

Challenges and Opportunities for the Legal Profession from Emerging Technologies — A Study on the Selection of Internal Management Models in Chinese Law Firms

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Date: 2024-01-23T00:00:00+00:00

Abstract

Under the traditional law firm model, the proportion of technical personnel within the legal services industry is nearly zero. The personnel structure of most law firms is primarily composed of lawyers and paralegals, with some large-scale firms additionally configuring auxiliary staff in administration, human resources, legal secretarial, and marketing roles, while only a minimal number of firms employ IT technical personnel. However, with the advent of the digital era, numerous law firms—particularly the majority of foreign firms—have significantly increased their technological investments. On one hand, major law firms are recruiting technology partners and establishing specialized technology departments; on the other hand, legal technology companies are actively providing diverse digital transformation technical services tailored for law firms. Digital technology has evolved into an internal management tool for law firms. Consequently, how to sustain competitive advantage through facilitating organizational change remains a critical issue in law firm internal management.

Full Text

Preamble

Course: Legal Services and Judicial Management Technology

Instructor: [To be completed]

Course Number: [To be completed]

Student Name: [To be completed]

Challenges and Opportunities of Emerging Technologies for the Legal Profession—A Study on the Choice of Internal Management Models in Chinese Law Firms

Under the traditional law firm model, the proportion of technical personnel in the legal services industry was virtually zero. Most law firms consisted primarily of lawyers and paralegals, with larger firms additionally employing administrative, human resources, secretarial, and marketing support staff; only a handful maintained IT technical personnel. However, with the advent of the digital era, many law firms—particularly most foreign firms—have significantly increased their technology investments. On one hand, major law firms have introduced technology partners and established dedicated technology departments; on the other, legal technology companies have actively developed various digital transformation technology services for law firms. Digital technology has evolved into an internal management tool for law firms. Consequently, how to maintain competitive advantages through organizational change has remained a critical issue in internal law firm management.

(1) Sources of Diverse Internal Management Models in Chinese Law Firms

1. Historical Context: The Gradual Decline of Single Models and the Impact of Emerging Technologies At the founding of the People's Republic, based on the 1949 *Common Program* and subsequent Ministry of Justice documents¹, China abolished the old lawyer system, dissolved existing lawyer organizations, and established a new people's lawyer system to promote the development of the legal profession, enhance its public welfare nature, provide social services, and explore the future of the legal industry.

From the reform and opening-up period through the end of the last century, the state-owned law firm management model once dominated, but its numerous drawbacks became increasingly apparent with social development. Consequently, following the introduction of cooperative law firms in 1988, the official monopoly model of law firm management was gradually broken. China's accession to the WTO in 2001 opened extensive international legal practice and cross-border lawyer markets, while the 2007 revision of the *Lawyers Law* legally recognized individually established law firms². These richer organizational forms and business structures made diverse internal management models possible.

Moreover, these institutional changes in law firms also signified shifts in related concepts. During the era of state-owned firm dominance, the organization and management of Chinese law firms (and even the legal profession itself) clearly followed a single statist model. However, as cooperative law firms broke this ice, alongside numerous reform initiatives, Chinese law firm management arguably developed toward “completely abandoning the statist model and sliding toward commercialist concepts,” even though China has maintained a “two-pronged” management system to this day. The role positioning of lawyers

and law firms, along with many reform goals concerning the “self-governing” nature of the legal profession, still render Chinese legal professions characterized by populist commercialism—evident merely from the role positioning of lawyers in the *Lawyers Law*. The 1996 *Lawyers Law* positioned lawyers as “social legal workers”³, while 2000 State Council documents on the decoupling of state-owned firms directly positioned lawyers as “intermediary legal workers” or even “intermediaries”⁴, and the 2007 revised *Lawyers Law* also positioned lawyers as serving specific clients⁵, demonstrating clear commercialist (or technocratic professional) tendencies. Driven by this philosophy, China completed the construction of a diversified law firm institutional framework, and the scope and methods of internal management model selection for Chinese law firms inevitably became influenced by the commercialist philosophy underlying these institutions and practices.

Against this backdrop, the gradual introduction of emerging technologies in recent years has caused this commercialist tendency to develop in more diverse forms and has, to some extent, influenced the transformation of traditional role positioning for lawyers, although this transformation has not achieved unanimous theoretical recognition or definitive conclusions. Its practical manifestations, however, cannot be ignored. Of course, under current development conditions, it is difficult to determine the impact coefficient of emerging technologies on the decline of single models and the development of diverse models, as well as the coefficient of technology-specific elements and even the existence coefficient of specific models. Their more prominent impact lies in the specific rule composition of different types of law firm organizational management models and has gradually become a new source for internal development and new models within various law firms. Whether treated as an independent internal element or a special external element, the impact of emerging technologies on law firm business and business processing methods constitutes the development of new models in the current era of big data and blockchain introduction to the legal services industry.

