme Court removed restrictions on supra-local law firms. In 1991, three of the leading 20 corporate law firms merged into *Bruckhaus, Westrick & Stegemann*. This firm, specialised in competition law and mergers and acquisitions (M&A), was the largest German law firm in 1991 with 112 partners and associates. Others followed. According to Rogowski (1995: 124) the largest German corporate law firms in 1989 doubled in average size within the following three years. German unification and the creation of the *Treuhandgesellschaft* created a further incentive for supra-local mergers involving law partnerships from Berlin which previously had been regarded as rather provincial. In the mid-90s large German corporate law firms had representations in some of the important financial and economic centres, held offices in Brussels (as the centre of European cartel law) and had expanded to Eastern European countries where they gained a quite strong position (Römermann and Römermann 2000).

Contrasting the British and German business law firms at the beginning of the 1990s, it appears that despite some recent changes in size and geographical reach bringing them somewhat closer to each others they were still at rather opposite ends of the spectrum with regard to the competences, scope of activity and professional values as might be expected from an institutionalist analysis of their embeddedness in different national business systems. English law firms were entrepreneurial, concerned to develop law that facilitated the bridging of gaps between what seemed commercially possible and what was legally allowable, international in orientation, focused on developing corporate contacts. German firms were organized to advise clients on strict codes which arose out of the mechanisms of coordinated capitalism. The key decisions were taken in the arenas of corporatist governance and lawyers tended to administer rather than shape in any fundamental way these decisions. In particular, the area of law concerned with capital markets and finance was carefully controlled by the state in order to reduce risk¹².

The internationalisation issue

¹⁰ At this point we place to one side the issue of the emergence of EU law and the degree to which a German (or French or English) model of corporate law could be said to be embedding itself in the institutions, practices and regulations of this emerging form of governance.

¹¹ All these activities still took place at a rather small scale. In 1989, out of the thirty-three largest corporate law firms, none employed more than 50 lawyers (including partners and associates, Rogowski 1995: 125)

¹² The major area of unexpected divergence between the two relates to the tendency of German law firms to incorporate professionals from other areas, though this was highly regulated and controlled.

In this section, we look specifically at international developments that have affected these two contexts. Firstly, we summarise the situation in the post-war period up to the early 1990s. We then discuss the speeding up of the internationalisation process from the 1990s presenting our more detailed empirical analysis of the recent period.

Phase 1: Internationalisation up into the early 1990s: Networks of informality

Some form of international work has always existed in law as clients have often required services in more than one national jurisdiction. The essential basis of this work up to the last two decades has been through referrals, i.e. a practice in one country refers their client to a practice in another country. These referrals were generally based on bilateral relationships between the two firms involved and worked on the basis of personal knowledge and reciprocity. The basis of these referral systems historically has been a sense of reciprocity in terms of fee-earning potential. Generally it appears that no money changed hands between the two law practices involved in the referral. To have done otherwise it would have been necessary to establish bureaucratic procedures that neither firm wished to enter into. What took the place of this was the establishment of obligations to reciprocate. If the stream of referrals flowed steadily in one direction but not in the other, it would be likely that the firm sending the referrals would look to find another partner more willing to reciprocate.

Both, British and German business law firms have made use of such referral relationships. Personal knowledge and reputational networks, though, were easier to establish in the context of the English Common Law system and the existence of Empire than in the context of cross-European contacts. Traditionally many people came from the Empire to London to learn English Common Law (amongst them, for example, Mahatma Gandhi) in the process developing personal links with other lawyers in the UK. Similarly it was relatively easy for UK trained lawyers to go out and practise particularly in the Dominions and the colonies, e.g. in Hong Kong up to the handback to China, UK solicitors were admitted automatically and were able to practice local law; UK based QCs regularly visited to appear before the local judiciary. The law associations of these Dominions were also strongly influenced by the UK Law Society, again promoting personal and reputational linkages. In all these ways, therefore, referral networks could be quite easily established around what eventually became the Commonwealth where the influence of English Common Law was strong and personal networks facilitated by this inter-twining process.

More problematic has been the question of links between UK firms and those based in mainland Europe. In this context, it is possible to identify two processes that emerged. The first appears to be informal arrangements entered into on the basis of historic connections or other personal networks, often established through contingent historical circumstance or particular interest on the part of one partner. From the Continental point of view, an important stimulus to this was that the City of London was obviously a major entrepot for trade, insurance and finance on the world scale and therefore establishing a link into firms familiar with that market could be important. The second is the deliberate

linkages which were established by high ranking firms in two countries to act as each other's 'best friend' in referrals. These processes in turn merged together in the 1980s and 1990s as international activity became more intense.

By the start of the 1980s, therefore, there were multiple bilateral linkages across law firms, some of which were long established and stable, others of which were more temporary and uncertain. In these circumstances, the idea of 'exclusive' bilateral linkages (meaning that firms would only cooperate with one other firm in a particular jurisdiction) was probably limited to just a few of the more prestigious firms¹³.

During this period, the presence of law firms through own offices in foreign countries was of relatively minor significance. In so far as large law firms – predominantly but not exclusively from the US and UK – maintained such foreign offices they tended to act on behalf of their home based clients using home based law. Entry into new markets was regarded by internationally oriented law firms as an ambivalent strategy since it always carried the potential for upsetting existing referral networks as it placed reciprocating firms into competition with each other. Thus entry to a new area might actually reduce the profitability of the firm by undermining referrals.

