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TRIPLE-ACCREDITED, WORLD-RANKED



# **Karl Polanyi on strategy: the effects of culture, morality and double-movements on *embedded strategy***

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## **Abstract**

Karl Polanyi is arguably one of the most significant economic sociologists. At first glance the links between Polanyi's ideas about markets, society and institutions and strategy may not be obvious. However, there is a hereto unrecognised link between recent writing about institutions and strategy and Polanyi's work. In this paper we, therefore, chart how, when recognised, these links reveal that Karl Polanyi's work might provide new ways of thinking about strategy. Our over-riding claim is that Polanyi's ideas reveal the importance of considering how strategies are defined, responded to, and ultimately rendered effective or ineffective in ways that are determined by relationships between markets, the state and society. It is thus crucial to understand *strategy as embedded*, this implying consideration of a strategy's legitimacy in economy and society as an instituted process at any particular place and time. This also implies wider political questions about strategy in society and the extent to which strategists need to be aware of the 'double movement' Polanyi discusses and ensure strategies serve the interests of society as well as those of the market.

## **Introduction: Locating Polanyi**

Karl Polanyi is arguably one of the most significant economic sociologists. He was born in Vienna in 1886 where he lived until the 1930s, and rose to prominence through his critique of the Austrian School

of economics. He latterly spent time in the UK, USA and Canada, with the publication of “The Great Transformation” (Polanyi, 1944) establishing Polanyi as a key socialist thinker on the economy.

Perhaps most notable about Polanyi’s work is the longevity of its influence on economic sociology and related academic fields. This is most evident in the resurrection of debate about Polanyi’s ideas following the global financial crisis. In the years since 2008, and with the 50<sup>th</sup> anniversary of his death in 2014, Polanyian perspectives have been reenergised. From academic conferences and books seeking to re-interpret Polanyi’s ideas in the context of the current economic malaise (e.g. Brie, 2017; Dale, 2016), to prominent public academics such as Joseph Stiglitz who in his foreword to the 2001 republication of *The Great Transformation* credits Polanyi for developing ideas that can explain the failure of Russia’s transition to a market economy and the flaws of the Washington consensus more generally, there is widespread interest in Polanyi’s ideas about the relationships between the state, markets, society and economy.

Given the interest in Polanyi’s work, and as we discuss further below the ambiguity of some of his writing, it is well beyond the remit of this paper to provide a comprehensive account of all of Polanyi’s ideas. Instead, therefore, we opt to focus on some of the key conceptual debates that Polanyi’s work has inspired, through his discussion of the embedded economy. Specifically, we consider Polanyian perspectives on: markets as institutions; the role of the state in the creation of fictitious commodities; the way society influences market traits; and the associated double movement. These four core issues underlie Polanyi’s contribution to our understanding of the development of embedded market based capitalism, its contradictions, and instituted form. But why is this relevant to questions of strategy?

At first glance the links between Polanyi’s ideas and strategy may not be obvious. After all, Polanyi was concerned with questions of economy and society, not firms, their agency and goals. There is, nonetheless, a conceptual bridge between the two worlds. The title of Polanyi’s 1957 chapter - “The economy as instituted process” – hints at a link between Polanyi’s work and economic sociology’s interest in institutions and their role in markets. We explore this link in more detail below. Importantly

for our ambition here to develop a Polanyian perspective on strategy, this link allows us to connect to recent writing about institutions and strategy. This literature emphasises that “strategic choices are not only driven by industry conditions and firm-specific resources...but are also a reflection of the formal and informal constraints of a particular institutional framework” (Peng, 2002: 253). Indeed, Peng et al. (2008: 921) argue that the institutional perspective is one leg of a ‘strategy tripod’, whilst recent interest in topics such as “strategy-as-practice meets neo-institutional theory” (Suddaby et al., 2013), and “organizational responses to environmental demands” (Delmas and Toffel, 2008) attests to the importance of recognising the institutional embeddedness of strategy. The insights of Karl Polanyi are, however, overlooked in existing work; the lack of reference to his writing exemplifying this tendency. For instance, according to Google Scholar, there have been only three articles citing the work of Karl Polanyi published in Strategic Management Journal (Karl not to be confused with his brother Michael who wrote about tacit knowledge and gets citations in 76 different articles).<sup>1</sup>

In this paper we, therefore, consider how Karl Polanyi’s work might provide new ways of thinking about strategy. Our over-riding claim is that Polanyi’s ideas reveal the importance of considering how strategies are defined, responded to, and ultimately rendered effective or ineffective in ways that are determined by relationships between markets, the state and society. It is thus crucial to understand *strategy as embedded*, this implying consideration of a strategy’s legitimacy in economy and society as an instituted process at any particular place and time. This also implies wider political questions about strategy in society and the extent to which strategists need to be aware of the ‘double movement’ Polanyi discusses and ensure strategies serve the interests of society as well as those of the market.

We develop our analysis by outlining a Polanyian interpretation of the legitimacy of the strategies of English global law firms in one international market – Italy. This reveals that the way a

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<sup>1</sup> These articles deal, respectively, with issues of embeddedness in network structure and effects on alliances, embeddedness and subsidiary performance (Polanyi being cited generically in these two articles in relation to the term embeddedness), and the development of markets in the public sector (Polanyi being cited as part of a claim that markets have not been studied enough in strategy research). As a result, even when cited, Karl Polanyi’s ideas about institutions are not fully explored.

strategy attempts to commodify labour and knowledge, and the extent to which this is viewed as morally and culturally legitimate, has significant effects on the success of a strategy. Specifically, we show that a double movement in terms of how the state institutes markets, and along with wider society responds to the attempts by corporations to operate in this market, is central in determining legitimacy and outcomes of strategies. This highlights the value of a Polanyian methodology for studying strategy that emphasises the embedding forces of market-state-society relationships.

