WHAT DO CHINESE CLIENTS WANT?

Ji Li & Wei Zhang†

Abstract

The world’s two largest economies are locked in an escalating trade war, and caught in the crossfire are hundreds of Chinese multinational companies (MNCs) that have made substantial U.S. investments. Facing heightened legal risks in a less hospitable environment, the Chinese MNCs increasingly depend on local lawyers. Yet, their purchase of U.S. legal service, a topic of both practical and theoretical importance, has received little attention. To fill the gap, this article empirically investigates how Chinese companies in the United States select their U.S. legal counsel. By analyzing a unique dataset, the article finds that Chinese MNC managers uniformly prioritize candidates’ practical experience and ignore their educational credentials. Legal fees matter, but to a much lesser degree than what one might infer from anecdotal evidence. Some Chinese MNC managers also pay close attention to a U.S. lawyer’s or law firm’s prestige, their Chinese or U.S. government background, and to lawyer recommendations by acquaintances or by the companies’ Chinese headquarters. Further empirical analysis of lawyer selection preferences unveils variable connections with the ownership types of Chinese investors. Sectoral regulation, in-house legal capacity, and U.S. investment size also correlate with one or several of the lawyer selection preferences. The findings offer insights useful to U.S. lawyers and policymakers concerned with the

† Ji Li is the John S. and Marilyn Long Professor of U.S.-China Business and Law at UC-Irvine Law School; Wei Zhang is an Assistant Professor of Law at Singapore Management University. The authors would like to thank the following: Stuart Green, Alan Hyde, John Leubsdorf, Sabrina Safrin and other participants in the faculty colloquium at Rutgers Law School, Jerome Cohen, Margaret Lewis, Benjamin Liebman, Taisu Zhang and other participants in the Chinese Law Work-in-Progress Workshop at Yale Law School, Yun-chien Chang, Christoph Engel, Eric Helland, Alice de Jonge, Wessel Wijtvliet, and other participants in the 2nd Conference on Empirical Legal Studies in Europe, Yulin Fu, Liyong Jiang, Tiezheng Li, Zhuang Li, Yingmao Tang, Wenming Xu, Ke Xu, and other participants in the Law and Finance workshop held at Peking University Law School. The authors would also like to thank Sida Liu, Bryant Garth, Emily Taylor Poppe, Carrie Menkel-Meadow, Ann Southworth, Swethaa Ballakrishnen, Rachel Stern, and David Wilkins for their attention, comments, and suggestions at various stages of this project. In addition, the authors thank Philip Shuchman Fund for Empirical Research for generous financial support.
opportunities and threats posed by the global expansion of Chinese businesses and contribute to theoretical debates on multiple topics, such as emerging market MNCs and their impacts on the legal profession and the legal service market in the United States and other developed countries.

I. INTRODUCTION

Economic globalization has profoundly reshaped the legal profession and the legal service market, and the subject has captured a great deal of scholarly attention. Yet, the vast existing literature has largely neglected the recent ascendance of Chinese multinational companies (MNCs). In contrast to MNCs in earlier waves of business globalization, those from China have thrived in a home state environment characterized by a weak judiciary. Moreover, Chinese MNCs have generally endured and sometimes even benefited from heavy-handed government intervention in corporate affairs and business dealings.

Moving to developed host countries, Chinese MNCs encounter enormous institutional divides. According to a Chinese MNC manager, “We came to invest [in the United States] for the rule of law, yet our biggest challenge here is also the rule of law.” To traverse the institutional gaps, Chinese MNCs inevitably rely on local legal professionals, especially now that the U.S. political and regulatory environment has turned more hostile due to the escalating trade war with China. However, this ever-increasing demand for legal services, with its long-term impacts on the service market and the legal profession, has received little scholarly attention. To begin to fill in the lacuna, this article empirically examines Chinese MNCs’ purchases of U.S. legal services.


Our study comprises two sets of questions. First, how do Chinese companies select their U.S. lawyers? There has been a lot of research on related topics, such as the value of lawyers and the globalization of law firms. Few scholars, however, have examined Chinese MNCs and their purchase of legal services. Unlike foreign investors from the UK or Canada, Chinese businesses have flourished in a home state environment where law is often secondary to power and connections, and companies generally undervalue high-quality legal services. “In the Chinese legal system, where relationships are often more important in problem-solving than understanding the letter of the law, a Chinese lawyer who went to school with the minister can be more helpful than a U.S.-trained lawyer who understands the letter of the law.” Will Chinese MNCs in the United States demonstrate similar preferences when selecting U.S. lawyers? For instance, do they pay close attention to a U.S. lawyer’s government background?

Second, as this article will show, intriguing inter-company variations exist among Chinese MNCs in their lawyer selection preferences. We will propose and then test a number of possible explanations. Since a defining feature of Chinese outbound foreign direct investment (FDI) is the prominent role of state-owned enterprises (SOEs), this article will explore whether Chinese investors with state ownership pay special attention to certain attributes of U.S. lawyer candidates.

To address these two sets of questions, we examine a unique dataset derived from a comprehensive survey of Chinese MNCs in the United States. The data provide an unprecedented window into multiple factors that Chinese MNC managers consider when selecting U.S. lawyers and enable statistical analyses of their preference variations.

---


II. ECONOMIC GLOBALIZATION, CHINESE FDI AND THE LEGAL SERVICE MARKET

Before the recent political backlashes, MNCs were organizing their businesses on a global scale. To serve their legal needs, many elite law firms have expanded their practices abroad. This type of globalization and its impact on the legal profession and the market for legal services have spawned a plethora of studies from diverse perspectives. A few of them, for instance, touch on the various models adopted by law firms during their global expansion. Some develop their international practices through mergers with and acquisitions of foreign law firms, whereas others grow organically, sending home-trained lawyers to foreign offices to maintain, to the extent possible, a uniform work quality and culture. Another strand of the literature examines the convergence of commercial law practices as a result of the global expansion of law firms. For instance, contracts adopted in international business transactions increasingly resemble the prototypes produced by elite U.S. and UK law firms. Still others research the interactions between expatriated lawyers and their local partners when elite firms establish international practices.

Although the debate has for years revolved around globalization and the legal profession of the United States and other

---

6 See, e.g., Janine Griffiths-Baker & Nancy J Moore, Regulating Conflicts of Interest in Global Law Firms: Peace in Our Time, 80 FORDHAM L. REV. 2541, 2541-42 (providing an overview of how law firms transform globally) (2011); see also Stern & Li, supra note 1, at 205.

7 See, e.g., Carole Silver, Local Matters: Internationalizing Strategies for US Law Firms, 14 IND. J. GLOBAL LEGAL STUD. 67 74 (2007) (discussing the values U.S. based firms emphasized when they develop from national to multinational); STERN & LI, supra note 1, at 205.


9 SILVER, supra note 7, at 83.


11 Id. at 26–27.

developed countries, a burgeoning literature has recently turned to developing countries. Chinese law firms, for instance, have been growing exponentially, and some of them have, through mergers or close partnerships with foreign firms, started global practices. Meanwhile, as a major base for service outsourcing, India assumes a crucial role in the globalized legal market.

In both China and India, changes in the legal profession resonate with the transformation of the global economic order. Insightful as these studies are, scholars have largely overlooked the recent expansion of Chinese MNCs into developed countries. Before the onset of the trade wars, Chinese investment outflow was multiplying at an exponential rate and Chinese MNCs increasingly targeted mature and competitive markets. Against that backdrop, Chinese FDI in the United States grew at an annual rate of 32% from 2010 to 2015, and in 2016 alone, the total investment doubled to $46 billion. While new investment from China plummeted thereafter, hundreds of Chinese MNCs had already made

---

15 Liu, supra note 13, at 684.
investments in the United States, and most of them intend to weather the ongoing trade war.

Unsurprisingly, one of the most daunting challenges for Chinese MNCs is to cross the vast legal and regulatory gaps between the two countries. Given the rapid transformation of the Chinese economy, all China-based MNCs are *nouveaux riches* that have thrived in an institutional context where law is secondary to power.  

Accustomed to such a legal environment at home, Chinese MNCs confront a huge institutional divide when entering the U.S. market, where formal laws govern most everyday corporate affairs and commercial dealings. To adapt to the new institutional setting, Chinese MNCs have to rely heavily on local legal professionals. How, then, do they make their selection of U.S. lawyers?