Phase 2: Formalising ties, creating global firms: From the 1990s onwards

This situation started to change in the early 1990s in both Germany and the UK as well as more generally. In terms of the external environment, the triple forces of globalization, the increasing integration of the EU and the collapse of the Soviet bloc were crucial.

The 1990s saw a further globalisation of financial markets and rise of multinational companies. As firms sought access to new markets or new sources of funding, they looked for advice on dealing with the multiple norms, regulations, resources and contractual practices at national, international and supranational level which affect these processes (Beaverstock et al. 2001; Rose and Hinings 1999). Corporate demand for legal advice on cross-border or global business was further fostered by changes in the international business environment. Compared to earlier periods of internationalisation in which cross-border coordination and dispute resolution between business firms relied mainly on particularistic, interpersonal networks, the current period of globalisation is characterized by an increasing formalisation, structuration and standardization of the rules of the game in various and partly overlapping transnational arenas (Braithwaite and Drahos 2000, Djelic and Quack 2003, Morgan 2001, Whitley 2003). Economic and political actors are now often confronted with the complexity of multi-level (national, regional and transnational regulatory environments) and multi-national regulatory contexts (Morgan 2001) on which they seek specialized legal regarding matters of compliance and exploitation of existing and emerging regulations.

¹³ Exclusive relations in places like Germany where law firms were not yet national had a different meaning again – relating to an exclusive relationship within a particular Court area, such as Hamburg, Düsseldorf or Frankfurt.

As part of this broader trend, the increasing integration of the EU was a second significant force. Over the course of the 1990s, this moved quickly through the completion of the Single Market into preparations for the Eurozone and the increasing involvement of the EU in a variety of areas related to firms, their growth, development and governance. In this process, Brussels as the centre of European decision-making became increasingly important. UK and German firms needed legal advice on EU issues that required access to and understanding of this emergent regulatory order.

In relation to the collapse of the Soviet bloc, it was clear that there were going to be opportunities to participate in the rebuilding of these countries with a significant role to be played by the US and international organizations such as the World Bank and the IMF. The rebuilding process would be facilitated by a dual process of aid and capital investment on the one side accompanied on the other side by the privatisation and restructuring of the local economies. The network of linkages across financial institutions, lawyers and accountants in order to create these institutional and economic changes was strong, with a particular sense of the opportunities available for international law firms if they could access these territories. For geographical, historical, economic and political reasons, Germany became a central point in this process of eastward expansion, almost inevitably internationalising the German economy more than previously.

These external contexts clearly drove changes amongst law firms internationally. This was reflected in three broad processes. Firstly, there was more intensive networking activity across borders. Secondly, there was the establishment of more foreign law offices in national jurisdictions. Thirdly, by the end of the decade, there was a phase of intensive merger activity. We will examine each of these in turn for Britain and Germany and the law firms originating from these two countries.

The development of networks: The 1990s saw the formalisation of network relationships. Firstly, some of the large UK and US firms began to announce their linkages with emerging large German firms. Secondly, the early 1990s saw the establishment of some of the first formal network associations of independent law firms. Multilaw for instance was founded in London in 1990 and in 2004 consists of 4500 lawyers in 130 commercial centres. Lex Mundi which now claims 15,000 lawyers in 161 member firms, with more than 560 offices in 99 countries, was founded in 1989. MSI Network, which is unusual in that it has accounting firms as members as well as law firms was also established in 1990. It now has a membership of 115 Law Firms and 120 Accounting Firms.

Foreign law firms in Germany and the UK: Before the 1980s, only a few UK and US law firms maintained offices in Germany. In some cases, their presence in Germany dated back as far as to the 19th century when London city solicitors accompanied the activities of British merchants and industrialists during the industrialisation period. After World War II, the administration of the Marshall Plan brought some US lawyers to Europe, and also to Germany (Trubek et al. 1994). During the 1960s and 70s, a few US law firms opened offices in order to serve US multinational companies dealing in Germany. Overall, however, the presence of UK and US law firms in Germany remained very limited in terms of size and impact on the national market.

Towards the end of the 1980s, more and more British and American law firms decided to build up offices in Germany. By 1991, there were 10 foreign law firms in Germany; from the UK these included Clifford Chance and Freshfields, both of which entered in 1990. By this time as well, the top international firms were beginning to formalise their referral networks and make them more closed. This was in some senses the precursor to later merger moves. Within Germany at this time, there was a strong merger movement creating at last a small number of firms with large partnerships. Most of them chose Frankfurt as location for their presence. This city offered them not only good access to German capital markets but also to corporate clients located in the nearby Rhein-Main industrial area. The deregulation of capital markets, the increasing internationalisation of German large companies, the infant but rapidly expanding market for mergers and acquisitions (M&A) (Lo 1999) together with the size of the German economy and its weight in the context of the creation of the European Single Market appeared to offer lucrative perspectives for Anglo-American law firms (Quack 2004).

UK and US law firms found entry into the German law market more difficult than they had expected. Some of these firms had hoped to undertake only work involving their home jurisdiction but they soon found out that this market was too limited. In order to attract German clients, however, they needed to prove their knowledge of the local law and culture – all the more since a number of highly regarded German law firms were already practising in Frankfurt and other German cities. British and American law firms realized that in order to operate successfully in a different institutional and cultural context they needed to invest in knowledge and competences of the local jurisdiction. In practice this meant that they needed to recruit more German lawyers – an undertaking that proved to be a slow and difficult process. Lateral hiring was still very unusual between German law firms at that time. Established German lawyers proved to be very reluctant to work for foreign firms. Hiring young law graduates from German universities and training them on-the-job proved too slow for foreign firms that wanted to expand rapidly. UK and US law firms were further hindered in enlarging their practice by the lack of offices in other cities which were quite important in the context of the decentralised German system. As a result, their activities remained confined to a small, but slowly growing market niche of advising German clients on Anglo-Saxon law.

