

# SELECTED U.S. MULTINATIONAL SERVICE FIRMS IN PERSPECTIVE

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*Indications are that advertising, consulting, and law firms are rapidly becoming as entrenched in the global market arena as their predecessors, the manufacturing and extractive industries.*

One of the most significant global developments of post World War II is the massive growth of multinational business operations. Although most of this growth is concentrated in the manufacturing and extractive industries, U.S. Service firms increasingly are establishing beachheads of their own abroad. This development raises questions relating to the underlying motives of and problems encountered in the multinationalization of U.S. service firms. To address these and other issues, a mail survey of multinational advertising, consulting, and law firms was conducted in 1971. A three-page questionnaire, consisting of open-ended questions, served as the survey instrument.

## Data Base

The data for law firms were collected from a sample of firms listed in the 1967 *Martindale-Hubbell Law Directory*. Firms identified as being multinational were included in the sample which numbered 43. Of these, questionnaires were personally addressed to the senior partner of the firm. A total of 18 replies were received, of which 12 (28 percent of the sample) were usable, i.e., completed questionnaires.

Data for multinational consulting firms and advertising agencies were collected from firms listed in the 1969 *Directory of American Firms Operating in Foreign Countries*. A total of 75 consulting firms (management consultants, construction consultants, investment consultants, natural development consultants, and production-automation consultants)

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and 31 advertising firms were recipients of the questionnaire. Of these, 26 replies were received from consulting firms, of which 20 (27 percent of the sample) were usable; whereas 13 replies came from advertising firms, out of which 8 (26 percent of the sample) were completed questionnaires.

## Results of the Survey

### *Reasons for Overseas Expansion*

Primary incentives which were instrumental in the decision of U.S. service firms to evolve into multinational operations include overseas profit opportunities, following U.S. clients abroad, and seeking expanding foreign markets. A listing of how advertising, consulting, and law firms responded to these incentives appears in Table I, "Primary Reasons for Initial Overseas Expansion of Multinational Service Firms."

TABLE I  
PRIMARY REASONS FOR INITIAL OVERSEAS EXPANSION  
OF MULTINATIONAL SERVICE FIRMS

Incentives for Overseas Expansion	Number and Percent of Responses			
	Total	Advertising Firms	Consulting Firms	Law Firms
Profit Opportunities	13 (32.5%)	4 (40.0%)	8 (47.1%)	1 ( 7.7%)
Following U.S. Clients Abroad	11 (27.5%)	2 (20.0%)	1 ( 5.9%)	8 (61.5%)
Seeking Expanding Overseas Markets	10 (25.0%)	4 (40.0%)	5 (29.4%)	1 ( 7.7%)
Assisting European Clients Doing Business in the U.S.	3	0	0	3 (23.1%)
Diversification	3 ( 7.5%)	0	3 (17.6%)	
	100.0%	100.0%	100.0%	100.0%

While the most significant reason for multinational expansion of U.S. consulting firms is a favorably perceived overseas profit opportunity, a majority of law firms list their primary reason as following U.S. clients abroad. A typical response indicated: "We became aware that a substantial number of our corporate clients were engaged or becoming engaged in the acquisitions of and investments in European industry. . . . The clients had need for American legal services which could not conveniently be provided from the United States."

Assisting European clients doing business in the United States, e.g., "to maintain a more effective liaison with European clients having opera-

tions in the U.S.," was mentioned by three law firms as an important initial inducement for overseas operations. International expansion as a means of diversification was cited by three consulting firms.

### *Problems Encountered*

There are several interesting changes apparent in the initial and current major problems encountered by all service firms as revealed in Tables II and III. Whereas certain problems appear to be significant only initially, "new" problems face the multinational service firm in the 1970's which were not of major concern when the firm first severed its unina-tional ties.

The major problem initially encountered by all firms was, as some respondents stated, "a lack of local talent" or "staffing with profession-ally qualified nationals." While 17 respondents faced this initial con-straint, 9 continue to view staffing as a major difficulty in 1971.

Adjusting to foreign business practices, client expertise, and the cul-ture in general; gaining client confidence; and overcoming national hostil-ities were additional challenges faced by all firms initially. As a group, the adjustment to overseas business practices and client expertise was the greatest barrier faced by advertising firms, while consulting firms experi-enced most difficulties in gaining client confidence and law firms had to meet the problem of overcoming national hostilities.

A major problem encountered today by both consulting and law firms is the maze of host government laws and industry rules. According to one respondent, it appears that "threatened legislation may curtail the right of U.S. (law) firms to practice . . . . There are many countries where local rules as to the practice of law may curtail the functions or preclude the establishment of a U.S. law office."

Selling services and obtaining new clients is essentially a new chal-lenge for many advertising and consulting firms. Law firms, on the other hand, do not yet face this challenge. Not surprisingly, competition is listed as a major problem by both advertising agencies and consulting firms. "Competing with U.S. indigenous and third-nation firms and mak-ing a profit out of the work we do get," as one consultant points out, is largely a new development.