### **Reading Polanyi**

The Great Transformation (Polanyi, 1944) is probably Polanyi's most debated contribution. The book charts the movement of European societies to an industrial era and the ideas and policies that the state drew on and developed to make industrial societies possible. The book fundamentally questions how markets work, and the implications for workers and society of the changes invoked to make market based capitalism function. Perhaps one of the most distinctive features of all of Polanyi's work, the Great Transformation included, is however its richness but also its inconsistency. As a result, the seventy or so years since the publication of The Great Transformation has been a period in which scholars have sought to apply and develop the ideas put forward, but also re-read and re-interpret the text. Indicative of this is the way the concept of embeddedness has been in part credited to Polanyi's work (as well as that of Granovetter [1985] more recently), yet the term is only used twice in The Great Transformation (Krippner, 2001). The explanation for this lack of clarity is now well recognised: Polanyi changed his theoretical perspective on markets as he wrote the book, but in the rush to publish his work, in hope of influencing economic reforms, he did not have time to deal with the inconsistencies that arose from this change (Block, 2003). Our intention here is not to chart the tens of interpretations of Polanyi's work that have emerged as a result of the inconsistencies. Rather, we focus on some of the underlying ideas that led Polanyi, and those who have developed his work, to claim that markets and the economy are always embedded.

As the title of his 1957 piece “The economy as instituted process” suggests, Polanyi seeks to draw attention to how markets operate as a set of *traits* that are deliberately constructed to enable economic exchange. Traits refer to the key characteristics that are crucial for a market to operate – i.e., they are fundamental features of a market based society. As Buğra (2007: 2) notes, the traits of markets that Polanyi observed were distinctive in that they were constructed for no other purpose than to allow market based economic exchange. They did not exist before the transformation to an industrial market society and were constructed deliberately by the state to make such a society possible. This differed when compared to previously recognised forms of exchange such as reciprocity and redistribution which were guided by understandings of kinship and religious duty respectively that had wider societal functions (Lie, 1991: 222). As a result of the distinctive nature of market traits, Polanyi called for the development of the:

“conceptual tools required to penetrate the maze of social relationships in which the economy was embedded. This is the task of what we will here call institutional analysis” (Polanyi, 1957: 242; cited in Lie, 1991: 221).

This institutional analysis was built first and foremost as a critique of orthodox neoclassical economics. As part of his disagreement with the way the Austrian School of economics conceived of markets, and more widely the view that the idea of *laissez faire* markets (free from government intervention) was flawed, Polanyi sought to show that markets could not be understood as analytically separate from state and society. He thus developed a methodology which takes account of economy-society relations in the institutionalisation of markets (Gemici, 2008); a methodology that has regained traction in the wake of the global financial crisis and the subsequent discrediting (in some circles at least) of *laissez faire* thinking. For example, in the *Great Transformation* Polanyi (1944) documents the rise of market society in England and how, contrary to neoclassical explanations of markets operating independently of the state, the state and reforms it imposed on society were essential for the market to function. He contends that *laissez faire* markets were designed and implemented by the state. Readings of his work have thus focussed on three important ideas developed as part of his institutional analysis – the role of the state in creating fictitious commodities, societal influences on market traits, and the double movement. It is

these ideas and their relationship to the central concept of embeddedness that we consider here as offering potentially useful insights into strategy.

*The state, fictitious commodities, market traits, and the double movement*

For Polanyi, the state is central to the construction of the market as an institution, but has a dual and contradictory role. On the one hand, the state enables the emergence of markets through regulatory action that allows the production of *fictitious commodities*. Fictitious commodities are things that pre-date the market but which were rendered tradable as part of state led transformations designed to create a market society. Land, labour, money and most recently knowledge have all been highlighted as fictitious commodities that the state, through enclosure rights, employment regimes, banking systems and intellectual property rights rendered tradable. As Polanyi (1944: 146) wrote, the market “was opened and kept open by an enormous increase in continuous centrally organized and controlled interventionism” (quoted in Krippner, 2001: 782). Exemplifying this, in the fallout of the global financial crisis it was national governments, in the USA and UK particularly, that ensured markets did not implode. This point, which has been central to many analyses of the flaws of laissez faire thinking which are central to neoliberal, Washington consensus politics (e.g., Peck, 2010), focuses on the way state regulation allows land, labour, and money to be commodified through property rights and other regimes, even though they naturally do not exist as tradable entities. As Polanyi (1944: 72, original emphasis; quoted in Lie, 1991: 223) notes:

“Labor, land, and money are obviously *not* commodities; the postulate that anything that is bought and sold must have been produced for sale is emphatically untrue in regard to them”.

Commodification through state actions is thus essential if markets are to operate. On the other hand, however, the state also has an important role in taming markets, as became clear with the financial crisis of 2008 which highlighted the dangers of the state under-regulating markets. In recognition of the danger associated with commodification and unconstrained markets, the state puts in place regulations such as employment laws and social safety nets, and regulators to continuously police these regulations,

as well as monetary controls, designed to rein in markets and protect citizens from their effects (Buğra, 2007: 3). This occurs because “the idea of a self-adjusting market implied a stark utopia. Such an institution could not exist for any length of time without annihilating the human and natural substance of society” (Polanyi, 1944: 3; cited in Block, 2003: 282).

Significantly, this dual function of the state, and in particular its taming role, is influenced in important ways by *the values of the society the state represents*. What is permitted in the process of commodification varies from society to society, and rules designed to tame markets similarly display inter-national variations. As Block (2003: 295) notes, morals and customary law all generate belief systems that create such variations. A good example of this relates to the role of unions and worker representatives. The well-documented (see, for example, Dore, 2000) differences between the ‘right to work’ states of the USA which prohibit union representation and German collective bargaining and worker representation on firm boards illustrate divergent belief systems about the rights and responsibilities of workers and companies. Hence the concept of embeddedness has also become associated with place-specificity (Hess, 2004) as markets when viewed through a Polanyian lens appear as geographically heterogeneous institutional assemblages. The varieties of capitalism literature, inspired by the seminal work of Hall and Soskice (2001), has developed this view most thoroughly, pointing to how capitalisms vary from society to society because of the different enabling and taming roles played by the state through its varying degrees and forms of regulatory effort.