2. Reflective Impact: Diverse Responses to Single Liability Forms

Taking China’s most common partnership law firms as an example, although partnership law firms adopt unlimited liability for debts, they have still differentiated into ordinary partnership and corporate management models permitted by the *Lawyers Law*, with various personalized sub-models existing under each, such as share distribution forms, commission distribution models, point-based distribution models, and corporate integration models in terms of lawyer-firm interest relationships; and employment models, rank models, and unified promotion models in terms of firm operations. In other words, in response to the legally mandated “unlimited liability”—this single liability form—different types of law firms with distinctive characteristics have selected or independently developed different internal management interest and responsibility distribution methods based on their own size, business characteristics, firm culture, regional conditions, and other factors, thereby more efficiently and reasonably address-

ing the overall single unlimited liability and consequently presenting diverse internal management models. Law firm internal management models have thus developed distinctive sub-level refined management models under each major organizational form.

In these new responses to traditional single liability, emerging technologies have also generated reflective impacts originating from the technology itself. On one hand, new developments in law firm technical business areas have created different specific model technical structures, while on the other hand, new needs for law firm internal management technology have also provided new possibilities for model selection. These emerging technology impacts are either utilized by the aforementioned diverse response needs, or solve old problems for single liability responses and assumptions, or raise new questions about liability separation and dilution. Overall, the development of emerging technologies has rendered the sources of diverse law firm models for personalized responses to single liability more complex.

(2) Practical Needs for Internal Law Firm Management

1. Risk Prevention and Liability Assumption Needs As previously discussed, when law firms select their internal management models, they may be influenced by numerous factors, among which very direct influences come from satisfying the practical needs arising from the firm's own various characteristics. Regarding management issues, law firms primarily consider whether their models meet their own liability assumption and risk prevention needs. In summary, these include both the macro-level, static risk and liability needs that law firm management models should address, and the micro-level, specific risk and liability needs that internal management should respond to. Different needs result in diverse forms of internal management models.

The so-called macro-level, static practical needs refer, in terms of law firm management models, to model-based solutions for risk and liability issues faced by a law firm's internal management structure and general lawyer practice management in a certain static state. Generally, the larger the service scale and the broader the business scope of a law firm, the greater the possibility or number of lawyer errors, and thus the greater the risks faced. For example, against the backdrop of China's "Belt and Road Initiative," many law firms have expanded their business internationally along with economic activities such as engineering construction, thereby expanding their service and business scale. At this point, if they still follow the ordinary partnership internal management model, then in such a large group of lawyers, any illegal practice by a single lawyer could lead to the entire law firm bearing civil compensation liability, affecting the interests of other lawyers and the firm's image. In this case, a corporate model that better meets limited liability risk assumption and investment needs becomes more suitable for the law firm's macro-level practical development needs. Moreover, the more standardized and complex institutional setup within corporate models can also better satisfy the management needs of large-scale law firms in static

terms, achieving effective risk control in static states.

As for micro-level, specific risk prevention needs, these arise from the impact of law firm management models on clients during the lawyer-client relationship (particularly in its initiation and progression stages), and by extension, the detailed impact on the lawyer-client relationship. Although the specific manifestations of various risks differ under different internal management models, when clients examine the lawyer/law firm they are dealing with, they inevitably make certain judgments about the risks corresponding to the other party's model structure, using this as an important basis for establishing or operating the relationship. Therefore, so-called "high-risk" internal management models in the client's examination process will generate distrust, thereby affecting the smooth handling of cases. Consequently, the public and specific nature of internal management models to a certain extent, as well as their guarantee for the client side (even if only formal), reflect the influence of micro-level, specific risk prevention needs.

2. Profit Distribution Needs From another perspective, another important reason for the diverse forms of law firm internal management models is the need for different forms of profit distribution. This most intuitively refers to profit distribution between lawyers and the law firm, but in greater detail may also include specific distribution within internal institutions, specific distribution in firm operations, and distribution issues related to taxation and archives. Taking the most traditional profit distribution method—the original partnership commission system—as an example, it does not provide lawyers with fixed basic salaries but instead distributes profits entirely based on individual lawyers' case source income. Clearly, this method is based on the human cooperation nature of ordinary partnerships for profit distribution, but for organizational subjects in the sense of human cooperation, it does not focus on centralized profit processing, making it difficult to achieve law firm development and expansion. For lawyers, this original commission system may lead to obvious salary gaps among lawyers within the scale, thereby negatively affecting the human cooperation foundation of the law firm. Therefore, in response to increasingly complex law firm business and growing scale, combined with the influence of various personalized salary and other profit distribution needs, law firm internal management models have inevitably developed various complicated profit distribution methods. The profit distribution method is so important that it has become an important reference or model for measuring law firm model types—in other words, profit distribution needs have created the diversity of internal management models.

