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VOLUME 24

PROFESSIONAL SERVICE FIRMS

ROYSTON GREENWOOD
ROY SUDDABY
MEGAN McDOUGALD
Editors

PROFESSIONAL SERVICE FIRMS

RESEARCH IN THE SOCIOLOGY OF ORGANIZATIONS

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INTRODUCTION

Royston Greenwood, Roy Suddaby and
Megan McDougald

I

Our conception of the ideal organization has changed from the machine-like efficiency of Weberian bureaucracy to a post-industrial ideal (Bell, 1973) in which organizations spurn the bureaucratic form to become more adaptive, receptive and generative. Such ideal organizations, we are told, will exhibit strong employee involvement and will rely on self-organizing autonomous teams. Hierarchy will be abandoned in favor of flatter organizational structures, and authority relations will be based upon individual capability and expertise rather than position. Put simply, organizations of the future will cure all of the ills of Weber's bureaucracy while preserving the ideals of precision, speed, discretion, knowledge and, above all, efficiency.

In fact, such idealized organizations exist today. They are professional service firms (PSFs). PSFs are organizations comprised primarily of professionals that facilitate economic and commercial exchange by providing advice to business. They include accounting firms, law firms, engineering and management consulting firms, architectural service firms, advertising agencies, investment banks and, increasingly, computer software development and technology integration firms. Compared to most organizations, these firms lack hierarchy, are decentralized and have diffuse authority structures (Greenwood, Hinings, & Brown, 1990). They are knowledge intensive (Starbuck, 1992; Alvesson, 1993) and their primary currency is

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intellectual capital and expertise (Reed, 1996a, b). PSFs thus embody all of the characteristics of idealized contemporary organizations.

Ironically, these firms of the future are really products of the past. The characteristics that distinguish them from their counterparts in manufacturing, retail and other services are the historical outcome of values and traditions inherited from their progenitors: guilds, monasteries and the very earliest universities (Krause, 1996). What is remarkable about PSFs is their ability to preserve these defining characteristics in the face of unremitting pressures for change. Early social theory, for example, predicted that professions would never be able to organize in large firms because of an inherent conflict between the individualist orientation of professional values and pressures to conform within hierarchies (Blau & Scott, 1962; Scott, 1965). Research, including some in this volume, has shown, however, that professionals have adapted bureaucracies and that there is no necessary conflict between professional and organizational commitment (Wallace, 1995; Leicht & Fennel, 2001).

Professions have adapted so well to bureaucratic contexts that PSFs now rival their *Fortune* 500 counterparts in nearly all measures of size. The very largest are among the world's biggest and geographically complex enterprises. In 2004, PricewaterhouseCoopers (PwC) was the largest accounting firm[1] in the world with over 130,000 employees and $20.3 billion (US) in revenue. More impressive, perhaps, is the global scope of such firms. PwC has 771 offices in more than 148 countries worldwide – a greater global reach than the overwhelming majority of corporations. Wal-Mart, for example, operates in approximately 10 countries, General Motors in 51, Ford in 132 and General Electric in 56. Furthermore, while manufacturing firms' growth patterns are shrinking, the largest PSFs continue to grow. Between 1980 and 2000, Ernst & Young doubled its number of employees and increased its revenue nearly fivefold, whereas General Motors barely doubled its revenue and its employee base actually decreased. Scott (1998, p. ix) estimates that the professional services industry had revenues of $700 billion worldwide in 1997. By 2000, Lorsch and Tierney (2002) suggest the figure was near $911 billion, although such comparisons are hampered by inconsistencies in defining professional services.

Tables 1–3 provide statistical summaries of the significance of PSFs. Table 1 shows the largest firms in six professional sectors. An indication of their relative scale is given in Table 2, which shows where these firms rank on the *Fortune* ranking of the world's 500 largest firms. Table 3 shows the number of persons employed in these sectors in the US since 1990. It is important to remember, however, that not all of these professional services employees work in PSFs.

Table 1. Largest Firms in Selected Professional Service Sectors (2004).

Sector	Largest Firm	Revenues ($US M)	Personnel	Geographical Scope	
				Countries	Offices
Accounting	1. PricewaterhouseCoopers	20,300	130,000	148	771
	2. Ernst & Young	16,900	107,000	140	700
	3. KPMG	15,690	93,500	144	715
Advertising	1. Omnicom Group Inc.	9,747	61,000	100	N/A
	2. WPP Group Inc.	7,322	84,000	106	2,000
	3. Interpublic Group	6,430	43,700	130	N/A
Architecture	1. Gensler	256	1,800	6	26
	2. HOK	N/A	1,700	7	18
	3. LEO Daly	N/A	1,000	50	22
Engineering	1. Bechtel Corporation	17,400	40,000	26	40
	2. Fluor Corporation	9,380	30,000	25	57
	3. SNC Lavalin	3,447	11,000	31	85
Law	1. Clifford Chance	1,675	6,700	19	28
	2. Linklaters International	1,475	N/A	22	29
	3. Skadden, Aarps, Slate, Meagher & Flom	1,440	5,500	14	22
Management consulting	1. IBM Global Services	46,200	190,000	160	300
	2. Accenture	15,500	126,000	48	110
	3. Cap Gemini	6,905	59,324	30	N/A

Table 2. Professional Service Firms[a] and the Fortune Global 500 (2005).

Company	*Fortune* Global 500	Revenues ($US M)
PricewaterhouseCoopers	345	17,600
Bechtel Corp.	347	17,300
Ernst & Young	355	16,900
Accenture	455	13,674
KPMG	463	13,440

Source: Fortune Global 500 Ranking for 2004.
[a]IBM Global Services is not separately ranked by *Fortune*: It is incorporated into the figures for IBM. If treated separately, IBM Global Services would rank 93rd on the Global 500 list.

While impressive, these measures fail to capture the profound influence of PSFs in the institutional fabric of global economic activity where they are "becoming ever more pronounced in economies the world over" (Delong & Nanda, 2003, p. ix). Large law firms broker complex commercial activities and

Table 3. Employment in Selected Professional Services, in the United States[a].

Sector	NAICS	1990		1993		2000		2002		2004	
		Number of employees	%	Number of employees	%	Number of employees	%	Number of employees	%	Number of employees	%
Accounting	541200	662,000	0.61	668,000	0.60	880,000	0.66	779,000	0.60	841,000	0.65
Advertising	541800	329,000	0.30	371,000	0.33	503,000	0.38	435,000	0.33	428,000	0.33
Architecture and engineering	541300	926,000	0.85	930,000	0.83	1,265,000	0.96	1,240,000	0.95	1,290,000	0.99
Law	541100	945,000	0.87	968,000	0.86	1,071,000	0.81	1,128,000	0.87	1,164,000	0.90
Management and tech consulting	541600	329,000	0.30	398,000	0.36	741,000	0.56	745,000	0.57	790,000	0.61
Professional Services sector	**541000**	**10,758,000**	**9.86**	**11,754,000**	**10.48**	**16,833,000**	**12.72**	**15,869,000**	**12.20**	**16,674,000**	**12.82**
Total non-farm employment	**N/A**	**109,118,000**	**100**	**112,203,000**	**100**	**132,441,000**	**100**	**130,096,000**	**100**	**138,846,000**	**100**

Source: U.S. Department of Labor, Bureau of Labor Statistics: *Current Employment Statistics Survey* (National).
[a]Percentage refers to proportion of total non-farm employment.

help to establish and then interpret the rules of the game of the capital market system. Consulting firms are sources and champions of ideas about management and significant influences on how corporations are managed. Accounting firms underpin the integrity of the financial markets. As *The Economist* (2004) put it "Investors depend upon the integrity of the auditing profession. In its absence, capital markets would lack a vital base of trust" (November 20). In short, in many and significant ways PSFs underpin our infrastructure for economic exchange. Not surprisingly, Sharma (1997, p. 758) concluded that "without PSFs, business as we know it, would come to a grinding halt".

The US–China Bilateral WTO Agreement (White House Office of Public Liaison, 1999) illustrates the growing importance of PSFs to the US economy. This Agreement granted China further entry into US markets for its manufactured goods, and, in return, included explicit provision for "expanded market access" into China for professional services.

In other words, one reason for devoting special attention to PSFs as a category of organizations is their significance. That significance, ironically, became apparent during the demise of Arthur Andersen and the precipitous fall in stock markets following the Enron affair. But many organizations are significant and we need further justification for treating them as a distinct category. We offer two such reasons. First, PSFs are *different* from many organizations from which much current organization theory was (and still is) derived. Our understanding of how organizations function may be over generalized from sets of organizations whose tasks, characteristics and challenges are not ubiquitous and certainly not fully found in PSFs. The second reason for giving attention to PSFs is that they are highly successful examples of knowledge-intensive organizations (or KIFs). As we noted at the outset, PSFs are long-standing examples of knowledge-intensive firms (KIFs) and, given their lengthy histories of success, should be considered as possible exemplars. If, as is often claimed, KIFs will figure prominently in future economies, it makes sense to study PSFs in order to learn the nature of the managerial challenges that arise from their idiosyncratic tasks and to understand how these firms handle them successfully.

Characteristics and Tasks

Examples of PSFs are easy to cite – law firms, accounting firms, architecture firms, actuarial firms, investment banks and so on. They constitute the "intellect industry" (Scott, 1998). But what distinguishes them from, say, motor vehicle registries, or hospitals or travel agencies? And, should insurance and/or advertising firms and/or health maintenance organizations be included in the same category?

Several attempts have been made to differentiate PSFs from other forms of organization. Here are three examples:

> Two aspects of professional work create the special management challenges of the professional service firms. First, professional services involve a high degree of customization in their work … Second, most professional services have a strong component of face-to-face interaction with the client. (Maister, 1993, p. xv)

> To sum up, then, a professional service has the following characteristics:
>
> - It is highly knowledge intensive, delivered by people with higher education, and frequently closely linked to scientific knowledge development within the relevant area of expertise.
> - It involves a high degree of customization.
> - It involves a high degree of discretionary effort and personal judgment by the expert(s) delivering the service.
> - It typically requires substantial interaction with the client firm representatives involved.
> - It is delivered within the constraints of professional norms of conduct, including setting client needs higher than profits and respecting the limits of professional expertise (Lowendahl, 2000, p. 20).

> The two dimensions we use to characterize professional service are *output* and *provider expertise*. On the output dimension, service, as opposed to products, is an intangible "experience". Professional, as opposed to non-professional, providers have particular expertise (usually certified through membership in, and accreditation with, professional associations). (Delong & Nanda, 2003, p. xiii)

Drawing upon these definitions, we suggest that PSFs can be classified according to two main characteristics of their work processes:

- Their outputs are *intangible* and encoded with *complex knowledge* and *customized* to the circumstances of each client.
- *Professionals* are employed as the primary carriers, interpreters and appliers of knowledge.

These two characteristics highlight four key terms: "intangible outputs", "complex knowledge", "customization" and "professionals". Each term generates particular tensions and limits organizational options. Before discussing these tensions and their implications, it is worth making one further definitional diversion. It is relatively easy to differentiate PSFs and professional services from manufacturing firms and services, but some writers (e.g. Alvesson, 1995; Lowendahl, 2000) specify the relationship between PSFs

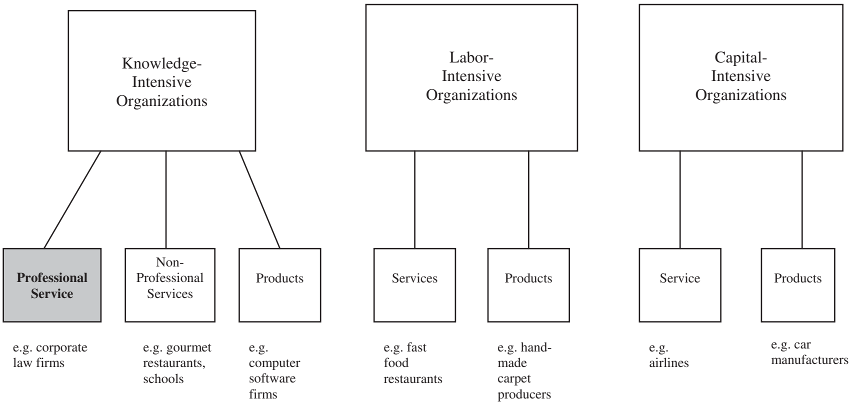

Fig. 1. Types of Organizations.

and the broader category of KIFs. KIFs, according to these writers, include PSFs but also high-technology companies, such as software firms:

> In both [PSFs and high technology companies] personnel with a high degree of competence and experience may be central factors but, in high technology companies, knowledge and innovation are embodied in products and technology which transmit and incorporate the knowledge in question. (Alvesson, 1995, p. 7)

The distinction is neatly shown in Lowendahl's diagrammatic representation, reproduced here as Fig. 1. Lowendahl's (2000, p. 21) diagram is useful but it would be misleading to treat the categories in Fig. 1 as watertight or complete. Nevertheless, it is a useful approximation. And, increasingly, there is recognition that organizations in these different categories operate according to logics and dynamics that differentiate them from organizations in the other categories.

