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Challenges and Opportunities: International Law Firms in China

Research Report 2022



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Executive Summary

This report is based on the data collected from a survey and interviews conducted by a research team based in Trinity College Dublin. The team has long focused on the internationalisation strategy, cross-border people & knowledge management, and the adoption of digital technology of international law firms in the China market.

This project aims to explore the drivers that affect the performance of international law firms and lawyers in the China market, including human resources management, business operations, digital technology applications, knowledge learning and innovation and entry modes into the unknown market. The report seeks to provide insights into the question of how law firms from developed markets can successfully internationalise and overcome the challenges encountered in the China market.

In particular, this study focuses on three important outcomes relating to the performance of international law firms in the China market:

- (1) Unit performance
- (2) Strategy implementation
- (3) Innovation in service

Four theory drivers for the above outcomes were investigated:

- (1) Globalisation and localisation
- (2) International people management
- (3) Ambidextrous management
- (4) Technology and digitalisation

This executive summary provides a broad overview of the main findings from the survey. The main report provides a more in-depth overview of the findings based on the quantitative survey and qualitative interviews with participants who are working in the Chinese offices of international law firms. The researchers carried out a detailed analysis of the data, which involved statistical modelling in identifying the drivers that have the greatest impact on these performance outcomes abovementioned. The complete findings are available in the full report.

Summary of Key Findings

The findings are highlighted below:

- The Chinese branch offices of international law firms have been performing well in both operational (e.g., relations among employees, client satisfaction) and market performance (e.g., increase in revenue, profitability).
- Most Chinese branch offices of international law firms agreed that the novel strategies were implemented successfully in their units.
- The majority of Chinese branch offices of international law firms are performing well in innovation, e.g., introducing new services, and extending their service range.

- Technology & digitalisation were found to be the most important drivers for sustaining the business performance of Chinese branch offices of international law firms, but they need to be improved in the future.
- Significant differences and complexity exist between home and host countries when international law firms entered the China market.
- The in-depth interviews revealed some key findings: 1) the development process of international law firms in the China market; 2) the opportunities for expanding into the China market; 3) the challenges for expanding into the China market, and 4) the practices of international law firms to capture the opportunities and overcome the challenges in China.

Conclusion and Key Recommendations

Overall, the findings highlight that an increasing number of international law firms have established their branch offices in China to offer customised services to their clients in China. These law firms are confident and have made significant progress in the China market. Despite the positive progress, they face great challenges in managing the legal, political, and cultural complexity between home and host countries when they expand into the China market. The research findings suggest that three priorities are required in order to overcome the challenges of successfully managing the task of international law firms and lawyers.

- **Localise legal services**

Due to the increasing volatility, complexity, and uncertainty in the dynamic international environments, especially when entering emerging markets, managers and lawyers of international law firms need to localise legal services. They should deeply understand the need of their existing clients and potential clients into/from local markets. Management client relationships are challenged in this new diverse environment as a result of differences in language, culture and the legal system.

- **Exploit the existing resources to innovate their services**

The data revealed that exploitation is the key driver for unit performance of the Chinese branch offices, strategy implementation and innovation in services of international law firms. Most interviewed law firms stress firm alignment more than local flexibility, which means units have less flexibility to innovate their service to fit the local market. In addition, the unit operational performance is better than the unit marketing performance. It may be because these international law firms have not innovated their existing services to meet the local clients of their Chinese branches. Therefore, international law firms need to innovate the services in Chinese branch offices by exploiting their existing resources.

- **Further enhancing technology and digitalisation**

Technology & digitalisation needs the most attention, given their lower presence but higher influence compared to other factors. Based on data analysis in Section 5, technology & digitalisation can affect the unit performance and strategy implementation. Digitalisation also facilitates and accelerates the knowledge translation process to enhance the effectiveness of knowledge learning and innovation in global law firms. Therefore, international law firms need to further enhance technology and digitalisation in their Chinese branch offices.

Authors



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Acknowledgements

The authors would like to express our gratitude to all the professionals and organisations who participated in the survey and interview, providing valuable insights into the study of international law firms and lawyers in China. This project covers internationalisation strategy, cross-border HR management, ambidextrous management, and the adoption of digital technology in international law firms. The purpose of this research is to better understand the phenomenon of international law firms and lawyers in China, including their human resources management, business operations, digital technology applications, knowledge learning and innovation.

Sincere thanks are also due to our colleagues from Trinity Business School who supported this project. Our gratitude is also extended to the PhD students, Miss Xuan Kou, Miss Weihan Jia, Miss Yue Sun, and Mr Neil Lowndes, who helped back-translate, pilot and promote the survey.

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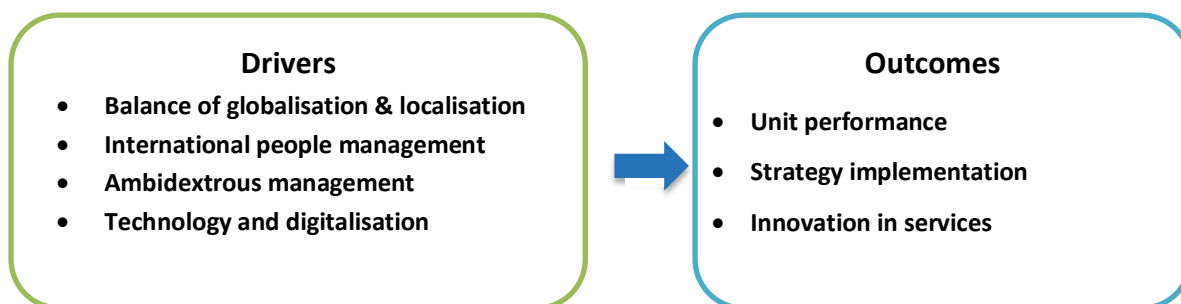
1. Introduction

1.1 Background

As the largest emerging market, China has experienced successful economic development over the past four decades (Brennan & Vecchi, 2021; Collison, Brennan, & Rios-Morales, 2017), attracting international law firms to provide legal services there. As an important emerging market, China provides an excellent environment to construct a theory of law firm expansion and internationalisation (Li, 2019; Stern & Li, 2016). Thus, this project focused on international law firms that have offices in Mainland China¹.

The research team developed a survey to examine a number of drivers that potentially influence different aspects of international law firm performance in China, including unit performance, strategic implementation, and innovation in services. This project focused on international law firms that have branch offices in the China market. The main drivers promoting their performance were explored, and the relationship between them was measured by data collected from experienced lawyers and partners. These main drivers included: (1) balance of globalisation & localisation, (2) international people management, (3) ambidextrous management, and (4) technology & digitalisation. Understanding the relationship of the drivers and performance of international law firms is critical for legal practitioners, especially for those who come from developed economies but are working in emerging markets. A summary of the major drivers and outcomes explored in the study are presented in Figure 1.1.

Figure 1.1 Potential drivers and outcomes



1.2 Structure of the Report

The report contains five main sections. Section 2 provides the method used in the study. Section 3 presents an overview of the respondents' backgrounds. Section 4 details survey findings for international law firms in China. Section 5 identifies the key drivers for the unit performance of these law firms. Section 6 presents the outcome of the interviews. Section 7 includes key conclusions and recommendations.

¹ Owing to the different legal systems, Hongkong, Macao and Taiwan are excluded from this study.

2. Methodology

This project had four phases as reported below: systematic literature review, instrument development, data collection, and analyses.

2.1 Systematic Literature Review

To understand the research conducted on international law firms, the researchers conducted a systematic literature review on the internationalisation of professional service firms in the past five decades (1970-2020). This includes 227 academic articles. This review is available upon request. A brief literature review is provided in Appendix A.

2.2 Instrument Development

Based on the extensive literature review, a survey instrument was developed to capture the drivers and outcomes of the branch offices of international law firms. It included key constructs such as globalisation & localisation, organisational ambidexterity, business strategy, IHRM alignment & flexibility, absorptive capability, and technology & digitalisation. The instrument was originally developed in English and translated into Chinese using the back-translation method. It was reviewed and tested by PhD candidates of Trinity Business School. Their comments were incorporated to improve the clarity, face validity and comprehensiveness of the instruments.

An interview guide based on the literature about internationalisation and management (McQuillan, Scott, & Mangematin, 2018; Pinnington & Gray, 2007; Segal-Horn & Dean, 2007; Winch, 2014) was developed. The open-ended questions helped us to gain a detailed understanding of how international law firms internationalise their legal services and manage cross-border cooperation in the China market, especially the tension between global integration and local responsiveness.

2.3 Data Collection

Two types of data were collected from experienced lawyers and partners of the Chinese branch offices of international law firms between May and September 2021. The first type is quantitative data via an anonymous online survey by sending an invitation and two reminders.

The second type of data was collected via open-ended, semi-structured, and in-depth interviews with lawyers who had been working in the Chinese offices for at least five years and were familiar with the internationalisation process and firm management in the China market. Each interview lasted between 30 and 90 minutes. This project followed the principles of strict confidentiality and voluntary participation without collecting any personal private or firm trade information.

2.4 Data Analyses

The analysis of quantitative data and presentation of the data predominantly involved descriptive statistics such as frequencies and means. Descriptive statistics were used to explore the participants' views on different aspects of their work. Statistical analysis was completed using Statistical Package for Social Sciences (SPSS v.26). Statistical significance was set at $p < 0.05$.