3. Maintaining Competitive Advantage Needs The rapid growth of Chinese lawyers has not changed their traditionally conservative professional attributes. With the comprehensive development of the digital economy, the digital divide facing Chinese lawyers is accelerating, representing a severe challenge. However, simultaneously, digital economic development also provides unprece-

mented new opportunities for Chinese lawyers, especially new lawyers. Broadly speaking, digital capitalism represents the latest transformation of the capitalist production system, wherein digital technology constitutes “the core production and control tools of an increasingly supranational market system.”⁶ To maintain competitive advantages, law firms increasingly need to invest heavily in new technologies, placing pressure on large law firms with traditional business models. The typical partnership business model struggles to efficiently address these new developments because traditional partnership models are characterized by inherent “short-termism.” Indeed, law firm partners view their annual dividends during productive working periods as a substantial portion of their interest in the firm. They find it difficult to forgo their annual income to invest in future and uncertain returns. Furthermore, powerful partners are often senior lawyers approaching retirement, who have even less interest in long-term investment and quite limited familiarity with legal technology. Therefore, whether law firms can efficiently utilize emerging technologies to maintain competitive advantages has become the newest and most important consideration in constructing internal management models.

II. Traditional Internal Management Models and Their Characteristics

(1) Individual Proprietorship Model

1. Basic Connotation The so-called individual proprietorship management model corresponds to individually established law firms as stipulated in the *Lawyers Law*, namely individual firms. In many of its management and organizational characteristics, an individual firm resembles an individual business household, which refers to a business unit based on individual labor, where production materials belong to the operator personally, and labor results are personally owned and controlled by the operator. Therefore, in terms of internal management models, the individual system can also be called the individual proprietorship management model.

2. Model Characteristics The core characteristic of the individual proprietorship management model is that the founder personally manages all affairs of the law firm, and this management approach is essentially completely independent and autonomous. The management scope encompasses all internal and external matters of the law firm, demonstrating comprehensiveness.

The general characteristics of the individual proprietorship management model revolve around this core feature. First, in terms of organizational management institution establishment, the founder manages alone without partner meetings or management committees like those in partnership firms, nor supervisors or supervisory boards. The founder themselves serves as a comprehensive management institution—in other words, the individual proprietorship management model itself does not contain concepts like “institution” or “meeting.” Regard-

ing the liability system, the founder also personally makes decisions and executes law firm affairs, bearing unlimited liability for profits and losses. The disadvantages of the individual proprietorship management model are also obvious: due to unlimited liability borne by the founder's personal assets, its debt assumption capacity is low and its creditworthiness is weak. Because individual firms are completely managed by the founder, managing all matters large and small results in low efficiency. Moreover, individual firms are legally restricted from establishing branch offices, generally resulting in small firm size, few lawyers, inability to accommodate large-scale development, limited types of business, narrow service scope, and inability to meet client needs. From the perspective of lawyer-firm relationships, although individual proprietorship management models can generally employ a few commission-based or salaried lawyers, the individual establishment characteristic means lawyers lack organizational belonging, often believing their practice belongs to themselves rather than the firm, making it difficult to form the basic relational foundation for further firm development. From a profit distribution perspective, because the law firm account under the individual proprietorship management model is completely controlled by the founder, lawyers lack security about full payment of salaries, making it difficult to guarantee that corresponding amounts will be disbursed after income is received. Similar issues exist regarding firm seals and other procedural matters that are completely controlled by the founder. Therefore, the individual proprietorship management model is clearly only suitable for small-scale firms with uncomplicated business scopes.

(2) State-Funded Administrative Management Model

The administrative management model generally corresponds to the state-owned law firm organizational form. So-called state-owned law firms refer to those established with government funding, affiliated with and directly managed by local justice bureaus, where member lawyers generally hold civil servant or public institution establishment status, thus adopting administrative management models. According to the *Administrative Measures for State-Funded Law Firms*, this type of law firm adopts a lawyer meeting system and establishes a law firm director position.

The core characteristic of the administrative management model is the bureaucratization of power, originating from the tradition of state-owned firms in the last century, which emphasizes management over commercial operation in law firm operations. This characteristic permeates all aspects of the administrative management model.

The administrative management model has many special rules. Generally speaking, its characteristics include: centralized management power, with employees obeying leaders and subordinates obeying superiors; lawyer income derived from fiscal appropriations with little connection to performance; state funding with the law firm bearing liability for its debts with all its assets; independently conducting lawyer business according to law but focusing primarily on legal aid;

fixed positions and establishment numbers, requiring approved establishment quotas to hire lawyers; and director responsibility system, where the law firm director, while managing all affairs, also bears comprehensive responsibility for all law firm matters. However, as previously mentioned, with economic and social development, the single administrative management model and its corresponding state-owned organizational form exhibit certain incompatibilities, mainly manifested in: law firm management power being concentrated in one or a few individuals, leading to undemocratic decision-making; numerous and chaotic cadre positions, i.e., redundant administrative cadres resulting in low efficiency and unclear responsibility assumption; and law firms lacking relevant management and supervision rules, making effective personnel management impossible. Overall, due to the administrative management model's rigidity in personnel, fund allocation, and business management, lacking corresponding flexibility and mobility, its continued application in China faces difficulties. Currently, except in some remote and impoverished areas where lawyer talent is severely scarce and requires government funding support, most regions in China have completed the restructuring of state-owned law firms.