II

Tensions

Growing recognition that PSFs *are* significantly different in some respects has led to greater attention to understanding them. The applicability of existing theory (largely derived from studies of fundamentally different organizations) is being questioned. Before introducing the studies in this volume, however, it is important to consider the "dark side" (Vaughan, 1999) of PSFs. PSFs may be exemplars, but recent events have shown that they might also be considered as culprits. The collapse of Arthur Andersen and similar prominent scandals in accounting and law has raised questions about the appropriateness of using PSFs as models for the organization of work. Critics argue that changes in the economic and institutional context of professional services work have eroded the role of professional values and, simultaneously, heightened the significance of economic values inside professional firms. PSFs, thus, are now subject to pressures that would make them share more similarities than differences to traditional bureaucracies.

We argue that the "dark side" of PSFs is less reflective of fundamentally new pressures on PSFs, than an imbalance at a given historical moment of long-standing tensions that characterize these organizations. Such tensions are the inherent result of juxtaposing professionals and professional norms and values inside large and increasingly complex organizations. Each of the chapters in this volume describe and reflect a series of conflicting and essential tensions within contemporary PSFs.

Regulatory Tensions: Profession, Market or State

One fundamental tension is the ability of individual firms to balance pressures for economic performance with broader societal and professional obligations. This "ethics versus economics" tension is captured in the introductory paper of this volume *Markets, Institutions and the Crisis of Professional Practice* by Leicht and Lyman (Chapter 2). The authors describe a shift in dominant logic among business-oriented professions (primarily law and accounting) in which the demands of the "consumer" have supplanted fiduciary obligations both to the public and the state. An important consequence of the rise of neo-liberal economic ideology, they observe, is that the market becomes increasingly taken for granted as the solution to all social problems. This shift is reflected in the emergence of management consulting as a dominant, but different, profession, where traditional values of ethics and public service are viewed as archaic and quaint constraints on unfettered and efficient capital markets.

The awareness that PSFs differ a little from traditional competitive organizations is perhaps best reflected in the contribution by Jennings, Jennings and Greenwood (Chapter 3). This chapter aptly illustrates the underlying assumption of Leicht and Lyman that, increasingly, economic assumptions trump professional considerations in how these firms interact.

A few decades ago the term "reputation", when applied to a PSF, would carry connotations of integrity, trust and the technical quality of the individual professionals within it. In short, the term reputation connects a professional or professional firm to traditions and customs of the past. No longer, according to this analysis, which suggests that the reputation of a PSF is built upon moderate deviation from tradition and history. Most significant, however, is their observation that modest deviation from professional norms improves financial performance. Professional reputation, in contemporary times, seems more highly embedded in market than professional values.

While the previous chapters seem to suggest that professional firms will be more successful pursuing economic rather than professional goals, the chapter by Groβ and Kieser, *Are Consultants Moving toward Professionalization*? (Chapter 4) suggests the opposite. Groβ and Kieser remind us of the historical economic advantages that traditional professions have achieved by negotiating a regulative bargain with the state in which, in return for the promise of self-regulation and the imposition of ethical and normative controls over members, professions are granted state-sanctioned jurisdictional exclusivity. Their chapter documents efforts by the management consulting industry in Germany to obtain recognition as a formal profession. While they agree with Leicht and Lyman's suggestion that management consulting represents the "new" professional, Groβ and Kieser argue that in the ongoing tension between market and professional values, the latter offer a stronger basis for historical success.

Professional Autonomy versus Bureaucratic Control

A similar but older tension, characteristic of professions and professional firms, is demonstrated in *Leading Change in the New Professional Service Firm* by Evelyn Fenton and Andrew Pettigrew (Chapter 5). This tension, between professional autonomy and bureaucratic control, has a long history in the literature of professions and organizations. One implication of this tension has been the assumption that there is an inherent conflict between the rigid task and role structures of a bureaucracy and the broad discretion and work autonomy of professionals (Aranya & Ferris, 1984; Sorenson & Sorenson, 1974; Benson, 1973; Blau & Scott, 1962). More recent studies, however, appear to contradict the notion that large organizations constrain professional autonomy (Wallace, 1995; Gunz & Gunz, 1994). The Fenton and Pettigrew chapter is instructive in demonstrating why this might be the case. They analyzed the changes that occurred as an engineering consultancy firm adopted a global strategy and structure. While they observe some tension arising from a more bureaucratic organizational structure as well as a heightened "commercial awareness" in the firm, they point to a creative adaptation of leadership roles and identities in the newly globalized firm in which traditional professional values and technical expertise were integrated with managerial and business skills.

The tension between bureaucratic and professional controls extends to the next two chapters in this volume. Empson and Chapman, in *Partnership versus Corporation* (Chapter 6) observe that, even when a PSF adopts a corporate governance structure, the sedimented values and norms of a professional partnership do not lose their force. Professionals in both a limited liability partnership and in a professional firm that had adopted a corporate structure both retained a commitment to the interpretive scheme of professionalism and partnership. While their study acknowledges the existence of a tension between bureaucratic and professional controls, at least in this case the professional controls remained intact. Malhotra, Morris and Hinings (Chapter 7), by contrast, focus on organizational form rather than mere governance, and describe how the competitive pressures for PSFs have forced them to deviate from the professional partnership template to adopt a more bureaucratic structure described as the Managed Professional Business. They observe an interesting contingent effect of the interaction of pressures to change that derive from market-oriented commercial logics, and institutional pressures to conform to professional logics. Firms in some professions, notably accounting, have succumbed more clearly to commercial logics, while others, such as law, have retained their attachment to the logic of professionalism. The two chapters, thus, provide an intriguing contrast in suggesting that, at least in some contexts, firms have successfully adapted to the tension between bureaucratic and professional controls (Empson and Chapman), while in others (Malhotra, Morris and Hinings) the adaptive process is not yet fully resolved.

Values as Tensions

As the study of professions became established, researchers predicted that, over time, all occupations would pursue professional status (i.e., there would be the professionalization of everyone) because professions represented an elevated and privileged form of organizing work (Wilensky, 1964). Professions represented aspirational work conditions characterized by collegiality, autonomy and the organization of work around distinct values. In contrast to the quotidian dross of industry, professional work represented a commitment to a higher purpose or calling (Greenwood, 1957). This idealized notion of professionals was quickly exposed by research that focused on the power relations masked by the espoused values of professionals. Johnson (1972) and Larson (1977), in particular, demonstrated that the espoused rhetoric of professional values was used to mask economic monopolies and that the notion of professional calling was more a myth than reality.

The tension between the competing value structures of altruism and self-interest has not disappeared. It is found in contemporary PSFs. Four papers in this volume speak about this tension. Alvesson and Kärreman, in *Professional Service Firms as Collectivities* (Chapter 8) do so most directly in their development of the construct of ''collectivity'' drawn from a case study of two management consulting firms. The authors note that, in PSFs, ''issues around individuality and collective belongingness become a bit more complicated, as professional work is normally seen as based on a high level of autonomy''. The study skillfully charts two distinct uses of the notion of collectivity, one based on a traditional sense of community and the other based on elitism and separation. Both, however, are based on the manipulation of this elemental tension within professional organizations to make highly mobile and autonomous experts interdependent.

While Alvesson and Kärreman identify the firm as the key unit of analysis for the integration of individual motives and professional values, Anderson-Gough, Grey and Robson, in *Professionals, Networking and the Networked Professional* (Chapter 9) see the individual as the primary coordinating mechanism. Because professional expertise is now dispersed broadly within larger and larger organizational contexts, individual professionals are successful not only on the basis of their individual expertise, but also on their capacity to draw upon and integrate the expertise of coworkers. So, while the tension between individual and collective values remains evident, these authors see the individual professional, rather than the firm, as the point of integration.

Gunz and Gunz, in *Professional Ethics in Formal Organizations* (Chapter 10), extend the notion of the individual professional as the key means of reconciling competing tensions within PSFs by identifying four different professional archetypes. Each type (technician, organization person, observer and advisor) offers a different method of integrating the tension between conflicting organizational and professional values. In contrast to the prior chapters, however, Gunz and Gunz point to different value assumptions about a professional's relationship with his client as the key determinant of whether the resultant conflict will generate a breach of ethics.

Wallace, by contrast, addresses the tension between a slightly different set of value clusters that commonly appear in professional firms. In *Can Women* *in Law Have It All?* (Chapter 11), Wallace addresses the uncomfortable truth that, in spite of the egalitarian rhetoric that professional work embraces higher societal values, PSFs do not appear to extend the same opportunities to women as they do to men. Wallace observes, however, that female lawyers with children are equally satisfied with their careers and report the same degree of life balance as female lawyers without children. While her study contradicts the prevailing wisdom that PSFs value economic productivity at the expense of individual well-being, it reinforces the understanding that PSFs offer work contexts within which the tension between individual choice and institutional constraints serve to reinforce gender inequality.

The Tension of Expert Knowledge: Customization versus Commodification

Early social theorists, adopting a trait approach to understanding professions, observed that professional organizations could be distinguished from bureaucracies by the former's reliance upon expert knowledge as the basis of work (Parsons, 1937; Goode, 1957; Hughes, 1958). Even as trait approaches to professionalism have fallen from favor, expert knowledge remained a central distinguishing feature of professional work (Abbott, 1988; Friedson, 2001). More recently, however, the focus on expert knowledge has become less convincing a distinction between professional and other firms. Manufacturing organizations now base their competitive advantage on their ability to manage knowledge and codify experience (Nonaka, 1991, 1994). And, just as manufacturing organizations are embracing the advantages of expert knowledge, professional firms are increasingly concerned with their ability to codify, routinize and extract value from their internal intellectual capital (Morris & Empson, 1998). Commodification of professional knowledge seems to be a by-product of the recent growth in size, complexity and influence of PSFs (Suddaby & Greenwood, 2001). This is an unusual development because, traditionally, PSFs have distinguished themselves by their ability to customize their product to suit the often complex needs of individual clients in very specific contexts. That is, the tension between customization and commodification has become a key issue for professional firms.

Three papers in this volume incorporate the tension between customization and commodification into their analyses. Reihlen and Ringberg do so directly in *Computer-Mediated Knowledge Systems in Consultancy Firms* (Chapter 12). A critical issue, particularly for information technology consulting firms, is the ability to extract individual expertise, tacit knowledge and inferential experience and externalize that customized knowledge into a commodified form that can be disseminated within the organization and sold to clients. Reihlen and Ringberg's thoughtful analysis suggests that the ability to convert customized knowledge into a commodified product is determined by the ability of the organization to take advantage of the interpretive schemes and social networks of individual professionals.

In *Marketing Marketing* (Chapter 13), Svensson describes the delicate tightrope between customization and commodification that a marketing consultant must walk when trying to sell professional services. In part, this tightrope involves the presentation of professional knowledge as composed in equal parts of science and art; or, more directly, the presentation of professional expertise as based upon a large body of commodified science, but dependent as well upon the application of substantial experience, judgement and discretion. Success, thus, is based not only on a clear understanding of the tension between customization and commodification, but also on the skill with which that tension is communicated to a prospective client. Broschak and Niehans (Chapter 14) reverse this relationship by examining the factors used by clients to interpret the quality of services offered by different PSFs. Because professional services are intangible, clients face a difficult task in choosing among PSFs. In *Social Structure, Employee Mobility and the Circulation of Client Ties*, Broschak and Niehans argue that clients are likely to use social signals as indicators of the underlying quality of different professional service providers. Using the context of advertising firms, the authors find that clients are most likely to choose large firms, firms with many market ties, firms that have hired individual professionals from their prior agency and firms that are similar to their previous firm, when selecting a new professional service provider. These social signals serve as proxies by which clients can position a PSF on the commodification–customization continua.

Boundary Tensions

Abbott (1988) outlined a model of professionalism based upon occupational competition through jurisdictional rivalry over expert knowledge. Abbott's model has had profound influence, nearly silencing academic discourse on professions for over a decade. A serious potential limitation of the model, which Abbott acknowledges in the conclusion to his book, is that it fails to account for the attenuation of competition between professions over time. "It may well be", Abbott (1988, pp. 317–318) observes "that the attenuation of competition together with its relocation into complex workplaces, in fact vitiates a competitive model for the future of professions". Contemporary PSFs increasingly resemble the "complex workplaces" envisioned by Abbott. They are increasingly multidisciplinary, for example, with accountants, lawyers and consultants housed in a single organization (Suddaby & Greenwood, 2005). More importantly, perhaps, is their increasingly global presence. The fact that PSFs span multiple national jurisdictions attenuates not only the conflict between professions, but also between nation-states, thus reducing their ability to define professional boundaries.