During the late 1980s and early 1990s, the UK saw also an increase of foreign law firms establishing offices, particularly in London. Abel states that ‘in mid-1990 there were over 100 foreign firms in London from twenty countries’ (Abel 1994: 791). The US had by far the largest number with 53; France had only 2 and Germany none at all. Australia and Canada had 7 each. In the UK, the right to practice law was monopolised by those qualified in the UK. Foreign firms tended to act on behalf of their home based clients using home based law. The reason US law firms entered then was to serve their multinational corporate clients, particularly those for whom the London international markets in capital, commodities and insurance were important as well as the American investment banks which took over a number of London city banks during this period. American as well as other foreign law firms in the UK operated on a rather small scale as compared to the leading domestic law firms. Few German banks or manufacturing

companies had any connection with these markets and there was no real impetus for German law firms to enter.

UK and German law firms establishing offices abroad: At the same time as there were more foreign law firms entering their home jurisdictions, law practices from the UK and Germany also expanded abroad, albeit starting from very different levels of internationalisation. In parallel to their growth in size, UK law firms internationalised rapidly during the 1990s. Following Beaverstock and collaborators (1999) the driving forces for City solicitor firms to internationalise were the growth of international securities markets, competition for international legal business advice from large accountancy firms and the creation of the European Single Market in 1992 (see also Flood 1996). These firms started to build up strategic alliances with nationally-based firms in continental Europe, gradually progressing towards fuller integration and merger. Following the breakdown of the wall, some of them also opened offices in Central and Eastern Europe. Singapore and Hong Kong proved particularly significant to the largest City law firms offering a combination of existing ties to the UK, existing links to the UK law establishment and a period of rapid economic growth (see e.g. Beaverstock 2002 on Singapore; also Beaverstock et al. 1999 and Beaverstock 2004 on expatriation in UK law firms). Still by 2000/1, the London City firms stood out from the top ten law firms when listed in terms of number of employers employed as the far most internationalised (see table 1).

TABLE 1 ABOUT HERE

The late 1990s and the early 2000s, however, saw a catch-up race for international expansion by some UK law firms that originated outside London. Firms such as Dipp, Lupton and Alsop, Ashurst Morris Crisp or Denton Wilde Sapte expanded very rapidly into the European Union, Central Eastern Europe and Asia. As table 2 indicates, in 2002 these firms were able to catch up to some extent with the London City firms in terms of numbers of foreign offices and international networks. Their geographical expansion, however, focused more on the emerging European Integrated Market (and in some cases emerging markets in CEE and Asia) than on the old colonial or the modern global cities' model.

(TABLE 2 ABOUT HERE)

The 1990s created also opportunities and pressures for internationalisation for German law firms. Having achieved a critical size through mergers among German law firms, some of the larger ones seized upon their competences from privatizing firms in East Germany as well as historical links in to neighbouring countries. German law firms such as Hengeler Müller, Gleiss Lutz, Nörr, Stiefenhofer & Lutz, Haarmann Hemmelrath and Beiten Burkhardt all established a number of offices in CEE countries. By the turn of the century, some of them had established a more dense presence in these countries than large British or American law firms. Further pressures for internationalisation for German law firms arose the internationalisation of German corporate companies and their moves to international capital markets as sources of funding as well as the liberalisation of

German capital markets. Financial market reforms brought the ways in which transactions were governed by law much closer in line with the Anglo-Saxon private contract approach (Quack 2004). As a result of these developments German law firms saw themselves increasingly confronted with demands for advice on financial transactions in international financial markets which they found difficult to respond to building exclusively on their own competences. Therefore, the leading German law firms started from the 1990s on develop closer relations to Anglo-Saxon law firms.

Increasing cooperation between Anglo-Saxon and German law firms; By 1999, this dual process of opening overseas offices and joining networks was extended into a merger movement (Lace 2001). The development of British and American law firms in Germany gained a previously unknown and surprising momentum. In 1998 a smaller German law firms became integrated into Andersen Freihalter, the legal arm of Arthur Andersen in Germany. This, however, was only the prelude to a flood of announcements of cross-border mergers between much larger domestic and British or American law firms in the following year. In January 2000, the German firm Pünder, Volhard, Weber & Axster completed its merger with the British firm Clifford Chance. Other German firms followed the same strategy and agreed upon cross-Channel and cross-Atlantic mergers. By January 2001, six of the largest ten business law firms in Germany had become integrated into large British and/or American law partnerships and two others had intensified their informal cooperation with law firms from these countries¹⁴.

(TABLE 3 ABOUT HERE)

The result of these changes was to considerably restructure German law firms (Table 4). The following table reveals that as a result of these processes, only two of the top ten firms were outside an international law firm framework in 2001, i.e. Wessing and Gaedertz, though by 2003 Wessing was part of TaylorWessing, a merger with another UK firm and Gaedertz was part of the US based firm, Mayer, Brown, Rowe & Maw Gaedertz.