(3) Partnership Management Model

Partnership is a very common law firm organizational form stipulated in the *Lawyers Law*, which includes both ordinary partnership and special general partnership organizational forms. With the continuous development of internal management models, beyond the ordinary partnership management model, the corporate management model has also emerged. These two management models have significant differences but also certain connections on some issues (such as unlimited liability assumption). Therefore, this section will be explained in structural contrast with the later section on corporate management models.

Ordinary partnership management models have numerous characteristics, but their core feature is organizational human cooperation nature, meaning law firms are established based on mutual trust among partners. This human cooperation nature has derived three important characteristics of ordinary partnership management models: partners have equal rights and obligations, all partners can participate in management, and partners should communicate and reach consensus on important management matters. Equal rights and obligations among partners essentially require mutual trust, legally requiring partners to enjoy equal rights and bear equal obligations; otherwise, the advantages of partnership organizations in encouraging joint partner development cannot be fully realized. That all partners can participate in management is not absolute—in specific forms, although different partnership law firms often have different management characteristics, generally speaking, all partners can participate in management, which is an important feature of partnership management. The requirement that partners should communicate and reach consensus on important management matters is based on equality among partners, emphasizing in management models the process of communication, negotiation, compromise,

and eventual agreement among partners. This process helps build trust among partners, form unified values and goals, and thus helps maintain partner team stability.

Under the ordinary partnership management model, power institutions, executive institutions, and supervisory institutions should generally be established, with division of labor and mutual checks and balances. The power institution is the partner meeting, the firm's highest decision-making body. A chief partner may be established as the convener of partner meetings. The decision-making content of the power institution is generally stipulated in the firm's articles of association. Depending on the voting matters, unanimous passage, absolute majority passage, or simple majority passage may be adopted. The executive institution is mainly the law firm director or executive director, who may concurrently serve as chief partner, specifically responsible for executing various resolutions formed by the power institution, managing daily firm affairs, and representing the firm externally. The supervisory institution should, according to the *Partnership Enterprise Law*, be composed of partners who do not execute partnership law firm affairs, with the right to supervise the execution of affairs by managing partners.

In management division, ordinary partnership management models generally have both horizontal and vertical integrated management. Horizontal division management involves formulating, according to the firm's articles of association, the scope of responsibilities for partner meetings, directors or executive directors, and supervisory boards or supervisors, with division of labor and management according to respective responsibilities. Vertical hierarchical management involves management level by level based on the above division, with directors or executive directors executing matters decided by partner meetings. All matters decided by partner meetings are uniformly announced externally by directors or executive directors, who also collect and feedback execution information. Additionally, when one or several partners execute law firm management affairs, the managing partner should regularly report to other partners on the execution of affairs and the firm's business and financial status. The benefits generated from executing affairs belong to the law firm, while the expenses and losses are borne by the law firm. Other partners have the right to inspect the firm's accounting books and other financial materials to understand its business and financial status.

Regarding 议事规则, partners make resolutions on firm matters according to the voting methods agreed upon in the articles of association or partnership agreement. If not agreed upon or unclearly agreed upon, the voting method is one partner, one vote, with passage requiring more than half of all partners. It should be noted that according to the *Lawyers Law*, unless otherwise agreed upon, important matters of law firms should be unanimously agreed upon by all partners, including changing the firm's name, business scope, and office location; disposing of the firm's real estate, intellectual property, and other property rights; providing guarantees for others in the firm's name; hiring non-partner

personnel as managers; and establishing branch offices, among other major matters. Moreover, if a partner entrusted with management affairs does not execute affairs according to the articles of association, partnership agreement, or decisions of all partners, other partners may decide to revoke the entrustment.

Regarding profit distribution and capital contribution management, the principle required by ordinary partnership management models is profit distribution and loss sharing according to the articles of association or partnership agreement. If not agreed upon or unclearly agreed upon, partners shall decide through consultation; if consultation fails, partners shall distribute and share according to their actual capital contribution ratios; if contribution ratios cannot be determined, partners shall distribute and share equally. Additionally, partners may, according to the articles of association, partnership agreement, or decisions of all partners, increase or decrease their capital contributions to the firm.

Due to the strong human cooperation nature of the law firm organizational form corresponding to ordinary partnership management models, there are some special rules and characteristics regarding partner admission and withdrawal, which can be summarized as follows. Regarding partner admission, new partner admission should, unless otherwise stipulated in the articles of association or partnership agreement, be unanimously agreed upon by all partners, with a written admission agreement legally established. New partners enjoy equal rights and bear equal responsibilities with original partners, unless otherwise stipulated in the admission agreement. New partners generally bear unlimited joint liability for the firm's debts incurred before their admission. Regarding partner withdrawal, the *Lawyers Law* stipulates four circumstances under which partners may withdraw during the firm's existence when a term has been agreed upon: when the agreed withdrawal cause occurs; with unanimous consent of all partners; when a partner encounters circumstances making continued participation difficult; and when other partners seriously violate agreed obligations. For law firms without agreed partnership terms, partners may withdraw without adversely affecting firm affairs, but must notify other partners thirty days in advance. Additionally, relevant regulations clarify partner expulsion rules, with four circumstances requiring unanimous consent of other partners for expulsion resolution: failure to fulfill capital contribution obligations; causing firm losses due to intentional or gross negligence; engaging in improper behavior when executing firm affairs; and occurrence of causes stipulated in the articles of association or partnership agreement. Upon partner withdrawal, other partners shall settle with the withdrawing partner according to the firm's property status at withdrawal, returning the withdrawing partner's property share. If the withdrawing partner bears liability for compensation for losses caused to the firm, the amount shall be correspondingly deducted.