To analyse the qualitative interview data, we used a thematic analysis process (Gioia, Corley, & Hamilton, 2013; Gioia & Pitre, 1990) to assist with the categorisation and interpretation of our data. This method is adopted widely in qualitative social research. NVivo was used to conduct the analysis.

3. Survey Participation

3.1 Survey Response Rate

A total of 81 responses were received from Chinese units of the international law firms, generating an overall response rate of 43.8%.

3.2 Respondents' Backgrounds

Figures 3.1 to 3.8 provide an overview of respondents who worked in the Chinese branch offices of international law firms. Here is the breakdown of the sample.

- **Gender:** 48% were male; and 52% were female.
- **Education:** Over half of the respondents (61%) held master's degree as the highest educational level, followed by bachelor's degree (31%) and PhD (8%).
- **Work experience in the current law unit:** 63% had under 5 years of working experience; followed by 21% working from 6 to 10 years, 16% working over 11 years in their current unit.
- **Title:** Over half of the participants (53%) were Lawyers; followed by Senior Partner (25%), Junior Partner (25%) and Founding Partner (4%).

In terms of the current unit of their law firm, the unit size, years in business, the number of non-Chinese lawyers and location are specified as below.

- **Unit size:** Most respondents (92%) worked in the unit which had less than 50 employees, while 8% worked in the unit from 51 to 1000 employees.
- **Years in business:** The average years in business was 16 years. Half of the participants (51%) reported working in a Chinese branch which had been operating under 10 years; 35% in a Chinese branch which had been operating from 11 to 15 years; and 14% in a Chinese branch which had been operating for at least 16 years.
- **Number of non-Chinese lawyers:** 85% reported up to 10 non-Chinese lawyers; 9% reported 11 to 50 lawyers; and only 6% reported over 50 lawyers in their current unit.
- **Location:** 96% of the respondents indicated that they were based in China, while only 4% were located in Europe.

RESPONDENTS' PROFILE

Figure 3.1 Gender

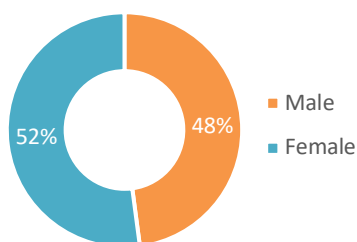


Figure 3.2 Education

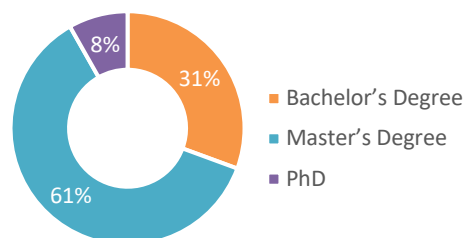


Figure 3.3 Work Experience in the Unit

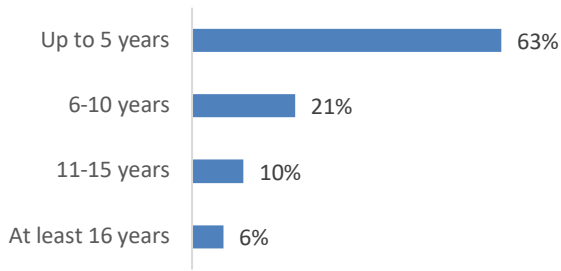
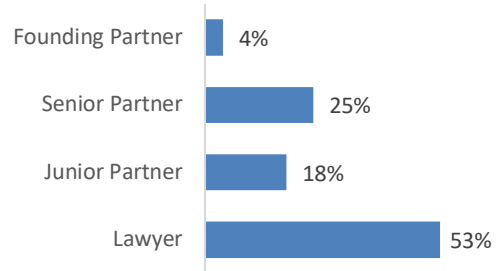


Figure 3.4 Working Title



RESPONDENTS' LAW UNIT

Figure 3.5 Firm/Unit Size

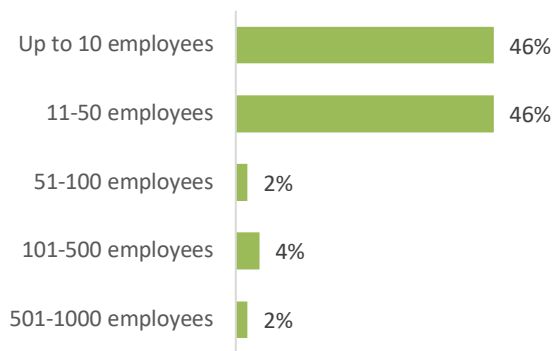


Figure 3.6 Firm/Unit Age

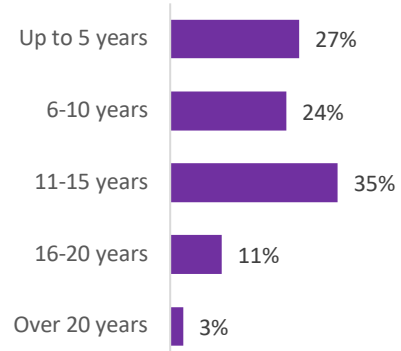


Figure 3.7 Number of Chinese Lawyers

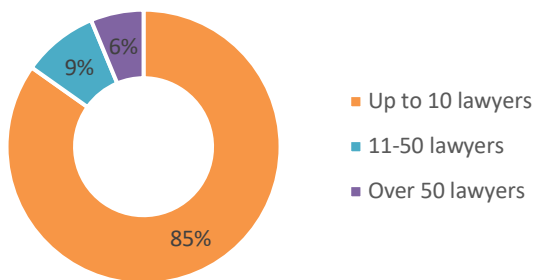
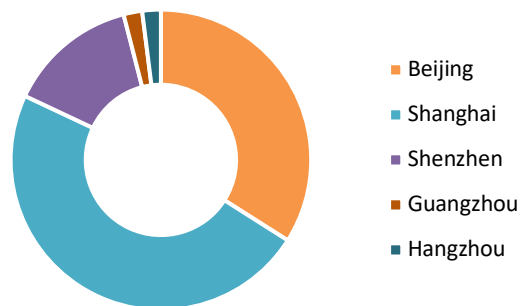


Figure 3.8 Unit Location



4. Survey Findings

This section provides an overview of the main findings from the survey for international law firms in the China market. These findings are based on respondents' experiences of their current work and organisations. For each sample, an overview of findings on two main areas (1) internationalisation outcomes and (2) people & management, are presented.

In addition, an analysis of the mean score for each dimension, i.e., the aggregated scores for each question belonging to the dimension, is provided in order to examine the differences in respondents' experiences. This type of analysis examines whether differences in the mean scores between various groups are statistically significant².

International law firms are characterised by four criteria: 1) country of origin, which means sample firms have to be established outside China and owned by non-Chinese lawyers; 2) having local branches in China, which means sample firms own local branches in Chinese cities; and 3) having overseas offices, which means sample firms own at least one overseas branch/office. These criteria ensured that all sample firms were international law firms that had been internationalised into the China market. The research team randomly selected law firms that meet the abovementioned criteria. The data were collected from their branch offices in China.

4.1 Internationalisation Outcomes

In terms of internationalisation outcomes, this survey explores unit performance, strategy implementation and innovation in services which are important indicators for internationalisation success.

4.1.1 Unit Performance

The survey explores two aspects of unit performance, viz., operational and marketing performance. The operational performance includes quality of services, development of new services, satisfaction of clients, relations between partners/directors and employees as well as among employees in general, and ability to attract and retain essential employees. In terms of market performance, the survey examines the growth in revenue, profitability, marketing and market share. Respondents were asked to rate their unit performance relative to competitors on a scale of 1 – 6 where 1 = much worse and 6 = much better.

Figure 4.1 presents the findings on the unit performance of international law firms.

Overall, the majority of respondents reported that the operational and market performance of their units improved after their law firms had internationalised into the China market.