These observations about the dual role of the state all feed into Polanyi’s assertion that a *double movement* exists in which the imperative of capitalists to expand the market is met with counter resistance designed to protect society from ill effects. This countermovement, as well as emerging from state action, can be a spontaneous reaction by society. In this regards Polanyi, being inspired by Marxist thinking but also critical of its limitations, is sensitive to ideas of class revolt. Hence workers, but also government officials, and even some land and business owners might mobilise to resist forms of commodification deemed inappropriate according to local moral or cultural norms (Gemici, 2008).

We take, then, a fundamental point from Polanyi's ideas about markets as institutions, the role of the state in the creation of fictitious commodities, the way society influences market traits, and the associated double movement: understanding the relations between markets, the state and society is fundamental when examining economies. This implies that when considering firms, and in turn their strategies, the effects of these relationships need due consideration. We thus now consider how such considerations might be incorporated into discussions of strategy. We do this by introducing the idea of *embedded strategy*.

### **Embedded strategy**

As noted in the introductory section, building a bridge between Polanyi's ideas and strategy research is in part facilitated by work on institutional approaches to strategy. Whittington (2001) provides a useful overview of what he calls 'systemic perspectives on strategy' of which institutional approaches are one stream. Whilst not referencing Polanyi, and instead considering 'neo-institutional' questions about pressures for conformity, Whittington (2001: 26) suggests that those doing strategy are "rooted deeply in densely interwoven social systems". This, Whittington argues, has implications for the national specificity of strategy decision making, something Whitley's (1998) work on national business systems has also shown. Specifically, it means country of origin effects result in dramatic differences in the strategies of, for example, American, German and Japanese companies. One key difference here is the contrast between the strategies of US corporations that focus on short term profitability and shareholder value and the strategies of Japanese firms which are much more concerned with market share (Whittington, 2001).

There is much more that can be said about the impact of national specificities on strategy formulation and implementation if Polanyi's ideas are more thoroughly explored. To do this requires, however, recognition that the 'neo-institutional' questions that often come to fore, and which emphasise what firms and strategies must conform with rather than why particular pressures for conformity exist, need to be supplanted by questions about the nature and effects of market-state-society relationships.

This point relates to the rupture between the old and new institutionalism. DiMaggio and Powell (1991) in their seminal work re-orientated many scholars working on institutional analyses towards ‘new’ questions of legitimacy and isomorphic pressures for conformity; thus moving the attention away from ‘old’ concerns with agency, influence, politics and power. As Stinchcombe (1997) suggests, the insights provided by those building the foundations of the ‘old’ institutionalism have been, perhaps too quickly, forgotten. Calls for a rapprochement have highlighted the potential for re-injecting ‘old’ insights into contemporary analyses (Greenwood and Hinings, 1996; Selznick, 1996); although arguably many European institutionalists never left these questions behind (see, for example, Thelen, 2004). Arguably in the literature on strategy the potential of ‘old’ institutionalists to offer valuable insights appears to have largely been ignored, and Polanyi’s ideas provide one way of re-injecting such issues into debates.

In particular, Polanyi’s work on market traits and his description of how the state shapes the production of fictitious commodities such as labour are valuable when used as a way of getting to the roots of the moral and cultural beliefs that are specific to a society and which effect strategies and their outcomes. Indeed, the double movement idea suggests that as firms seek to expand their markets through capitalist strategies, citizens and the state will resist if these strategies and the commodification they attempt transgress moral or cultural beliefs. Strategy literatures that adopt ‘neo-institutional’ perspectives to highlight how pressures for conformity affect corporate behaviour begin to address such issues when they document the importance of legitimacy in strategy formulation and implementation (Kostova and Zaheer, 1999). But, a Polanyian view can take this further and provide a valuable way of understanding the reasons for why resistance may emerge and the kind of compromises needed to legitimate a strategy in different societal contexts.

In the remainder of the paper we examine the case of English global law firms and their strategies in Italy from the early 1990s to the early years of the new millennium. In doing so, we develop a *Polanyian methodology for analysing embedded strategy*. This methodology emphasises the embedding forces of market-state-society relationships that give character to the strategies of the firms in question, the underlying beliefs and customs responsible for this, and the way the legitimacy of these strategies can be affected by a double movement. As such, in a somewhat radical departure from

dominant approaches to strategy, it is a methodology that asks about strategy in its broader economic and societal setting. We build our analysis using archival and interview data from a research project focussed on the internationalization of global English law firms in Italy. The empirical methodology for this study is detailed elsewhere (see Faulconbridge and Muzio, 2016). Here, rather than presenting empirical results, we offer a conceptual analysis that interprets the strategies of the firms in question through a Polanyian lens. We begin by presenting a short synopsis of our case study, focusing in particular on the strategies deployed by the firms in question and how these were received in the Italian context. We then examine how a Polanyian analysis focussed on the key concepts of market traits, commodification, and the double movement help explain the events we observe and in particular the success and failures of the various strategies deployed.

### **The arrival of UK firms and the emergence of an Italian corporate legal field (1990-2000)**

In this section we contextualise our Polanyian analysis of strategy below. We outline the strategy of English law firms in Italy, before moving on to ask about ways of interpreting this strategy, its nature and effects, through questions about market-state-society relations.

English law firms began to enter the Italian market in the 1990s as part of the broader process of Europeanization and the creation of the single market. The Italian market up to that point was dominated by small scale family based practices. Very few employed more than a dozen partners or had more than one office, usually in Rome or Milan. They had a generalist orientation, focused on contentious work and cultivated long term often generational relationships with their clients. In this context English firms sought to develop a full-service capability, with a view of achieving a dominant position in the Italian legal market. Indeed, a number of our respondents explicitly referred to an ambition to achieve a top 3 position within Italy. This of course involved developing domestic law capabilities, servicing Italian clients and employing locally qualified lawyers; as such this strategy was characterised by a high degree of local responsiveness (Bartlett and Ghoshal, 1998) as firms sought to adapt to local conditions. As a result, by 2001 80% of Clifford Chance's 145 lawyers in Italy were

locally qualified (The Lawyer, 1999; Cahill, 2003a), and 85-90% of clients at Simmons and Simmons were Italian (Cahill, 2003b), whilst these firms also begun to develop a capillary presence through the Italian market opening additional offices in regional centres like Padua or Turin. Importantly, these offices, as part of efforts to maximize local responsiveness, were afforded very high levels of independence from headquarters, enjoying high degree of autonomy in matters such as client management, pricing structures, working methods, remuneration, and even branding, whereby the Italian operations often had a different name from the parent organization. Table 1 summaries the key features of the initial strategy of English firms in Italy.