(TABLE 4 ABOUT HERE)

In less than a decade, the German legal structure has been transformed at the top end (Table 5). In 2002, only 5 of the top 15 firms ranked by total turnover were German; two of those advertise their relationships with US and UK international law firms (see table 3). The most international German law firm are Beiten Burkhardt Goerdeler and Haarmann Hemmelrath, though here the pattern reflects other German law firms in that a major part of its expansion is into Eastern Europe, the main difference being that it has offices in Asia. CMS is a distinctive operation. It is in effect a tightly integrated network of 8 firms which retain their independence in their home jurisdiction but are coordinated through an European Economic Interest Grouping (EEIG) registered in Brussels,

¹⁴ An example of informal cooperation which (according to observers) could be very easily transformed into a formal merger is the cooperation between *Hengeler Müller*, another top German law firm, and *Slaughter & May* in Britain and *Polk & Wardwell* in the United States.

Belgium. It was established in 1999 by UK, German, Austrian, Dutch and Belgian firms with later additions coming from Switzerland, France and Italy. The fact that it combines tax and legal advice is also highly unusual (and distinct from the model of legal services provided by one of the major accounting firms such as EY Law Luther Menold). It presents itself in terms of its European focus with a particular expertise in Central and Eastern Europe.

(TABEL 5 ABOUT HERE)

After their recent mergers with foreign firms, *Clifford Chance Pünder* and *Freshfields Bruckhaus Deringer* employ more than half of their lawyers outside the UK and more than 90 per cent of their offices are located outside the UK. With *Linklaters*, *Lovells* and *Allen & Overy* there are another three City firms which during the 1990s expanded their international presence beyond the classical 'colonial' pattern. As a result, at the turn of the millenium London City law firms appear to be more international in terms of their staff abroad as well as in their overall global reach than their US American counterparts. They also maintain a more dense network of representations within the European Union as well as in Central and Eastern Europe which they are currently attempting to expand (see also the more detailed analysis of Beaverstock et al. 1999; Flood 1996).

Discussion and Conclusion

In this section, we summarise and compare the experiences of internationalisation of law firms between the UK and Germany. Broadly speaking we can identify three models of internationalisation:

1. The creation of global law firms:

By global law firms we refer to firms that have a presence in the key global cities. The term 'global cities' was first coined by Sassen to refer to the key nodes in the emerging international flow of capital during the 1980s. In her original specification it referred to London, New York and Tokyo (Sassen 1991). More recently, the work of Taylor, Beaverstock and others have developed this into an analysis of 'world cities' which refers to a more diverse but interconnected web of relations between cities, mainly still constructed around flows of capital (Taylor 2004). These cities are the sites of emerging economic and political power in the global world economy. They connect together the US (particularly through New York and Wall Street but also through Chicago) with Europe (in which London plays a special role due to its position within international capital and commodities markets, but within which Brussels, as the administrative centre of the EU, Paris and the German cities of Frankfurt and Berlin are also crucial nodes)

with Asia (within which Hong Kong and Singapore play linkage roles into China which in turn has its own emerging 'world cities' of Shanghai and Beijing: Tokyo remains a key part of this but not as central as in Sassen's model). In all these cities, to varying degrees, corporate financing and corporate restructuring (M+As, IPOs, and privatisations) are key areas of business for corporate law firms. By global law firms, we refer to those firms which construct themselves in such a way as to have a permanent and significant presence over these cities in the US, Europe and Asia. A number of points arise from this definition;

- a) This is a concentrated form of 'global'; it does not refer to offices in all countries just in those areas where the bulk of corporate law activities take place. The idea of the global firm is therefore still very distinctive in law compared to other professional services such as accounting, management consultancy etc..
- b) The biggest US law firms are not global in this sense. They are large by revenue because of their large home market. They are highly profitable because of the nature of their business, i.e. the extremely close tie to capital market activities on Wall Street. They are reluctant to extend overseas because of the fear that this will increase transaction costs for them whilst reducing their per partner profitability.
- c) Superficially it can be argued that the large global firms on this definition originate in the UK, not the US, nor from any other national business system. But, here is a central issue. In most cases, these firms can only claim to be global because they have merged with a major German law firm. It is these mergers which have been crucial to giving them a significant presence on the European mainland. This raises an interesting question of interpretation because looked at from the German point of view, German lawyers and their firms have now created for themselves the capacity to achieve a global reach rather than either remaining locked into their national jurisdiction (as, for example, French lawyers tend to remain) or alternatively disappearing into a UK or US firm as might have been the case if the merger occurred within a plc structure rather than in a partnership context. For example, Freshfields has been described 'as one-third English, one-third German and one-third the rest of the world'. Since its merger with Deringer-Bruckhaus, it has had 'two of almost everything: two senior partners and two heads of every practice group, one English, one German' (The Lawyer: 19 January 2004). Inside the firm, therefore, more complex dynamics are at work than a simple takeover by the British of the Germans. Nor is the result that these differences are wiped out and replaced by a 'global culture'. Similar points can be made about the other largest UK firms (Clifford Chance, Linklaters, Lovells and Allen and Overy, all of which have swallowed major German law firms as part of their effort to become global). An analogy might be drawn from the discussion in Kristensen and Zeitlin's analysis of subsidiary-HQ relations in a large manufacturing multinational (Kristensen and Zeitlin 2005). They argue that the Danish subsidiary saw the MNC as a vehicle for securing its own continued existence in the longer term by providing it with easier access to international markets. There was therefore a Faustian pact in which in order to survive in a global market, the local plant threw its lot in with the MNC. What Kristensen and Zeitlin then describe is how the actors in this local plant strategized within the broader MNC in order to secure their future on the basis of their existing

expertise. They contrast this experience with other subsidiaries which found that being within the MNC effectively destroyed their pre-existing capabilities. What is interesting to consider is how relations within the emerging global law firms reflect these sorts of processes and with what effects on lawyers from different jurisdictions¹⁶.