Finally, it should be clarified what particularities exist in the internal management of special general partnership law firms. Specifically, the particularity of special general partnership firms lies in that when one or several partners cause firm debts through intentional or gross negligence in practice, they shall bear

unlimited liability or unlimited joint liability, while other partners bear liability limited to their property share in the firm. Debts caused by partners through non-intentional or non-gross negligence in practice, as well as other firm debts, shall be borne with unlimited joint liability by all partners. After firm property assumes liability for debts caused by partners' intentional or gross negligence in practice, the partner shall, according to the articles of association or partnership agreement, bear compensation liability for losses caused to the firm. According to relevant regulations, special general partnership law firms should establish a practice risk fund and obtain professional insurance. The practice risk fund is used to pay debts caused by partners' practice activities and should be managed in a separate account.

(4) Corporate Management Model

The so-called corporate management model contains many basic elements that can be summarized as the “four modernizations”: lawyer shareholderization, business departmentalization, non-shareholder lawyer employee-ization, and director managerialization. Lawyer shareholderization means making every lawyer a shareholder of the law firm, truly becoming the firm's master, with lawyers as shareholders legally enjoying rights to asset returns, participation in major decisions, and selection of managers. Business departmentalization refers to dividing the law firm into different business departments in specific internal management systems, with different departments focusing on certain legal service businesses to achieve greater standardization and systematization. Non-shareholder lawyer employee-ization makes non-shareholder lawyers into commission-based or salaried lawyers. Salaried lawyers receive salaries from the firm or department, must clock in for work, and must pay a certain commission to the firm or team for their own case sources. Commission-based lawyers do not receive salaries from the firm, need not work fixed hours, and extract a certain percentage from their case service fees, ranging from 85% to 70%. Of course, shareholder lawyers may also receive commissions, but typically at slightly higher rates than ordinary lawyers. Director or executive director managerialization includes authority to preside over business management work, organize implementation of partner meeting or management committee resolutions, organize implementation of annual revenue plans, propose internal organizational setup plans, formulate management systems and specific rules, propose hiring or dismissal of financial officers and other key management personnel, decide on hiring or dismissal of management personnel other than those whose hiring or dismissal should be decided by partner meetings or management committees, and other authorities granted by partner meetings, management committees, or articles of association. Regarding lawyer capital contribution methods, the corporate management model requires lawyers to contribute primarily in currency, but also allows contributions in kind, intellectual property, and other non-monetary property that can be valued in currency and legally transferred. Lawyers should be issued capital contribution certificates. Notably, the corporate management model cannot change the debt assumption nature of partnership law firms. In

other words, regardless of corporate-ization, law firm partners still bear liability according to ordinary partnership or special general partnership rules.

In management institutions, the corporate management model establishes power institutions, executive institutions, and supervisory boards. The power institution is generally the management committee, equivalent to a corporate board of directors, with authority to make resolutions on major firm matters according to the law firm's articles of association. The executive institution is generally a full-time or part-time manager, served by the director, executive director, or administrative director. Matters decided by the management committee are executed by the executive institution. The director, executive director, or administrative director attends management committee meetings and is responsible for meeting minutes. The supervisory board is composed of a certain number of partner lawyers or salaried lawyers, responsible for supervising major firm decisions and daily management. Supervisory board members do not participate in daily lawyer management but may attend management committee meetings.

The characteristics of the corporate management model can be summarized in four parts: professional management, professional development, profit distribution, and clear responsibilities. Professional management means the corporate management model can establish specialized professional managers in charge of internal management, personnel management, advertising, supervision, and other aspects, implementing a manager responsibility system under macro leadership by the director, with department managers under the manager, such as civil case departments, criminal case departments, administrative case departments, non-litigation case departments, etc. Department managers are responsible for business management and internal management of their departments and are accountable to the manager. Professional development means that under the corporate management model, law firm departments further establish sections, such as real estate sections, marriage sections, securities sections, etc., within civil departments, making lawyers more specialized and systematic. Profit distribution characteristics mean that lawyers, as firm shareholders, enjoy rights to profit dividends, participation in major firm decisions, and selection of managers—in short, lawyers enjoy shareholder rights and bear obligations as stipulated in China's *Company Law*. Clear responsibilities mean liberating full-time lawyers, including partners, from the exhausting situation of handling both internal management and business, allowing lawyers (including directors) to focus only on handling business, researching professional knowledge, and improving case quality, while managers handle other aspects.