## III. WHAT DO CHINESE CLIENTS WANT?

Anecdotal evidence has portrayed Chinese MNCs as reluctant consumers of high-quality professional services, including legal services, and has ascribed this reluctance to mindset inertia. Because of the peripheral role of law in China’s domestic setting, Chinese managers fail to adequately comprehend or assess legal risks in host countries where law does matter. Following this argument, one would reasonably presume that Chinese MNCs undervalue legal services in the United States. To evaluate this speculation, we examine unique empirical evidence about lawyer selection preferences revealed by Chinese MNC managers in the United States.

### A. Possible Factors to Consider in U.S. Lawyer Selection

With more than 1.3 million registered lawyers, the U.S. legal service market should be able to meet any of Chinese MNCs’

---


23 Id.

24 AM. B. ASS’N, ABA NATIONAL LAWYER POPULATION SURVEY: HISTORICAL TREND IN TOTAL NATIONAL LAWYER POPULATION 1878-2019,
needs. But what are Chinese MNCs looking for in a U.S. lawyer? For most corporate clients, the ultimate objective of lawyer selection is to facilitate business transactions and limit legal risks. So, their selection cannot be analyzed in isolation from recurrent legal issues and legal service needs arising from their business transactions.

In addition, once their legal service needs have been identified, corporate clients face the challenge of effectively identifying U.S. lawyers capable of providing the appropriate services at an optimal quality to price ratio. Let us begin with the attorney’s fee. Price plays an essential part in any service market, and the U.S. market for legal services is no exception.25 In selecting U.S. lawyers, Chinese MNC managers may be even more cost sensitive. Comparatively speaking, the Chinese legal service market is underdeveloped, and corporate clients in China place “ruthless cost pressure” on legal services.26 To earn business, law firms in China, even many elite international firms, have to cap their fees or adopt flexible billing methods.27 Having been used to such practices at home, Chinese companies in the United States may regard U.S. legal services as exorbitantly expensive and therefore be more mindful of the price factor.

Besides attorney fees, Chinese investors may also prefer U.S. lawyers with rich practical experiences. This preference is commonsensical, as experience constitutes a core value of legal services.28 Recent research even suggests, despite the doomsday predictions,29 Big Law continues to thrive because these firms’ accumulated deal experiences offer precious information on deal

---


26 WILKINS, supra note 1, at 293.


However, the importance of practical experience may not be obvious to Chinese corporate clients. As just noted, in China, where law is secondary to political connections, clients typically under-appreciate the value of premium legal services. Expatriated Chinese managers may retain this attitude. Yet, theories also exist that predict the opposite. International business research has long documented isomorphism when companies expand overseas.

Besides attorney fees and practical experience, Chinese clients may also take into consideration a U.S. lawyer’s Chinese background. First, the ability to speak Chinese may be a plus. Senior Chinese executives at Chinese MNCs in their late 40s and 50s went to school in China decades ago, when English was either entirely excluded from the curriculum or poorly taught. These clients naturally prefer U.S. lawyers capable of explaining key legal issues in Chinese so that they may assess all pertinent risks. Moreover, words used in ordinary life may nevertheless carry intricate connotations in the legal context. Chary of being disadvantaged in negotiations, even those Chinese executives who can speak English well may still choose to communicate in their mother tongue. In China, Chinese clients of international law firms “increasingly demand that all communications, spoken and written, be in Mandarin.” Why not demand the same in the United States? Besides language, cultural differences may also impact the

---

30 Elisabeth de Fontenay, Law Firm Selection and the Value of Transactional Lawyering, 41 J. CORP. L. 393, 420 (2015) (explaining how repeat-player law firms can extract significant rents by aggregating and deploying private information about market transaction terms).

31 See, e.g., ANG & JIA, supra note 3, at 328–29; ZHANG & LI, supra note 3, at 31–33.


relationships between U.S. lawyers and foreign clients.\textsuperscript{35} And a U.S. lawyer’s Chinese background should help narrow that gap.

The U.S. market for legal services, though large and competitive, is highly imperfect.\textsuperscript{36} Clients, confronting immense information asymmetry, are usually unable to assess the quality of legal services.\textsuperscript{37} In addition, legal service is a typical credence good in that even seasoned corporate clients may not be able to adequately evaluate its quality even after its completion.\textsuperscript{38} The task is even more daunting for Chinese MNCs unfamiliar with the U.S. legal market. To address this issue, Chinese managers may pay close attention to signals of U.S. lawyers’ competence and the quality of their services. Educational credentials have long been deemed as effective signals of desirable attributes, such as intelligence and diligence.\textsuperscript{39} Mindful of the crucial signaling value, U.S. law firms have paid fastidious attention to job candidates’ pedigrees.\textsuperscript{40} Chinese managers, hailing from a culture that treasures education, may care a great deal about where their lawyers received their law degrees.

In addition, a U.S. lawyer’s or a law firm’s prestige can “offer a type of informal insurance to a potential client. If an important and complex transaction or litigation does not go well, directors, the CEO, and others in a corporation will be less likely to second-guess the decision of the general counsel to retain a charmed circle firm.”\textsuperscript{41} Because “nobody ever got fired for hiring Skadden,” MNC managers or their in-house counsels naturally prefer legal professionals with

\textsuperscript{35} Liu, supra note 4, at 777; Robert J. Walters, Now That I Ate the Sushi, Do We Have a Deal—The Lawyer as Negotiator in Japanese-US Business Transactions, 12 NW. J. INT’L L. & BUS. 335, 335 (1991).


\textsuperscript{38} Gilson, supra note 37, at 889-90.

\textsuperscript{39} Michael Spence, Job Market Signaling, in UNCERTAINTY IN ECONOMICS 283, 287–96 (Peter Diamond & Michael Rothschild, 1978) (using statistical models to explain market signaling regarding the level of education).

\textsuperscript{40} William D. Henderson, The Bursting of the Pedigree Bubble, DIGITAL REPOSITORY MAURER LAW (July, 2009), http://www.repository.law.indiana.edu/cgi/viewcontent.cgi?article=1116&context=facpub [https://perma.cc/U863-EJD3] (using Cravath as an example to illustrate law firm’s attention to pedigrees).

\textsuperscript{41} Sokol, supra note 10, at 27.
stellar reputations. In addition, as outsiders with a limited track record, Chinese MNCs may use prestigious law firms as “reputational intermediaries” to impress potential U.S. business partners.

Chinese investors may also rely on recommendations from trusted third parties to remedy their information asymmetry. Prior research has documented the role of informal networks and influential intermediaries in supplying information about legal services. To many, informal referrals offer qualitative, inexpensive, and tailored information not easily available through formal channels. From the perspective of Chinese MNC managers, endorsements from parties in long-term cooperative relationships also function as quality assurance because a reference to inferior lawyers may reflect negatively on the credibility and the intention of the acquaintances and jeopardize their established relationships.

Moreover, local MNC managers may pay close attention to lawyer recommendations from their Chinese headquarters. According to a prior study, Chinese SOEs often use outside legal counsels suggested by their corporate leaders or the leaders of superior state agencies. The rationale behind it, i.e., hierarchical control within the business organization, remains intact when the companies expand abroad. So, managers running the U.S. show might favor lawyers well-connected to their companies’ headquarters. However, in purchasing U.S. legal services, are managers in China better positioned to overcome the information asymmetry than their local colleagues? We find conflicting hypotheses. On the one hand, elite international law firms have operated in China for years and have advised many of the largest Chinese companies on issues

---

44 LADINSKY, supra note 36, at 213.
45 Id. at 218.
48 Li, supra note 2, at 85.
concerning U.S. law or even Chinese law.\textsuperscript{49} Such prior dealings, which narrow the information gap between Chinese corporate clients and providers of U.S. legal services, may benefit these law firms now that Chinese MNCs are expanding to the United States. On the other hand, lawyer selection based on headquarters’ recommendations may be suboptimal. Executives in China cannot be fully privy to the local legal predicaments of their U.S. affiliates and their peculiar service needs. In addition, influence costs, which are common among large business organizations, may impair the efficiency of U.S. lawyer recommendations by Chinese headquarters.\textsuperscript{50} Either way, headquarters’ recommendations may be an important factor to consider.