INSERT TABLE 1 HERE

Yet, with the new millennium as English firms begun to review their international operations, a revised strategy became dominant. This new ‘one firm’ strategy, which is extensively documented in the literature (Barrett et al, 2005; Segal-Horn and Dean, 2009; Muzio and Faulconbridge, 2013), prioritizes, in Bartlett and Ghoshal’s terms (1998), global integration over local responsiveness and is predicated on the belief that competitive advantage is derived from the ability to provide a globally consistent service experience across the world. As we highlight below, a Polanyian reading of strategy reveals fundamental contradictions in the idea of ‘global consistency’ when markets are instituted by nation-states in geographically variegated ways. The firms in question were, however, blind to this and their strategy inspired a refocusing away from local clients and issues and towards the servicing of the Italian leg of global transactions. These deals often involved global clients not based in Italy, were structured in English law, and focused on financial rather than corporate matters. As firms re-oriented themselves away from local markets towards the global network, the emphasis shifted towards hiring a new profile of professional. The local superstar practitioners, that were sought for their reputations and corporate connections, but which jealously guarded their autonomy and independence, were not suitable for the new strategy and ensuing work practices. Rather, firms targeted a younger cohort of ‘cosmopolitans’ (Smets et al, 2012), these were Italian lawyers who often were dually qualified or had significant

overseas working experiences and would fit more easily with the more integrated and managed working methods that the 'one firm' strategy required. Furthermore, as firms focused on global financial transactions, they lost the need for the regional presence and were able to retreat onto the city of Milan as Italy's key financial centre. Table 2 summaries the key features of the one firm strategy.

INSERT TABLE 2 HERE

Yet the transition from the original 'top 3' strategy to the new 'one firm' one, was not unproblematic. It generated a series of tensions which threatened the firms' presence in the Italian market. The 'one firm' strategy has far reaching organizational consequences as it not only involves the adoption of common service practices, but also necessitates the standardization of back office processes including governance structures, recruitment and promotion processes, training and socialization programmes, as well as remuneration and billing practices (Muzio and Faulconbridge, 2013). In short, the 'one firm' model demands that each office of the firm operates as part of one seamless unit, regardless of local nuances in professional practice or culture. This of course, undermined the vast degrees of autonomy and discretion that local offices and partners had enjoyed under the previous 'top 3' strategy. And as a result, it generated significant resistance from Italian stakeholders. Furthermore, the 'one firm' model sought to integrate local offices around English values, practices and ways of working, such as a transactional approach to legal work and client relationships, the development of standardised solutions and knowledge management systems, the use of team work and seniority based pay systems. As a strategy, it was very much embedded in the institutions of the City of London and reproduced a large scale organizational approach to legal practice which was typical of that geographical context (Muzio and Faulconbridge, 2013; Faulconbridge and Muzio, 2016).

As such the transition to the new 'one firm' strategy placed significant strains on the Italian operations of firms, leading to de-mergers, office closures and high-profile defections. In particular these firms lost their key local partners with Vittorio Grimaldi walking out from Clifford Chance,

Roberto Casati from Allen and Overy and Lega and Colucci from Freshfields (Sutton, Jan 2006; Griffiths, 14/2/2005). Besides these high profile losses, our firms were affected in the post-integration period by a steady stream of defections, losing associates, partners and sometime whole teams, or offices, such as Allen and Overy's Turin's office (Moshinsky, 30/10/06) or Simmons and Simmons' Padua office (Swift, 14/6/10). Defectors tended to relocate to the growing number of Italian law firms or to US practices, which tended to offer business models and working cultures which were more congenial to their own values and attitudes.

This raises the following question: How does a Polanyian analysis help us to understand the difficulties experienced by English law firms in Italy, and the failure of their 'one firm' strategies? Some of the problems described above might be explained by literatures that focus on change management strategies (Pettigrew et al., 2001; Wilson, 1992), questions of power and politics in strategy implementation (Carter et al., 2010; Pfeffer, 1992), or the existing International Business literature on institutional distance (Kostova and Roth, 2002; Peng, 2002). All of these literatures would undoubtedly add something of value. But, as we outline below, a Polanyi informed analysis brings new considerations into view. In particular, it helps reveal how the moral and cultural foundations of the Italian legal market ultimately led to the failure of the 'one firm' strategy. This, in turn, suggests a greater role for moral and cultural considerations in strategy research as part of a widening of the lens to take account of strategy in societal context. In particular, our case study reveals how strategic failure derives from a lack of attention to the way strategy is a product of and mediated by market-state-society relations.

### **The traits of the instituted market**

As noted above, Polanyi believed that understanding the instituted economy is central to explaining the connections, mediated through the state, between markets and their broader social context. Analysis of the instituted traits of markets provides a means of revealing these connections. We thus begin by considering the traits – i.e., rules, norms and cultures - of the Italian legal market and how these were

instituted by the Italian state. This latterly helps us explain how the failure of the ‘one firm’ strategy resulted from tensions between the approaches to retailing legal services proposed by this strategy and dominant understandings of what constituted legitimate market behaviour in the Italian legal field.

The Italian legal market is heavily regulated. The market is structured around a state sponsored profession (Ordine), with the state exercising strong control on who can practice law and how; these two dimensions being referred to in the literature (Abel, 1988) as the regulation of the production of producers, and regulation of the production by producers. Indeed, a European Commission report (Paterson et al., 2003) classified the Italian legal profession as highly regulated with a score 6.4, against a score of 4 assigned to England & Wales. Specifically, the Italian system is quite restrictive in terms of how legal work is organized and retailed. Restrictions at the time of the events here described included: bans on advertising, minimum fee levels, naming restrictions that prohibited firms holding the name of anyone but a practicing lawyer, domicile obligations for court based proceeding, and bans on the use of client names for marketing purposes. In Polanyian terms, these are all examples of the ‘double movement’ of the state regulating markets to prevent what is considered to be dangerous and potentially causing societal ills, in this case relating to the commercialisation of safeguard legal services.