The construction of the corporate management model primarily developed to address some defects in partnership management models in internal management. In other words, the corporate management model emerged to compensate for partnership management models through corporate systems in internal management mechanisms, thus having important connections with partnership management models.

The main problems with partnership management models are twofold: first,

partner lawyers must both expand personal business and engage in firm management, which undoubtedly disperses partner lawyers' time and energy, directly affecting work quality and consequently affecting the firm's business condition. Second, because management rights among partners are equal, decision-making in partnership practice easily results in indecision or prolonged delays, which not only affects the firm's business development but also easily leads to partnership breakdowns. The corporate management model can fundamentally solve these problems, thereby better promoting law firm development. More importantly, partnership management models are only suitable for small law firms. Once a law firm develops to medium or large scale, such as having more than 50 or 100 lawyers, clients and business inevitably increase substantially, and management workload also increases greatly, which a few partners cannot handle. The corporate management model implements a professional manager system, which can effectively resolve the contradiction between management and operation. With the continuous development of China's legal profession, the corporate management model has gained increasing favor among large partnership law firms, with firms such as King & Wood Mallesons, Jun He, Global Law Office, Jingtian & Gongcheng, AllBright, Fangda, Dentons, and Yingke all adopting the corporate management model to some degree.

III. Law Firm Management Models' Response to Emerging Technologies: The Digital Law Firm

(1) Empirical Manifestations of Digital Law Firms

The definition of a digital law firm is a digitalized law firm that, based on digital products, establishes data flow and data analysis capabilities to achieve organizational innovation, talent innovation, product innovation, and business innovation. Internal management is the core and foundation of law firm digitalization, so the response of law firm internal management models to emerging technologies is fully reflected in the digital law firm domain.

At the practical level, within China's legal industry, King & Wood Mallesons has achieved relatively deep and comprehensive digital transformation. In 2020, King & Wood Mallesons Cloud Office was launched, leveraging internet cloud technology to conveniently and efficiently extend traditional offline law firm application scenarios and functions to the online cloud. King & Wood Mallesons Cloud Office supports internal process management, knowledge management, and team collaboration through software, greatly reducing lawyers' dependence on physical office spaces. King & Wood Mallesons Cloud is not only internal-facing but also a display platform for King & Wood Mallesons toward legal service demanders, showcasing legal service and product classifications, contact information for various branch offices and lawyers, legal knowledge, and reports. In addition to moving physical offices to the cloud, King & Wood Mallesons has also opened cloud offices in 22 domestic and 14 overseas locations where physical offices have not yet been established.

Furthermore, Yingke Law Firm also launched the Law Wit one-stop law firm and lawyer work platform in 2020. Law Wit provides precise support for Yingke's development and operation through the creation of various functions including smart lawyer office work, office black technology, intelligent knowledge sharing, digital operations, and new-generation smart OA. Dao Ke Te Law Firm has continuously explored the digital construction of legal services and management processes for years. Dao Ke Te's self-developed Green Cloud VIT law firm management system has been in use for many years, achieving interconnectivity, resource sharing, and collaborative office work between Dao Ke Te's headquarters and branch offices, while facilitating interaction and integration with clients, partners, and external resources. This year, Dao Ke Te also released a new online knowledge management system. The system is divided into three major systems—standard texts, business support, and market support—providing support for lawyers in knowledge sharing, business exchange, and market matching from 12 specific perspectives.

From these digital law firm practices, we can see that traditional terms like “informatization” and “online-ization” are being replaced by “digitalization.” Whether law firms or legal technology companies, they gradually understand the substance behind these terminological changes. Informatization corresponds to recording and solidification, while digitalization involves value reshaping and rediscovery after breaking down solidified things on the basis of informatization. Digitalization will inevitably provide revolutionary paths for management decision-making and refined operation methods and means.

(2) Theoretical Dilemmas Behind Digital Law Firms and New Adjustment Models

Before the 2008 financial crisis, law firm development trends often involved expanding their positions through mergers and acquisitions of small and medium-sized law firms and/or opening new offices in strategic locations. The logic behind these developments was that profitable legal projects could only be handled by large law firms. However, the financial crisis revealed some deficiencies in this model regarding profitability and the ability to manage giant law firms.

The industry has recognized this deficiency in the merger and new office establishment model under the financial crisis—to some extent, this phenomenon makes the aforementioned so-called new diverse internal management operation models and mechanisms derived from traditional single systems face the possibility of being defined as “traditional.” Corresponding to this possibility are model adjustments responding to emerging technologies. To achieve digitalization in law firm operation and management, many large law firms have begun large-scale research on legal technology solutions and corresponding model adjustment plans. Internationally, incubator mechanisms or programs for technology creation and development have even emerged within the industry, such as Fuse founded by UK firms Allen & Overy and Dentons' NextLaw⁷. Nevertheless, these mechanisms and planned research remain relatively fragmented, having

not yet formed some kind of bundle-able or trending new model transformation. In other words, the current status of internal management models has not yet formed a “traditionalization” trend regarding digital law firm technical issues, and new mechanisms and methods remain under research without generating new partial or overall models. This seems to create a misalignment between law firm internal management model development and emerging technologies—that is, changes on both sides are not at the same level, and the tool-level treatment and deep-level penetration may cause development hazards due to different subject perspectives.