Furthermore, Chinese investors may prefer U.S. lawyers with some government background. Back in China, connections with government officials solve thorny legal problems more effectively than legal knowledge and skills do. Chinese managers previously immersed in such an environment may preserve and apply this cognitive mindset to resolving their legal issues in the United States. Moreover, Chinese MNCs, especially those with state ownership, suffer a trust deficiency in the United States, especially in the current circumstances.\textsuperscript{51} Hence, rational Chinese managers in the United States may prefer to hire lawyers with government backgrounds to allay this mistrust. In addition, the preference for U.S. lawyers with government backgrounds may simply reflect a general intent to manage compliance risks and regulatory costs. Prior empirical research has shown that “transactional lawyers add value by reducing regulatory costs.”\textsuperscript{52} After all, “much of lawyers’ expertise consists of insider knowledge of the local legal system and social connections with law enforcement officials.”\textsuperscript{53} Arguably, lawyers who have


\textsuperscript{52} Steven L Schwarcz, Explaining the Value of Transactional Lawyering, 12 STAN. J. L. BUS. & FIN. 486, 492 (2006).

\textsuperscript{53} Liu, supra note 13, at 670.
previously worked at regulatory agencies have better knowledge of decision-making mechanisms and access to decision-making agents.\textsuperscript{54}

To summarize, in selecting U.S. lawyers, Chinese MNCs may take into account myriad factors, including legal fees, professional reputation, academic credentials, practice experience, Chinese background, U.S. government background, and recommendations from acquaintances and Chinese headquarters. All corporate clients, regardless of their nationality, seek high-quality and reasonably priced legal services, hence the attention to U.S. lawyers’ practice experience and fees. Legal services being credence goods, average Chinese companies suffer acute information asymmetry in assessing the quality of U.S. legal services and making optimal purchases. To ameliorate this issue, Chinese managers may rely on professional reputation, academic credentials, and referrals from trusted parties. In addition, due to the gaps between the two countries, some Chinese MNC managers may benefit from lawyers with Chinese and U.S. government backgrounds.

Because U.S. lawyer selection typically hinges on multiple factors, how they rank relative to each other is crucial to drawing inferences of any practical, policy, and theoretical significance. In the next subsection, we analyze a unique dataset derived from a comprehensive survey of Chinese companies in the United States. Before proceeding, however, it merits noting that the eight factors are not necessarily independent of each other or mutually exclusive. A lawyer’s reputation, for instance, inevitably correlates with practice experience, which in turn relates to legal fees. That being said, the

\textsuperscript{54} Though few scholars have systematically explored this type of preference, several prior studies have made such findings. For instance, the \textit{Revolving Door} literature about lobbyists demonstrates that the “brokers” between politics and money tend to have substantial government experience. JOHN P HEINZ, \textit{THE HOLLOW CORE: PRIVATE INTERESTS IN NATIONAL POLICY MAKING} (1993). Also, lawyers with government backgrounds dominate a fast growing experience in white-collar crimes. Charles D Weisselberg & Su Li, \textit{Big Law’s Sixth Amendment: The Rise of Corporate White-Collar Practices in Large US Law Firms}, 53 ARIZ. L. REV. 1221, (2011). In addition, the group of professionals that specialize in advising foreign investors on the national security review process (also known as the CFIUS review) consist primarily of former federal agency staffers. Diane Bartz & Greg Roumeliotis, \textit{The Washington Insiders Who Work to Get Chinese Deals Approved}, \textit{REUTERS} (Feb. 24, 2016, 2:58 PM), https://www.reuters.com/article/us-usa-china-deals-advisors-insight/the-washington-insiders-who-work-to-get-chinese-deals-approved-idUSKCN0VX2PX [https://perma.cc/J8Q5-DBXC].
correlations between the factors that exhibit inter-company variations are limited.  

B. Data on Lawyer Selection Preferences

This empirical study relies primarily on unique survey data about Chinese companies in the United States. The survey was conducted in 2017 in collaboration with the China General Chamber of Commerce (CGCC), by far the largest business association of Chinese companies in the United States. The survey instrument contains ninety-four questions that cover a broad range of topics. The questionnaires were prepared in simplified Chinese and were distributed to most CGCC members. The vast majority of the CGCC board directors completed the questionnaires, ensuring a sample that is highly diverse in multiple dimensions, such as sector, ownership type, and investment location.

The survey contains a multiple-choice question inquiring about the major factor(s) Chinese MNC managers would consider in the selection of U.S. lawyers. As shown in Figure 1, almost all of the respondents (92.7%) consider a local lawyer’s practice experience important, which indicates that Chinese managers appreciate the importance of high-quality legal service. Legal fees are also important to Chinese executives, but to a much lesser degree (50.3%). A significant minority of Chinese managers also consider professional reputation important in selecting U.S. lawyers.

---

55 Two factors considered important by Chinese executives, i.e., practice experience and educational credentials, do not vary much across different survey respondents; and given that the former is close to one and the latter to zero, they are highly correlated.

56 The list of CGCC board members is available at http://www.cgccusa.org/about/governance/ [https://perma.cc/8QXM-2JDR].

57 The annual survey is the fourth one. The comprehensive CGCC survey was conducted in 2014.

58 The original survey question in simplified Chinese is as follows. [选择美国律师的主要考虑因素（可多选）：律师费用; 律师在相关行业的经验; 律师学历; 律师有中国背景; 律师有美国政府背景; 律师或律师所在律所的名气; 律师有熟人推荐; 律师由中国总部推荐; 其他。]
Figure 1: Major factors considered in selecting lawyers in the United States

Data source: CGCC 2017 Survey (177 responses to this multiple-choice question)

About one-fifth of the Chinese managers would take lawyer recommendations from their acquaintances into consideration. Such endorsement, which may be solicited from business partners, current or former colleagues, and other trusted third parties, remedies the information shortage for some Chinese executives.

Also, nearly 20% of the survey respondents prefer their lawyers in the United States to have some Chinese background. As noted earlier, a Chinese background may narrow the institutional divide between U.S. lawyers and Chinese managers. Aware of this preference, U.S. law firms with substantial international practices, especially those keen on soliciting business from Chinese clients, have begun to hire or promote senior lawyers with Chinese backgrounds to work in their U.S. offices.59

About 12% of the Chinese managers would prefer U.S. lawyers with government backgrounds. As noted, the market for

---

legal services values lawyers with extensive work experience in a powerful federal agency.\textsuperscript{60} Besides their insider knowledge, lawyers with government background should help mitigate suspicion about companies from a non-ally country, especially state-owned companies. But why only 12%? Don’t all Chinese investors suffer a trust deficiency in the U.S. market? The next section will statistically analyze a few hypothetical answers.

Roughly 11% of the Chinese executives consider recommendations from Chinese headquarters an important factor in selecting U.S. lawyers. Only a fraction of Chinese MNCs have previously worked with U.S. law firms. Those without such experience are less likely to make lawyer recommendations in the first place. Also, Chinese MNCs vary in the extent to which their headquarters control U.S. operations. Some monitor them closely, but others fully delegate to the local managers, in which case the headquarters would refrain from intervening in the selection of U.S. lawyers.\textsuperscript{61}

Somewhat surprisingly, the Chinese managers largely ignore U.S. lawyers’ educational credentials. For Chinese executives, it is possible that the signaling value of education is indirect and tangential compared to a law firm’s prestige and professional licensing requirements. After all, not many Chinese managers could recognize the quality difference between a top-twenty and a top-fifty U.S. law school. The attention to practice experience probably explains the inattention to credentials.

To summarize, in selecting U.S. lawyers, Chinese managers almost uniformly value candidates’ practice experience. About half also consider legal fees important. In decreasing order of likelihood, Chinese managers also pay attention to prestige, recommendations by acquaintances, Chinese background, recommendations from Chinese headquarters, and U.S. government background. Very few consider U.S. lawyers’ educational credentials. The aggregated data offer a unique panoramic view of the lawyer selection preferences expressed by Chinese MNCs in the United States. The finding sheds valuable

\textsuperscript{60} See, e.g., Sharyn L Roach, Men and Women Lawyers in In-house Legal Departments: Recruitment and Career Patterns, 4 GENDER & SOC. 207 (1990) (investigating interorganizational differences in recruitment and career patterns of men and women lawyers within in-house legal departments); WEISSELBERG & LI, supra note 54, at 1221 (studying movement of partners between governments and other firms).

\textsuperscript{61} LI, supra note 2, at 103.
light on Chinese investors’ service demands and the potential impacts thereof on the U.S. legal profession and the legal service market. Meanwhile, the data reveal puzzling company-level variations that will be examined in the following section.