- d) This is related to the issue that underlying the creation of these firms are big questions about the costs and benefits of the global firm model. It is not at all clear that the scale of benefits from these mergers approaches those expected. Key partners may walk away from the new firm as a result of heightened surveillance and management whilst the sheer cost of managing across borders is high, e.g. in the Freshfield's example referred to, the term used is a 'Noah's Ark' model of management, two-by-two in all areas! Only where the management becomes more centralised are the costs likely to decrease but as the debate on the transition from the P2 model to the Managed Professional Bureaucracy model shows this is a highly problematic process (see e.g. the contributions in Brock et al. 1999).

In conclusion it can be argued that the global firm strategy/form is not simply an objective of UK law firms that results in the domination of the German legal landscape. It is also the outcome of German lawyers and German law firms wanting to open up for themselves wider global opportunities. Thus the prolonged period of courtship between British and German large law firms that occurred during the 1990s reflects the element of 'choice' necessarily involved where the firm structures are partnership and coercive takeover is an impossibility. Furthermore, making this work in practice seems a long way off as these firms struggle with the types of local differences in labour markets, careers, expectations and reward strategies that continue to characterise a profession like law (see e.g. the discussions on these issues in the chapters by Morgan and Quack and Whitley in Morgan et al. 2005).

2) Network internationalisation

The recognition of the high cost of the global firm model in terms of professional autonomy and rewards lies behind the development of the second strategy, which has commonalities over the UK and Germany. We label this as a strategy of network internationalisation. In this model, firms retain their independence in national contexts but advertise and effect a longer transnational reach by establishing relationships with other firms. Two models can be considered:

- o **The informal network model:** This refers to those law firms which achieve an international reach through informal network relationships. In the UK, the one 'Magic Circle' firm which has not gone down the 'global firm' route is Slaughter & May. It has limited its expansion of offices to just a few key places - Brussels Hong Kong, New York, Paris and Singapore whilst describing itself as networked with a small number of high prestige firms in other countries including Hengeler

¹⁶ A recent example of the sorts of tensions and micro-politics which may emerge was reported recently in *The Lawyer* (June 7, 2004) where the problems that the US firm Baker & McKenzie were having in persuading their German partners to change their reward formula for partners towards a modified lockstep model was described in the context that the Germans might also resist plans to reform the partnership structure of the firm. German lawyers resisted not just by 'voice' but also by exit, leaving to join other international firms.

Mueller in Frankfurt (third largest law firm in Germany), Uría & Menéndez in Madrid, Allens Arthur Robinson in Sydney, Mannheimer Swartling in Stockholm, Anderson Mori in Tokyo and Cravath, Swaine & Moore and Davis Polk and Wardwell, (both from New York and ranked 2nd and 6th respectively in the FT's table of the most profitable law firms in the world measured by profits per equity partner:FT 22/03/04). Two other UK based firms which have developed in this way are Herbert Smith (in a network with Gleiss Lutz, 7th largest in Germany and Stibbe, a Brussels based firm with offices in Amsterdam and New York) and Eversheds which provides service through a combination of own offices in Europe and associated firms in Europe and Asia which constitute a network of 'best friend' and preferred law firms across the globe that have been used in the past. Again it is interesting to consider this strategy from the German perspective where it characterizes two of the top 10 firms – Hengeler Muller and Gleiss Lutz (which proclaims its network relationship not only with Herbert Smith but also with Cravaths of the US¹⁷).

- **The formal network model:** Amongst the largest firms, the formal network takes a different structure to that which seems to characterise organizations such as Multilaw (with its 4500 lawyers in 130 commercial centres or Lex Mundi with its 15000 lawyers in 161 countries). The most significant network model of the formal sort amongst the top companies in both the UK and Germany is the CMS network (known as CMS Hasche Sigle in Germany, 5th largest firm in Germany and CMS Cameron McKenna in the UK, 14th largest firm there). The CMS network is concentrated in Europe and consists of partners in Italy, France, UK, Netherlands, Switzerland, Belgium, Austria. Another example of such a network is DLA headquartered in the UK (where it is the 9th largest firm) and networked with Ginestie Paley-Vincent & Associés (France), GÖRG Rechtsanwälte (25th largest law firm in Germany), DLA SchutGrosheide (Netherlands), Lindh Stabell Horten (Sweden), DLA Nordic (Norway & Denmark), Ang & Partners in Singapore, Lui & Carey in Hong Kong, Despancho Melchor de las Heras (Madrid, Spain), Price & Partners (Brussels), Brugueras Garcia-Bragado Molinero & Asociados (Barcelona, Spain).

What is striking here is a convergence of strategy and structure between UK and German law firms. On both sides of this institutional divide, achieving international presence through formal and informal networks is a clear option for firms. As with global firms, it is unclear how this will work out in practice but what is certain is that the network model implies greater flexibility than the global firm model. The network can grow easily, it can be closed down or reduced in scale relatively simple. It leaves the key features of professional autonomy comparatively free from the constraints of an international management and supervisory tier of decision-making and authority. In these respects, it appears attractive to both UK and German firms.

3) Organic internationalisation

By this category we refer to firms which have gradually developed their own offices overseas. Organic internationalisation for German firms often means extending into

¹⁷ The fact that Cravaths appears as having a strong network relationship with two German firms is, of course, a warning that underneath these declarations there are more complex processes at work.