### *Staffing and Ownership Policies*

Policies toward staffing vary greatly among multinational service firms, ranging from total staffing with U.S. personnel (20 percent of the respondents) to the assignment of nationals as a majority in overseas

TABLE II  
MAJOR PROBLEMS INITIALLY ENCOUNTERED  
BY MULTINATIONAL SERVICE FIRMS

Nature of Problem	Number and Percent of Responses			
	Total	Advertising Firms	Consulting Firms	Law Firms
Staffing with Qualified Personnel	17 (21.8%)	5 (21.8%)	7 (17.5%)	5 (33.3%)
Adjusting to Foreign Business Practices and Client Expertise	13 (16.7%)	5 (21.8%)	5 (12.5%)	3 (20.0%)
Gaining Client Confidence	10 (12.8%)	3 (13.0%)	6 (15.0%)	1 (6.7%)
Overcoming National Hostilities	10 (12.8%)	1 (4.3%)	5 (12.5%)	4 (26.7%)
Adjusting to the Culture	10 (12.8%)	2 (8.7%)	6 (15.0%)	2 (13.3%)
Recruiting and Training Nationals	9 (11.5%)	3 (13.0%)	6 (15.0%)	0
"Language Barriers"	7 (9.0%)	3 (13.0%)	4 (10.0%)	0
Profitability	2 (2.6%)	1 (4.3%)	1 (2.5%)	0
	100.0%	100.0%*	100.0%	100.0%

\*Discrepancy due to rounding.

TABLE III  
MAJOR PROBLEMS ENCOUNTERED IN 1971  
BY MULTINATIONAL SERVICE FIRMS

Nature of Problem	Number and Percent of Responses			
	Total	Advertising Firms	Consulting Firms	Law Firms
Host Government Laws and Industry Rules	10 (20.4%)	0	4 (14.3%)	6 (60.0%)
Staffing with Qualified Personnel	9 (18.4%)	2 (18.2%)	6 (21.4%)	1 (10.0%)
Selling Services and Obtaining New Clients	9 (18.4%)	4 (36.3%)	4 (14.3%)	1 (10.0%)
Competition (U.S. firms, indigenous firms and/or third-country firms)	9 (18.4%)	2 (18.2%)	7 (25.0%)	0
Adjusting to the Culture	4 (8.1%)	2 (18.2%)	2 (7.1%)	0
Profitability	5 (10.2%)	0	4 (14.3%)	1 (10.0%)
Political Instability	3 (6.1%)	1 (9.1%)	1 (3.6%)	1 (10.0%)
	100.0%	100.0%*	100.0%	100.0%

\*Discrepancy due to rounding.

operations (37 percent of the respondents). The most common staffing policy for advertising firms attempts to assure that nationals are a majority of staff. Although management and staff are local wherever possible, several advertising agencies indicated that “everywhere we have a healthy amount of American and third-nationality employees.”

The largest number of consulting firms favor a policy of using U.S. personnel for the key posts, e.g., managers, and nationals to fill staff. One respondent stated, “We use local staff for subprofessional positions . . . . All of our supervisory personnel and most senior professionals are U.S. citizens.” A majority of law firms (60 percent) favor the employment of U.S. personnel together with national partners.

Ownership policies also show much divergence among the respondents. A plurality (37 percent) of the U.S. multinational service firms favor 100 percent U.S. ownership. Typical of this type of ownership policy were these statements: “Wherever possible—almost everywhere—offices are 100 percent owned,” or “We have converted all minority interests and joint ventures into 100 percent ownership.” Yet a sizeable minority (28 percent) of multinational service firms associates with indigeneous firms. As several firms indicated, “ownership is at least half by local interest.” Still others vary their ownership policy, depending on country of operation.

#### *Future Expectations and Plans*

A large majority (75%) of all service firms are optimistic about future client potential. Only 10 respondents, primarily consulting firms, forecast limited growth potential in the immediate future. Not surprisingly, the latter outlook corresponds to some of the major problems encountered today by U.S. multinational consulting firms, e.g., competition and profitability (see Table III). Nevertheless, a far greater number (14) of the consulting firms share the optimistic future client expectations expressed by advertising agencies and law firms. Here are some representative responses:

“We believe that more and more clients will operate on a multinational level and that this will present opportunities for us.” (advertising agency)

“We anticipate a continued growth of clients in the international market, though probably less rapidly than in the sixties.” (law firm)

“Great potential, particularly in the developing nations.” (consulting firm)

Future expansion plans of multinational service firms reflect the generally optimistic client expectations potential. Additional offices are planned to be opened by several firms (29 percent of the respondents) in countries in which offices are presently located. More significant, a sizeable number of firms (15, or 43 percent), notably advertising agencies, plan to open offices in new countries. A majority of consulting and law firms, however, either do not plan to open offices in virgin global territories or are uncertain about such plans. At the same time, most U.S. multinational service firms plan to make available additional services to clients.

### **Summary and Conclusion**

Results of this survey point to many similarities in the underlying motives of U.S. advertising, consulting, and law firms in breaking from their traditional uninationaional orientation and evolving into multinational entities. The primary incentives include favorable profit opportunities abroad, following domestic clients overseas, and seeking entry into growing world markets. Common initial problems encountered in these overseas ventures include staffing problems and cultural adjustment difficulties.

Staffing policies of U.S. multinational service firms vary widely. While a small number of firms staff their overseas offices, branches, or affiliates with U.S. personnel exclusively, the prevailing policy is to hire nationals, although not necessarily for key posts. Ownership policies, on the other hand, frequently specify total U.S. control and point to a reluctance of many multinational service firms to affiliate with indigenous firms.

The anticipated client potential in the immediate future is optimistic. Consequently, a majority of all service firms plan to extend their global penetration through additional office openings and/or service offerings. Should these trends continue, then U.S. advertising, consulting, and law firms will soon become as entrenched in the global market arena as U.S. manufacturing and extractive industries (and financial institutions) are already today.