The global nature of professional services introduces a new tension within these firms between global pressures for conformity and local pressures to be different. The conflict inherent in this tension is the subject of the final chapter in this volume by Morgan and Quack, *The Internationalization of Professional Service Firms: Global Convergence, National Path-Dependency or Cross-Border Hybridization?* These authors examine changes to key features of business law firms in three jurisdictions: the US, the UK and Germany. They observe that changes in law firms from these different countries are the consequence of common, global pressures. They note, however, that not all firms are adopting a common (i.e., US) model for organization. Rather, they argue that the institutional pressures of the traditional nation-state are still influential and have produced a hybrid form of the trans-European law firm that has arisen out of a creative combination of elements of each of the national templates. The tension between global pressures for isomorphism and local pressures to differentiate, thus, provide an interesting variation of Abbott's model of inter-jurisdictional competition.

It can be argued that our understanding of organizations has suffered from an excess of attention to manufacturing enterprises and an overly quick willingness to apply insights from them to other settings. This volume highlights the unusual features and tensions of an important and distinctive category of organizations, PSFs, whose importance for tomorrow's economy make it essential that we understand them better. It is through attention to their unusual characteristics and the managerial and organizational implications that follow, that we can more systematically capture how these organizations continue as possibly exemplary settings for research and understanding of knowledge-intensive firms.

NOTES

1. We refer to PwC as an accounting firm even though it provides a range of non-accounting services.

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MARKETS, INSTITUTIONS, AND THE CRISIS OF PROFESSIONAL PRACTICE

Kevin T. Leicht and Elizabeth C. W. Lyman

ABSTRACT

We identify three key areas of change in the context of professional services. First, is the increasing demographic diversity and growing income inequality within professions; second, is the emergence of neo-liberal ideologies that challenge traditional professional norms; third, is the emergence of management consulting as a distinct occupational group with professional aspirations. We argue that these trends have produced an environment in which the delivery of professional business services has become disembedded from its institutional context of professionalism. We speculate about the possibility of the re-emergence of professionalism as a distinct logic of authority and control for professional service organizations.

INTRODUCTION

Our analysis examines recent developments that pose challenges and opportunities for professionals and skilled workers in whom we place public trust. We argue that the many of the current challenges to professional authority are rooted in a broader intellectual crisis created by the turn toward markets as a normative principle for organizing social life. This

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broader crisis is reflected in other issues confronting the contemporary professions and professional service firms that include the growing reflexivity of consumers, the ethics crises facing law and accounting, and the growth of management consulting as a new would-be professional occupation.

We invoke institutional theory to explain the shift in dominant logics in many professional domains (cf. Powell & DiMaggio, 1991). Our basic argument is that the dominant institutional logic in most professions is shifting from a focus on non-market, occupationally based norms tied to ideas of professional practice and service provision for clients to a set of market-based norms and practices. This shift in the organization of professional practice has offered new opportunities to market professional services to an increasingly critical, savvy, and globally organized set of clients. This shift has affected the practice of traditional business-oriented professions (law and accounting), and other professional and quasi-professional occupations involved in the provision of business services (management consulting, architecture, advertising, investment banking, software development, and technology integration services). The late 20th and early 21st century growth of management consulting is a visible manifestation of this trend and another step in pursuit of professional status for subsets of elite managers (see also Leicht & Fennell, 2001).

As the latest set of revelations about corporate accounting and ethics scandals in the U.S. (ENRON and WorldCom) and Europe (Ahold and Parmalat) make clear, the creation of the omnibus, one-stop-shopping business service firm is not yet fully institutionalized as a legitimate way of delivering professional business services. The stakes for different (and once independent) professional groups in these relatively new organizational developments are, in many ways, conflicting. The potential resolution of this crisis involves the reinstitutionalization of professional practice and the development of strong normative and coercive pressure to maintain professional independence. We conclude by examining Friedson's (1994) call for professionalism as a "third logic" for organizing service delivery alongside markets and bureaucracies.

INSTITUTIONAL THEORY AND DOMINANT LOGICS IN THE ORGANIZATION OF PROFESSIONAL PRACTICE

Institutional theory suggests that the regulation of organizational behavior occurs through and is a consequence of taken-for-granted beliefs, schemas, and values that originate in larger institutional contexts (cf. Greenwood & Hinings, 1996; Meyer & Rowan, 1977; Powell & DiMaggio, 1991; Scott, 1987). In most institutional accounts these beliefs, schemas, and values are not primarily responses to market pressures and efficiency dynamics. Instead, these arrangements represent active responses to dominant sets of norms, values and beliefs of key organizational actors (elite business managers, partners in professional practices, key regulators, and powerful clients). Specific ways of organizing become archetypes that represent coherent patterns of organizing in response to underlying values and beliefs (cf. Greenwood & Hinings, 1993).

Mechanisms for enforcing institutional configurations are the key to the establishment and maintenance of a strong correspondence between institutionalized values and beliefs and methods of organizing. In institutional theory these forces usually are classified under the headings of normative, coercive, and mimetic pressures. *Normative pressures* result from the socialization of institutional actors into a set of beliefs that define specific organizational arrangements as the "best and customary" way of organizing specific activities. Professional schools and professional associations are classic examples of groups that exert normative pressure through their socialization (and continued re-socialization) of occupational incumbents. *Coercive pressures* result from the actions of regulatory oversight agencies and major resource providers. These stakeholders have the ability to enforce their will on organizational actors by conferring or withdrawing legitimacy and resources. Certifications, inspections, and claims to speak for broader unorganized constituencies (in addition to the sheer ability to pay large fees, secure bank loans, and take legal action) make coercive pressures in well-institutionalized organizational domains credible. *Mimetic pressure* is a consequence of the establishment of taken-for-granted methods of organizing. Once specific organizational practices dominate a specific field, resorting to those practices as the best solution to a problem is simply a matter of borrowing from what others do.

More recently neo-institutional theorists have been interested in examining change processes (cf. Greenwood & Hinings, 1993; Oliver, 1991; Powell & DiMaggio, 1991). There are two broad strands of institutional research and theory that attempt to understand change: (1) a tradition focusing on variations in embeddedness in specific institutional contexts that promote specific organizational archetypes (cf. Greenwood & Hinings, 1993, 1996), and (2) a somewhat less prominent tradition that talks about strategic responses to institutional processes (cf. Oliver, 1991). In the first conception, embeddedness in an institutional context makes gradual change less likely and radical (or revolutionary) change more likely. Embeddedness also reflects the structure of the institutional context – the extent that contexts are permeable and the extent that institutional monitoring practices are tightly or loosely coupled. Not all organizations operate in highly institutionalized environments, and some environments are vulnerable to new practitioners with different organizing logics and archetypes.

In the second conception, there are a wide variety of responses to institutional pressure, and simply following the norms (acquiescence) is only one of those. In Oliver's conception, organizational leaders can engage in *compromise*, *avoidance*, *defiance*, and *manipulation* of the institutional environment. These responses may vary depending on how embedded the organization is in the institutional environment in the first place and the overall availability of alternative templates and logics for organizing.

Professions and professional practice represent highly institutionalized organizing domains where the taken-for-granted assumptions about organizational archetypes are being challenged quite seriously. In the remainder of our presentation, we focus on three key areas of change in the institutional environment surrounding the professions. The *demographic diversification and growing earnings inequality* among professionals potentially strains the ability of professional groups to pursue common interests and maintain their institutional embeddedness. *The rise of neo-liberal political and economic ideologies* threatens the expert claims of professional groups and the logic of professional organization as an alternative to and protector of client and public welfare. This alternative logic is mirrored in the larger destruction of the hierarchical workplace and the turn toward arms-length market-mediated interactions by business firms. Finally, *the development of management consulting* as an occupational group and the omnibus professional service firm as a "one-stop" purveyor of business services to powerful clients represent the spread of and response to the new institutional logic of markets as the preferred organizing principle of professional life. We discuss each of these developments below.

DEMOGRAPHIC DIVERSIFICATION AND GROWING EARNINGS INEQUALITY AMONG PROFESSIONALS

Growing Demographic Diversity among Professionals

One of the more obvious trends of the past 30 years is in the growing representation of women and minorities (non-whites) among professionals.

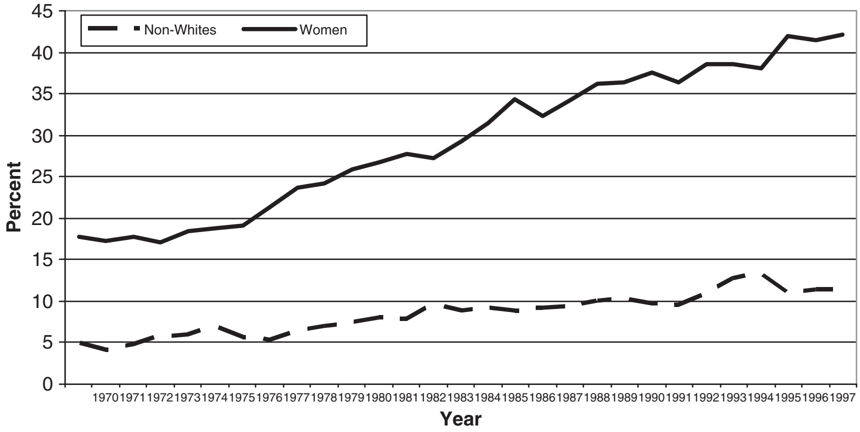

Fig. 1. The Changing Representation of Non-Whites and Women in U.S. Professional Occupations, 1970–1998.

The overall trend for seven professional occupational groups in the United States is presented in Fig. 1 (all data are from the Current Population Survey (CPS), 1970–1998, U.S. Bureau of the Census, and reflect changes among physicians, lawyers, accountants, natural scientists, social scientists, and professors of natural and social science).

The U.S. trends on both fronts have been gradual, but the overall change has been dramatic. Women have gone from representing just below 2 in every 10 job holders in this sample of professional occupations to almost 50 percent, and much of this increase has happened since 1980. The representation of non-whites in the professions has increased as well, but from a lower baseline and with a much more gradual rise. At the end of our series (1998, the last year we have CPS data for) the representation of non-whites among professionals hovers around 12 percent.

These trends in demographic diversification are most apparent among the professions closely associated with business services; accounting and law (see Figs. 2 and 3).

Women constitute a near majority of accounting practitioners (both CPAs and non-CPAs), and women's representation among U.S. lawyers has dramatically increased as well. Women now constitute a majority of students in U.S. law schools and a substantial percentage of students in U.S. accounting and business schools.

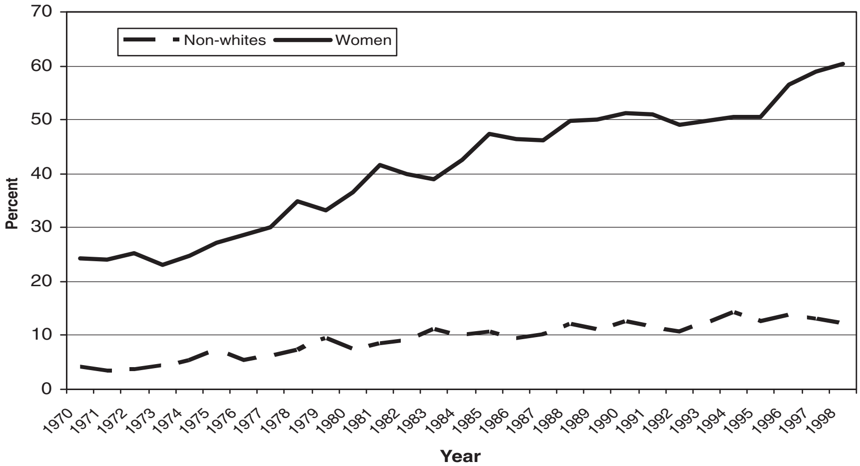

Fig. 2. The Changing Representation of Non-Whites and Women in Accounting, 1970–1998.