A key trait of the Italian legal market that regulation reproduces is a population of small firms. Even in the late 1990s and early 2000s, firms very rarely exceeded 15-20 lawyers (The Lawyer, 1999; Testoni, 2013). Italian elite law firms were often run by university professors with a successful individual surrounding himself with apprentices (Danilo, 1998; Malatesta, 2006; 2011). As a result, like Italian business more broadly (Triglia and Burroni, 2009), law firms in Italy were informally organized, paternalistic in their governance, and run as personal fiefdoms to the point that they would often cease to exist when their founder died or retired (see Pawsey, 2003). A key factor sustaining this model, as we note below, were regulations which effectively banned employment in a law firm, this preventing the emergence of the leveraged corporate structures common in England.

A further important trait is the dyadic relationships between vendors and purchasers, in this case lawyers and clients. Strong norms governed client relationships in Italy which tended to be long-term, personal (whereby clients developed relationships with individual lawyers), close and informal.

Markets were thus instituted in ways that allowed clients to purchase the expertise but also the trust of an individual lawyer. Much advice was provided outside of formal transactions, lawyers being the trusted advisors and personal confidants of clients and thus being consulted regularly and informally on both legal and business matters. Thus, Italian business lawyers were expected to assist with a broad range of issues and offer ‘total support, unscrupulousness, no misgivings which may alienate the client’ and the general feeling of being part of a shared enterprise (Gianaria and Mittone, 2007: 90). Indeed, it was common for lawyers to sit on the executive boards of their clients (Cantagalli, 2011).

These traits of the Italian legal market did not come about by accident. Rather, as Polanyi suggests, the traits are indicative of the way the state sought to create institutions of market exchange that reflected wider societal understandings of morally and culturally legitimate practices. The second stage in a Polanyian analysis involves, then, interrogating connections between market traits and societal logics. This is achieved through consideration of the way fictitious commodities are created, and the implications of this for what is deemed legitimate practice in the market.

### **Fictitious commodities in the legal market**

As outlined above, commodification is a process of creating tradable (fictitious) commodities out of entities that have to be organized in certain ways to make them tradable, given that their innate form does not necessarily lend itself to market exchange. For the legal profession, commodification relates to two main entities, labour and knowledge. It involves a number of actors. This of course includes the state, but also other stakeholders such as professional associations and universities. The former have delegated responsibility from the state for setting and policing the rules and norms that govern entry to and practice within legal markets, including matters such as qualification requirements, the governance of firms, client relationship practices, and even in some cases fee setting (Faulconbridge and Muzio, 2012; MacDonald, 1995). The latter produce the supply of labour with the relevant skillsets and mindsets to practice as lawyers. In relation to our analysis here, through their role the state, the university and the professional associations reproduce the Italian legal field as a recognised area of institutional

life (DiMaggio and Powell, 1983) with patterns of accepted behaviour and organization tied to shared understandings of legitimate ways of commodifying labour and knowledge.

The capturing of human efforts through the paying of a wage by an employer is the fundamental process that Polanyi suggested allowed the commodification of labour. In the Italian legal profession, significant restrictions existed in this regard, with the employment of salaried lawyers by firms being prohibited in most forms (Muzio and Faulconbridge, 2013). Regulations mandated that ‘*ius postulandi*’ (the ability to provide legal representation) should be restricted to self-employed lawyers, meaning firms could have partners (these treated as co-owners of the firm rather than employees) but not salaried lawyers. Employees did exist and are in rapid expansion but have to be disguised as freelance contractors who invoice for their services. The result was that Italian lawyers tended to view themselves, and legally existed in many cases as autonomous practitioners. Hence, they developed their own independent client bases and could not be restrained by ‘non-compete’ clauses. This acted as a powerful brake for the expansion of English law firms into Italy, as they relied on highly leveraged business models, featuring high proportions of salaried staff to partners, which were difficult to replicate in the Italian market. Related regulation prohibited, as noted above, the use of the firm’s name in the absence of its originator. This further hindered the development of the permanent and stable corporate entities which the ‘one firm’ strategy relied upon.

Underlying the restrictions on the commodification of labour in Italy were strong (and perhaps self-serving) moral beliefs in the notion of ‘*terzieta*’ (Alpa, 2005): the belief that the professionals needed to remain independent from external influences, and therefore had to be autonomous and free from the constraints imposed by an employer. Furthermore, these moral beliefs correspond with some strong cultural preferences for entrepreneurship and small-scale practice whereby Italian lawyers are suspicious of the large scale organizational models which are dominant in Anglo-Saxon contexts. Hence Italian lawyers never saw themselves as fully part of a firm given their independent orientation, whilst the state, the university and professional associations supported and reproduced this stance through their actions and pronouncements which treated small scale practice as the norm. As a result, in Italy labour was never fully commodified and this, in turn, limited the extent to which firms could control market

exchanges within the legal field. We return to this point below when we consider the implications for the 'one firm' strategy.

A second concern in terms of commodification relates to knowledge. Polanyi never explicitly considered knowledge and its commodification, but as Jessop (2007) notes, in the era of the knowledge economy attempts to commodify knowledge are common given the emphasis firms place on capturing, storing, and exploiting knowledge (on this in law firms, see Faulconbridge, 2015). Two processes are of concern. First, the means by which knowledge is captured, in machines, routines or otherwise, thus extracting it from human beings. This allows knowledge to be traded as an abstract commodity, instead of relying on human interactions between two parties. Second, commodification involves processes which emphasise profit maximisation, and the efficient leverage of knowledge resources, with less emphasis being placed on quality or morality. This involves restructuring the exchange relationship around standardised and packaged products, rather than bespoke relational solutions (Suddaby and Greenwood, 2001). Jessop (2007) compares craft guilds with corporations to differentiate between un- and commodified knowledge forms.