Eastern Europe with some limited growth elsewhere. Norr Steifenhofner Lutz (10th largest), for example, fits this model. Beiten Burkhardt Goerdeler (14th largest) has also opened offices in Eastern Europe (Budapest, Moscow, St Petersburg and Warsaw) but also has offices in Brussels, Beijing and Shanghai. Some of these moves into Eastern Europe can be clearly explained in terms of historic linkages but also more relevant recent experience in the privatisation of state companies arising from the reunification of Germany and the early restructuring of East German industry. Similar firms can be found in the UK though because of historical linkages, internationalisation is less into Eastern Europe and more into areas of colonial and English Law influence. For example, Norton Rose (10th largest in the UK) has offices in Bahrain and Dubai, Singapore, Hong Kong, Bangkok and Djakarta as well as in a number of European countries: however it has no links into the US. Ashurst (11th largest in the UK) has a similar pattern of slow organic growth with offices in Brussels, Frankfurt, London, Madrid, Milan, Munich, New York, Paris, Singapore and Tokyo, and a liaison office in New Delhi. Again, what is striking is the similarity of the trajectory of German and British top law firms rather than their differences.

In summary, what we have shown is that in terms of internationalisation, the British and German experience has not been significantly different over the last decade. A variety of strategies and structures have emerged as means of achieving this goal (which in turn has become a more differentiated goal itself). The two strategies of network internationalisation and organic internationalisation do not appear qualitatively or quantitatively different between the two countries. Network internationalisation seems common to both contexts, often linking comparably sized firms. Organic internationalisation also seems common though its direction appears historically influenced. The argument that the 'global firm' strategy is distinctive and only available to British law firms also needs contextualizing. It underestimates the significance of the absorption of German lawyers and law practices into these organizations. Controversially one might even describe this as a 'Trojan horse' strategy on the part of the Germans, getting inside in order to gain access (if not control) over something much bigger than they could have achieved without such a move.

Our results offer a paradox. On the one hand, we have demonstrated that these systems of law have been highly distinctive in terms of how the purpose of law is constructed, how lawyering is practised and organized, how law evolves and how it relates to business and industry. On the other hand we have shown that by the 1990s, the internationalisation trajectories in the two countries were similar in terms of a range of options that were identified and pursued. How do we reconcile this paradox? Broadly speaking, we find the answer to this paradox through a deeper understanding of firstly the German context and German law firms and secondly in theoretical terms in the need to broaden our conception of national business systems and the constraints which they create.

With regard to the first point, we offer the following interpretation of these processes from a German point of view. In the late 1980s and particularly the early 1990s, German MNCs were beginning their relatively dramatic shift away from export strategies towards growth through international acquisition. Without severing their links into the home

based German system of finance, this transition clearly required accessing new international financial markets and alongside this a high level of expertise in new areas such as international M+As, international lending and international currency dealing. From the point of view of German corporate law firms, this was a significant threat to their future. Until the late 1980s they were not even 'national' in terms of scale in Germany, they certainly lacked any capacity to provide international advice. In these circumstances, it is not difficult to imagine that UK and US law firms could imagine that there were easy profits to be made advising German MNCs not only in their home contexts (i.e. London and New York) but even moving into Germany itself and employing local German lawyers to serve these new potential clients. Such a scenario could have resulted in most of the big corporate law business (which was on the point of explosive growth as a result of the various forces already discussed, i.e. the breakdown of the Soviet block, Europeanisation forces and the emergence of global regulation) being taken over by foreign firms and German lawyers acting a subsidiary role in these processes. Instead, however, of passively responding to this, German lawyers moved in two directions. Firstly they sought to establish the institutional conditions which would allow them to become 'national' not just 'local' by reforming the rules which restricted them to partnerships in one particular locality. Within a few years at the start of the 1990s, they had established substantial national law firms that gave them some sort of equivalency in size and income to the UK firms. It is worth noting in passing that French lawyers totally failed to achieve this sort of consolidation (Karpik 2000). Secondly they established various strategies for providing these international services on their own terms. It was only in 2000 that some German firms finally started the merger process with the biggest UK firms, by which time they had 10 years of experience of national consolidation and international work. Other firms built up their international expertise in different ways –through networks and through organic growth. In all these cases what occurred was not the destruction of German law firms but their renewal in the new international context. Inside Germany, the fundamental relationships between the law, the state and industry were also changing (Quack 2004) but this long term reconstruction of the 'German model' did not constrain the firms in their internationalisation processes.

This reflects a broader set of findings about the significance of the internationalisation of German firms and the response of the German system to globalization. Research on German manufacturing MNCs has revealed that from the 1990s they were highly active in acquiring and developing firms overseas. In doing so they were not constrained over much by the model which they operated in Germany itself. Inside Germany things only changed marginally and although learning was occurring as a result of these overseas operations it was incorporated carefully into Germany itself and without wholesale change in the system (see particularly the arguments in Yamamura and Streeck 2003). Arguably, the internationalisation of law firms has an analogy here. There were a small number of crucial changes internally regarding law firm organization but the embeddedness and complementarities of the German system meant that this only occurred gradually. As with the manufacturing MNCs, however, this did not stop the law firms from defending their home market whilst also placing themselves more centrally in the internationalisation process. The German model of capitalism revealed yet again its adaptability in the face of wider environmental changes. Of course, this explanation is

tentative. We have not accounted for the dynamics within the firms and the networks and how they might be evolving and how this might affect the positioning of German and British lawyers and law firms in the future. This goes beyond our capacities in terms of the data which we have used though it clearly offers itself as a crucial area for future research.