IV. WHY ARE CHINESE CLIENTS ALL DIFFERENT?

The survey data from Section III illustrate significant inter-company variations in the lawyer selection preferences of Chinese MNCs in the United States, which raise important questions unexplored by the existing literature. This section empirically examines a series of hypotheses in four parallel subparts, each of which explores a theoretically significant consideration (fee, prestige, headquarter recommendation, and government background) that varies across different Chinese MNCs.

A. Legal Fees

As shown in Figure 1, a slight majority (50.3%) of the survey respondents consider legal fees important for choosing U.S. lawyers. Those familiar with the Chinese legal service market may find this result puzzling—why do the other 50% downplay the significance of legal costs? This subsection proposes and then tests a number of hypothetical answers. To that end, we create a dummy dependent variable that equals one, if a respondent considers legal fees important in choosing U.S. lawyers, and zero otherwise. Based on existing literature and anecdotal evidence, we formulate a list of factors that may bear on the dependent variable.

State ownership in Chinese investors. Drawing on insights from the literature on SOEs, we hypothesize that legal fee sensitivity is associated with the ownership structure of Chinese MNCs. However, such theories point in opposite directions. Multiple-agency

---

62 177 respondents answered this question, and, as noted, about half of them consider legal fees important (See

Table 1).
problems plague Chinese SOEs and lead to an acute misalignment of interests between managers and owners. 63 Though the alleged ownership of SOEs is vested in “the people,”64 it is agents appointed by certain government bodies that exercise real control over the management. The government bodies in turn face their own agency problems. Due to complex, multi-layered agency issues, SOE managers may heavily discount corporate cost savings. Hence, U.S. legal fees, unhinged to the remuneration of SOE managers, may not catch their attention.

However, the same multiple-agency problems give rise to an opposing hypothesis. Due to severe interest misalignment, Chinese companies with substantial state ownership often resemble government bureaucracies in terms of operations and organizational form. Compared to private firms, SOEs rely more heavily on measurable metrics such as legal fees to manage their operations. Embedded in a strict governance hierarchy, SOEs’ employees are always mindful of ex-post scrutiny from the upper echelons when acting ex ante. Bureaucratic institutions in China pay close attention to performance indicators,65 and managers of Chinese SOEs should be no exception in this regard. In other words, managers of state-owned MNCs may prefer fee-based lawyer selection to selection using more subtle criteria such as service quality or long-term corporate benefits.66 In short, highly risk-averse managers at state-owned Chinese companies may pay more attention to fees than their counterparts at other firms.

To test these two conflicting hypothetical ties between state ownership and Chinese MNC managers’ U.S. legal fee sensitivity, we create a dummy independent variable and assign it the value of one if a Chinese government entity owns more than 50% of a Chinese investor’s equity interest and zero otherwise. Majority equity interest

66 DE FONTENAY, supra note 30, at 486.
in theory enables corporate control over the investor’s actions in the United States, yet it may not be a *sine qua non* for the home state government to exert influence. Thus, we code an alternative dummy variable to capture more extensive and subtle state control, which equals one if the Chinese government owns more than 10% of the investor and zero otherwise.

**Sectoral regulation.** Besides state ownership, the regulatory intensity of the sectors in which Chinese companies operate may also have an effect on their legal fee sensitivity. Prior literature has documented that corporate clients are less cost-conscious when purchasing legal services for “betting the company” matters. In heavily regulated sectors such as banking, high-stakes matters abound, and companies tend to regard legal expenses as a necessary and ordinary operational expense. Hence, Chinese companies operating in heavily regulated sectors may downplay the importance of legal fees. By contrast, companies in less-regulated sectors encounter routine and standardized legal matters that can be handled by average lawyers. The managers can therefore afford pivoting lawyer selection on fee difference. To assess this hypothetical tie between sectoral regulation and legal fee sensitivity, we create a dummy variable that equals one if a Chinese company invests in a heavily regulated sector in the United States and zero otherwise. Of the nineteen sectors listed in the 2017 survey questionnaire, we categorize the following eight as heavily regulated at the federal level, at the state and local level, or both: mining, utilities, construction, information technology, finance and insurance, real estate and rental, health care, and public administration.

**Size of U.S. investment.** The size of U.S. investment may relate to legal fee sensitivity. Presumably, the legal service demands of Chinese companies with extensive U.S. operations would differ from the demands of those merely testing the market. Yet, one may

---


68 *Coates et al.*, *supra* note 25, at 999.

69 Some may not consider real estate and rental industry as heavily regulated. We create an alternative dummy that excludes that sector and rerun all the tests using the alternative dummy. All the regression results remain largely the same.
conceive opposing effects of investment size. On the one hand, a company’s purchasing power, which is approximated by investment size, should affect the consumption of legal services. Large Chinese MNCs with a considerable legal expense budget may care less about fee rates in lawyer selection. On the other hand, everything else being equal, a high demand for U.S. legal services may justify strict cost control, e.g., institutionalized assessment and approval of outside counsels. Such control may elevate managers’ attention to legal fees. To test the conflicting hypothetical effects of U.S. investment size on legal fee sensitivity, we code and add to the statistical tests the variable of a Chinese MNC’s U.S. revenue.70

**Duration of U.S. investment.** As noted earlier, mindset inertia may manifest in fee sensitivity. Therefore, Chinese companies that entered the U.S. market earlier have adapted to the local business environment’s high legal fees. By contrast, Chinese MNCs that have just ventured abroad might, given the undervaluation of legal services in China, pay close attention to fees when selecting lawyers. To test this hypothesis, we include the duration of a Chinese MNC’s investment in the United States.

**Length of time working in the United States.** How long a Chinese manager has worked in the United States might also bear on fee sensitivity. Those affiliates that have recently relocated to the United States may continue to apply the domestic standard and therefore weigh legal fees heavily in selecting lawyers. By contrast, those who have worked for years in the United States may have internalized the local norms regarding legal service cost.

**Investment motive.** One may also assess normative adaptation through Chinese MNCs’ investment motives. A company that follows its existing Chinese customers to the United States is presumably less integrated into the U.S. business community, and the lack of frequent interactions with the local community might hinder Chinese MNC managers’ normative conformation. One survey question about the respondents’ investment motives, and among the choices is “to serve existing Chinese clients’ needs in the United States.” Forty-five out of 198 (22.7%) survey respondents made that

---

70 In earlier surveys we asked for exact revenue amount of the Chinese companies, yet the response rate for the question was very low. The respondents were reluctant to disclose the figure. To address that issue, we made it a scale question. That raised the response rate significantly. Survey respondents choose one of five levels of revenue. The lowest level is “below one million dollars” and the highest level is “above 100 million dollars.”
selection (See Table 1). To evaluate this hypothesis, we create a dummy variable and assign it the value of one if a Chinese company is “dragged” to the U.S. market by its Chinese customers and zero otherwise.

In-house counsel. Legal fee sensitivity may also be associated with the availability of in-house lawyers. In the past few decades, the rise in U.S. corporations’ in-house capacity has reshaped their relationships with law firms.\(^{71}\) The information asymmetry is essentially internalized to favor in-house lawyers.\(^{72}\) Hence, in U.S. companies equipped with in-house lawyers, general counsels or their deputies have assumed a crucial role in the selection of outside lawyers and the purchase of legal services.\(^{73}\) In light of this literature, we postulate that the availability of corporate counsels at Chinese MNCs in the United States may be associated with their legal fee sensitivity. First, in-house counsel can be regarded as a proxy for the amount and complexity of legal issues facing a Chinese MNC. And those confronting frequent and complex legal issues in the United States may downplay legal fees. Second, the availability of in-house counsel may signal relevant managerial attitudes; everything else being equal, Chinese companies with full-time internal legal staff might take legal and compliance matters more seriously than those without. Such an attitude might be reflected in less weight being assigned to attorney fees. Third, in-house counsels, many of whom are local lawyers themselves, tend to adopt the norms of the U.S. legal market regarding legal fees. To test these hypothetical connections between internal legal capacity and varying fee sensitivity, we create a dummy variable that equals one if a responding MNC has full-time in-house counsel licensed to practice law in the United States and zero otherwise.

\(^{71}\) Coates et al., supra note 25, at 1001; see also Jonathan C. Lipson, Who’s in the House? The Changing Role and Nature of In-House and General Counsel, 2012 Wis. L. Rev. 237, 238-43 (2012).