Regarding this issue, it can evolve into a more essential element conflict, namely the conflict between large law firms’ established departmental systems and model-based management mechanisms and the new mechanism demands and model changes under emerging technologies. On one hand, within the industry, large law firms have stronger information acquisition and market capture capabilities, enabling them to understand the development relationship between emerging technologies and markets more quickly. Moreover, deep capital, large size, and abundant talent give large law firms research advantages in cutting-edge technologies and digital legal service products, naturally providing adjustment conditions. On the other hand, the departmental systems built by large law firms based on traditional development have their own internalities or even negative internalities. Whether coordinating restructuring or adding new mechanism content, they face certain resistance. From a market interest perspective, large law firms enjoy established profit shares and business advantages from their market dominance, and changing operation methods, business scope, and internal management mechanisms itself faces huge risks, especially when such changes target emerging technologies with research difficulty. Therefore, this marginal hindrance is an important reason why large law firms find it difficult to form model transformations.

In fact, analysis of adjustments and exploration of the above obstacles and hidden contradictions can be approached from the origin of law firm model-based management differentiation. In the West, law firm organizational management models have experienced a process from small to large—that is, before the emergence of large law firms, most legal practice was conducted by sole practitioners or larger law offices. In these larger law offices, lawyers shared office space and divided daily expenses but generally practiced independently. However, developments in technological innovation, increasing legal complexity, and the nascent globalized society in the early 20th century made it almost impossible for individual lawyers to perform their duties in a competitive and efficient manner. To respond to such developments, lawyers began cooperating in larger law firms where the experience of senior partners mixed with the labor of junior lawyers. The former were the actual owners of the law firm, while the latter were (highly paid) employees driven by a powerful incentive to win the “tournament for promotion to partnership.” Various partnership and corporate law firms thus emerged. It can be seen that the origin of law firms’ “internality” obstacles lies in expansion and adjustment to adapt to business diversification,

broadening, and technologization. Correspondingly, the application of emerging technologies represented by digital law firms itself also aims to make law firm practice more adaptable to new business market demands. In other words, at the level of adaptive orientation adjustment, digital law firms play a role homogenous with the innovation philosophy of law firm management models since the 20th century. Therefore, research on new adjustments for digital law firms can return to the simplest law firm organizational management model, which for China is the individual proprietorship law firm.

(3) Opportunity-Driven Digital Law Firms Modeled on Individual Proprietorships

As previously mentioned, due to insufficient personnel and management model issues such as salary and business allocation, individual proprietorship law firms suffer from weak internal belonging, low business capacity, and inefficiency. After introducing digital law firm management, the core problem facing individual proprietorship law firms—“insufficient personnel leading to inadequate business processing capacity”—can be resolved. Procedural difficulties such as seal usage can also be addressed through more reasonable solutions via digital platforms and program arrangements. Correspondingly, the introduction of legal technology enables law firms to combine their small-scale advantages to more targetedly handle and seek business, and through outsourcing strategies and technology, better reduce costs, improve efficiency, and enhance competitiveness.

If taking this as a prototype, the model transformation driven by digital law firms is not about adding “technology” mechanism content to existing law firm management models, but rather returning to the core framework of law firms to determine what “management” mechanism content should be added under technology guidance with digitalization as the basic foundation. This model first brings the role determination of legal technical personnel as the basic foundation, and further brings the structural significance of non-employee lawyers at the grassroots level, based on which to determine the survival issues of partners and other upper structures.

For large law firms that have already experienced the expansion wave of the 20th century, the above thinking often implies a new management model structure. Currently, research on this structural model has begun in Europe and America, with the most representative being a joint recommendation report from a study conducted by the Boston Consulting Group and Bucerius Law School. This report argues that large law firms must change their value positioning and provide diversified services to remain competitive in the current market. This mainly means that, in addition to relatively classic legal services, these law firms should also provide clients with other services such as legal project management, outsourcing management, and advanced legal analysis. Regarding new technologies specifically, the report argues that large law firms should transform into “master legal technology providers” and/or “legal technology consultants.” The first role requires law firms to primarily guide clients in selecting correct legal outsourcing

partners to handle standardized and low-skill tasks. In this way, law firms will retain control over the entire commissioned work, thereby strengthening their business relationships. In the second role, law firms will become intermediaries between clients and technology providers, guiding the former to correct legal outsourcing partners. Most importantly, the above report believes that new technology development is driving large law firms to modify elements of their organizational models. In particular, it argues that the traditional pyramid model (few partners at the top, many junior lawyers and non-partner lawyers at the bottom) may be replaced by an organization more resembling a rocket shape. In this new structure, each law firm will be able to reduce the ratio of junior lawyers to partners to three-quarters of the ratio in the current pyramid model. Another consequence is that other types of non-lawyer employees, such as project managers and legal technical personnel, will join law firms. Combined with Chinese partnership law firms' exploration of corporatization, this rocket-shaped management model seems better able to balance the application of digital law firms and the needs of emerging markets, making it worthy of reference.