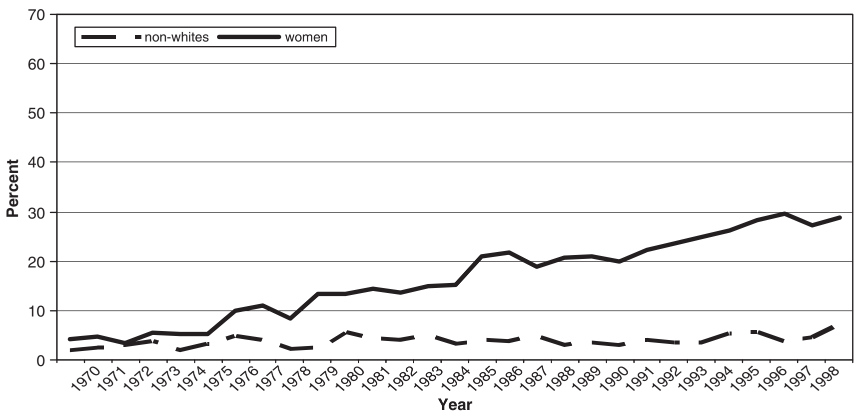

Fig. 3. The Changing Representation of Non-Whites and Women among Attorneys, 1970–1998.

By any standard, the slow but steady demographic diversification of the professions is a reality that is here to stay. These trends in diversification are most clearly associated with professions engaged in the delivery of business services. Perhaps ironically, accounting and law are precisely the professional groups where the re-organization of working arrangements and the creation of the one-stop business service firm is most clearly evident. This is a significant (but certainly not the only) component of the increasingly fragmented institutional environment professional practitioners face.

Growing Earnings Inequality among Professionals

Assessing the growth in earnings inequality among professionals is an important component of assessing claims that the interests of professionals are diversifying (Figs. 4 and 5).

Looking at these trends in the ratio of the earnings of the top 10 percent of professionals to the median, *earnings inequality is growing among professionals in lock step with the rest of the full-time working U.S. population.* Earnings inequality among professionals was never low to begin with, so perhaps this is not surprising.

One obvious finding is that there has (for the past 30 years at least) always been considerable diversity in the earnings of professionals and this earnings gap has been far wider than earnings gaps in the working population. This is not terribly surprising, but it is a way of reminding researchers and students of social inequality that one of the things people inherit when they become a professional is a pattern of considerable earnings inequality within their profession and among professionals as a whole.

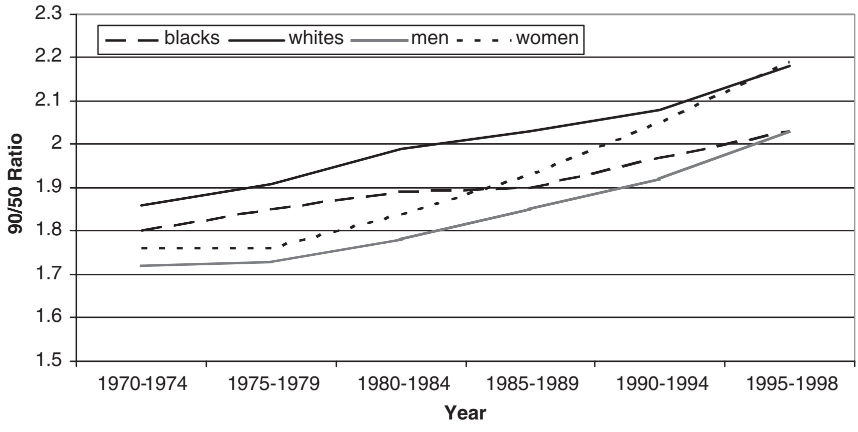

Fig. 4. Earnings Inequality among Full-Time Workers in the United States. Ratio of Earnings at the 90th Percentile to Median Earnings.

Fig. 5. Earnings Inequality among Professional Occupations in the United States. Ratio of Earnings at the 90th Percentile to Median Earnings.

More interesting from the standpoint of potential professional interests is that inequality has been rising more drastically among professionals than among the general population. If professional practice (in part) represents the creation of common occupational communities with strongly identified common interests, it is a bit difficult to see how drastically rising earnings inequality could do anything but strain those normative institutional ties.

Regardless of what these trends represent, they indicate a considerable shift in the material and social basis for the production of common occupational communities in the professions. This common community is a key component of promoting and maintaining dominant organizing archetypes that stress autonomy, equality, and a common set of ethics in the delivery of professional services. Professional occupations are no longer elite locations full of people from homogeneous social backgrounds.

THE KEYNESIAN CRISIS, THE RISE OF NEO-LIBERAL ECONOMIC AND POLITICAL IDEOLOGIES, AND THE DECLINE OF LIBERAL-TECHNOCRATIC PROFESSIONALISM

The current dilemmas facing the professions are in sharp contrast to the predictions of the early 1960s found in Bell's *The Coming of Post-Industrial*

Society, and the implied direction in which the U.S. and most industrial economies were headed. In discussions of liberal-technocratic definitions of professional groups, professions develop as the result of a set of distinctive role demands of post-industrial capitalism. Technological complexity creates demand for highly educated people to fill complex jobs. The process of filling these jobs and the larger societal adjustments that come with the demand for highly educated workers (educational expansion, credentialing, longer stretches of time in school, and mass higher education) creates a professional elite that applies their specialized knowledge to an ever broader range of problems. Some who write from this tradition predicted the "end of ideology" as more social and economic problems come to have technocratic solutions that come under the purview of experts (cf. Bell, 1976).

It is worth discussing the theoretical and empirical problems with this vision of the post-industrial occupational world. Theoretically, the solution put forward in early liberal-technocratic theories of occupational change was simply too functionalist and rode the wave of Parsonian functionalism in social science through the 1950s and 1960s (cf. Hughes, 1958). The economic system "needed" skilled workers and, poof! They magically appeared, complete with the credentials, prestige, good salaries, and other prerogatives associated with professional work. Few analysts prior to the 1970s (the notable exception was C. Wright Mills' (1951) work, *White Collar*) questioned the more-or-less automatic linkage between skilled, professionalized occupations and the coming of post-industrial society. Absent from most of these discussions was an analysis of how these highly skilled occupations were created, where the practitioners came from, and how they managed to command the prestige, autonomy and compensation that they received.

Subsequent analysis from the 1970s onward (cf. Galbraith, 2001) failed to come up with a systematic, skill-based explanation for growing economic inequality in the English-speaking world that this technological elite allegedly produced. The claim that there is a "skills gap" in the late 20th and early 21st century, and that it accounts for the growing wage gaps between skilled and unskilled jobs is not receiving consistent support. If anything there are now as many claims that the post-industrial, skilled and elite-based economy of the 21st century will be far different from the outcome portrayed by the end-of-ideology thesis. More recent writers talk about community dislocation, the growing concentration of the poor in inner cities, residential segregation, and rising inequality as the consequences of an economy that demands a highly educated workforce and "discards" everyone else. Others point to a global "brain drain" as a result of competition between the less-developed and developed world for scarce pools of skilled talent, with the developed world increasingly winning the sweepstakes (cf. Bradshaw & Wallace, 1996; Castells, 1996, 1998; Massey, 1996).

In addition to the collapse of the forecast that a post-industrial, technical world would produce a technically administered utopia for everyone else, the end of ideology prediction fell on its face as well. We attribute part of this failure to the collapse of Keynesian macroeconomics and the economic and social assumptions that followed from it (cf. Keynes, 1936).

The overall rationale for government intervention was provided by John Maynard Keynes in his book *The General Theory of Employment, Interest, and Money* (1936). Government had a responsibility to sustain levels of aggregate demand necessary to promote full employment of productive capacity. Governments could adopt a series of policy tools that would promote economic growth, lower inflation and unemployment, and provide satisfactory levels of economic prosperity. The implications of Keynesian economics (as this macroeconomic school came to be called) were that levels of economic output, inflation, and unemployment were *technical decisions* rather than characteristics that were set by the "invisible hand" of markets. Market economies were not going to "will themselves" to health – they needed the help of technical experts (economists and policy analysts), the very people that *The Coming of Post-Industrial Society* claimed would emerge as the new elite.

The recessions of the 1970s and "stagflation" (high inflation coupled with rising unemployment) led many economists and policy makers to question the further applicability of the Keynesian macroeconomic model (see Stein, 1983). New classical and monetarist economics rejected Keynesian demand management assumptions and seriously questioned the ability of technocratic elites to control economic performance. New classical economics was defined by the "policy ineffectiveness hypothesis" – the belief that the rational expectations of economic actors will lead them to negate whatever changes government interventions in the economy are supposed to produce. Economic innovations were not responsive to government policy at all. Monetarist economics claimed that growth and contraction in the money supply determined inflation and unemployment, and that governments need to only promote a slow but steady monetary expansion to lower unemployment and keep inflation at manageable levels (see Stein, 1983). From both perspectives almost all forms of economic intervention have unintended consequences and the intended consequences of technocratic policy choices were not likely to come to pass.

The Reagan/Thatcher Revolution as the Solution to Economic Stagnation

The 1980s generated a set of relatively obscure economic ideas that were supposed to deal with the stagflation puzzle. Proponents of supply side economics claimed that the very interventions that Keynesian economics promoted (mechanisms for stimulating aggregate demand in order to smooth out the business cycle) were behind the high-inflation/high-unemployment 1970s. These policies (and the cumulative effect of the federal government's activities in a wide range of areas) produced a set of perverse incentives that made people work less, save less, and invest less. Inflation (directly) and high unemployment (indirectly) were caused by impediments the government erected to increasing productivity in production inputs.

Since supply side economists defined the federal government as the locus of these perverse incentives, the logical response supply side economists reach is that the incentives that impede productivity growth should be removed. Simply put, by removing the disincentives to work, invest, and save, savings would increase, productivity would improve, inflation would be tamed, and unemployment eventually would decline.

The sets of policy tools advocated by supply side economics differ considerably from those advocated by other macroeconomic perspectives. These policies included

(1) deregulation of heavily regulated industries;
(2) promotion of greater economic competition by lowering trade barriers;
(3) repeal of special subsidies and tax loopholes for specific industries;
(4) across-the-board tax cuts especially targeted toward taxes on corporations and higher marginal income tax rates; and
(5) cuts in government domestic spending in an attempt to remove disincentives to work, invest, and save.

Almost in lock-step with the overall questioning of the wisdom of economic intervention by experts (in this case Keynesian economists) was the onslaught of attacks on other social interventions led by experts, most notably attacks on the general inefficiency of the welfare state (cf. Jencks, 1992; Mead, 1992; Murray, 1984). Neo-liberal conceptions of how economic and social policy should be carried out emphasized free-market, privatized solutions that required little or no economic intervention by experts. Almost all of these new policy commentators believed that policy-expert activities did more harm than good and were no substitute for the market. The "invisible hand" was the new locus of utopian perfection, setting prices and allotting labor and capital where it was needed without the intervention of elite experts. Economic inequality (and the deprivations it created) was simply a signal that people should change their behavior – anything that was done to blunt these signals was interfering with a market mechanism that was perfect, rather than a technical intervention designed to relieve suffering or promote the general welfare. The present political dominance of this line of thinking in the United States cannot be underestimated (cf. Edsall & Edsall, 1990; Harper & Leicht, 2001; Krugman, 2003; Stiglitz, 2003).[1]

Professional Work in Light of the Reagan/Thatcher Revolution

The present challenge of neo-liberalism as an economic and political ideology has profound implications for the professions as coherent occupational entities that control task domains and exercise discretion over the performance of complex tasks for the benefit of clients and the larger society. Many of these challenges are clarified if we take the colloquialisms of the new neo-liberal consensus and contrast those with traditional conceptions of professional practice and the concept of expert labor:

(1) *Consumers know best*. Any attempt to interfere with, regulate, or affect consumer choice costs consumers money. This means that any interference with service provision (such as licensing procedures, legally defined monopolies over task domains, competency tests, and other devices for restricting professional service provision) extracts costs that are rarely if ever justified. Consumers of services eventually will reward competent, scrupulous providers and punish incompetent, unscrupulous ones. All that is necessary is to let the market do its work with the dollars of the consuming public voting for best practices.
(2) *Markets will determine what is right*. The market becomes the locus of human perfection (see Giddens, 1994). No expert can make, guide, or direct choices in the ways that market will. No authority can make the wise choices that markets can make. Let markets do their job and stay out of it.
(3) *No credentialing or licensing*. These are simply attempts to collect monopoly rents. Consumers will naturally be led to choices that are best for them, and credentialing and licensing are just an attempt to extract windfall profits at the expense of consumers.
(4) *No codes of ethics*. Markets will naturally reward those who behave in the best interests of those who purchase professional services. Information about ethical and unethical practices can be sorted out in the wash

and those practitioners who do what clients want them to do and who act in their best interests will win out in the end.

(5) *Competition will lower fees and salaries*. Service delivery from a variety of professional groups, in a variety of settings, with a wide range of organizational arrangements will keep fees and salaries low and service delivery of the best quality.