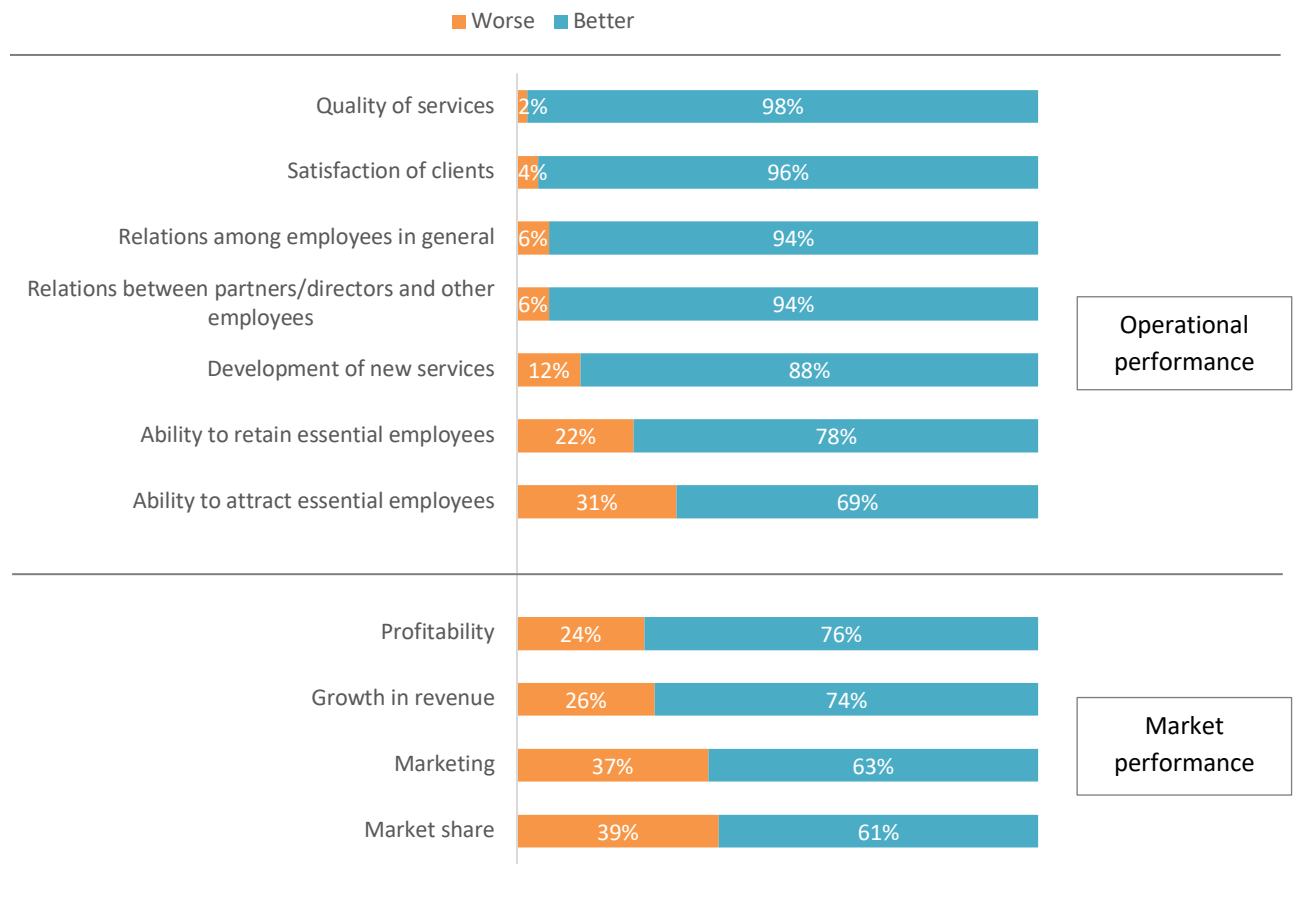
- **Unit operational performance:** Improvement in quality of services was reported by most respondents (98%), followed by satisfaction of clients (96%), relations between partners/directors and employees as well as among employees (94%), development of new

² In the area of statistics, the term *significant* does not mean *important* or *meaningful*, as is implied in the everyday use of the term. A result is deemed **statistically significant** if it is unlikely to have occurred by chance, and therefore provides enough evidence to signal that group means are different.

services (88%), ability to retain essential employees (78%) and ability to attract essential employees (69%).

- **Unit market performance:** Over 70% reported growth in profitability (76%) and in revenue (74%) of their units. Over 60% reported an increase in marketing performance (63%) and market share (61%).

Figure 4.1 Unit performance



4.1.2 Strategy Implementation

Absorptive capacity is broadly understood as a firm’s ability to recognise, assimilate, and exploit new and external knowledge (Cohen & Levinthal, 1990; Cross & Israelit, 2021). It is important to law firms, because their input and output are the knowledge embedded in their people (Von Nordenflycht, 2010; Zardkoohi, Bierman, Panina, & Chakrabarty, 2011). Figure 4.2 highlights that the respondents provided a positive view on the enactment of absorptive capacity in their current units. Over 70% of the sample agreed that the new strategy was implemented successfully in their units.

- 87% agreed that their units integrated the new strategy successfully into their units’ routines.
- 81% agreed that their units considered that the strategy implementation effort was successfully within their units.
- 79% agreed that the strategy was applied successfully or better.
- 74% agreed that the process of implementing the strategy was a success for their units.

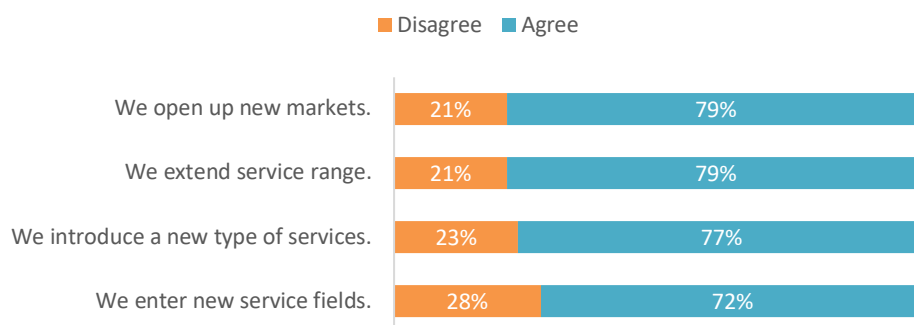
Figure 4.2 Strategy Implementation



4.1.3 Innovation in Services

The survey also explores the innovation in services of the units of the law firm. Figure 4.3 illustrates the findings on different aspects of innovation. In terms of innovation, over 70% of the respondents indicated that their unit opened up new markets and extended service range (79%), introduced a new type of services (77%), and entered new service fields (72%).

Figure 4.3 Innovation



4.2 People and Management

People and services are important to the performance of law firms, as human capital with professional knowledge is considered as the key asset which plays an important role in law firm internationalisation. Professionals as knowledge repositories have the intelligence, skill, knowledge, and expertise to provide customised services to domestic and international clients (Bello et al., 2016). The survey examines a range of aspects of people and service in international law firms that expanded in the China market, including globalisation & localisation, international people management, ambidextrous management and technology & digitalisation.

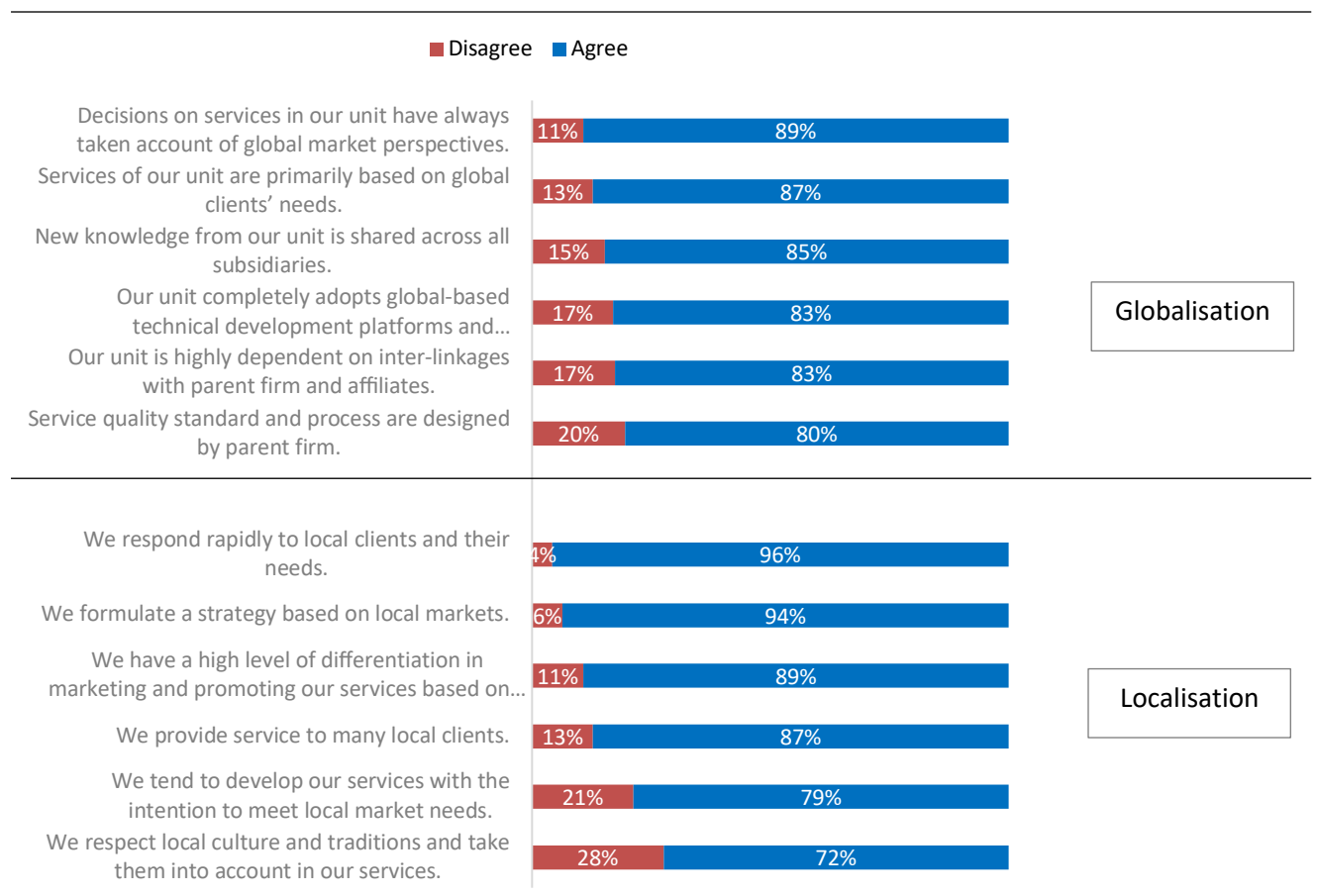
4.2.1 Globalisation and Localisation

A firm's ability to balance both globalisation and localisation has become increasingly critical for its growth and survival (Williams, Colovic, & Zhu, 2017). For law firms, globalisation refers to the

capability to provide legal services globally in an effective way. Firms integrate their management and resources in order to gain efficiencies, reduce costs, maintain global consistency, access raw resources and competition worldwide, and develop global technology platforms (Prahalad & Doz, 1987). Meanwhile, localisation implies the firms' ability to adapt and respond to diverse consumer tastes and varying rules in government regulation and business cultures of local markets (Williams et al., 2017).