IV. Objectives of Selection: The Enhancement Value of Internal Management Models

Why should law firms select a more suitable internal management model at the establishment stage, and why should they adjust their internal management models according to circumstances during development? Beyond the commercialist requirements for management professionalism and efficiency, there is also value from a legal ethics perspective in enhancing client trust in lawyer-client relationships, attracting legal talent, and improving firm image under the professional ethics system.

As Laura Empson stated, participants in economic relationships, particularly transactional relationships, do not exist in a vacuum but within certain social relationship systems that influence the information they receive and how they perceive it⁸. She thus proposed the application of embeddedness theory in law firm management perspectives. Undeniably, when entering into a client relationship, prudent clients will certainly focus on obtaining public information such as performance rankings and government documents, but embeddedness theory emphasizes the exchange of non-public information through trust-based expectations. Specifically in client relationships, this information is relatively more subjective, simultaneously carrying high-risk and high-value possibilities.

Obviously, this exchange of embedded information under embeddedness relationships is not “the more, the better.” Laura Empson’s regression model research also confirms that beyond marginal effects, more embedded information in client relationships brings lower value and efficiency, although it may also bring lower transaction costs. Therefore, selecting a specific internal management model that includes high-trust mechanism content is beneficial for obtaining client trust through the exchange of embedded information and also beneficial for

further expanding case sources. The same theory has also been confirmed in regression model experiments that the exchange of embedded information in model management selection is beneficial for attracting more outstanding talent and improving firm image. For example, internal firm institutions (such as supervisory boards) exchanging non-public supervision information through trust-based communication helps demonstrate the firm's professional ethics standards and more three-dimensionally showcase the firm's image.

V. Conclusion and Future Development

Overall, through analysis of the current situation of representative internal management models in Chinese law firms and the causes of model diversification, a relatively clear conclusion can be drawn: under current Chinese economic and social conditions, law firms are permitted and required to carefully select internal management models suitable for themselves during establishment and development. This suitability is both commercialist operational suitability and professionalist legal professional ethics suitability. Therefore, law firms must clarify the value objectives they expect to achieve through model selection and adjust their internal management models according to their internal and external elements.

With the development of China's legal profession and economic society, some new specific internal management models characterized by standardization, institutionalization, integration, specialization, and internationalization have gradually formed, guiding the future direction of law firm internal management model selection and adjustment. Among these, emerging technologies have increasingly become a non-negligible influencing factor in the development of China's legal profession and economic society. The development and application of some technologies have changed law firms' external communication methods and internal communication models, with more big data and blockchain technologies being widely applied to law firm information management and processing. Emerging technologies themselves, as legal technology products, have even become the object of some legal service relationships. Continuously developing and innovating technologies, along with deepening technology application, have spawned new mechanism development in law firm management models, and digital law firms have emerged as the times require. As the legal industry's response to the challenges and opportunities of emerging technologies, digital law firms have to some extent solved important problems of industry-technology integration, while simultaneously raising new model transformation questions. From the possible future law firm management model transformations led by digital law firm mechanisms, we can fully discover the intersection of industry management and technical business, and also extract some specific aspects of this transformation and impact coefficient.

¹ For example, the 1950 Ministry of Justice draft *Beijing, Tianjin, Shanghai*

Three Cities Defender System Trial Measures (Draft) and *Notice on Banning Black Lawyers and Litigation Racketeers* and other documents marking the abolition of the old and establishment of the new in China's lawyer system.

² *Lawyers Law of the People's Republic of China (2007 Revision)*, Article 16: To establish an individual law firm, in addition to meeting the conditions stipulated in Article 14 of this Law, the founder must be a lawyer with more than five years of practice experience. The founder bears unlimited liability for the law firm's debts.

³ *Lawyers Law of the People's Republic of China (1996)*, Article 2: The term "lawyer" as used in this Law refers to practicing personnel who have legally obtained a lawyer's practice certificate and provide legal services to society.

⁴ Li Xueyao, "Legal Professionalism," published in *Chinese Journal of Law*, 2005, Issue 6.

⁵ *Lawyers Law of the People's Republic of China (2007)*, Article 2: The term "lawyer" as used in this Law refers to practicing personnel who have legally obtained a lawyer's practice certificate and accept entrustment or designation to provide legal services to clients. Lawyers should protect clients' lawful rights and interests, ensure correct legal implementation, and safeguard social fairness and justice.

⁶ Caserta S & Wang Jinxi, "Digitalization in the Legal Field and the Future of Large Law Firms," published in *BFSU Law Review*, 2021, Issue 1.

⁷ How Are Law Firms Investing in Technology to Remain Cutting-Edge? Alvarez Technology Group. Available online: <https://www.alvareztech.com/how-are-law-firms-investing-in-technology-to-remain-cutting-edge/>

⁸ Laura Empson, *Managing the Modern Law Firm: New Challenges, New Perspectives*, pp. 78-79.

Note: Figure translations are in progress. See original paper for figures.

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