Table 1: Summary statistics (all variables used in Section IV)

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>Std. Dev.</th>
<th>Min</th>
<th>Max</th>
<th>Observations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consider legal fees important</td>
<td>0.503</td>
<td>0.501</td>
<td>0</td>
<td>1</td>
<td>177</td>
</tr>
<tr>
<td>Consider lawyer or law firm’s prestige important</td>
<td>0.345</td>
<td>0.477</td>
<td>0</td>
<td>1</td>
<td>177</td>
</tr>
<tr>
<td>Consider lawyer’s Chinese background important</td>
<td>0.198</td>
<td>0.400</td>
<td>0</td>
<td>1</td>
<td>177</td>
</tr>
<tr>
<td>Consider lawyer’s government background important</td>
<td>0.119</td>
<td>0.324</td>
<td>0</td>
<td>1</td>
<td>177</td>
</tr>
<tr>
<td>Consider recommendation by acquaintances important</td>
<td>0.203</td>
<td>0.404</td>
<td>0</td>
<td>1</td>
<td>177</td>
</tr>
<tr>
<td>Consider headquarters’ recommendation important</td>
<td>0.113</td>
<td>0.317</td>
<td>0</td>
<td>1</td>
<td>177</td>
</tr>
<tr>
<td>State ownership (50%)</td>
<td>0.393</td>
<td>0.490</td>
<td>0</td>
<td>1</td>
<td>191</td>
</tr>
<tr>
<td>State ownership (10%)</td>
<td>0.429</td>
<td>0.496</td>
<td>0</td>
<td>1</td>
<td>191</td>
</tr>
<tr>
<td>Investment duration</td>
<td>9.239</td>
<td>9.114</td>
<td>0</td>
<td>36</td>
<td>201</td>
</tr>
<tr>
<td>U.S. revenue</td>
<td>2.452</td>
<td>1.610</td>
<td>1</td>
<td>5</td>
<td>188</td>
</tr>
<tr>
<td>In-house counsel</td>
<td>0.284</td>
<td>0.452</td>
<td>0</td>
<td>1</td>
<td>190</td>
</tr>
</tbody>
</table>
Because the dependent variable is binary, we run a series of logistic regression tests. As shown in Table 2, state ownership is highly significant. The odds ratio, which is larger than one, indicates a positive association between state ownership of Chinese investors and legal fee sensitivity. In other words, Chinese investors with state ownership (measured at either 50% or 10%) are more likely to consider legal fees important in selecting U.S. lawyers. Take the results of Model (5) as an example. When all the other variables are held constant, the odds that Chinese investors majority-owned by the state consider legal fees important are 187% higher than the odds for Chinese investors without majority state ownership.

Table 2: Analysis of the inter-company variation in legal fee sensitivity

<table>
<thead>
<tr>
<th></th>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
<th>(4)</th>
<th>(5)</th>
<th>(6)</th>
<th>(7)</th>
<th>(8)</th>
</tr>
</thead>
<tbody>
<tr>
<td>State ownership (50%)</td>
<td>2.58***</td>
<td>2.69***</td>
<td>2.87***</td>
<td>2.99**</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>State ownership (10%)</td>
<td>2.75***</td>
<td>2.93***</td>
<td>3.20***</td>
<td>3.09***</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intensity of sectoral regulation</td>
<td>.64</td>
<td>.60</td>
<td>.56</td>
<td>.53*</td>
<td>.53*</td>
<td>.49*</td>
<td>.45*</td>
<td>.43**</td>
</tr>
<tr>
<td>Investment duration</td>
<td>1.02</td>
<td>1.02</td>
<td>1.03</td>
<td>1.03</td>
<td>1.04</td>
<td>1.06*</td>
<td>1.06*</td>
<td></td>
</tr>
<tr>
<td>U.S. revenue</td>
<td>.93</td>
<td>.94</td>
<td>.88</td>
<td>.89</td>
<td>.87</td>
<td>.89</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The finding, which is robust across all the model specifications, supports the hypothesis that state-owned Chinese MNCs are on average more likely to take legal costs seriously. As discussed earlier, state-owned Chinese MNCs tend to centralize decision-making authority and impose tight vertical control over their U.S. operations. Just like their U.S. peers, sizable Chinese MNCs usually set a budget for each year’s legal expenses. And given the rigidity of bureaucratic management typical in SOEs, exceeding the budget spells trouble. To avoid that, local managers strive to keep their actual legal expenses close to the planned budget cap, even though doing so may affect the quality of the legal services and have a long-term negative impact.

Apart from state ownership, sectoral regulation is significant at the 10% level in five of the eight models. The odds ratios are less than one, suggesting that Chinese MNCs in heavily regulated sectors are less likely to pay attention to legal fees when selecting U.S. lawyers. Take Model (6) as an example. With the other variables held constant, the odds that Chinese companies operating in heavily regulated sectors consider legal fees are about 50% less than the odds for those in other sectors. The finding is intuitive. As discussed earlier, in some sectors, compliance necessitates a steady supply of sophisticated legal services, and low-quality services have high-

Note: Source: CGCC 2017 survey; logistic regression; odds ratio reported and rounded up to two decimal points; *p<10%; **p<5%; ***p<1%.

<table>
<thead>
<tr>
<th>In-house counsel</th>
<th>1.13</th>
<th>1.06</th>
<th>1.05</th>
<th>.95</th>
</tr>
</thead>
<tbody>
<tr>
<td>To meet the needs of existing customers</td>
<td></td>
<td></td>
<td></td>
<td>1.24</td>
</tr>
<tr>
<td>Length of time working in the U.S.</td>
<td></td>
<td></td>
<td></td>
<td>.96</td>
</tr>
<tr>
<td>Constant</td>
<td>.68</td>
<td>.64*</td>
<td>.73</td>
<td>.67</td>
</tr>
<tr>
<td>Number of observations</td>
<td>160</td>
<td>160</td>
<td>154</td>
<td>154</td>
</tr>
</tbody>
</table>

76 Henderson, supra note 8, at 5, 16.
stakes and often imminent impacts on the business. Dealing with state and federal banking regulators, for instance, requires frequent assistance from lawyers with extensive practice experience. Only sizable law firms provide services in this area, and they are invariably expensive. In other words, banks operating in the United States, regardless of their countries of origin, should be accustomed to costly legal services. Hence the significant and negative association between regulatory intensity and legal fee sensitivity. None of the other variables is significant.

B. Lawyers’ or Law Firms’ Prestige

In selecting U.S. lawyers, some Chinese managers also consider their professional reputations (See Figure 1). Prestige serves multiple functions, such as signaling service quality and certifying clients’ creditability. Then, why do 65% of Chinese managers disregard this factor? What explains the inter-company variation? This subsection formulates and tests several hypotheses. We construct a dummy variable that equals one if a survey respondent chose a lawyer’s or a law firm’s prestige as an important consideration and zero otherwise. We discuss below a number of possible variables that may correlate with the inter-company variation in reputational sensitivity; the coding of the variables is detailed in Subsection A.

State ownership in Chinese investors. Once again, we begin with state ownership in Chinese investors, the key corporate attribute that distinguishes Chinese outbound FDI from that of most other countries. We hypothesize that state ownership has an effect on the attention to prestige. Recall the two major functions of professional reputation from corporate clients’ perspective: to signal service quality and to certify the client’s credibility. Evidencing the certification function, a recent study of the legal profession finds that Chinese “SOEs want to be seen as engaging top firms . . . to cast off the image of a developing country SOE and be seen as a global corporation.” In addition, given the multiple-agency problem discussed earlier, managers of state-owned Chinese MNCs may be more inclined to shift legal risks to outside lawyers.

77 DE FONTENAY, supra note 30, at 401.
78 STERN & LI, supra note 1, at 192.
Sectoral regulation. The extent to which a sector is regulated may affect prestige sensitivity. Prior research has shown that U.S. corporations’ need for regulatory compliance drives their demand for legal services. In less-regulated sectors where legal services are standardized, the sophisticated lawyering skills and rich practice experience offered by prestigious firms add marginal value. As a result, Chinese investors in such sectors may be inattentive to prestige. By contrast, in sectors governed by complex laws and regulations, Chinese MNC managers might seek as much assurance of high-quality legal services as possible. Presumably, prestigious law firms offer that additional assurance.

Investment motive. As noted earlier, a minority of Chinese MNCs invest in the United States to serve their Chinese customers that have expanded globally. Occupying a niche market in the United States, such Chinese MNCs are under less pressure to adapt to the host country’s environment. Moreover, they do not need prestigious U.S. law firms to serve as “reputational intermediaries” in transactions with their existing customers. In short, Chinese companies “dragged” to the United States might pay less attention to a lawyer’s or a law firm’s prestige than those driven by the desire to develop the U.S. market from scratch.