The similarities between this conception of the deregulation of services and post-modern conceptions of the decline of professional expertise are both interesting and ironic. Most conservative political commentators rail endlessly against post-modern intellectual trends (cf. Buchanan, 2002). But post-modern conceptions of the professions have always cast a jaundiced eye toward claims that professional regulations benefit consumers and the powerless. Instead, these practices are viewed as instruments of hegemonic control by small sets of elites (cf. Illich, 1982). The pluralism advocated by post-modernists toward the provision of traditionally expert, professional services also jibes with neo-conservative suggestions that markets should decide best practices, and that attempts to limit competition in service provision ultimately is detrimental to consumers and the larger society. Both groups pointed to the radically changed nature of consumer and client choice in the late 20th and early 21st centuries.

Consumer Choice and Radical Reflexivity as Elements of the Neo-Liberal Revolution

Anthony Giddens (1994, 2000) and others (cf. Castells 1996, 1998, 2000) suggest that one of the crises facing post-industrial society in the early 21st century is the rapid rise in information availability and self-reflexive action choice. In short, almost everyone but the most exploited and downtrodden (who still confront a world where actions are taken against them or for them without their advice or consent) face a world of active choice where decisions about lifestyles, identities, and social worlds are personalized and actively constructed. Giddens (1994) refers to this as a "detraditionalized" social order where even conventional lifestyle choices must be actively chosen and lifestyles constructed – one simply does not "fall" into a set of conventional social roles and identities by default.[2]

The relevance of this trend for professional groups is pretty obvious. Professionals increasingly confront a knowledge-driven and armed public of active consumers. These consumers are demanding more active roles in the provision of professional services and are demanding the right to choices between different types of interventions. They are also (increasingly) peppered by advertisements for professional services (drugs, legal services, on-line colleges and universities, etc.) that change expectations and increase information overload. These information services also allow consumers to comparison shop for the same services based on price and efficiency, something that traditional fee-for-service provision was not prepared to deal with.

Ironically, the social implications of the radical reflexivity of consumers looks a lot like the world of the "policy ineffectiveness" hypothesis in new classical economics. There is now enough information available, and enough means of communication available, that almost every collective decision to change the provision of professional services encounters well-informed resistance by at least a segment of consumers and other significant stakeholders. This makes attempts to engineer deliberate changes to entire systems of service delivery very problematic.

But this is precisely where the new market-based institutional logic comes in. Once the logic that "markets know best" becomes entrenched in the larger institutional environment, then almost any change can be championed as market based because markets (allegedly) deprive actors of individual volition with regard to their own or their clients' welfare. In the absence of strong, and contrary, oversight by professional associations, national governments, or (increasingly) international governing bodies like the EU, market-based logics have the ability to produce these radical changes in fairly short order. This is especially true in the provision of business services where clients are especially powerful and critical consumers of the services they purchase.

Law and Accounting – Professions at the Epicenter of the Hurricane Changing Professional Service

The growth in the number of lawyers in the United States seems to know no bounds. At present, about one in 300 Americans possesses J.D. degrees (US Census Bureau, 2000). But the crisis of the American legal profession is quite well documented (cf. Howard, 1994; Kronman, 1993). The biggest questions the legal profession faces are whether the independent practice of law can survive the changing organizational forms under which lawyers work, and whether the types of services lawyers provide are distinctive from an array of other consulting services provided to businesses and corporations.

Without question one of the biggest changes in the provision of legal services has been the shift from independent, fee-for-service practice in the context of the free-standing law firm (organized as a partnership with younger attorneys hired as legal associates) to a series of organizational forms that (a) pay lawyers salaries for the performance of relatively routine tasks for a single organization, and/or (b) wed lawyers to a small number of corporate clients that pay enormous fees that compromise the independence of the attorneys themselves. Tied to these changes have been corporate clients with deep pockets that have looked for ways to lower their legal bills by hiring their own attorneys, subjecting legal services to competitive bidding, and "spot shopping" for legal services of specific types that corporate leaders pick. This is in sharp contrast to the old perception that law firms would develop long-standing, stable relationships with corporate clients, providing a series of routine legal services in addition to high-profile representation in important cases. There are additional concerns that professional independence is undermined by these new arrangements (cf. Leicht & Fennell, 2001).

Tied to these changes have been proposed changes that would turn legal work into just another business consulting service that one could purchase from an omnibus, professional consulting firm. The recent rejection by the ABA of attempts to wed legal practice and accounting practice is only the first of many forays into the task domain once dominated by lawyers as other professional groups attempt to tap into the remaining corporate client base that lawyers serve. We also think that this issue strikes at the heart of whether lawyers allegiances to the system of law still outweigh their commitment to and services provided to clients.

In accounting, the business ethics scandals of the past few years (highlighted by the multibillion dollar destruction of Enron and the misstatement of earnings and profits in public corporate reports by Dutch retailer Ahold and Italian food retailer Parmalat) have brought to light the biggest crisis that the accounting profession has faced in years, if not decades. At the heart of these scandals are basic questions about what it is that accountants do, how responsible they are for the integrity of the books the clients submit for audits, and how closely tied accounting is to other business services provided to clients that undermine (or potentially undermine) the independence of the auditing services that the financial community depends on to make investment and banking decisions.

One thing that has become clear as a result of these scandals is that the audit of a corporation's books is only as good as the raw data that accountants are provided with. These scandals also provided a backdrop for re-evaluating just what it is that accountants do in providing representations of the financial health of specific organizations. In the case of Enron and other similar scandals, profits and revenues were simply invented or misstated. Conventional mechanisms for detecting these misstatements were powerless to detect them because the corporations involved were so intent on presenting rosy financial pictures that made them look healthy so their stock prices would rise. Since the purpose of top managers is to enhance the wealth of stockholders, were the managers really misbehaving? The answer is clearly "yes", but could accountants really be expected to detect that?

The root problem that all of this exposes is that accounting, like other professional representations, is a social construction. This does not make the financial statements of accountants "false" – indeed, to the extent that there are agreed-upon standards for determining what is represented and how the financial reports are drawn up, there is a great deal of truth to these reports. But the dependence on information provided by others puts the accounting profession in a very vulnerable position, and the latest round of corporate scandals has exposed this position fully.

More disturbing for the future of the profession are claims that the independence and integrity of accounting is being undermined by the provision of other business services, especially management consulting (cf. Brewster, 2003). The scandals rocking western accounting and business management suggest that some professional service organizational forms are not viable, long-term arrangements. There seems to be no logical reconciling of the auditing functions of accountants from the management consulting activities these same firms engage in. That these services provide more revenues for accounting firms than traditional auditing activities, and that corporations are purchasing consulting services and auditing services from the same accounting firms, has highlighted the potential and considerable conflicts of interest that can undermine the integrity of an entire financial system. Our discussion of problems and challenges facing law and accounting leads us to a discussion of professional service firms more generally and to management consulting as the core new development in professional service delivery.

PROFESSIONAL SERVICE FIRMS AND MANAGEMENT CONSULTING – THE NEW FACE OF PROFESSIONAL WORK?

Professional service firms seem to be the new institutional organizational form for the delivery of business services in a downsized, outsourced, subcontracted, and increasingly global environment for business services overall. These firms also are tied to the growing would-be profession of management consulting. How does the development of, and changes in, professional service firms and the development of management consulting as a would-be profession affect the dilemmas that established professions face, and especially those professions involved in providing business services?

The omnibus professional service firm is presently struggling with two archetypes, or mechanisms for managing itself, the P^2 professional partnership organizational archetype, and the managerial professional business organizational archetype. The contrast between these two archetypes is presented in Table 1 (see Brown, Cooper, Greenwood, & Hinings, 1996; Cooper, Hinings, Greenwood, & Brown, 1996; Greenwood, Hinings, & Brown, 1990).

The professional partnership as an organizational form traditionally has referred to the existence of a locally based professional practice managed by partners with ownership control of the professional service firm. Control over the organization's activities was maintained by professionals and attempts were made to organize professional life in a non-hierarchical, collaborative fashion.

The growth of professional partnership firms, and their consolidation in domains like accounting, produced a small number of large national firms with affiliated local offices that replaced the professional partnership approach. National organizations took responsibility for enforcing standards, advertising, and infrastructural and training support. Individual offices continued to be administered by managing partners who exercised a great deal of autonomy over the operations of the partnership and its delivery of services to locally dependent clients.

A growing competitor to the professional partnership archetype is the managerial professional business archetype. This type is more compatible with multinational growth and development as western professional practice organizations seek to secure new business and profits from overseas locations, especially in the developing markets of Eastern Europe, Southeast Asia, and Africa (see Brown et al., 1996). While this struggle is primarily international, there is no reason it will not become domestic (occurring within Western countries) at some future point.

But the rise of neo-liberal economic ideologies, and the implications we have described in terms of reflexive customer sophistication and the appeal to markets rather than professional expertise as the locus of current and future economic prosperity raises new questions about professional service firms as well. Chief among these is whether markets themselves constitute a

Table 1. Comparison of P^2 (Professional Partnership) and Managerial Professional Business Organizational Archetypes (from Cooper et al., 1996).

	Professional Partnership	Managerial Professional Business
Interpretive scheme	Governance among professionals	Management
	Representative democracy	Client service
	Revolving managerial tasks	Competition
	Professional knowledge	Markets and growth
	Indivisible work responsibility	Strategies
	Minimum hierarchy	Rationalization
	Widely distributed authority	Productivity
	Strong links with clients	Efficiency
Systems		
Strategic control	Rationality: Low analytical emphasis	Moderate analytical emphasis
	Interaction: Consensus decision-making	More directive decision-making
Marketing-financial control	Specificity of targets: Precise financial targets	Precise financial targets
	High tolerance/low accountability	Low tolerance/high accountability
	Short-term time orientation	Short- and long-term orientation
Operating control	Low range of involvement	Medium range of involvement
	Primary focus is professional standards and quality service	Primary focus is professional standards, quality of service, planning, marketing, and compensation
	Very decentralized	More centralization
Structure		
Differentiation	Level of specialization: Low	Medium
	Criteria of specialization: Professional divisions and personal interest	Professional divisions and functional difference
Integration	Use of integrative devices: Low	Development of hierarchy and cross-functional teams
	Use of rules and procedures: Generally low	More rules generally while keeping the emphasis on standards and quality

new institutional logic in this environment, rather than a distinctive set of pressures that influence (in tandem) prevailing institutional and organizational logics. This implies that the difference between market contexts and institutional contexts is being fused.

In particular, we see other institutional actors, and especially large and powerful clients and national governments in advanced capitalist democracies pointing to markets as the solution to a wide variety of problems. The permeability of these institutional spheres can be eroded by the challenges to non-market logics that have followed in other domains of social life. "Market forces" become an object of institutional emulation in an increasingly turbulent organizational field (see also Tilly, 1998).

What happens when "markets" become the institutional governing force for the provision of professional practice? What other prevailing, or alternative logics can counteract this force? One of the more interesting characteristics of this logic is it's embrace by relatively powerful corporate actors, clients, and consumers of professional services and the relative reluctance of Western Governments (many of whom have embraced market logics as solutions to their own very real organizational crises) to intervene with additional coercive pressures in the wake of questionable professional conduct. Many commentators believe that there are market-based solutions to these problems of malfeasance in financial markets. But that, in itself, is part of the logic of markets as institutional mechanisms of control. Failures of market control are re-construed as failures of professional expert controls that are amenable to still further market-based solutions. The market itself (and the lack of oversight of it) is never subjected to the same scrutiny as the strongly institutionalized professional practice norms it replaced. The logic of markets as an organizing principle for a would-be profession is most evident in the current popularity of management consulting.

Management Consulting: The New Quasi-Profession Making a Bid for Professional Status

From our standpoint, management consulting is the new and relatively recent attempt to take advantage of the destructured business environment of corporate clients that purchase business services. They represent a semi-institutionalized attempt to advance the professional aspirations of managers themselves, especially in light of the well-publicized attacks on middle management infrastructure that has accompanied the latest corporate downsizing waves.[3] The signs of growth in management consulting are everywhere. In the 2000 Census of the U.S. the Department of Labor says that over 500,000 people are listed as management consultants (US Department of Labor, 2002). Management consulting firms have developed into large, multinational operations, and these firms have become the major recruiters of MBAs on college campuses in the late 20th and early 21st century (*The Economist*, 2002). In fact, management consulting is now viewed as a major avenue for future top management posts in globalized, financially powerful firms as consultants rotate out of consultancy businesses into top corporate management jobs with their former clients (*The Economist*, 1997b).

What does demand for management consultants represent? To a great extent a response to the growing complexity and uncertainty of business environments (*The Economist*, 1997a). The typical business manager who is consuming business services is attempting to manage sets of subcontracted, arms-length relationships with spatially disbursed suppliers and customers. They are attempting to do this in an environment that sends increasingly ambiguous and deinstitutionalized signals regarding proper management behavior and strategy. To buy into the concept that "letting markets decide" might be satisfying from an ideological standpoint but it provides very little guidance regarding ways to competitively position yourself so the market will not adversely select against you.