In Italy, attempts to commodify legal knowledge were extremely restricted. The predominant mode of exchange was through long term relationships between a generalist professional and an individual client, the client expecting an informal and highly personal service from their trusted advisor (Giannaria and Mittone, 2005). Of key importance in explaining the limited scope of commodification is the legacy of the civil law doctrinal tradition which again has specific moral and cultural foundations. In particular, the civil law tradition tended to understand law as a 'purely analytical, intellectual construct, a sealed system of logically interconnected propositions impermeable to the economic pressures of the business world' (Osiel, 1990: 1037). In this context lawyers understood their roles as technicians or legal scientists whose excellence derived from their mastery of the codes and their ability to apply these to the contingencies of human action. In this context, the assumption was that knowledge could not be easily abstracted from the individual practitioner/client relationship. Indeed, regulations such as minimum fee levels, advertising bans and domiciliation requirements<sup>i</sup>, existed to protect individuals from competition and the temptation to engage in commodification processes that featured

the mass production and packaging of legal services. This was the reverse of the situation in England where such regulations had long been abandoned (Abel, 1988; Muzio and Ackroyd, 2005).

As a result, Italy did not have a distinctively corporate market for legal services, based on short term transactional relationships, competitive tendering processes and preferred supplier lists, as existed in other markets such as England (Micelotta, 2010). The value placed on long term personal relationships between an individual lawyer and their client also explains why Italian firms tended to have highly dispersed remuneration systems which rewarded disproportionately a few key individuals (named partners, family members or rain makers, who controlled key client relationships) at the expense of others (Danilo, 1998; *The Lawyer*, 1999; Pawsey, 2003; Sutton, 2006: 73 -74; Ruckin, 2007a). Partnerships for instance, tended to operate on very wide equity spreads (earning differential between top and bottom earning partners) approaching ratios of 8:1; to give a sense of how extreme this is, 2.5:1 is usual for English firms (*The Lawyer*, 1999; 2001). This all relates to an understanding of where knowledge resides: in the individual, with exchange and reward for it operating at the individual level.

As Figure 1 outlines, the Italian legal market was thus defined by its distinctive traits, these traits being (re)produced by processes of labour and knowledge commodification influenced by particular cultural and moral influences. This created a distinctive environment into which the 'one firm' strategy was introduced. As we outlined above, the introduction of this strategy was problematic, not least because it was devised in the market environment of the City of London, which had been instituted in very different ways. We, therefore, turn in the next section to a Polanyian explanation of the particular responses to the 'one firm' strategy, and the relationships between the traits of the market, underlying cultural and moral beliefs, and questions of strategic legitimacy.

[Insert figure 1 here]

### **The double movement and the failure of strategy**

As a result of the limits outlined above to the commodification of labour and knowledge in the Italian legal market, the ‘one firm’ strategy and the practices it sought to impose were seen as morally and culturally illegitimate. This is because the City of London as the context in which the ‘one firm’ strategy was instituted, had very different characteristics and, in particular, sustained much greater degrees of commodification than the Italian legal market. As a result, when exported into the Italian market, the ‘one firm’ strategy generated the double movement that Polanyi suggested would emerge, as the state and wider society felt moral disdain for this particular set of market practices and behaviours. This is somewhat ironic. Larson (1977) suggests the professions are an ‘accessory’ to the double movement, helping moderate the effects of capitalism through their gatekeeping role. In our case, however, the story is reversed. English lawyers are viewed as colluding with capitalists and acting in inappropriate ways (an accusation that is now increasingly made against professions worldwide, see for example Mitchell and Sikka, 2011).

The double movement resulted, in particular, from the way the ‘one firm’ strategy proposed structures in which lawyers were treated as employees of a corporate entity; i.e., approaches which assumed a high level of commodification of professional labour and knowledge. In particular, lawyers were subject to various human resource management techniques to increase the efficiency and consistency of their services, and were expected to serve the priorities of the firm in return for a salary. Crucial to this was the notion of leverage, as firms made money by increasing the number of salaried staff relative to partners and from deploying economies of scale as they relied on integrated teams staffed with many junior employees and few senior partners (Ackroyd and Muzio, 2007; Faulconbridge and Muzio, 2009). Moreover, the ‘one firm’ strategy imposed high degrees of knowledge commodification as it sought to embed professional knowledge in routines, best practices, and knowledge management systems, and replace individual discretion and personalized exchange relations with processes of routinization, standardization and commodification. This reflected the culture of English legal markets which, certainly since the 1980s, saw law as being a business as much as a profession.

The reaction of Italian professional associations, lawyers and clients to such a model of commodification was far from positive. Italian lawyers viewed the systems associated with the 'one firm' strategy as an affront to the prestige of the legal profession, its basis in scientific expertise, and its moral mission and civic role. Thus, one of our respondents referred to how the '*specialization*' and '*Tayloristic approach to work*' typical of English firms led '*to a form of intellectual poverty and stunted professional development*' whilst another recounts how the one firm model invoked on behalf of Italian professionals feelings of '*being put through a sausage machine*' and of being '*compared to a spreadsheet*'. Clients too had some significant doubts with regards to aspects of the one firm strategy. These included the expectation of '*only talking to the owner of the firm and not an employee*', a preference for day-to-day partner lead advice rather than '*scores of associates working on a large transaction*', and frustration if not offense at the refusal by lawyers working for English firms to join their executive boards ('*lawyers were not allowed to sit on the executive boards of their clients. This is a grave offense for an Italian client*'). The result was that English firms failed to make headway with local corporate clients. In the words of a local star practitioner '*Italian clients think we have learnt a lot from international firms and they are thankful. But they continue to come to us*' (Pawsey, 2003: 72). The one firm model clashed, then, with the moral values and cultural preferences held by local practitioners and clients, leading to a strong double-movement which manifested itself in the steady stream of demerges and defections discussed in a previous section.