Size of U.S. investment. The size of Chinese companies’ U.S. investment may have some effects on prestige sensitivity. First, Chinese MNCs with substantial operations in the United States can afford the services of prestigious law firms. They may also perceive hiring lawyers from elite firms as a form of status signal. Second, with more at stake in the U.S. market, such MNCs may care more about the long-term effects of legal services. Hence professional reputation, a proxy for high-quality services, is taken seriously. Third, legal and regulatory complexity typically moves in sync with business size, so companies with larger investments are more likely to purchase premium services from elite firms. Of course, one may contend that the causal arrow points in the opposite direction—those Chinese companies that have chosen prestigious U.S. law firms are more likely to mitigate their legal and compliance risks and, consequently, thrive in the U.S. market. However, given that most

79 SCHWARCZ, supra note 52, at 492.
80 See, e.g., KRAAKMAN, supra note 42, at 53; OKAMOTO, supra note 43, at 15.
81 STERN & LI, supra note 1, at 192.
Chinese MNCs have only recently entered the U.S. market, such a long-term effect of compliance, even if it exists, should remain latent.\textsuperscript{82}

\textit{Duration of U.S. investment.} The duration of a Chinese company’s U.S. operations may be tied to the prestige factor. Yet, the effect is not obvious. On the one hand, newcomers typically face a wider information gap and therefore have to rely more on reputation as a signal for service quality. On the other hand, Chinese companies that have just expanded to the United States may be uninformed about local lawyers’ or law firms’ prestige. Lacking such knowledge, they cannot use this factor as an effective proxy for service quality. We will test the conflicting hypotheses below.

\textit{In-house counsel.} A Chinese company’s in-house legal capacity in the United States may be associated with its managers’ attention to professional reputation. As previously noted, the existence of in-house legal staff may signal the legal and regulatory complexity of a Chinese company’s business environment. Hence, those with in-house counsel may be more attentive to professional reputation. Yet, again, one may make an opposing argument: Companies with in-house lawyers, largely relieved of the information asymmetry problem, do not have to count on effective but noisy signals of competency such as law firm reputation.\textsuperscript{83}

\begin{footnotesize}
\begin{table}[h]
\centering
\caption{Analysis of the inter-company variation in prestige sensitivity}
\begin{tabular}{lcccccc}
\hline
 & (1) & (2) & (3) & (4) & (5) & (6) \\
\hline
State ownership (50\%) & 1.08 & 1.05 & & & \\
State ownership (10\%) & & 1.01 & 1.01 & & .99 \\
Intensity of sectoral regulation & 1.95* & 1.96* & 2.10** & 2.10** & 1.94* & 1.95* \\
\hline
\end{tabular}
\end{table}
\end{footnotesize}

\textsuperscript{82} Also, our study, as the first one on this topic, aims mainly at identifying correlation, rather than causation.
\textsuperscript{83} \textsc{Ribstein}, supra note 29, at 749.
<table>
<thead>
<tr>
<th>Investment duration</th>
<th>1.01</th>
<th>1.01</th>
<th>1.00</th>
<th>1.00</th>
<th>1.00</th>
<th>1.00</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. revenue</td>
<td>1.15</td>
<td>1.15</td>
<td>1.29*</td>
<td>1.29*</td>
<td>1.25</td>
<td>1.25</td>
</tr>
<tr>
<td>In-house counsel</td>
<td>.47</td>
<td>.47</td>
<td>.56</td>
<td>.56</td>
<td>.83</td>
<td>.83</td>
</tr>
<tr>
<td>To meet the needs of existing customers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Constant</td>
<td>.26***</td>
<td>.26***</td>
<td>.26***</td>
<td>.26***</td>
<td>.28***</td>
<td>.28***</td>
</tr>
<tr>
<td>Number of observations</td>
<td>154</td>
<td>154</td>
<td>152</td>
<td>152</td>
<td>146</td>
<td>146</td>
</tr>
</tbody>
</table>

Note: Source: CGCC 2017 survey; logistic regression; odds ratio reported and rounded up to two decimal points; *p<10%; **p<5%; ***p<1%.

As shown in Table 3, sectoral regulation significantly and positively correlates with prestige sensitivity. This finding is robust across all model specifications. Take the results of Model (6) as an example. With the other variables held constant, Chinese companies operating in heavily regulated sectors are 95% more likely to consider prestige in selecting U.S. lawyers than those in less regulated sectors. This finding suggests that Chinese companies facing higher regulatory risks seek the additional assurance of competence and reliability offered by prestigious law firms.

Moreover, in Models (3) and (4), the size of a Chinese MNC’s U.S. investment is significant and positively associated with prestige sensitivity.\textsuperscript{84} To use the results from Model (4) as an illustrative example, all else being equal, one unit increase in the U.S. revenue scale correlates with an increase of 29% in the odds ratio of considering prestige in U.S. lawyer selection. One may infer that Chinese investors with substantial stakes in the U.S. market care more about the long-term effects of legal services; they are also more capable of purchasing premium legal services. The result, however, is not robust, so a more definitive conclusion awaits further research. None of the other variables is significant.

\textsuperscript{84} The coefficients are almost significant at the 10% in Models (5) and (6); the p value is 10.8% for both.
C. Recommendations by Chinese Headquarters

For 11% of Chinese companies, recommendations by their Chinese headquarters play a major role in selecting U.S. lawyers. For decades, U.S. law firms have followed MNCs around the globe and set up satellite offices in major commercial hubs. Now, some of these firms may extend their service to MNCs from emerging economies such as China. As noted earlier, numerous international law firms have been advising large Chinese companies for over a decade. These companies, when expanding to the United States, may prefer that their U.S. affiliates engage the same law firms. Obviously, the existence of headquarters’ knowledge or preference about U.S. lawyers preconditions such recommendations. But apart from that, what other factors may bear on the inter-company variation in this variable? To test a number of hypotheses, we code a dummy variable that equals one if a survey respondent chose “headquarters’ recommendation” as a major consideration in U.S. lawyer selection; the dummy equals zero otherwise.

State ownership in Chinese investors. State ownership in Chinese investors may have an effect. As noted above, state-owned Chinese MNCs tend to centralize decision-making power, and their headquarters exercise more strict hierarchical control over their U.S. operations than those of privately-owned Chinese MNCs. Given such control, managers in the United States naturally heed lawyer recommendations from their superiors in China. Moreover, Chinese SOEs face heightened institutional pressure in the United States, which inevitably raises their legal and regulatory risks. The agency theory would predict that SOE managers, in order to circumscribe their liability, may prefer to engage lawyers recommended by their headquarters, so if any major legal and compliance issues arise, the local managers will not be held responsible.

Sectoral regulation. The same agency problem may also link sectoral regulation to the consideration of lawyer recommendations.
from headquarters. Chinese MNCs in heavily regulated sectors face more legal and regulatory risks, so risk-averse managers may shield themselves from possible responsibility for violations by deferring to the Chinese headquarters on U.S. lawyer selection.

Investment duration. The headquarters of Chinese companies that have just entered the U.S. market may keep their U.S. divisions on a tighter leash. By comparison, those that have operated in the United States for an extended period may have more localized management. As a result, they may discount headquarters’ recommendations in lawyer selection.

In-house legal capacity. Chinese companies with full-time in-house lawyers may rely more on internal knowledge in selecting U.S. lawyers, rendering headquarters’ recommendations either unnecessary or unimportant.

Size of U.S. investment. Chinese companies with substantial U.S. investments presumably assert more control. Conversely, those testing the U.S. market anticipate no substantial loss even if their investments fail, so local managers may enjoy more autonomy. However, the opposite argument may also be true: large U.S. operations require on-site management, so local managers downplay recommendations from their Chinese superiors. This variable also serves as a baseline, for only sizable Chinese companies have prior dealings with elite international law firms in China. The headquarters lacking such experiences will not be able to make proper U.S. lawyer recommendations in the first place.

Length of time working in the U.S. Chinese MNC managers who have worked in the United States for years may have acquired adequate information about the legal service market. Thus, they may discount any lawyer recommendations from their Chinese headquarters. In comparison, recent expatriates may lack knowledge about the local legal market and therefore welcome recommendations from headquarters.