With regard to the second point concerning the theoretical underpinning of the national business systems analysis, it is clear that our approach is supportive of those reformulations of the argument which emphasize the openness of paths, the limits to path dependency, the role of actors in opening up new directions and the importance of the inter-penetration of national and international dimensions (Morgan et al. 2005; Djelic and Quack 2003). Strong path dependency arguments might well have led to the view that German law and German law firms were locked into a very nationally distinctive pattern of action that could not meet the challenge of internationalisation. We would argue that our paper reveals that this was not the case. There was room for manoeuvre in which actors could both reshape institutional constraints and take actions which drew them out of these constraints. There was no inevitability that they could achieve such a reshaping. Again, the French example reveals the difficulty of doing so. It was the fact that actors at various levels of the German system could work in concert that enabled this transformation to occur. Arguably this can be seen as arising from the distinctive nature of 'coordinated capitalism' though, nevertheless this was still under-determined. Finally what we have revealed is the intricate relationship between national and international contexts. As has been argued elsewhere (Morgan 2005), changes in the international environment can alter actors' calculations of the returns which they can get from continuing to reinforce traditional patterns of action within a national business system. If German lawyers had just accepted their position their returns from playing in the game would have dwindled significantly. As it was, by integrating into the emerging international arena of corporate law-making they considerably increased their potential returns. There were incentives for them as actors to go off-path or rather to experiment with a new path. Over time, this has been reinforced by the increasing importance of international activities and processes for German MNCs as well as the broader expansion of potential business. They have set off on a new trajectory. Where it will lead is still unclear but at present it would be overly pessimistic in our view simply to construct this new path as a process of Anglo-Americanisation of German lawyers. A more complex process of reconstruction is occurring across and within national contexts and international firms.

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Table 1: Top Ten Law Firms in the UK (by number of lawyers) 2000/1:
number of lawyers at home and overseas

	Turnover	Lawyers worldwide	thereof: outside of the UK	
	in Mio £	Number	number	in %
Eversheds	212	1880	220	11,7
Dibb Lupton Alsop	140	1160	60	5,2
Clifford Chance Pünder	-	2600	1600	61,5
Beachcroft Wansboroughs	-	949	2	0,2
Linklaters*	-	1221	360	29,5
Freshfields Bruckhaus Deringer	-	1852	1071	57,8
Lovells	-	1152	435	37,8
Herbert Smith	-	868	195	22,5
Allen & Overy	-	1226	560	45,7
CMS Hasche Sigle Eschenlohr Peltzer Schäfer	130	1410	230	16,3

Source: Own calculations based on June 2000/1.

* Linklaters international presence is underestimated here because the data is based on integrated partnerships only, and thus does not cover Linklaters multiple alliances.

Table 2: British top 15 firms by turnover 2002

Rank	Law firm	total turnover (mill. €)	National origins	Number of local: total offices	Geographic spread of foreign offices	International network
1	Clifford Chance	1,394	UK	1:32	Global	Strategic alliances with national-based firms, progressing towards fuller integration and merger
2	Freshfield Bruckhaus Deringer	1,14	UK	1:28	Global	See above
3	Linklaters	1,026	UK	1:30	Global	See above
4	Allen & Overy	922	UK	1:25	Global	Opening foreign offices through poaching leading lawyers in the target market
5	Lovells	556	UK	1:26	Global	
6	Eversheds	406	UK	10:13	Copenhagen Brussels, Paris	Exclusive strategic alliance with firms in Asia and US, best friends networks, member of EEN*
7	Slaughter and May	361	UK	1:6	Brussels, Paris, New York, Singapore	Relationships with Hengeler and Müller (Germany) and Davis Polk (US) inter alia
8	Herbert Smith	344	UK	1:10	Europe/ CEE/ Asia	Relationships with Gleiss Lutz (Germany) and Cravath (US)
9	Dibb Lupton Alsop	332	UK	9:29	Europe, CEE and Asia	Allied firms in Sweden, France and Germany as part of DLA group
10	Norton Rose	292	UK	1:19	Europe, Middle East and Asia	Non exclusive referral network in the Americas
11	Ashurst	281	UK	1:11	Global	

	Morris Crisp					
12	Denton Wilde Sapte	252	UK	3:19	Europe, Africa, Middle East and Asia – withdrawal from Asia	Non-exclusive bilateral relationships with leading law firms throughout Europe
12	Simmons	252	UK	1:19	Europe, Middle East and Asia	
14	CMS Cameron and McKenna	248	UK firm Cameron and McKenna founded CMS together with law firms from Germany, Austria, the Netherlands and Belgium	2:13**	Europe, CEE, Asia**	CMS is an exclusively European mix of accounting and legal professionals registered in Brussels; Cameron and McKenna has an associated office in Toronto.
15	Hammonds	195	UK	5:16	Europe	

* EEN (European Environmental Network) is a network of nine European and US law firms specialised in environmental law.

** offices of British firm CMS Cameron and McKenna.

Sources: Websides and annual reports of law firms, download from June 2004; figures on turnover are based on JUVE Rechtsmarkt, October 2003.