Figure 4.4 shows the respondents' perception of globalisation and localisation in the current units of their law firm. Overall, their units demonstrated a high level of ability to handle globalisation and localisation. The detailed findings are presented as below.

Figure 4.4 Globalisation and Localisation



Globalisation:

- 89% agreed that the decisions on service of their units always took account of global market perspectives.
- 87% agreed that services of their unit were primarily based on global clients' needs.
- 85% agreed that new knowledge was shared across all subsidiaries.
- 83% agreed that their units completely adopted global-based technical development platforms and management systems as well as highly relied on inter-linkages with parent firms and affiliates.
- 80% agreed that service quality standard and process were designed by parent firms.

Localisation:

- 96% agreed that their units responded rapidly to local clients and their needs.
- 94% agreed that their units formulated strategies based on local markets.
- 89% agreed that their units had a high level of differentiation in marketing and promotion based on local markets.
- 87% agreed that they provided services to many local clients.
- 79% agreed that their units tended to develop their services to meet local market needs.
- 72% agreed that their units respected local culture and traditions and take them into account in the provision of their services.

4.2.2 International People Management

International people management or international human resource management (IHRM) plays an important role in helping international law firms to achieve high performance. This report examines two characteristics of IHRM in the international law firms in the China market, including *alignment* and *flexibility*. IHRM alignment means the units need to integrate and align their systems with the business goals of the whole firm and facilitate change and learning in their businesses. In contrast, IHRM flexibility means the units have the autonomy to adjust HR management to some extent to fit their business environment (Beletskiy & Fey, 2020).

Figure 4.5 illustrates findings on IHRM alignment and flexibility. The results highlight that a higher percentage of respondents had a more positive view of IHRM flexibility than IHRM alignment in their current law firm units.

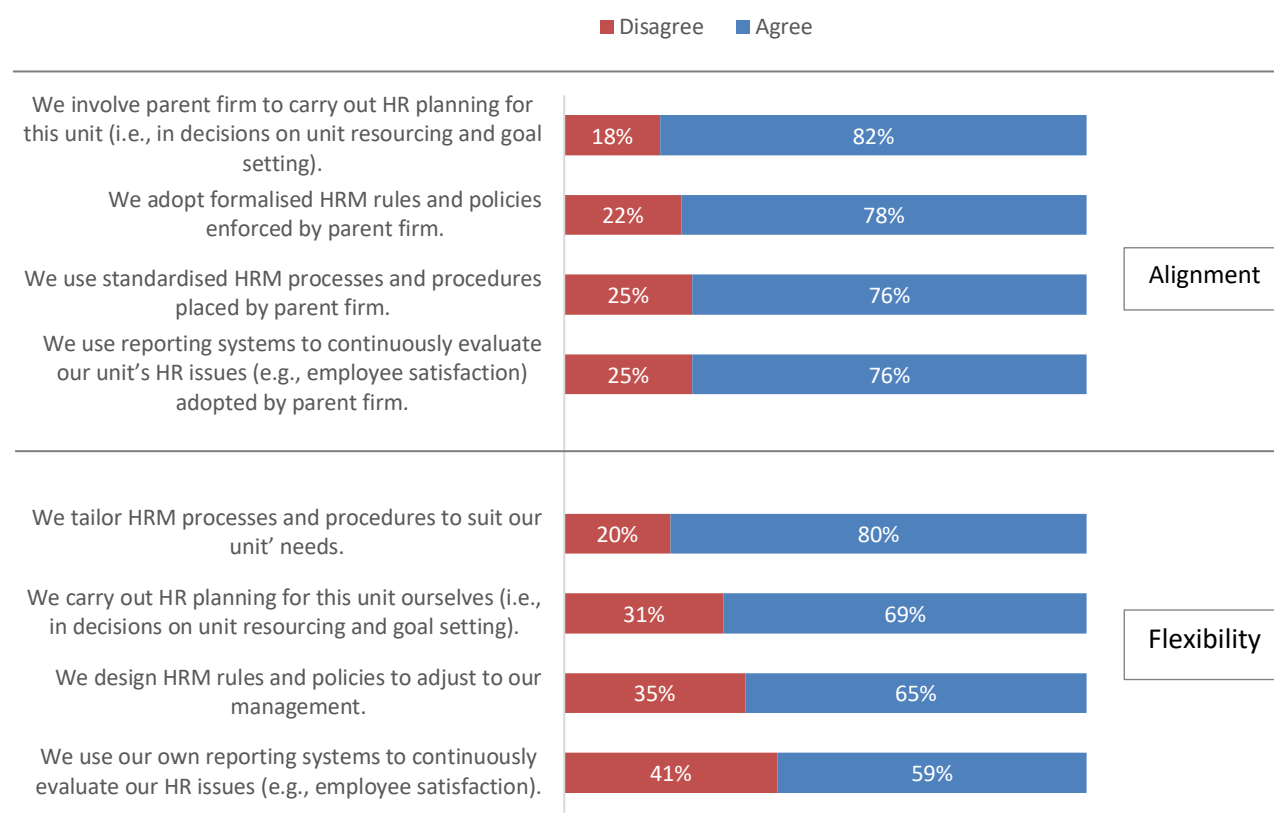
IHRM alignment:

- 82% agreed that their units involved parent firms to carry out HR planning for their units
- 78% agreed that their units adopted formalised HRM rules and policies enforced by parent firms.
- 76% agreed that their units used standardised HRM processes and procedures and reporting systems to evaluate their units' HR issues adopted by the parent firms.

IHRM flexibility:

- 80% agreed that their units tailored HRM processes and procedures to suit the units' needs.
- 69% agreed that their units carried out HR planning for their units themselves.
- 65% agreed that designed HRM rules and policies to adjust to their management as well as
- 59% agreed that they used their own reporting systems to continuously evaluate their HR issues.

Figure 4.5 International Human Resource Management



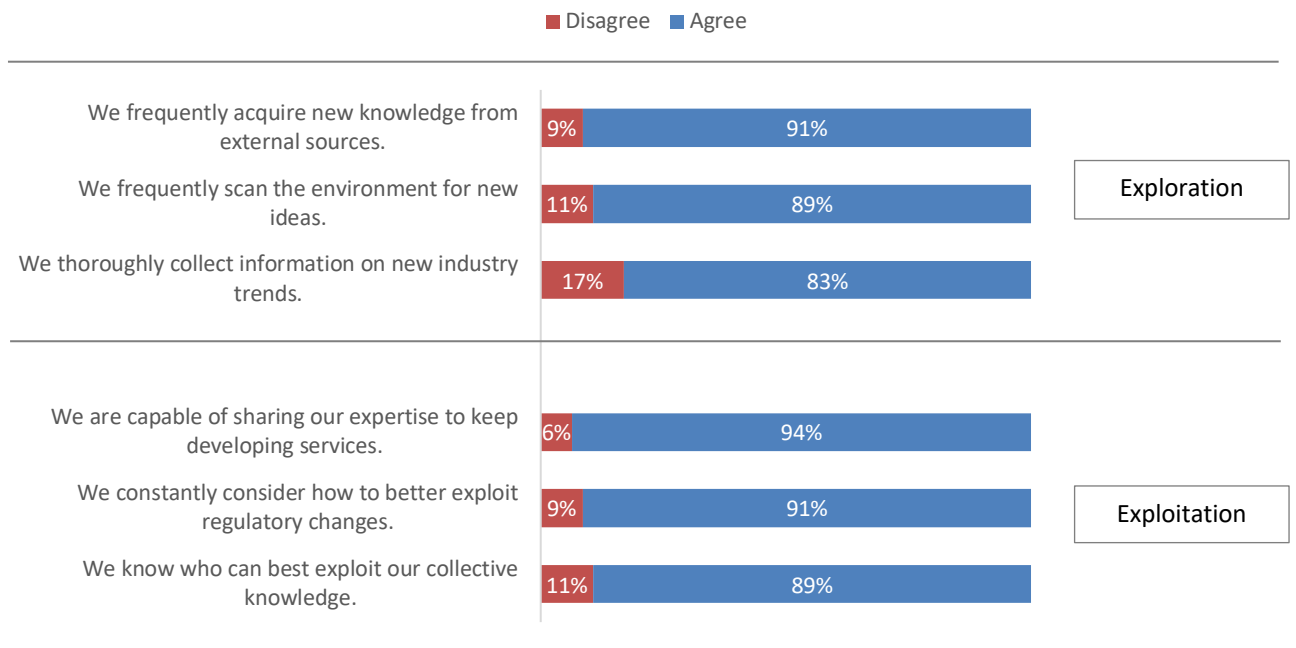
4.2.3 Ambidextrous Management

Organisational ambidexterity refers to an ability to balance exploration and exploitation, which allows the firms to be creative and adaptable while also continuing to rely on more traditional, proven methods of business (Fu, Flood, Bosak, Rousseau, Morris, & O'Regan, 2017). Exploration means the ability to utilise the firm's internal and external resources to meet today's business needs. Meanwhile, exploitation refers to the ability to utilise the firm's internal and external resources in order to be adaptive to future market opportunities. Organisational ambidexterity has increasingly become critical to law firms when law firms follow their clients to internationalise by offering a customised service (Hitt, Bierman, Uhlenbruck, & Shimizu, 2006; Krull, Smith, & Ge, 2012).