Table 4: Analysis of the inter-company variation in considering headquarters’ recommendations

<table>
<thead>
<tr>
<th></th>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
<th>(4)</th>
<th>(5)</th>
<th>(6)</th>
<th>(7)</th>
<th>(8)</th>
</tr>
</thead>
<tbody>
<tr>
<td>State ownership</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(50%)</td>
<td>4.40**</td>
<td>4.36**</td>
<td>5.95***</td>
<td>8.49***</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Table 4 presents the test results. State ownership is significant, and the odds ratio is larger than one, which indicates that, everything else being equal, Chinese companies with state ownership are more likely to select U.S. lawyers recommended by their headquarters. This finding remains robust across all the model specifications. As noted, in comparison to privately owned companies, state-owned Chinese investors allocate more decision-making power to their headquarters in China. Their centralized and hierarchical management contributes to the receptiveness of U.S. managers. Moreover, Chinese SOEs in the United States endure more institutional pressure in the form of enhanced legal and regulatory risks. For self-protection, risk-averse local managers may be more inclined to rely on lawyers recommended by their companies’ Chinese headquarters.

Also significant is the regulatory intensity of the sectors in which Chinese investors do business. The odds ratio is larger than one, so Chinese MNCs investing in heavily regulated sectors are more likely to heed headquarters’ recommendations in selecting U.S. lawyers. Again, local managers’ intent to mitigate their risk may explain the finding. If the company violates any U.S. law, which occurs more frequently in heavily regulated sectors, the local managers could defend themselves by pointing fingers at the lawyers “designated” by the Chinese headquarters. Moreover, in heavily

---

89 Li, supra note 2, at 104.
regulated sectors, compliance may require extensive central–local coordination, and lawyers recommended by the headquarters may be better positioned to assume that role.

The size of investment is also significant, and the odds ratio is larger than one, suggesting that Chinese MNCs with large U.S. businesses favor lawyers recommended by their headquarters. We submit that Chinese investors with large stakes in the U.S. market tend to assert more control over U.S. operations, including the consumption of legal services. Also, as noted, we deploy the variable as a control in the tests. Because international law firms and their Asian offices have mostly served large Chinese companies in the past, the rest would not have had the opportunity to interact with such law firms prior to their U.S. expansion. Thus, their headquarters are less likely to recommend U.S. lawyers in the first place. None of the other variables is significant.

D. U.S. Government Background

Roughly 12% of Chinese managers consider a government background important in U.S. lawyers (See Figure 1). This finding is intriguing in two ways. On the one hand, it may baffle scholars well-versed in state–business relations in China. Why do not most Chinese MNCs, having been immersed in a home state where power trumps law, demonstrate a consistent proclivity to engage lawyers with government connections? Yet, on the other hand, experts on the U.S. legal service market may raise quite the opposite question: Why would so many Chinese investors consider a U.S. lawyer’s government background important? To test a number of hypothetical explanations, we create a dependent dummy variable and assign it the value of one if a survey respondent chose “U.S. government background” as a major factor to consider in selecting U.S. lawyers and zero otherwise.

State ownership in Chinese investors. We hypothesize that the ownership type of Chinese investors is associated with this preference. Compared to private companies, Chinese SOEs in foreign countries generally have to cope with more external pressure due to the lack of trust in them.\(^90\) So, state-owned Chinese investors

may need to legitimizethemselves in the eyes of U.S. regulators and law enforcement agencies. Engaging counsels with U.S. government backgrounds should help, at least in the eyes of Chinese managers, to mitigate the trust deficiency. Moreover, sizable SOEs enjoy all kinds of privileges in their home state, where government agencies are often regarded as facilitating peers rather than impartial regulators. Such a mindset may shape the lawyer-selection preference of managers at state-owned Chinese MNCs in the United States.

**Sectoral regulation.** Government regulations vary in form and extent across different sectors. In sectors where expansive regulations leave ample room for regulatory discretion, lawyers boasting a government background are valued for their insider knowledge and connections. The United States being an administrative state, foreign companies cannot eschew interacting with various government agencies. Those facing more agency scrutiny may show a strong preference for U.S. lawyers with government experience.

**Duration of U.S. investment.** For the same reason, investment duration may relate to the lawyer selection preference. Companies that just entered the U.S. market may face more pressure to dispel suspicion than Chinese companies that have operated in the United States for decades and have established a good record of corporate citizenship.

**Length of time working in the U.S.** Due to normative or mindset inertia, Chinese MNC managers who have recently moved to the United States might show a strong preference for U.S. lawyers with government connections. As noted earlier, Fisman and Miguel demonstrate that UN diplomats from corrupt countries tend to import noncompliance behavior to the United States. The same logic may apply here. Back in China, connections with government officials are crucial to doing business and securing investment, and Chinese

---

91 [Liu, supra note 4, at 769.](https://scholarship.law.upenn.edu/alr/vol15/iss1/9)

92 [Bartz & Roumeliotis, supra note 54; Weisberg & Li, supra note 54, at 1221.](https://scholarship.law.upenn.edu/alr/vol15/iss1/9)

93 Meanwhile, Chinese SOEs or those heavily controlled by the government tend to cluster in such sectors. The correlation may well manifest in a positive association between state ownership in Chinese investors and their preference for U.S. lawyers with government background. Adding the variable improves test results.


95 See generally [Ang & Jia, supra note 3, at 318; Zhang & Li, supra note 3, at 3.](https://scholarship.law.upenn.edu/alr/vol15/iss1/9)
managers accustomed to the home state business environment may retain their faith in the efficacy of government connections for resolving tough legal and regulatory issues in the United States.

*In-house counsel.* In-house legal capacity may bear on the preference for U.S. lawyers with government backgrounds. It is possible that Chinese companies with full-time legal counsel can better navigate the U.S. regulatory system and therefore have less of a need to rely on well-connected external lawyers to interact with regulatory agencies.

*Size of U.S. investment.* All else being equal, Chinese companies with large U.S. investments may handle more regulatory issues and therefore interact more frequently with government agencies. As a result, they may prefer U.S. lawyers with connections in the government who are familiar with the agencies’ internal decision-making mechanisms.

Table 5: Analysis of the inter-company variation in considering lawyers’ U.S. government background

<table>
<thead>
<tr>
<th></th>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
<th>(4)</th>
<th>(5)</th>
<th>(6)</th>
<th>(7)</th>
<th>(8)</th>
</tr>
</thead>
<tbody>
<tr>
<td>State ownership (50%)</td>
<td>4.72***</td>
<td>4.93***</td>
<td>5.75***</td>
<td>6.78***</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>State ownership (10%)</td>
<td>4.73***</td>
<td>4.99***</td>
<td>5.54***</td>
<td>4.98**</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intensity of sectoral regulation</td>
<td>1.56</td>
<td>1.45</td>
<td>1.68</td>
<td>1.57</td>
<td>1.46</td>
<td>1.38</td>
<td>1.34</td>
<td>1.35</td>
</tr>
<tr>
<td>Investment duration</td>
<td>.98</td>
<td>.98</td>
<td>.97</td>
<td>.98</td>
<td>.96</td>
<td>.97</td>
<td>.97</td>
<td>.98</td>
</tr>
<tr>
<td>In-house counsel</td>
<td>.52</td>
<td>.50</td>
<td>.47</td>
<td>.44</td>
<td>.32</td>
<td>.30</td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. revenue</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Length of time working in the U.S.</td>
<td>.84</td>
<td>.86</td>
<td>.86</td>
<td>.88</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Constant</td>
<td>.06***</td>
<td>.06***</td>
<td>.07***</td>
<td>.07***</td>
<td>.12***</td>
<td>.11***</td>
<td>.14***</td>
<td>.14***</td>
</tr>
<tr>
<td>Number of observations</td>
<td>160</td>
<td>160</td>
<td>158</td>
<td>158</td>
<td>152</td>
<td>152</td>
<td>131</td>
<td>131</td>
</tr>
</tbody>
</table>
As shown in Table 5, state ownership in Chinese investors is highly significant across all model specifications, and the odds ratio is larger than one. The finding supports the hypothesis that, everything else being equal, state-owned Chinese investors prefer their U.S. lawyers to have some government background. This preference probably evinces their intent to remedy the trust deficiency. It is also possible that SOE managers retain their faith in the efficacy of government connections. None of the other variables is significant.

V. CONTRIBUTIONS AND SUGGESTIONS FOR FUTURE RESEARCH

Economic globalization has been reshaping the legal profession and market for legal services, and a vast literature has explored the topic from diverse angles. Yet, so far few have examined the legal impacts of global expansion by emerging-market MNCs. Narrowing the immense knowledge gap, our empirical research analyzes lawyer selection by Chinese companies in the United States. It makes a number of important practical, policy, and theoretical contributions.