Table 3: Selected cross-border mergers and alliances of German law firms, 1999-2001

Year	Participating firms	Outcome
July 1999	Hasche Sigle Eschellohr Peltzer Schäfer (Germany)	European law firm association CMS
	Strommer Reich-Rohrwig Karasek Hainz (Austria)	
	Von Erlach Klainguiti Stettler Willein (Switzerland)	
	Derks Star Busmann Hanotiau (Belgium/Netherlands)	
	Cameron McKenna (UK)	
January 2000	Pünder, Volhard Weber & Axster (Germany)	Clifford Chance Pünder
	Clifford Chance (UK)	
	Rogers & Wells (USA)	
January 2000	Boesebeck Droste (Germany)	Lovells Boesebeck Droste
	Lovell White Durrant (UK)	
August 2000	Fedderson Laule Ewerwahn Scherzberg Finkelnburg Clemm (Germany)	White & Case, Feddersen
	White & Case (USA)	
August 2000	Bruckhaus Westrick Heller Löber (Germany/Austria)	Freshfields Bruckhaus Deringer
	Freshfields (UK)	
September/October 2000	Schilling, Zutt & Anschütz (Germany) dissolved, partners split and join	Shearman & Sterling (USA)
		Allen & Overy (UK)
2000	Luther & Partner (Germany)	Andersen Luther mbH
	Andersen Freihalter (legal arm of Arthur Andersen, USA)	
January 2001	Oppenhoff & Rädler (Germany)	Linklaters Oppenhoff & Rädler
	Linklaters (UK)	

Sources: Juve 2000/1 (www.juve.de); International Centre for Commercial Law (www.icclaw.com)

Table 4: Top 10 Law Firms in Germany 2000/2001 (by number of lawyers)

	Number of Lawyers		Number of Partners		Number of Offices	
	Germany	Abroad	Germany	Abroad	Germany	Abroad
Freshfields Bruckhaus Deringer	363	1,850	148	441	9	30
Clifford Chance Pünder	351	3,187*	141	630	5	29
Oppenhoff & Rädler Linklaters & Alliance*	284	1,257	116	226	5	18
CMS Hasche Sigle Eschenlohr Peltzer Schäfer**	256	(1,400)	131	-	9	(18)
Wessing	213	29	122	2	7	3
Andersen Luther	201	2,950	58	415	11	94
Gaedertz	195	9	93	4	9	1
Lovells Boesebeck Droste	195	957	65	182	6	18
BBLP Beiten Burkhardt Mittl & Wegener***	187	266	43	-	7	21
White & Case, Feddersen	160	1,140	41	239	5	33

Source: Juve 2000/1 (www.juve.de) and own calculations, *calculated on the basis of www.linklaters-alliance.com, including only Linklaters Oppenhoff & Rädler but not allied partners

** calculated on the basis of www.cmslegal.de, data in brackets refer to lawyers and offices of the overall European Association of CMS firms.

*** 'abroad' refers to the other three member firms of BBLP (Meyer Lustenberger, Switzerland; Moquet Borde & Associés, France; Pavia Ansaldo, Italy)

Table 5: Germany top 15 firms by turnover 2002

Rank	Law firm	total turn-over (mill. €)	National origins	Number of local to total offices	Geo-graphical spread of foreign offices	International networks
1	Freshfields Bruckhaus Deringer	285	UK-Germany	6:28	Global	-
2	Clifford Chance Pünder	151	UK-Germany	4:32	Global	-
3	Hengeler Müller	149	Germany	3:7	Brussels, London, Budapest, Prague	Relationships with Slaughter & May (UK) and Davis Polk (US) inter alia
4	Linklaters Oppenhoff & Rädler	145	UK-Germany	4:30	Global	-
5	CMS Hasche Sigle	125	German firm Hasche Sigle founded CMS together with law firms from UK, Austria, Netherlands and Belgium	9:14**	Brussels, Prague, Belgrad, Moscow, Shanghai **	CMS is an exclusively European mix of accounting and legal professionals registered in Brussels
6	Lovells	106	UK-Germany	5:26	Global	Associated offices in Budapest, Vienna, Zagreb
7	Gleiss Lutz	93.8	Germany	4:7	Brussels, Prague, Warsaw	Close relationship with Herbert Smith (UK) and Stibbe (NL/Belgium); loose relationship with a number US firms including Cravath

8	Baker & McKenzie	83	US	4:61	Global	5 Associated offices in Asia and Latin America, 2 correspondent law firms in Asia
9	EY Law Luther Menold (1)	82.8	US-Germany	12:16	Brussels, Budapest, New York, Singapore	International network of independently practicing law firms in 30 countries, associated with E&Y; best friends relationships with law firms in jurisdictions not covered by EY Law
10	Nörr Stiefenhofer Lutz	82.5	Germany	5:10	CEE	Member of lex mundi, best friends relationships with law firms in West Europe and US
11	Haarmann Hemmelrath	78.5	Germany	9:21	Europe, CEE, Asia	Cooperation with law firms in Austria, Singapur and Shanghai
12	Shearman & Sterling	73	US-Germany	4:	Global	-
12	Taylor Wessing	73	UK-Germany	5:12	Europe, Middle East, Asia	Member of EEN, TechLaw Group, Unilaw and World Law Group*
14	Beiten Burkhardt Goerdeler	70	Germany	8:17	Europe, CEE, Asia	-
15	White & Case, Feddersen	67	US-Germany	6:38	Global	-

* EEN (European Environmental Network) is a network of nine European and US law firms specialised in environmental law; TechLaw Group combines worldwide 4,000 lawyers from US and European law firms which have a strong practice in new technologies, media, health system etc.; collaboration is limited to individual mandates; UNILAW is an international non-exclusive network of European law firms which was already founded in the 1970s to facilitate referrals; membership is restricted to one firm per country; the World Law Group combines more than 30 independent international law practices world wide on a non-exclusive basis; membership is restricted to one firm per country.

** offices of German law firm CMS Hasche Sigle.

Sources: Websides and annual reports of law firms, download from June 2004; figures on turnover are based on JUVE Rechtsmarkt, October 2003.