Figures 4.6 presents the findings on exploration and exploitation of the international law units in China. The results highlight that most units achieved the ability to balance exploration and exploitation. In terms of exploration, 91% agreed that their units frequently acquired new knowledge from external sources; 89% reported that they frequently scanned the environment for new ideas, and 83% agreed that they thoroughly collected information on new industry trends.

While focusing on exploration, most respondents indicated that their units were also capable of exploiting their existing services, such as sharing their expertise to keep developing services (94%), constantly considering how to better exploit regulatory changes (91%) and knowing who can best exploit their collective knowledge (89%).

Figure 4.6 Ambidextrous Management

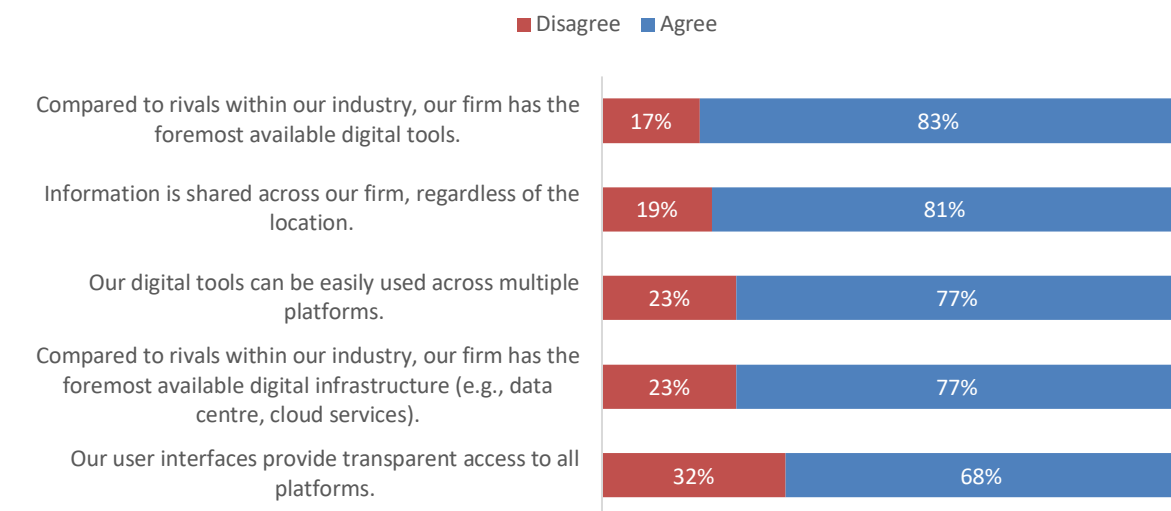


4.2.4 Technology and Digitalisation

Technology and Digitalisation are considered to have impacts on firm performance. The survey findings show that the majority of respondents' law firms achieved a good level of technology and digitalisation. Figure 4.7 details the findings on this aspect.

- 83% agreed that their firms had the foremost available digital tools compared to rivals within their industry.
- 81% agreed that information was shared across the firms regardless of the location.
- 77% agreed that their firms' digital tools could be easily used across multiple platforms.
- 77% agreed that their firms had the foremost available digital infrastructure.
- 68% agreed that the user interfaces provided transparent access to all platforms.

Figure 4.7 Technology and Digitalisation



5. Key Drivers Analysis

This study investigates a broad range of factors affecting internationalisation outcomes in expanding into the China market, including unit performance, strategy implementation, innovation in services. In order to identify those factors that are most important for internationalisation outcomes, a key driver analysis was undertaken in this project. This analysis uses a number of statistical techniques to help interpret the results so that actionable criteria can be identified. Following each analysis, we plotted each driver with the largest impact on each outcome against its presence across the 81 Chinese units of the international law firms (i.e., its mean score). This helps to identify the features that need to be developed, monitored and improved.

5.1 Drivers for Unit Performance

Figure 5.1 plots the main drivers of unit operational performance. The findings show that the most important drivers of operational performance are: (1) Technology and Digitalisation, (2) Exploitation, (3) Localisation, (4) Exploration, and (5) IHRM Flexibility. Among these factors, the areas in most needs of attention are *Technology & Digitalisation* and *IHRM flexibility*, which had a lower presence but higher impact category on unit operational performance. Given the relatively high presence, other factors (*Exploitation* and *Localisation*) need to be monitored and maintained.

Figure 5.1 Drivers of Unit Operational Performance

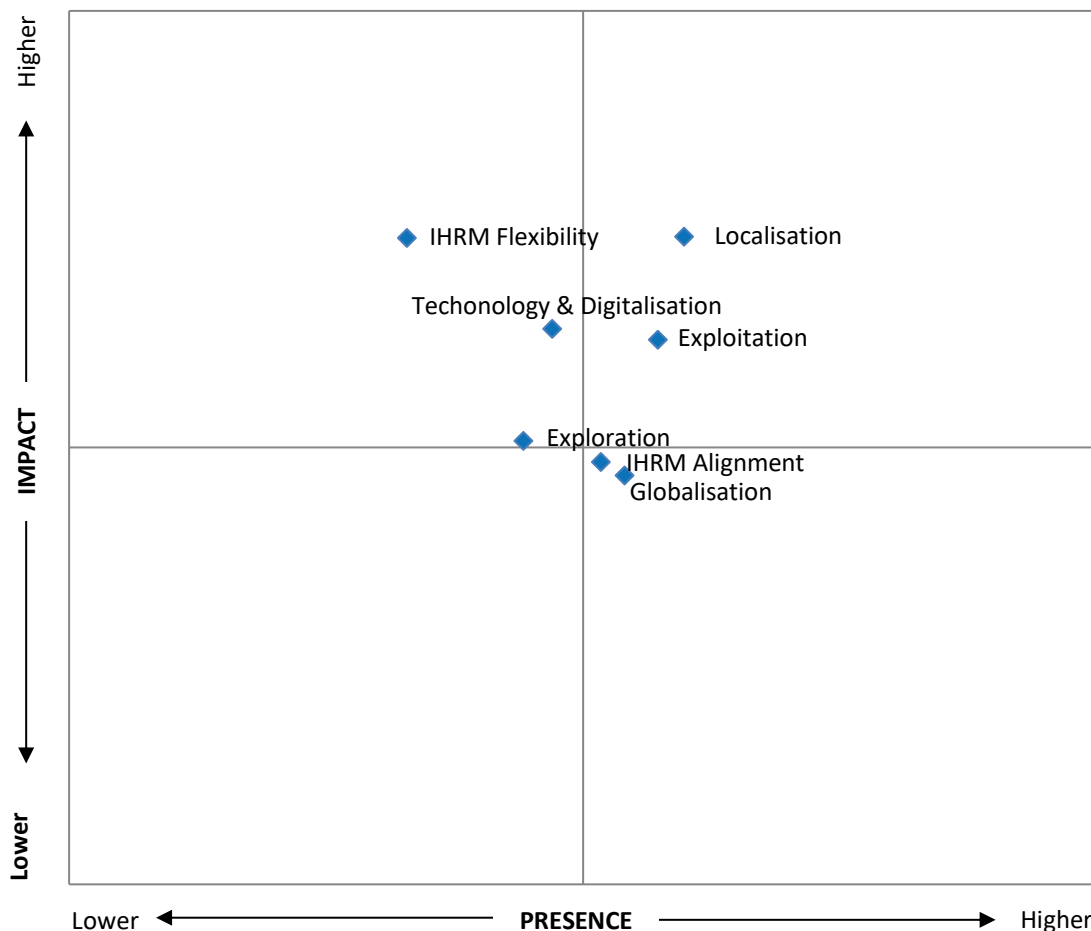
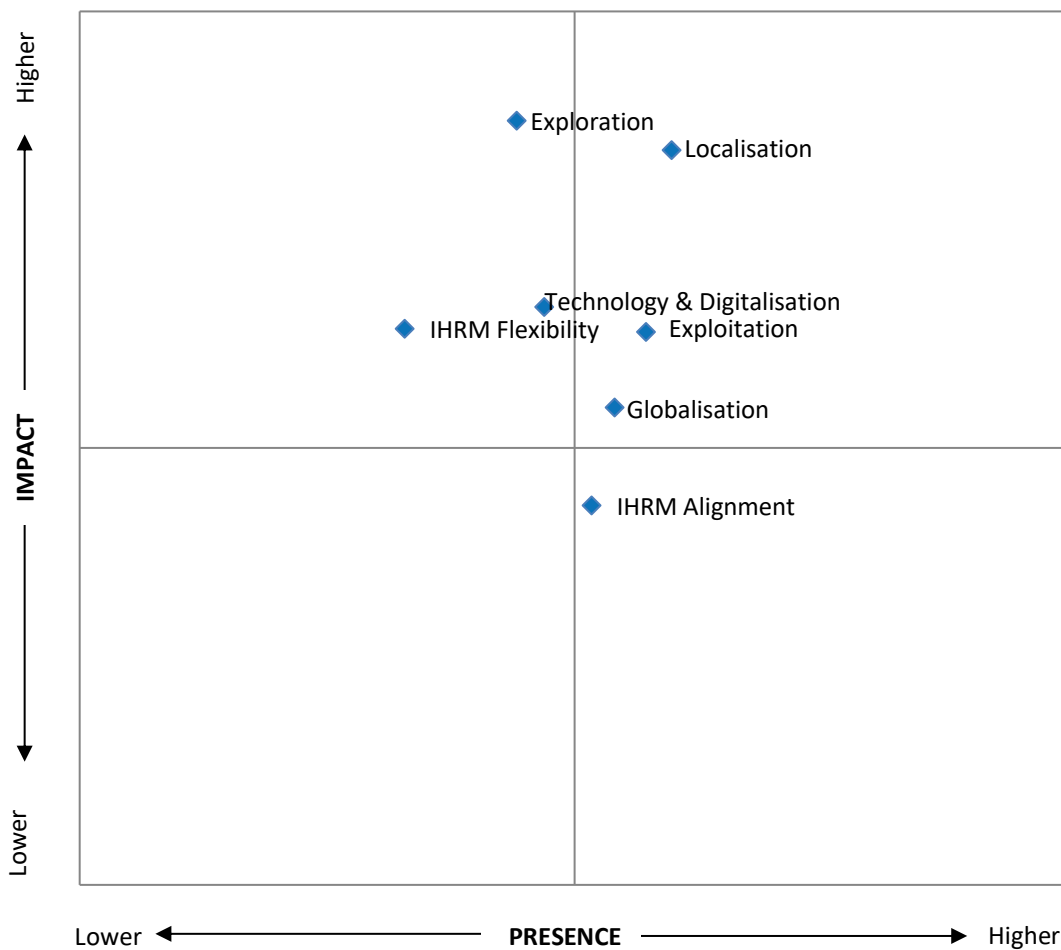