In a theoretical sense, what do management consultants provide through the wide array of advice they offer? One answer we suggest is "voice" in the sense described by Hirschman (1970). In a radically marketized economy where everything that can be done through markets is done through markets, managers either need to learn to read market signals delivered through pricing mechanisms ("exits" from this theoretical perspective) or come up with new mechanisms for collecting information through "voice" mechanisms (customer feedback, employee complaints, etc.). Management consulting activities represent one very salient form of "voice" in environments where the ability to collect unbiased information and act on it has been drastically impaired, and the consequences of making the wrong decisions involve immediate market punishments.

Business schools increasingly rely on and believe they are training "business consultants." More and more business students are interested in managerial consulting as a career (*The Economist*, 2002). The demand for management consulting seems to be insatiable. Part of this demand stems from the de-structured nature of the networked and neo-entrepreneurial business firm, where all manners and sorts of expertise are "contracted out" rather than done in-house by legions of quasi-permanent employees. Part of this stems from the obvious imperfections in the neo-liberal cultural ideologies governing new organizational forms. Markets may represent a new organizational logic, but markets do not speak very clearly nor do they provide elite managers with clear guidance regarding the directions markets are heading in specific contexts. Part of the lure of management consulting lies with the ability to work with highly prestigious business clients on important business problems in an environment well oiled by high fees and salaries (topping $120,000 per year for new MBAs in some cases, see *The Economist*, 1997).

The institutional context is ripe for the rise of management consulting as the profession that ''interprets markets for you.'' The irony of this is that markets were supposed to obviate the need for professional expertise. But what the recent changes in institutional, societal logic have done is replace one set of ideologies (professional institutions and practices as protectors of the public good) with another one (markets as protectors of the public good). The ability to institutionalize this professional role will depend on the willingness of top corporate managers to pay for these types of services and the ability of management consultants to prove that they can deliver measurable results (higher profits; avoidance of legal and reputational trouble, etc.).

At this point, the payoff is being questioned at the same time as corporations are spending large amounts of money on management consulting. The growth and decline of ''re-engineering'' is typical of the trend. Re-engineering was marketed as the cure-all for a wide variety of corporate ills while paying insufficient attention to the human side of business. The much touted efficiency gains did not materialize and in many cases creativity and commitment were sacrificed for dubious gains in short-term efficiency. Consulting is not without scandals of its own – CSX Index (the consulting firm that launched re-engineering) was accused of rigging the sales of books written by their consultants in order to get these books on best-seller lists. Others have questioned whether management advice that can be purchased on the open market is really all that distinctive (see *The Economist*, 1997a). Management consultants fall into the realm of the ''knowledge entrepreneurs'' that promote ''emotionally charged, enthusiastic, and unreasoned discourse'' of management fashion waves (see Abrahamson & Fairchild, 1999).

But more important, perhaps, is the ability of management consulting to define a coherent professional task domain in competition with lawyers and accountants for the procurement of business advice. This competition is helped by the market-based logic that led to the growth of management consulting in the first place, and the growing unease expressed by significant stakeholders toward the creation of omnibus business service firms that combine consulting, accounting, and legal services.

Management Consulting and Related Professions: On a Collision Course?

As managerial consulting grows as a profession, and advances a professional project for itself, what does this spell for the other professions, especially the well-established professions of accounting, law, and medicine? Our observation is that managerial consultants are bad news for these other professional groups. But this depends on the relative success of managerial consulting as a professional project. But management consulting as a professional project faces its own set of contradictions, not the least of which is that the development of certification, codes of ethics, and professional standards is contrary to the neo-liberal market-based logic that led to their creation and prosperity in the first place. Here, two contrasting scenarios are possible.

First, managerial consulting can establish itself in the new institutional domain of those who interpret market signals for specific firms. This seems all the more likely because *competitive markets are a public good, not a private good that increases individual business or consumer utility*. Elite managers of the new, debureaucratized and globalized business elite need managerial consultants to develop business strategies and collect information and data that they do not have the time to collect or digest. And managerial consulting success will feed into the dominant logic of neo-liberal institutionalism as markets are shown to deliver the goods that hierarchies and M-form organizations cannot deliver.

The big problems here will depend on the growing relationship between management consulting, law and accounting as professional service domains. To the extent that management consulting can define itself as a negotiator of a deregulated, globalized, marketized business environment, accountants and lawyers may come to be viewed as quant representatives of standards and ethics that multinational firms can easily avoid or ignore. After all, why require an audit to conform to generally accepted professional practice if that practice inhibits profits and there is no clear penalty for not following the rules? Rules and laws prevent markets from functioning to their full efficient potential. If management consultants can successfully negotiate the claim that they "make markets work for you," accountants and lawyers are going to find their roles in business service provision greatly reduced. But this is not the only scenario that is possible.

A second possibility is that managerial consulting will deinstitutionalize itself. In the absence of the development of codes of ethics and a strong institutional environment for preserving the independence and integrity of this would-be profession, managerial consulting could create as much trouble for itself by appealing to market logics as it gains. The reasons are simple – to the extent that deregulated environments for financial and other services combine with lax legal enforcement, a would-be, not-quite-institutionalized profession whose dominant logic and task domain is the interpretation of markets for corporate customers is on a collision course with public ethical dilemmas and deinstitutionalization. This second result seems all the more likely to the extent that the management consultant defines their role as increasing profits rather than dealing with significant sets of stakeholders in business firms. There are simply too many ways to make money without doing anything (or ways to make money at the expense of the powerless) for a would-be profession without a strongly delineated set of professional norms that are internalized to survive.

Can the "Liberal Elite" Fight Back? The Rise of the "New Class" as a Potential Reflexive Countertrend

Most people, and especially professional people, want to live in a capitalist economy but not a capitalist society (see Schor, 2005). This means that they accept the role of markets as an organizing principle for many types of consumer transactions and in financial markets under a set of regulated conditions that assure fair play among the participants. What has struck many members of this professional elite is the extent to which this set of regulated conditions does not exist (cf. Barlett & Steele, 1992; Leicht & Fitzgerald, 2006; Phillips, 1993).

Some research on the professions suggests that traditional class cleavages between the working class and owners of capital are being replaced by other class cleavages and alliances. This research points to the existence of a post-industrial "new class" of educated, expert, skilled, and culturally cultivated elite workers who occupy major knowledge-intensive positions in most of the developed world (see Castells, 1998, 2000). This group in the elite division of labor is said to possess "post-materialist" values and political orientations that defy traditional liberal and conservative labels (see Giddens, 1994; Inglehart, 1990; Manza & Brooks, 1999).

Regardless of whether the "new class" is a coherent political interest group (united around social liberalism, economic libertarianism, environmental protection, and quality-of-life issues), it is clear that conservative political movements in the United States have made great headway attacking this so-called "liberal elite" and its real or alleged deficiencies (see Brock, 2003; Buchanan, 2002; Edsal & Edsal, 1990). Indeed, the existence of a coherent opponent to expert-based divisions of labor may be a gelling force for professionals and other knowledge-based elites to find common political ground and act on their real or perceived common interests.

CONCLUSION: IS THERE A "THIRD LOGIC"? THERE BETTER BE...!

Institutional theory provides us with a powerful set of tools for interpreting the changes and issues facing contemporary professions and professional service firms. Market logics have become institutionalized among significant actors and stakeholders in the provision of business services. These market logics have aided the rise of management consulting as a quasi-professional group, but these same market logics have made it difficult to institutionalize a set of practices for this relatively new professional group to hang its hat on. In fact, the very set of developments that lead elite managers and CEOs to turn to them mitigate against the development of a coherent set of professional practice norms for management consultants.

More ominous, perhaps, is that a deinstitutionalized, debureaucratized, and deregulated environment for the consumption of business services produces a situation where (in Oliver's terms) avoidance, defiance, and manipulation reign and compromise and acquiescence fade into the background. Powerful business clients purchase services from professional service firms in an institutional context where they can dictate the results they want, whether those results are ethical, unethical, or in concert or variance with professional practice norms. The growing internationalization of these services only adds to the ability of clients to shop for compliant service providers that will agree to (and support) their definition of the situation.

In the end, we are persuaded by Friedson's (1994) hope that professionalism, with its focus on service delivery, ethics, professional association and control by peers, and common occupational identification will develop as a third alternative to either impersonal market domination or control by the iron-cage bureaucracy. This conception returns to the Durkheimian vision of professional work – work that may change in task content and settings, but which still binds professional workers via strong socialization experiences, network ties, and normative pressures exerted by professional associations and stakeholder groups. In the end, we are persuaded that such a logic is possible if professional groups are appropriately socialized to take an active, agentic role toward their activities in relation to their clients' interests. Claiming that "my actions are what they are because the market says so" is, in the end, not a persuasive logic for professional practice, either for practitioners or vulnerable clients. Nor is the claim that "I know what the market will do next, therefore you should trust me to make you money" a compelling professional logic either.

But professionals in professional service firms will not be able to maintain sufficient professional control without the aid of potential coercive pressure from governments and stakeholders with an interest in the integrity of the entire financial and business services system. The major dilemma that the globalized business environment produces is how to construct these regulations at a cross-national level so that basic norms for the provision of professional services are strongly institutionalized and supported by the growing set of major players in the nation states of the world capitalist system. This is no small order, but the integrity, legitimacy, and performance of the globalized market economy depends on it.

NOTES

1. Part of the renewed faith in markets coincided with the decline in public confidence in social institutions of all kinds (cf. Putnam, 2000). The new faith in markets is a form of cultural backlash that Edsal and Edsal (1990) refer to as a "chain reaction" to the economic and political crises of the late 1970s and early 1980s. In their scenario, economic stagnation produces a context where social programs designed to help the poor and minorities (and the ability of the Republican Party to paint most of the poor as coming from underserving minority groups) helps to explain the backlash centered on "race, rights, and taxes" in the United States.

2. This detraditionalizing of the social order could be viewed as one of the reasons for the global rise in religious fundamentalism (cf. Giddens, 2000). Fundamentalism, in this view, is seen as a reaction to the decline of social and political support for conventional role choices and the rise of the need to "actively construct" these choices in a world where other choices are now viable.

An active feature of this post-traditional social order is "time-space distantiation," the ability to collect vast amounts of information about virtually any major decision or condition one faces, including information generated from the other side of the world, information from the past, experimental information, and alternative information that is not filtered through conventional gatekeeping institutions (e.g. the courts; law reviews; the scientific establishment, etc.). This information, combined with the collapse of social institutions that enforce conventional choices, has produced a situation where the interventions of technological elites will be questions and the intended consequences of policy choices are likely to be undermined (Giddens, 2000).

3. David Gordon (1996) seriously disputes the idea that American managerial ranks are downsizing. He suggests that, if anything, managerial intensity in the United States has risen in the 1980s and 1990s. He attributes this to the increased use of the "stick" strategy as working conditions have deteriorated with globalization

and firm re-engineering. We are not in a position to evaluate this thesis except to note that there is some correlation between the rising importance of managerial consulting and the promotion of re-engineering as a new managerial fad.

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THE STRATEGIC POSITIONING OF PROFESSIONAL SERVICE FIRM START-UPS: BALANCE BEGUILES BUT PURISM PAYS

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ABSTRACT

How do new professional service firms strategically position themselves in fields where developing a favourable external reputation is critical to performance? Are certain positioning strategies more effective than others? This study reveals that most professional service firm start-ups attempt to establish themselves by pursuing a strategy of moderate divergence from a field's institutionalized practices. Those that do so, however, do not perform as well as those that either conform more closely to these institutional prescriptions or depart more radically from them. In other words, balance beguiles but purism pays.

INTRODUCTION

New professional service firms (PSFs) face unique liabilities of newness. Not only do they have to overcome their lack of well-established internal

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routines and systems, but more importantly, they have to overcome their lack of external reputation. Building a favourable external reputation is critical to most new firms – especially PSFs – because these organizations offer outputs that are intangible, encoded with complex knowledge, customized to meet client requirements, and produced by professionals (Alvesson, 1995; Lowendahl, 2000; Nachum, 1999). Although the importance of reputation to PSFs is undeniable, little research has been conducted into *how* new PSFs establish themselves.

Different predictions are provided by different theories. Institutional theory emphasizes the importance of social approval or legitimacy. New firms that fail to gain social legitimacy are more liable to weak performance and lower rates of survival. Therefore, institutional theory advises that new PSFs should conform to industry expectations of appropriate behaviour. Strategic management theory prescribes the opposite, suggesting that it is through differentiation that competitive success is secured. New firms have to develop reputations for unique services and/or for unique ways of providing services. Finally, strategic balance theory proposes that a more intermediate position is preferable, that is, one that provides a measure of differentiation but without entailing loss of legitimacy.