Of course, it was not just cultural and moral disdain that caused English firms problems. Specific regulations existed in order to protect the independence of lawyers from commercial and managerial pressures, and these clashed with the 'one firm' strategy which was so reliant on practices which were illegitimate or illegal in the Italian context. For example, Italian professional associations accused Freshfields and Allen and Overy in the Italian parliament of undercutting fees by almost 30 per cent (Mizzi, 1999). This was in violation of local minimum fees tariffs which, as discussed, were intended to protect individual professionals from attempts to commodify their labour and knowledge and leverage this in ways designed to reduce costs. As a further example, the Milan and Rome bar investigated a range of large commercial firms for disclosing transaction information, which whilst

being standard marketing practice in London was forbidden by Italy's professional conduct code (Collins, 23/06/2005). Indeed, over the last 20 years local professional associations such as the CNF (Consiglio Nazionale Forense) and OUA (Organismo Unitario Avvocatura) have been fighting a regulatory and normative battle against international law firms, seeking to deligitimize their business model and defend traditional Italian law firms. Thus in their words '*professional firms are not enterprises*' (CNF president Guido Alpa, cited in Micelotta and Washington, 2013: 1156) whilst '*Italian lawyers cannot become employees in law firms*' (OUA President Maurizio DeTilla, cited in Cavestri 2010). These quotes reflect the moral and cultural foundations of the Italian legal profession which stress independence, individualism, informality and small scale organization, all of this contrasting starkly with the high levels of commodification and organization which characterise the 'one firm' strategy. The following quote by CNF's president indicates clearly the double-movement that this inspired:

*'Individual professionalism is being marginalized by organizational forms of professionalism with all their well-known problems [...]. We need to oppose these tendencies [...]' (Alpa, 2010)*

Over time, there have been some regulatory developments which suggest the Italian state, in its role as institutor of markets, has tried to reconfigure the traits of markets to be more open to the commercial approaches that characterised the 'one firm' model (Micelotta and Washington, 2013). Nonetheless, in our period of analysis, there is little doubt that the initial failures of the 'one firm' strategy outlined in our opening story resulted from the double movement triggered by attempts to operate in Italy in ways deemed by the state and wider society to be illegitimate.

### **Polanyian methodologies and embedded strategy research**

We suggest above that to understand the failure of the 'one firm' strategy of English firms in Italy it is important to consider the legitimacy of the strategy in the context of the instituted legal market, its traits, and forms of labour and knowledge commodification. In particular, we draw attention to how the

illegitimacy of many of the structures and practices proposed by the ‘one firm’ model led to a double movement in which the state which plays a key role in instituting the Italian legal market counter-moves against English firms, as do clients and lawyers themselves. What are the implications of this Polanyian interpretation for strategy research?

Table 3 outlines our Polanyian methodology for strategy research. At one level, the view of the instituted market adopted here helps reveals the importance of connecting questions of strategic success or failure to questions of culture and morality in the society in which a strategy is both devised and imposed. Arguably, the success of the ‘top 3’ strategy (table 1) in securing mergers and access for English firms to the Italian market was its ‘local responsiveness’. In the ‘top 3’ strategy there is much flexibility to comply with local expectations and ensure that structures and practices are considered legitimate. As such, in the 1990s the ‘top 3’ strategy of English firms was able to respond to the specific cultural and moral influences on the commodification of labour and knowledge. In contrast, the ‘one firm’ strategy (table 2) and its emphasis of integration and consistency introduces structures and practices into the Italian market from the home-country (England) of the firms in question, and creates limited possibilities for the accommodation of local preferences. Hence the double movement and illegitimacy we document.

[Insert table 3 here]

This implies that questions of legitimacy in strategy formulation and implementation need to be considered not just intra-organizationally in terms of how a strategy is ‘sold’ to corporate constituencies, or within the industry field in terms of how competitors, clients, or suppliers view a strategy and its compliance with industry norms. Consideration also needs to be given to the wider societal view of a strategy, and the implications for how the state but also other constituencies react because of cultural or moral understandings of legitimacy. This relates to Polanyi’s point that in instituting markets the state has a paradoxical role of opening the way for trade exchanges, but also putting measures in place to

protect society from excesses perceived as undesirable. It also relates to the more Marxist orientation of Polanyi and the belief that members of society can react against markets, along with the state in a double movement, when cultural and moral boundaries are transgressed. As such, legitimacy becomes an issue of not simply whether a strategy promises to deliver in terms of understandings of product/service quality, efficiency, or innovativeness. It is also an issue of whether the process of producing and trading the product/service adheres to the society's cultural and moral beliefs about what is desirable.

Strategy research needs, then, to concern itself with issues that seem far away from the organizational or industry focus that might be expected. It needs to be embedded in a wider societal context, and to become skilled at researching and understanding the implications of the cultures and morals that determine legitimacy in a market. This sociological view of *embedded strategy* is in part what others have proposed through work on an institutional perspective on strategy (Peng, 2002; Peng et al., 2008). But, it takes things further as the focus is not limited to regulations that might prevent a strategy being implemented, or norms which determine the effectiveness of a strategy, for supply network efficiency, innovation or whatever it may be. The focus is also on *the extent to which legitimacy in society exists, and how this informs or not the development of a double movement*. As we have shown here, this double movement matters because it involves the state and can lead to regulatory redress, but it also involves wider society which includes clients, employees, the media and in some cases the general public also. As such, cultural and moral legitimacy concerns relate not to whether a strategy in and of itself allows a goal to be achieved; it could be argued that the 'one firm' strategy was very effective at producing corporate legal services in a globally aligned way. It is also not about straight questions of legality; the 'one firm' strategy whilst suffering from some not insignificant legal hurdles was not ultimately sunk by regulatory problems. Rather, cultural and moral concerns imply more holistic issues that come back to the connections between a market, its traits, connectedness to societal norms (figure 1), and the implications for the operation of a firm in a market. It implies that strategic legitimacy is connected to whether a firm is deemed a fair player and acceptable competitor, something judged on a moral register.

## **Conclusions**

The work of Karl Polanyi poses some challenging questions for strategy research. We have shown here that a Polanyian methodology, that pays attention to questions about the instituted economy, the traits of markets, the state's role in fictitious commodities, and the double movement against morally objectionable actions, helps reveal the way the legitimacy of a strategy in society determines responses and ultimately success or failure. The Polanyian perspective developed here requires, then, issues of power and interests in society to be accounted for. For strategy research, such concerns matter because the effects of the double movement that we have shown to be so important in determining strategic success and failure are ultimately issues of power and control. In counter-moving against the 'one firm' strategy, the state and others in Italy were both protecting their cultural and moral interests, and constructing forms of power that allowed English firms' activities to be resisted. Should English firms have been powerful enough, they might have been able to impose the 'one firm' strategy despite its illegitimacy. But, as our story shows, combinations of regulation, the withdrawal of labour (by lawyers leaving the firms in question), and deprivation of economic capital (by clients boycotting the firms) meant English firms were unable to impose the strategy, and Italian society was able to protect its interests.