Figure 5.2 presents the main drivers of unit market performance. The results show that the most important drivers of market performance are: (1) Technology and Digitalisation, (2) Exploitation, (3) Localisation, (4) Exploration, (5) Globalisation and (6) IHRM Flexibility. The area deserving the most attention is *Technology & Digitalisation*, *Exploration* and *IHRM Flexibility* which was in a lower presence but higher impact category on unit market performance compared to other factors. Given their relatively high presence, *Localisation*, *Globalisation*, and *Exploitation* need to be monitored and maintained.

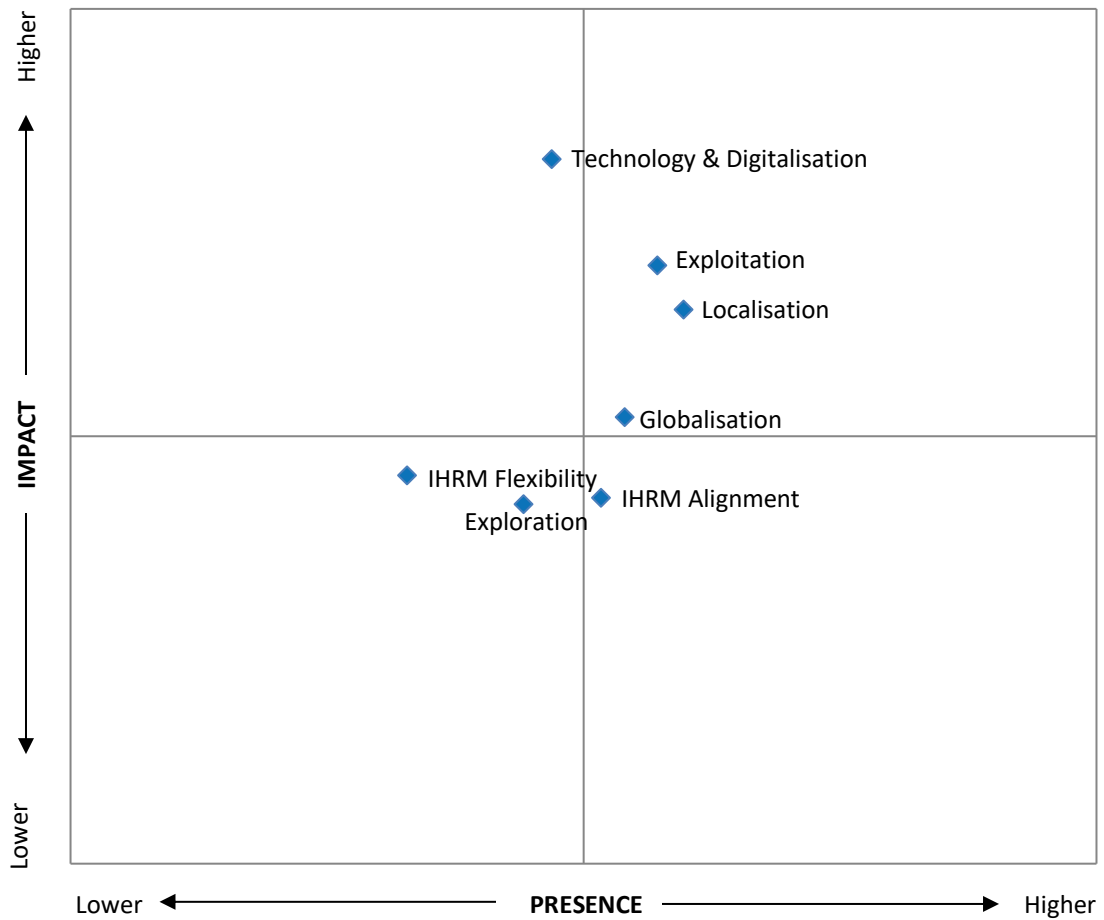
Figure 5.2 Drivers of Unit Market Performance



5.2 Drivers for Strategy Implementation

Figure 5.3 highlights that the most important drivers of absorptive capacity are: (1) Technology and digitalisation, (2) Exploitation, (3) Localisation and (4) Globalisation. While all factors significantly influence the strategy implementation of the law firm units, *Technology & Digitalisation* needs the most attention, given its lower presence but higher influence compared to other factors. In addition, *Exploration*, *Localisation* and *Globalisation* need to be monitored and maintained as they show a relatively high presence and impact.

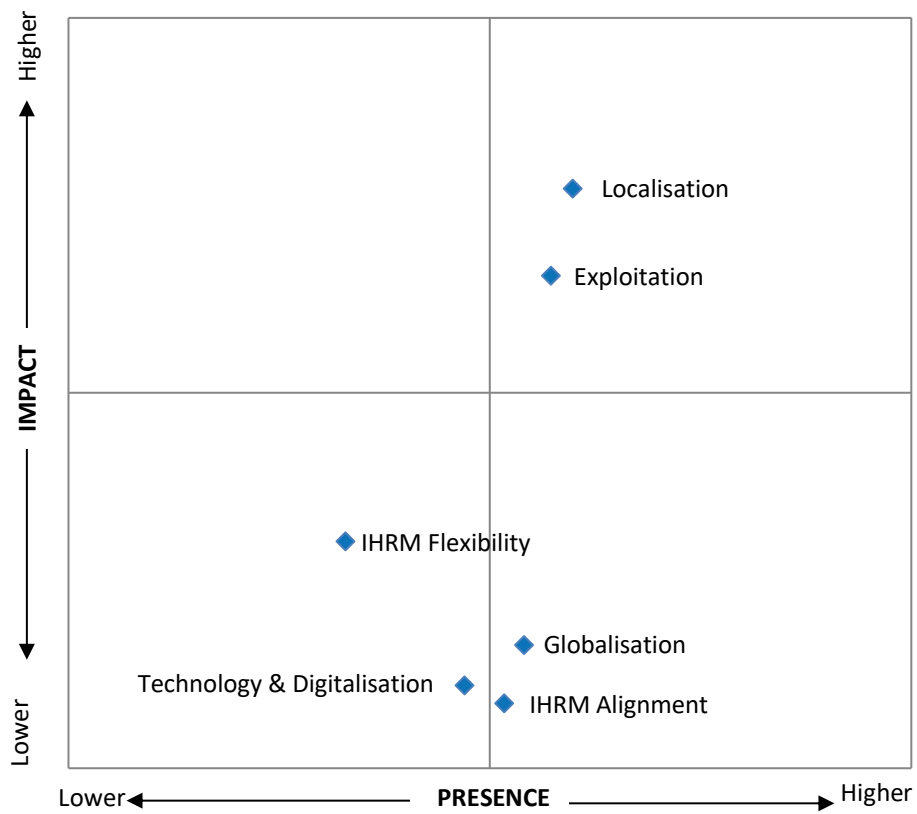
Figure 5.3 Drivers of Strategy Implementation



5.3 Drivers for Innovation in Services

Figure 5.4 shows that the most important drivers of innovation in services for the Chinese units of international law firms are: (1) Localisation and (2) Exploitation. Localisation had the highest impact and a relatively high presence, so it needs to be monitored and maintained. The area that needs to be improved is Exploitation, which had a relatively low presence but high impact on the innovation of the units.

Figure 5.4 Drivers of Innovation in Service



6. Findings of Comments and Interviews

In-depth interviews were conducted with 12 experienced managing partners and experienced lawyers in the Chinese offices of international law firms. To further understand the perspective of an under-explored phenomenon, the international law firms in the China market, thematic analysis was carried out on the collected interviews. This process involved reading, understanding and coding the data, enabling the research team to generate higher-order constructs and themes. Three independent coders analysed the interview data. The coding process was repeated until a clear and shared understanding and interpretation was reached among the researchers.