This chapter explores two questions arising from these competing perspectives. To what extent do new PSFs converge upon versus diverge from institutionalized norms? Does the degree of convergence or divergence make a difference to their performance? These questions are examined through a study of 60 law firm foundings in the Greater Vancouver Regional District (GVRD) of British Columbia, Canada.

Consistent with strategic balance theory, our findings show that the majority of firms exhibited a moderate degree of divergence from the profession's institutionalized norms. But, firms exhibiting greater convergence or greater divergence achieved greater financial success. This latter finding contradicts strategic balance theory yet lends support for the predictions of institutional and strategic management perspectives. In short, our findings suggest that when it comes to the strategic positioning of new PSFs, balance may be beguiling but it is purism that pays.

THEORY AND HYPOTHESES

Organizational sociologists have long recognized the unique challenges faced by new firms. Their inexperience (Stinchcombe, 1965) and size (Aldrich & Auster, 1986) are serious handicaps. These liabilities of newness stem from internal and external factors (Eisenhardt & Schoonhoven, 1990). New firms typically have organizational members in unfamiliar roles with unclear working relationships and undefined routines. The process of developing these roles, relationships, and routines, results in higher than normal costs of "time, worry, conflict, and temporary inefficiency" (Stinchcombe, 1965, p. 148). Externally, new firms generally lack legitimacy and established reputations. As a result, they face the "extremely slow, painstaking, and therefore costly process" of creating "an impression of viability and legitimacy" (Starr & MacMillan, 1990, p. 83).

The challenge of building a favourable reputation is especially critical to new PSFs. Greenwood, Lee, Prakash, and Deephouse (2005) argue that a favourable reputation is a strategic *requirement* for PSFs because of the nature of their intangible outputs. In such situations, customers are obliged to use social signals, such as a firm's reputation, as an indicator of competence (Hitt, Bierman, Shimizu, & Kochhar, 2001; Rao, 1994). Greenwood et al. (2005) add that a favourable reputation affects a firm's ability to attract high-quality professionals, who are the basis of the firm's capability. PSFs customize their services to each client's circumstances, and the ability to do so is a function of their professional workforce (Morris & Empson, 1998).

So, how do *new* PSFs address these unusual liabilities of newness? Institutional theory prescribes conformity to the consensually understood professional norms and standards of appropriate practice that exist within a particular field (e.g., DiMaggio & Powell, 1983, 1991; Meyer & Rowan, 1977; Scott, 1995; Scott & Meyer, 1983, 1994). Meyer and Rowan's (1977) pioneering work emphasized that educational organizations secure social approval by conforming to expectations of how they should be *organized*. That is, through conformity, a new firm builds a reputation for reliability, accountability, and trustworthiness. Thus, institutional theory predicts that new PSFs will *converge* upon institutionalized practices.

Strategic management theory, in contrast, prescribes *divergence* from what others are doing (e.g., Barney, 1991; Hannan, Ranger-Moore, & Banaszak-Holl, 1990; Porter, 1980, 1991; Wernerfelt, 1984). For this theory, advantage is best achieved by offering a unique value proposition that differentiates a firm from its competitors. Difference yields advantage for two reasons. First, a firm avoids competition and garners resources from an unexploited market position (e.g., Barney, 1991; Hannan et al., 1990; Porter, 1980, 1991; Wernerfelt, 1984). Second, a new firm can build a reputation for being an "innovator" (Aldrich, 1999), one that potentially triggers a new "movement" in the field (Low & Abrahamson, 1997). Thus, the strategic management perspective predicts that new firms will pursue a strategy of divergence and that doing so will yield performance benefits. Typically, strategic management theory is referring to product-market positioning, i.e., differentiation implies product or market sector innovation. But the same argument can be applied to modes of organizing, i.e., a firm can compete by using novel organizational arrangements.

The seemingly contradictory predictions of institutional and strategic management theory are resolved through the notion of *strategic balance* (Deephouse, 1999). Building upon earlier efforts to reconcile institutional theory and strategic management (e.g., Baum & Dutton, 1996; Baum & Oliver, 1991, 1992; Dacin, 1997; Oliver, 1991, 1997; Roberts & Greenwood, 1997), the strategic balance theory asserts that firms in highly competitive yet institutionalized environments secure competitive advantage by pursuing moderate differentiation:[1]

> Strategic balance theory directs our attention to intermediate levels of differentiation where firms balance the benefits of reduced competition against the costs of reduced legitimacy. The theory's main recommendation is that firms seeking competitive advantage should be as different as legitimately possible. (Deephouse, 1999, p. 148).

Thus, the basic expectation is that most successful incumbents within a competitive industry will be located at the point of strategic balance, where profits are higher. Given the considerable uncertainty facing new firms, we propose that many of them will engage in mimicking the strategies of successful incumbents. That is, new firms entering an industry will model themselves upon the practices of successful incumbents. Because these successful incumbents are likely to be practicing strategic balance, we predict:

Hypothesis 1. The majority of professional service firm start-ups will pursue a strategy of moderate divergence from a field's institutionalized practices.

We further predict that the next most popular strategy will be high conformity to the field's institutionalized practices, rather than one of high divergence, for two reasons. First, a strategy of high divergence will be perceived by many PSF founders as risky because of the potential costs associated with doing things differently (DiMaggio & Powell, 1983; Meyer & Rowan, 1977). Second, organizations are susceptible not only to mimetic pressure, but to normative pressure, i.e., pressure to conform to broader professional norms. In highly institutionalized settings, professional norms become manifest as prescribed templates or archetypes, i.e., as widely held understandings of appropriate structures, systems, and practices for accomplishing business activities (e.g., DiMaggio & Powell, 1983). There is a lengthy history of studies showing the force of mimetic/normative processes, but almost none are of *new* firms. Suggestive empirical evidence is provided by Dacin (1997), who found that Finnish newspapers tended to adopt institutionally prescribed characteristics at the time of start-up. On balance, then, we expect:

Hypothesis 2. Of new professional service firms not pursuing a strategy of moderate divergence, more will pursue a strategy of high convergence than a strategy of high divergence.

In the preceding section, we argued for the "beguile of balance" as an initial positioning strategy for most new firms, including PSFs. In this section, we argue that, although such a strategy may be enticing, it will *not* result in the highest performance pay-off. Instead, PSFs will perform better by adopting *either* of the "purer" strategies of conformity to institutionalized practices or significant divergence. In other words, the irony of copying the practices of exemplary incumbents is that doing so places a new firm in direct competition with the field's highest performing incumbents who possess ample resources for aggressive retaliation against new entrants. Competition from other start-ups will also be strong because, if our prediction is correct, the majority of new start-ups will opt for strategic balance. Therefore, new PSFs will not perform well if they follow the prescriptions of strategic balance.

Several arguments suggest that a strategy of high conformity to institutionalized practices will be more successful. First, replicating well-understood, normative practices reduces the learning costs associated with creating new organizational roles, working relationships, and routines. As Low and Abrahamson (1997) argued, mistakes can be very expensive for new organizations who thus benefit by "taking advantage of everything that has been learned about a form" (p. 454). Second, conforming closely to widely endorsed prescriptions can enhance a firm's reputation as a legitimate and credible firm. Institutional theorists have long appreciated how adherence to industry conventions can reassure stakeholders that they are dealing with a reliable, accountable, and trustworthy organization (DiMaggio & Powell, 1983; Meyer & Rowan, 1977). As noted by Stuart, Hoang, and Hybels (1999, p. 319), organizational ecologists also argue that "organizations that are thought to be reliable, accountable, and trustworthy have higher chances of survival and better performance ...". Empirical studies that support the argument that conformity to institutional prescriptions improves the performance of *new* firms include Baum and Oliver (1991) and Singh, Tucker, and House (1986).

Different arguments conclude that a strategy of *high divergence* will be superior. Low and Abrahamson (1997) argued that new organizations can compete effectively if they "do something different" (p. 454). Such a strategy may be risky but can yield high performance. By diverging from both institutionalized practices and exemplary incumbents, new firms avoid direct competition from more established firms and from the majority of new start-ups (Carter, Stearns, Reynolds, & Miller, 1994; Dean, Brown, & Bamford, 1998; McDougall & Robinson, 1990). Moreover, by doing things differently, a new firm may become visible and develop a positive reputation *because* it is different (Aldrich, 1999). Such a reputation may attract both high-quality professionals as well as clients. Finally, divergence can result in the discovery of untapped yet lucrative market niches. Higher rents generated in these niches may more than offset the higher costs associated with being unusual (e.g., Barney, 1991; Hannan et al., 1990; Porter, 1980, 1991; Wernerfelt, 1984). Preliminary empirical support for this argument is provided by Sandberg and Hofer (1987) who found that a differentiation strategy contributed to the success of young firms. Thus:

Hypothesis 3. New professional service firms that pursue a strategy of high convergence or high divergence will outperform those that pursue a strategy of moderate divergence.

Although high convergence and high divergence are each expected to enhance performance, they will not necessarily do so to the same extent. Institutional accounts primarily emphasize that conformity enhances survival, not above-normal returns (Baum & Oliver, 1991, 1992; DiMaggio & Powell, 1983). Furthermore, we expect (our Hypothesis 2) that more new PSFs will pursue high convergence than divergence because of the risks associated with doing things differently, with the result that larger numbers of organizations will occupy the high-conformity resource space, thereby reducing the revenues that each will secure (Hannan & Carroll, 1992; Hannan & Freeman, 1989). Thus:

Hypothesis 4. The strategy of high divergence will have a stronger positive effect on the performance of professional service firm start-ups than will the strategy of high convergence.

Taken together, Hypotheses 3 and 4 directly challenge the relevance of strategic balance *for new firms*. Instead, new firms should avoid the position of strategic balance. While Deephouse (1999) observes an inverted U-shaped relationship between performance and strategic balance, we anticipate an inverted U-shaped relationship.

METHODS

Setting and Sample

These hypotheses were tested using data from a regional sample of law firms founded between 1990 and 1998 in the GVRD of British Columbia, Canada. We limited the investigation to the largest metropolitan area of a single Canadian jurisdiction in order to control for possible regional differences (Stager, 1990, p. 8) and potential effects attributable to a rural location (Stager, 1990, p. 169). We selected 1990 as the cut-off year for three reasons. First, we wanted to minimize differences in the firms' contexts at their time of founding because law firms founded during the "mega-firm mania" of the 1980s faced a very different operating environment than those founded during the 1990s (Ellis, 1993; Stock, 1996; Stock & Leishman, 1998). Second, the selected cut-off year resulted in an eight-year founding period consistent with other studies of new ventures (e.g., Baron, Hannan, & Burton, 1999; McDougall & Robinson, 1990; Shrader, 2001). Finally, our procedure ensured a sufficient number of eligible new firms for statistical analysis.

Eligible firms included those still in business during the summer of 1998 which employed more than five professionals. Firms founded as branch offices or through mergers of existing firms were excluded. From a list of 105 eligible firms obtained from the 1997/1998 *British Columbia Business Directory*, 60 agreed to take part in our investigation. Although modest, this sample size is viable and consistent with recent studies of new ventures (e.g., Baron et al., 1999; Shrader, 2001). Furthermore, the 57 percent response rate is very high for studies utilizing primary data collected through partners of PSFs (see, for example, that reported by Hitt et al., 2001). Checks on the sample's representativeness revealed that participating firms were not significantly different from those that did not participate in terms of year founded, number of employees, office location, and revenue category.

Measures

Our basic approach was to determine how far each of the sampled firms diverged from the industry's institutionalized form of organizing (i.e., the institutional 'template' or archetype). To do so, we required data on: (1) the nature of this institutionalized template, (2) the degree to which possible alternative practices were perceived to differ from the templates, and (3) the actual practices of our sample new firms. All of these data were collected in the summer of 1998. Below, we describe the procedures used to obtain each type of data.

One of the most salient set of institutionalized practices in the legal industry is the constellation of norms on how law firms should be organized and managed (Cooper, Hinings, Greenwood, & Brown, 1996; Galanter & Palay, 1991). We used multiple data sources to identify these institutionalized practices: a comprehensive literature review,[2] semi-structured interviews with three scholars of the Canadian legal profession, and structured interviews with 10 practicing lawyers in large, prestigious law firms and one member of the provincial law association. From each source we obtained data on Greenwood and Hinings' (1993) essential components of organizational design – namely, the configuration of structures, decision systems, human resource practices, and underpinning values. These different data sources were remarkably consistent in their description of the prescribed template for organizing. Encouraged by the consistency between the three initial data sources, we validated that the institutionalized template applied in our study's jurisdiction and time period through a questionnaire administered to a panel of six practitioners. Each panelist possessed at least five years experience practicing law in the GVRD and none was a founder of a firm in our sample. Data obtained from the panelists validated the qualitative data obtained from the literature review and interviews, providing strong support for the construct validity of the identified practices.