A Polanyian analysis shows us, then, that in strategy research questions of power and interests are crucial, given that not only is strategy an attempt by firms to exert power to control labour, knowledge and other commodities so as to serve corporate economic interests, but it is also subject to what Sayer (2004) calls the 'double contingency' of all power relations, this being the inevitability of resistance that Polanyi shows us comes from the state and society. Again, then, research needs to transform some of the questions asked about intra-organizational or industry effects on strategy to allow their broader societal effects to be considered. If this is achieved, alongside the broadening out of questions of legitimacy and institutions as proposed above, strategy research will be much better positioned to understand the multitude of factors determining strategic success and failure. The echoes

more broadly the way that social science theories can provide critical reflection on strategy (see Brown, 2018; Butler, 2018; McKinlay and Pezet, 2018; Mueller, 2018; Munro and Thanem, 2018; Neyland and Whittle, 2018) as part of efforts to examine both strategy in organisations *and* society.

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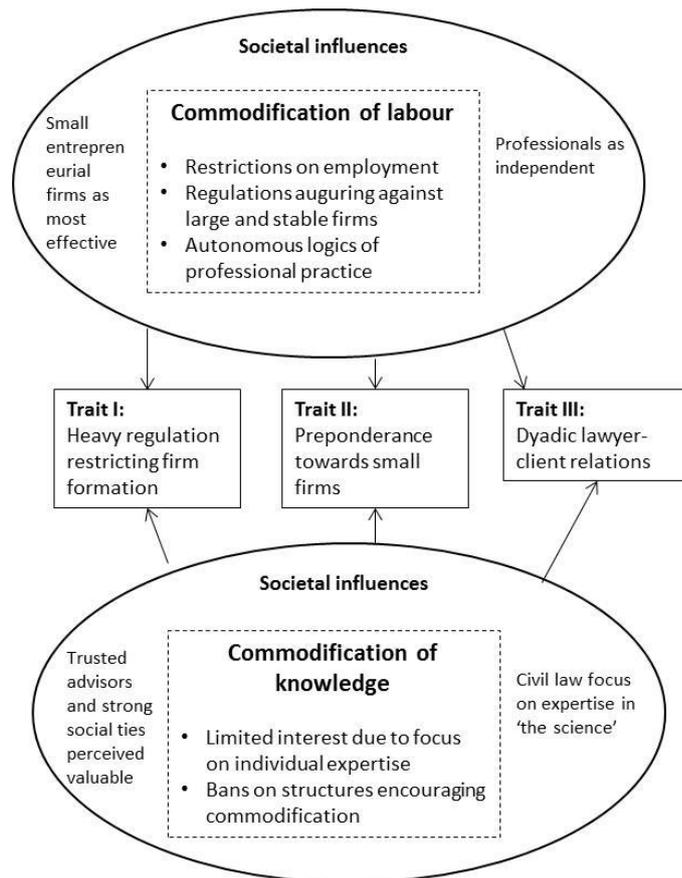
**Table 1 – The ‘Top 3’ Strategy of English law firms in Italy (1993-2000)**

<b>Key Aim</b>	<b>Market leadership (top 3 position) in local market</b>
Global integration	Low
Local responsiveness	High
Market focus	Full service
Client focus	Local and Global
Recruitment focus	Superstar practitioners. Focus on local reputation and networks. Locally qualified.
Administrative units	National subsidiaries
Office structure	Multiple regional offices

**Table 2 – The ‘One Firm’ Strategy (2000 - current)**

<b>Key Aim</b>	<b>Seamless integration (One Firm partnership) in global network</b>
Global integration	High
Local responsiveness	Low
Market focus	Focus on core market (finance)
Client focus	Largely global
Recruitment focus	Cosmopolitans. Focus on organizational abilities
Administrative units	Transnational practice groups
Office structure	Focused on Milan, as global city

**Figure 1: the relationships between the traits of the Italian legal market, processes of creating fictitious commodities, and wider societal cultures and morals.**



**Table 3: A Polanyian methodology for strategy research and illustrations of the kinds of questions it raises**

	<b>The market as instituted</b>	<b>The state producing fictitious commodities</b>	<b>Society-state-market relations</b>	<b>Double movements</b>
<b>The production of strategy</b>	<ul style="list-style-type: none"> <li>• How does strategy reflect the particular characteristics of a specific instituted market – the home country for MNCs?</li> </ul>	<ul style="list-style-type: none"> <li>• How are fictitious commodities such as labour and knowledge leveraged by strategies?</li> </ul>	<ul style="list-style-type: none"> <li>• What cultural and moral assumptions underlie the approaches promoted by a strategy?</li> <li>• How are cultural and moral assumptions reflected in regulations and norms that a strategy reflects and reinforces?</li> </ul>	<ul style="list-style-type: none"> <li>• When does a strategy generate a double movement against its objectives or outcomes?</li> </ul>
<b>The reception and success/failure of strategy</b>	<ul style="list-style-type: none"> <li>• How is strategy received by various constituencies (clients, workers, competitors, commentators, regulators etc) in a particular instituted market – host markets for MNCs?</li> </ul>	<ul style="list-style-type: none"> <li>• To what extent does the leverage of fictitious commodities correspond with assumptions in any particular place or time?</li> </ul>	<ul style="list-style-type: none"> <li>• To what extent does a strategy conform to time and place specific cultural and moral norms?</li> </ul>	<ul style="list-style-type: none"> <li>• Could a strategy generate a double movement due to contradictions with societal cultures and morals in a particular place or time?</li> <li>• How can double movements be avoided or responded to?</li> </ul>

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<sup>i</sup> This meant that only lawyers registered in particular provincial bar could represent clients in that provinces court and effectively inhibited the creation of nation-wide firms