As a result, four main themes emerged: (1) Two-decade development process of expanding the business into China; (2) opportunities for expanding into the China market; (3) challenges for expanding into the China market; and (4) Practices in the China market. The results from the thematic analysis are presented below.

6.1 Context Analysis

6.1.1 Development Process of Three Decades

Since 1992 when 12 international law firms were allowed to provide legal services in China, the number of Chinese branch offices has been increasing over the past three decades. The number of these branch offices increased to 96 in 2002, and increased rapidly to 232 in 2014. The period between 2002 and 2014 is the rapid development phase in which the international law firms expanded into the China market rapidly. After that, the number decreased gradually, and the number became 185 in 2020.

Beijing and Shanghai are the centres where these branch offices of international law firms are located in China. More than 90% of them were established in Beijing and Shanghai, which are the political and economic centres of the China market. The rest are located in Shenzhen, Guangzhou and Hangzhou, which are also large economic cities in China.

6.1.2 Opportunities for Expanding into the China market

The economic opportunities underpinned the expansion of international law firms into the China markets. Based on the interview data, the main opportunities in the China market conclude:

(1) The increase of inward FDI into the China market

The law firms followed their clients to internationalise their service into foreign markets. China became a hot location and destination for international investment. Particularly, in the past decades, the FDI inflows into China increased yearly. According to the 2021 World Investment Report published by UNCTAD, FDI inflows into China actually increased by 6% in 2020, to USD 149 billion, up from USD 141 billion in 2019. In 2020, China was ranked the world's second-largest FDI recipient after the United States. The country is the largest recipient in Asia and the leading investing country in terms of FDI outflows. China's main investors have remained broadly stable. They have provided a great opportunity for international law firms which follow closely their clients. Therefore, most of the top international law firms set up branch offices in China.

(2) The increase of outward FDI from China

Chinese firms expanded abroad while the FDI inflows into China actually increased during the past decades. This resulted in a need for legal services as these Chinese firms went into unknown markets. For example, the value of outward FDI from China amounted to approximately USD 153.71 billion in 2020, ranking first in the world, while global FDI flows declined due to the COVID-19 pandemic. However, the local law firms lack the capability to meet the increasing needs of legal service in foreign markets because most of them only focus on domestic markets, and a few have just started internationalisation. This provides a business opportunity for international law firms. Therefore, they established their Chinese branch offices to strengthen the relationship with their Chinese clients.

(3) Rapidly developed international business

The third opportunity for international law firms is the rapidly developed cross-border business in China. Due to its low labour costs, strong business ecosystem, lack of regulatory compliance, low taxes and duties, and competitive currency practices, China has become known as “the world’s factory” which produces products and exports them worldwide. This kind of cross-border transaction needs international law firms to provide legal services and help them avoid the risks when cooperating with international clients.

6.2 Challenges in Expanding into the China market

6.2.1 Overcoming Localisation Challenges: Language, Culture and Legal Systems

Law firms, as typical PSFs, provided customised legal services based on their high-educated professionals. This limits the internationalisation of law firms, as they face diversity when entering unknown markets. As an emerging market, China is critically different from developed markets where most of the international law firms were born. For example, China has a unique language, culture and legal system. These challenge international law firms when they transfer their professionals and management systems from developed economies into the China market. For example, international law firms bill their clients, based on the working hours of providing legal services. As such, they cannot estimate the total account when negotiating with their Chinese clients. However, Chinese clients prefer the fixed fee model so that they can know how much money they will pay for the service. It will help them to decide which law firm to work with.

“There are significant differences between the China market and our EU market. For example, Chinese clients prefer lawyers who graduated from top universities or have overseas education backgrounds. Our EU clients stress more on the working experiences of our lawyers”, Interviewee 2 said.

“Chinese clients like the fixed fee model, rather than the bill based on the service hours. It conflicts with the management practices of our law firms. Our firms measure the contribution of lawyers mainly based on their working hours. We also charge the clients based on the working hours that our lawyers serve for them.” Interviewee 9 said.

6.2.2 Competition from other International Law Firms

When most top international law firms entered China, the competition among them became much fiercer. They have to compete for the top clients in China by providing smoothest relationship between

the clients and law firms. Setting up Chinese branch offices is an available and practical choice. As such, the number of their offices obviously increased in the past decades.

“When we enter China, we have a long waiting list of clients who need services from our law firm. But the competition became increasingly fierce as more and more international law firms set their branch offices in China. Clients have more options.” Interviewee 6 said.

“We need to try to keep the stable relationship with clients due to the increasing number of international law firms in China”, Interviewee 10 said.

6.2.3 Defensive competition of local law firms

The local law firms defend their markets by providing low prices to their clients and internationalising their legal services to build their global service networks. For example, Dacheng, Fangda, King & Wood, and Yingke law firms have been rapidly internationalising during the past decades. These local law firms dominate in the domestic market where clients’ business does not involve cross-border cooperation. They also compete with international law firms in the field of cross-border legal services. Local law firms developed their specific advantages as they have long-trust relationships with clients, provide lower-price service, set overseas branches based on Chinese firms’ needs, and adopt digital technology-based platforms. These features challenge the international law firms in China as their clients also prefer the Chinese law firms if they do business in China.

“Chinese law firms developed very quickly, and some compete with us. They provide low-price, and they develop their abilities to provide the same services as ours”, Interview 9 said.

“A lot of our staff left and joined the Chinese law firms. They can earn more in local law firms. They also can get the high status there”, Interviewee 4 said.

6.2.4 Limitation of Chinese law

Chinese law limits the business activities of international law firms as these law firms are only allowed to provide legal consultant services. They cannot provide legal services in litigation cases, even though international law firms focus on consultant services that provide more revenue than the services in litigation cases. This kind of limitation is common in many countries. However, it still challenges the business of international law firms in China to some extent.

“We cannot involve in litigation cases as we work in the international law firms rather than local law firms”, Interviewee 3 said.

“We main provide the consultant service for our clients. We can’t represent our clients in litigation cases. So, we have to cooperate with local law firms”, Interviewee 8 said.

6.3 Management Practices

6.3.1 Hiring Talent from China

The 12 interviewees came from different international law firms. Eleven of them are Chinese, and only one of them came from the UK. The interview data indicated that their firms recruited Chinese talent with an overseas education background. Local talent accounts for the majority of the staff in the Chinese branch offices even though the managers are non-Chinese. Local talent can help international law firms to overcome the challenges due to the differences in language, culture and legal system.

“Most of our staff are Chinese lawyers”, Interviewee 1 said.

“Of course, Chinese staff are good at communicating with clients in China. If clients are from other countries, we have a specific lawyer who can communicate with these clients. Chinese lawyers provide legal service based on the requirement of that specific lawyer”, Interview 12 said.

6.3.2 Exploiting Existing Advantages

International law firms have advantages due to their long-term cross-border operations in different locations worldwide. They have the experience and knowledge to provide cross-border legal services. In addition, the reputation of these firms in legal markets can strengthen their competitiveness. The interviewed law firms present confidence in their existing advantages in the China market.

“Our management system keeps consistent with our HQ in the UK. This system works well in the branch offices worldwide”, Interviewee 5 said.

“The managers of our firm (Chinese branch office) came from the HQ, and he has rich experience on cross-border services. I can learn a lot from working with him”, Interview 9 said.

6.3.3 Focusing on Large Client Organisations

International law firms target the top clients who can bring them large revenues in the Chinese market, such as the international firms that have business in China or top Chinese firms that have overseas businesses. For example, most of them provide legal services to the state-owned firms of China, which can generate significant revenue for the international law firms. Their Chinese branch offices focus on these top clients and keep a close and stable relationship with these clients.

“We only have about 20 lawyers in the firm (Chinese branch office). We only provide services to the large law firms, such as state-owned Chinese firms, or the big international firms”, Interviewee 4 said.

“The large firm can bring us a great amount of revenue. They have a lot of cross-border business. We focus on these clients and try to keep a good relationship with them. During the festival of China, we send gifts to them”, Interviewee 9 said.

6.3.4 Specialising in Cross-border Services

International law firms focus on cross-border legal services in which they have experience, knowledge, and professionals, compared with the local Chinese law firms. They know their competitive advantages and strengthen them to generate revenues from cross-border services. They establish the service group, containing talented employees from various countries, to serve the international clients. Most Chinese law firms do not have this kind of capability.

“Our team contains lawyers from different countries, so can provide services if the clients will do business in different markets. It will involve the different legal systems, cultures and government policies. Our team can provide the suggestions to our clients”, Interviewee 5 said.

“We have branch offices in the main markets to serve our international clients. For example, we can help them investigate the potential markets and identify potential risks in unknown markets. We have lawyers in these markets for a long time, and we knew these markets better than our clients”, Interviewee 8 said.

7. Conclusion and Recommendations

This research was carried out to explore the drivers that affect the performance of international law firms and lawyers in the China market, including human resources management, business operations, digital technology applications, knowledge learning and innovation and entry modes into unknown markets. It aims to answer the question of how law firms from developed markets can internationalise successfully and overcome the challenges encountered in China.

The research investigated a broad range of issues related to international law firms, including:

- 1) development process of international law firms in the China market. Even though the number has been increasing in the past two decades, it has decreased since 2014.
- 2) opportunities for expanding into the China market. The international law firms set up their Chinese branch offices due to economic considerations.
- 3) challenges for expanding into the China market. These law firms meet various challenges due to the diversity in language, culture and legal system, fierce competition from other international law firms and local Chinese law firms, and the limitation of Chinese law.
- 4) practices of international law firms to capture the opportunities and overcome the challenges in China: recruit local talent, exploit the existing advantages, target the top clients, and focus on cross-border services.