First, practitioners will find valuable insights in this article about the service needs of Chinese corporate clients in the U.S. legal market. As previously mentioned, surging Chinese investment in the United States brings with it a potential demand for U.S. legal services. Lawyers and law firms are competing fiercely for a share of this growing business. However, intuition and anecdotal reports, rather than systematic empirical evidence, have been guiding the competition. What do Chinese corporate clients really want? For instance, should U.S. lawyers advertise good government connections, if any, in order to attract Chinese clients? How about highlighting lawyers’ pedigrees? This article presents the first-ever empirical evidence that directly addresses these questions. The preference ranking informs U.S. lawyers about what Chinese clients consider important in the purchase of legal services. Moreover, the

96 See Wilkins, supra note 1, at 271-72.
analysis of the inter-company variations should help U.S. lawyers tailor their business development tactics to different Chinese corporate clients. For example, U.S. law firms should calibrate their strategies when dealing with state-owned Chinese MNCs, as they differ systematically from privately owned Chinese companies in several key aspects of lawyer selection, i.e., legal fee sensitivity, deference to headquarters’ recommendations, and preference for U.S. lawyers with government backgrounds.

Second, our findings contribute to the policy debate about Chinese outbound investments. While optimists have embraced investments from China for their many tangible benefits, which include new jobs and low-cost capital, concerns and criticisms are on the rise that Chinese MNCs export China’s domestic problems.\(^97\) When operating in the United States, will Chinese investors promptly adapt and comply with relevant U.S. laws? To answer this broad question, one cannot avoid analyzing how Chinese MNCs interact with “the gatekeepers,” i.e., U.S. lawyers.\(^98\) The empirical evidence herein strongly suggests that Chinese investors are mindful of the importance of professional legal services in navigating the complex U.S. legal system. Though some facets of their U.S. lawyer selection exemplify peculiar features of Chinese corporate clients, one may nonetheless infer an overall rational intent to traverse the institutional gaps and adapt to the U.S. legal and regulatory environment. Of course, first-rate legal service may not always induce astute legal actions or full compliance. Future research should investigate the actual role played by U.S. lawyers in the decision-making of Chinese MNC executives in the United States.

Third, this article contributes to several ongoing theoretical debates. We begin with those on MNCs, state-owned enterprises, and globalization. As previously noted, despite the prominence and influence of state-owned MNCs, no one has ever researched their demand for legal services and their interactions with legal professionals in host countries. Narrowing the gap, this article not only uncovers their preferences in U.S. lawyer selection but also pinpoints the significant, albeit uneven, effects of state ownership. To be more specific, due to centralized bureaucratic control,


heightened institutional pressure, and the acute agency problem, Chinese state-owned MNCs pay special attention to legal fees, lawyers’ government background, and recommendations from headquarters. In addition, the current study adds to the emerging literature on various effects of state corporate ownership, which has largely overlooked any effects on companies’ external service demands. In light of our findings, future research to explore state ownership and its impacts should probably adopt a more nuanced approach.

In addition, the study contributes to the scholarship on globalization, the legal profession, and the legal service market. As noted, the literature has traditionally revolved around lawyers, law firms, and MNCs based in the United States and other developed countries. In the past decade or so, serious attempts have been made to extend such research to developing countries such as China, India, and Brazil. Yet, few scholars have paid much attention to the recent reversal of global investment flow driven mainly by surging Chinese outbound foreign direct investment (FDI). As a first step towards filling this research gap, our empirical study suggests that Chinese MNCs will have a very limited impact on the U.S. legal profession. True, the majority of Chinese managers, especially those working for state-owned Chinese MNCs, are fee-sensitive, which may affect how their U.S. lawyers deliver standard legal services. According to our study, however, U.S. firms that have developed expertise in heavily regulated sectors will be unlikely to lose their


100 LIU, supra note 13, at 681.

Chinese clients over hefty fees. Put differently, instead of wreaking havoc on the U.S. market for legal services, growing Chinese investments will reinforce the current trend. Those offering mere standardized and commoditized services will face increasing cost pressure, but firms capable of servicing complex transactional, compliance, and litigation matters may charge clients (including cost-conscious Chinese clients) high fees because the price for such services remains inelastic, irrespective of the nationality of the corporate clients.

Also, our findings add to the scholarship on the value of business lawyers, for which scholars have proposed several theoretical explanations. In a nutshell, business lawyers create value by functioning as “transaction cost engineers” or “reputational intermediaries,” or by reducing regulatory costs or deal information costs. While the theoretical debate continues, empirical research is lacking in the context of foreign corporate clients’ need for U.S. legal services. The finding in Section IV that Chinese MNCs in heavily regulated sectors take professional reputations seriously confirms the theory that business lawyers add value by reducing their clients’ regulatory costs. Meanwhile, the finding that investment duration is insignificant in any of the statistical tests calls into question the theory that analogizes transactional lawyers to “reputational intermediaries.” Presumably, those Chinese MNCs that entered the U.S. market early have established an observable track record and therefore have less need for the certification of prestigious firms. Therefore, the fact that investment duration does not correlate with reputational sensitivity casts doubt on the validity of the theory.

Moreover, this empirical study contributes to the burgeoning literature on the adaptation of emerging market MNCs to host country

---

106 Schwarcz, *supra* note 52, at 491.
107 De Fontenay, *supra* note 30, at 400.
108 Schwarcz, *supra* note 52, at 492.
institutions.\textsuperscript{110} Chinese companies in the domestic setting tend to undervalue legal services, and anecdotal reports suggest mindset inertia when they expand to developed markets.\textsuperscript{111} However, the evidence herein suggests the opposite. For instance, though clients in China put enormous cost pressure on law firms, in the United States, more Chinese companies are concerned with lawyers’ practice experience than with their legal fees. Of course, this sanguine take will be more robust if future empirical research can demonstrate that Chinese MNCs, aided by local lawyers, comply with U.S. laws and regulations at levels comparable to U.S. domestic companies. Future studies should also compare the set of factors considered important by Chinese investors and investors from other capital-exporting countries.

VI. CONCLUSION

The expansion of emerging market multinationals, especially multinationals based in China, has ushered in a new era of economic globalization. Two features distinguish it from earlier waves of FDI: First, most of these MNCs have survived and thrived in a home state environment where law often plays a secondary role. Second, the state tends to intervene extensively in the management of the MNCs and their business dealings, either directly, through equity ownership and personnel control, or indirectly, through directives or fiats. Accustomed to such an institutional context, emerging market MNCs face daunting challenges when investing in developed countries. To navigate the stricter and more complex legal systems of their host states, these MNCs rely on local lawyers; the disruption of the global economic order under the Trump administration has further strengthened their reliance. Few scholars have so far examined this novel and important phenomenon. To begin to fill this gap, this article empirically investigates how Chinese MNCs select their U.S. lawyers. It finds that Chinese managers uniformly emphasize practice experience and ignore lawyers’ educational credentials.

\textsuperscript{110} See, e.g., Li, supra note 2, at 1; Lin Cui & Fuming Jiang, State Ownership Effect on Firms’ FDI Ownership Decisions under Institutional Pressure: A Study of Chinese Outward Investing Firms, 43 J. INT’L BUS. STUD. 264 (2012); Li, supra note 100, at 148; Salomon Robert and Zheying Wu, Institutional Distance and Local Isomorphism Strategy, 43 J INT’L BUS. STUD. 343 (2012).

\textsuperscript{111} Liu, supra note 4, at 768.
Legal fees matter, but to a much lesser degree than what anecdotal reports have implied. Some Chinese MNC managers also consider prestige, Chinese background, recommendations by acquaintances, U.S. government background, and headquarters’ recommendations. Overall, the distribution of the factors (See Figure 1) portrays an image of rational foreign investors adapting to multiple institutions, including the host country’s legal environment.

Further statistical analysis of the inter-company variations, however, reveals interesting and uneven connections between state ownership in Chinese investors and their selection of U.S. lawyers. Sectoral regulation, in-house legal capacity, and U.S. investment size are tied to one or several of the lawyer selection considerations. The findings help law firms in the United States and other developed countries to understand their potential clients from China. They also fill major gaps in the literatures about economic globalization, emerging-market MNCs and their adaptation to host country institutions, SOEs and Chinese FDI, the corporate counsel movement, and the impacts of investment from China and other emerging economies on the legal profession and legal service markets of developed countries.