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## **A Theory of Law Firm Globalization**

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The market place within which large law firms operate has in recent years been transformed by the bundle of forces that collectively are referred to as globalization. The firms themselves are responding, in a variety of ways. Some have pursued a growth strategy, scaling up their operations to the extent that they have become global behemoths. Some have guarded outside profits by eschewing expansion and simply focusing on what they do best. Others who have not responded so successfully to the new challenges have seen their relative revenues and profits decline as a result.

Law firm globalization poses a number of fundamental questions that have not been taken fully into account in the existing literature on law firms. First, if scale and scope are desirable, why do all firms not follow the same pattern? Why have some firms gone global, whereas other highly profitable firms have tended to focus solely on a domestic practice? And why have the global firms tended to be those originating from outside the US? Secondly, is there a size beyond which the partnership (or partnership-like) form ceases to be viable? And thirdly, is there a relationship between the nature of a law firm's practice and the likelihood it will join the globalization trend?

In this paper, we suggest that answering these questions requires us to reconsider the nature of what it is that modern lawyers do, and how they organize the delivery of legal services. Specifically, our focus is on the source of law firms' profitability: the rents and quasi-rents attorneys are able to capture from advising their clients. Litigation lawyers capture rents from clients engaged in distributional disputes. Transactional lawyers, on the other hand, create value for clients by minimizing transaction costs associated with a deal. The competitive forces driven by globalization affect these two types of practice in different ways. While the importance of client-specific human capital for transactional firms may drive them towards closer integration with their clients, the important human capital associated with litigation is jurisdiction-specific. Drawing on a data set we have constructed ourselves, in part from data available from American Lawyer and other sources, we show that litigation and transactional firms do indeed have a different profile globally, with much of the globalization trend being driven by transactional firm. The data also show that, while globalization is associated with a decline in profitability, the

extent of the decline is diminishing. [Note: we also have run preliminary regressions, and will include them in the completed draft].

The article is structured as follows. In Part I, we document the changing shape of modern law firms, emphasizing in particular the dramatic growth of large law firms, the trend toward globalization, and the unevenness of these trends. In Part II, we begin by describing the classic supply side explanations of law firm growth in the scholarly literature. We then consider the effect of legal restrictions on law firm ownership and practice, as well as the impact of technological change. Although technological change is leading to an increasing commodification of law firm work, human capital will remain crucial in litigation, and with innovative transactions such as new financial products. Part III shifts to the demand side perspective, and explores the firm boundary pressures created by the globalization of the principal clients of transaction-oriented law firms. Once again, the analysis suggests that new financial products will be an increasingly important source of work for global law firms. Part IV then considers some of the implications of the analysis, and outlines our general theory of law firm globalization.