The research identified a number of factors that can facilitate the performance of international law firms. The most important drivers of operational performance are:

- 1) Technology & Digitalisation
- 2) Exploitation
- 3) Localisation
- 4) Exploration
- 5) Globalisation
- 6) IHRM flexibility & alignment

These factors have different impacts on internationalisation outcomes, including unit performance, strategy implementation, and innovation in services of these Chinese law firms. The findings of the relationship between these drivers and outcomes not only contribute to our understanding of the under-investigated phenomenon but also help legal practitioners improve the cross-border management and facilitate the operation of international law firms in China.

The researchers carried out a detailed analysis of the data, which involved statistical modelling in identifying the drivers that have the greatest impact on these issues. The analysis identified a number of factors that were consistently linked to all of the outcomes investigated, and so, in many respects, these drivers and outcomes are inter-linked. Thus, in addressing the challenges that arise when law firms internationalise into emerging markets, opportunities can also arise for effective management to overcome the complexity between home and host countries.

The research findings suggest three intertwined priorities to successfully manage the Chinese branches of international law firms and their elite lawyers, especially when they involve cross-border legal service provision:

- **Localising legal services**

Due to the increasing volatility, complexity, and uncertainty in the dynamic international environments and markets, especially when entering emerging markets, managers and lawyers of international law firms need to localise legal services. They should deeply understand the needs of their existing clients and potential clients into/from local markets. Diversity exists between them and their clients, such as differences in language, culture and legal system, challenging their existing management experiences. In addition, localisation can also help them quickly respond to clients' requirements, which can keep a stable relationship between clients and law firms.

The practices found in this study can be adopted to localise their legal services, including recruiting local talent, exploiting the existing advantages, targeting the top clients, and focusing on cross-border services. These practices can help them to strengthen their existing competitive advantages and address the potential challenges. This project suggests that practitioners of international law firms need to integrate their existing advantages into local markets, especially when entering emerging markets, which is critically different from their home countries.

- **Exploiting the existing resources to innovate their services**

The data revealed that exploitation is the key driver for unit performance of the Chinese branch offices, strategy implementation and innovation in services of international law firms. Compared to the local counterparts from emerging markets, they have resources that can bring them competitive advantages. These resources include their incremental experiences, knowledge and know-how.

Significant differences exist between the China market and the home countries of international law firms, which adds complexity to the operation of their branch offices in China. When exploiting their existing resources in China, they should be aware of these differences to innovate their existing services. Most interviewed law firms stress alignment more than flexibility, which means units have less flexibility to innovate their service, which may differ from existing services. In addition, the unit operational performance is better than the unit marketing performance. It implies that management practices work better than marketing practices. It may be because these international law firms have not innovated their existing services to meet the local clients of their Chinese branches. Therefore, international law firms need to innovate the services in Chinese branch offices by exploiting their existing resources.

- **Further enhancing technology and digitalisation**

Technology advancement has brought disruption to the internationalisation process of law firms. However, this project finds that technology & digitalisation needs the most attention, given its lower presence but higher influence compared to other factors. Based on data analysis in Section 5, technology & digitalisation can affect the unit performance and strategy implementation. Digitalisation also facilitates and accelerates the knowledge translation process to enhance the effectiveness of knowledge learning and innovation in global law

firms. Therefore, international law firms need to further enhance technology and digitalisation in their Chinese branch offices.

Appendix A: Notes on Methodology

This section provides further details about the methodology.

A.1 Literature Review

The worldwide internationalisation of law firms was regarded as one of the most remarkable developments in recent decades (Liu, 2008; Liu & Wu, 2016). Most of the existing literature focuses on the internationalisation between developed and developed economies (e.g., Faulconbridge, 2008; Faulconbridge & Muzio, 2015; Flood, 2013; Hitt et al., 2006; Quack, 2012; Suseno & Pinnington, 2018a), the internationalisation into emerging markets remains relatively under-explored up to date (see Freeman, Cray, & Sandwell, 2007; Freeman & Sandwell, 2008 as exceptions). These studies on law firms entering emerging markets only focus on the network as an entry mode (Freeman et al., 2007; Freeman & Sandwell, 2008). Similar to other industries' internationalisation, these law firms need to manage the tension of global integration and local responsiveness. Jurisdictions differ across borders so dramatically that international law firms need to be localised in overseas markets (Segal-Horn & Dean, 2011). The local adaptation to different foreign markets and circumstances hinder their global expansion (Salvoldi & Brock, 2019). In addition, cultural difference brings challenges for law firms in entering emerging markets. Emerging countries, such as China, have a relatively high-power distance and mainly adopt the hierarchical management structure within firms (Fu, Bosak, Flood, & Ma, 2019; Fu, Ma, Bosak, & Flood, 2015; Fu, Ma, Flood, Bosak, Liu, & Zhang, 2016). As such, these challenges call for more research on the internationalisation of law firms in entering emerging markets.

In order to identify the key drivers for the operation of international law firms in the China market and answer how and why those law firms can survive and succeed in the unknown emerging market, the research team conducted an extensive review of literature on IHRM Flexibility vs Alignment (Beletskiy & Fey, 2020), IHRM Standardization vs Localization (Beletskiy & Fey, 2020; Lu & Bjorkman, 1997), IHRM Strategy vs Operation (Beletskiy & Fey, 2020), Short-term vs Long-term and People-driven vs Profit-driven (Collings, Nyberg, Wright, & McMackin, 2021; Dundon & Rafferty, 2018; Marchington, 2015), Globalisation vs Localisation (Williams et al., 2017), Organisational ambidexterity (Fu et al., 2017), Ambidexterity & innovation (Gibson & Birkinshaw, 2004; He & Wong, 2004), Technology & Digitalisation (Akter, Wamba, Gunasekaran, Dubey, & Childe, 2016; Wamba, Gunasekaran, Akter, Ren, Dubey, & Childe, 2017), Absorptive Capability (Schleimer & Pedersen, 2013) and Unit performance (Delaney & Huselid, 1996). Given the unique characteristics of law firms, as a typical professional service firm (PSF), they are knowledge-intensive firms with low capital intensity and professionalised workforce (Von Nordenflycht, 2010; Zardkoohi et al., 2011). They provide customised services to their clients (Maister, 2012; Von Nordenflycht, 2010). Based on their differences from product industries, the internationalisation of law firms differs from manufacturing or general service firms. For example, product industries mainly adopt entry modes such as wholly-owned subsidiary, joint venture, non-equity arrangement (Anderson & Gatignon, 1986; Brown, Dev, & Zhou, 2003; Elia, Larsen, & Piscitello, 2019), while PSFs are more likely to adopt networks (Salvoldi & Brock, 2019; Suseno & Pinnington, 2018b). Drawing upon the literature review, this study systematically examines the internationalisation of law firms in the fields of cross-border HR management, internationalisation strategy, and the adoption of digital technology in international law firms.

A.2 Data Collection

The research was carried out between May and September 2021. Two types of data were collected from experienced lawyers and partners of international law firms. The first type is quantitative data via a cross-sectional online anonymous survey. The survey included questions on the respondents' experience with their current units and their backgrounds. An online invitation was sent via email to the lawyers of international law firms (participants) to advise them about the survey and encourage their participation. This was followed up after the administration of the survey with two reminders.

The second type of data collected is qualitative data. The qualitative data collection was accomplished by conducting open-ended, semi-structured, and in-depth interviews with lawyers who had been working in international law firms for at least five years and were familiar with the internationalisation process and firm management. An interview guide was developed based on the literature regarding internationalisation and management (McQuillan et al., 2018; Pinnington & Gray, 2007; Segal-Horn & Dean, 2007; Winch, 2014). These open questions helped us to gain a detailed understanding of how international law firms internationalise their legal services and manage cross-border cooperation, especially the tension between global integration and local responsiveness. Each interview lasted between 30 and 90 minutes. This project follows the principles of strict confidentiality and voluntary participation. It also never collects personal private information and the firm's trade secrets.

A.3 Data Analyses

The analysis of quantitative data and presentation of the data predominantly involved descriptive statistics such as frequencies and means. Descriptive statistics were used to explore the participants' views on different aspects of their work. Statistical analysis was completed using Statistical Package for Social Sciences (SPSS v.26). Statistical significance was set at $p < 0.05$.

To analyse the qualitative interview data, we used a thematic analysis process (Gioia et al., 2013; Gioia & Pitre, 1990) to assist with the categorisation and interpretation of our data. This method is adopted widely in qualitative research on MNEs and EMNEs (e.g., Lynch and Jin, 2016; Witek-Hajduk and Grudecka, 2019). NVivo was used to conduct the thematic analysis, including categorisation, abstraction, comparison, dimensionalisation, integration, iteration, and refutation. We followed an established qualitative data analysis process to extract relevant themes (Spiggle, 1994).

A.4 Ethical Issues

The survey was strictly confidential and participation was entirely voluntary. Participants were advised that a full report of the study's findings would be provided to the organisation.

Participants were assured that under no circumstances would participants' individual responses be made available to any individual. Access to the data was limited to the research team and the data was stored electronically and protected by secure passwords known only to the research team.

The study was fully approved by Trinity College Dublin's Research Ethics Committee.

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