The structural features of the prevailing template that existed in the GVRD in 1998 included a partnership form of ownership and governance, a highly leveraged personnel configuration, and internal differentiation based upon legal specialization (e.g., corporate-commercial, real estate, family law, etc.). Decision-making systems were characterized by centralization of authority at the partnership level and a collegial form of interaction (i.e., extensive use of lateral structures such as partnership committees). Human resource practices resembled the Cravath system, including an apprenticeship recruitment model, an up-or-out promotion system, and compensation based upon merit for partners yet seniority for non-partners. Other dominant human resource practices included strict control mechanisms (e.g., billable hours quotas), inflexible work arrangements, and distinct inequalities of privilege between different tiers of personnel. Underlying these structures and processes were values jointly emphasizing commercialism and professionalism.

Having validated the nature of the institutionalized template in the GVRD, we asked the same set of six panelists to assess how far alternative practices differed from the template. Each panelist rated each alternative practice on a scale ranging from "0 = identical to the dominant practice" to "5 = very different from the dominant practice". The mean value assigned by the six panelists was used as the measure of a specific practice's distance from the template. This procedure for assessing novelty represents an adaptation of Amabile's (1982) consensual assessment technique, often used in studies of organizational innovation.

We collected data on each firm's practices through a structured personal interview with one of the founding partners from each firm. These interviews typically took at least one hour to complete and were supplemented by a preliminary background questionnaire faxed in advance of the interview. The appendix lists the indicators used to measure each practice. Many of these indicators are similar to those used in Pinnington and Morris (2002).

We then calculated the extent of each new law firm's divergence from the institutionalized template. Following Doty, Glick, and Huber (1993) and Fiegenbaum and Thomas (1995), we used the Euclidean distance equation to compute an aggregate measure:

$$F_i = \left[\sum_{p=1}^{j} D_i(p)^2 \right]^{1/2}$$

In this equation, i refers to the firm, j refers to the 15 practices for which data were collected, and $D_i(p)$ represents the difference between each firm's actual practice and the institutionalized practice, as perceived by the panelists. This equation weights the 15 practices equally; parallel results to those reported below were obtained with Greenwood and Hining's (1993) four dimensions of organizational design given equal weighting.

We measured performance in two ways. The first, revenues per lawyer, is one of the most commonly reported performance indicators in the legal profession (see, for example, such industry publications as *The American Lawyer* and *Canadian Lawyer*). It was used instead of a profitability measure, because Canadian law firms, unlike their American counterparts, do not publicly divulge profits. Moreover, recent studies of PSFs have reported high correlations between revenues per professional and profitability: Malos and Campion (2000), for example, reported a value of 0.89 and Greenwood et al. (2005) reported a value of 0.86. These correlations help validate revenues per lawyer as our first performance measure.

The second measure, gross revenues, was selected because it is a commonly used indicator in the literature on new venture performance (e.g., Bamford, Dean, & McDougall, 1999; Baum, Calabrese, & Silverman, 2000; Eisenhardt & Schoonhoven, 1990; Robinson, 1998; Wesson & Neiva De

Figueiredo, 2001). This measure reflects a firm's ability to acquire economic resources, which the liability of newness argument suggests is critical to a new venture's early success. The inclusion of this second measure of facilitates comparisons with other studies of new venture performance.

Data for the performance measures was compiled for the years 1998, 1999, and 2000. Revenue data was obtained from the *British Columbia Business Directory*. This directory contained an ordered set of categories for total annual revenues. We assumed revenue to be an interval level variable and assigned each firm the value corresponding to the midpoint of its reported category. Data on a firm's total numbers of lawyers came from the *British Columbia Lawyers Telephone*, *Fax and Services Directory*, and the *Canadian Law List*.

Control Variables

To isolate the effect of strategic positioning relative to the industry template better, we controlled for other ways in which a PSF might differentiate itself. We entered two controls for product-market positioning. The first control was service diversification, which was measured by a dichotomous variable coded as 1 if the founding partner characterized the firm as a "boutique practice" (i.e., one focused on a limited number of practice areas) and 0 if the founding partner characterized the firm as a "general practice" (i.e., one that offered a broad range of services). The second control was an indicator of whether the firm was pursuing a particularly lucrative market segment. For the legal profession, this was measured by a dichotomous variable coded as 1 if the founding partner reported corporate-commercial work as a major practice area of the firm, and 0 if it was not (cf. Galanter & Palay, 1991; Hitt et al., 2001).

To control for possible spatial variations in revenue generation and competition, we included a covariate for location, measured by a dichotomous variable coded as 1 if the head office was located in the downtown core of the GVRD at the time of the 1998 interview, 0 if it was not. Finally, we controlled for firm size, measured by the total number of lawyers (Hitt et al., 2001; Malos & Campion, 2000), and firm age, measured by the number of years the firm had been in existence.

Data Analysis

We used OLS regression analyses to examine the impact of the 1998 divergence measure and the controls on each firm's average performance level across 1999 and 2000. The use of averaged performance data is becoming increasingly common in research on new ventures because averaging smoothes out the yearly fluctuations characteristic of young firm performance (Robinson, 1998, p. 176). Averaged performance has also been used in the strategic management literature (e.g., Nair & Kotha, 2001; Russo, 1997). We ran the OLS regressions on both measures of firm performance, revenue per lawyer and revenue.

The possibility of survivor bias is inherent in this type of left-censored research design. Because data were not available for firms founded after 1990 but that did not survive until the first wave of our data collection in the summer of 1998, the severity of this potential sampling bias could not be assessed directly. However, only three of the participating firms failed to survive until the end of 2000, when the final panel of performance data were collected. This suggests that the failure rate for new entrants was not alarmingly high during the study period. Moreover, these three firms exhibited a moderate level of divergence from the field's institutionalized practices ($\text{avg}_{\text{failures}} = 7.53$, $\text{avg}_{\text{sample}} = 7.84$), an observation consistent with the logic underlying Hypothesis 3. Together, these two observations provide some assurance that left censoring is not a large problem for our analyses and results. The three firms that did not survive beyond 1998 were excluded from the analyses from the year of their failure onwards.

RESULTS

Table 1 reports the means, standard deviations, and correlations for all variables. Figs. 1 and 2 contain frequency distributions indicating the number of firms classified as exhibiting low, moderate, and high convergence from the GVRD legal profession's institutionalized practices in 1998. These figures also illustrate the net effect of divergence on the 1999–2000 average revenues per lawyer and average gross revenues, respectively.

The Institutional Positioning Strategies of New Professional Service Firms

The first question posed in this study was: How do new PSFs establish themselves in fields where reputation is such a critical asset? More specifically, to what extent do they converge upon or diverge from a field's institutionalized practices? To address this question, we divided the observed range of the continuous measure of divergence into three approximately equal categories, near natural breakpoints in the data. Firms classified into

Table 1. Means, Standard Deviations, and Correlations.

Variable	N	Mean	S.D.	1	2	3	4	5	6	7	8
1 Average rev/lawyer ($M)	55	0.42	0.24								
2 Average revenues ($M)	59	2.58	2.03	0.51****							
3 Divergence	60	7.84	1.60	0.09	−0.37***						
4 Divergence squared	60	64.05	25.00	0.14	−0.32***	0.99****					
5 Specialist firm	60	0.65	0.48	−0.17	0.05	−0.04	−0.03				
6 Corporate-commercial firm	60	0.57	0.50	0.07	0.21	−0.11	−0.11	−0.43****			
7 Downtown location	60	0.57	0.50	0.01	0.23	−0.18	−0.16	0.28**	0.05		
8 Firm size	60	4.40	3.03	0.02	0.80****	−0.40***	−0.39***	0.10	0.22*	0.25*	
9 Firm age	60	4.08	2.59	0.03	−0.30**	0.57****	0.53****	−0.24*	0.13	−0.15	−0.26**

*$p \leqslant 0.10$,
**$p \leqslant 0.05$,
***$p \leqslant 0.01$,
****$p \leqslant 0.001$ (two-tailed tests).

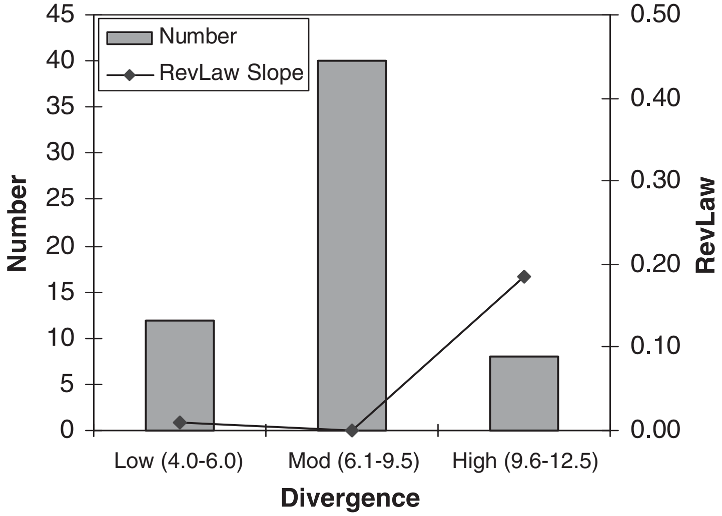

Fig. 1. Divergence Frequency Distribution and Relationship with Revenues per Lawyer.

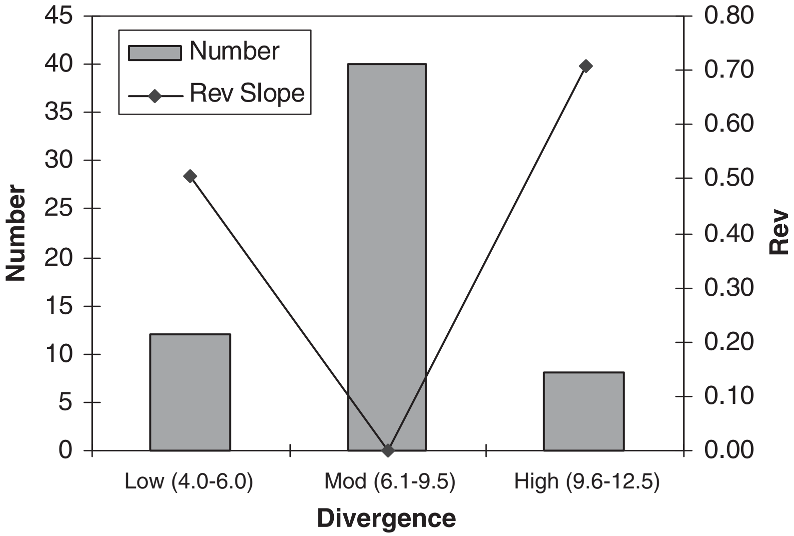

Fig. 2. Divergence Frequency Distribution and Relationship with Gross Revenues.

the high convergence category had scores of 4.0–6.0, those classified into the moderate convergence categories had scores of 6.1–9.5, and those classified into the high divergence category had scores of 9.6–12.5. We then calculated the proportion within each category.

The findings provide support for Hypothesis 1, which predicted that the majority of PSF start-ups would pursue the position of moderate divergence. Sixty-seven percent of recently established law firms exhibited moderate divergence, an adoption rate two times higher than the strategies of high convergence and high divergence combined.

Hypothesis 2, which predicted that, of firms not pursuing a strategy of moderate divergence, more would pursue a strategy of high convergence than a strategy of high divergence, is also supported. Twenty percent of firms were classified as highly convergent but only 13 percent as highly divergent. Thus, the strategy of high convergence was 1.5 times more likely to be adopted that the strategy of high divergence.

Notably, the firms classified as highly divergent departed from the field's institutionalized practices in very different ways, confirming that they were not simply reproducing an already-existing, yet alternative organizational template. For example, the most divergent firm (a 27-person boutique real estate practice) was governed as a solo-owned firm with leverage ratios three times larger than the industry norm. This firm also employed associates who not only supervised divisions but shared the firm's profits. It emphasized what can be described as "crusading" values, i.e., a commitment to revolutionizing aspects of the legal profession. In contrast, the second most divergent firm was governed as a cost-sharing arrangement with an associate-to-partner leverage ratio of zero; i.e., the firm had no associates whatsoever. A third firm pursuing a divergent strategy compensated its associates on a percentage-of-revenue basis, a highly unusual manifestation of a commercialistic value orientation.

In sum, our findings for the institutional positioning strategies of new PSFs are clear: most new firms pursue the strategically balanced position of moderate divergence, and a very small number adopt a strategy of high divergence.

The Effect of Institutional Positioning on New Professional Service Firm Performance

Does the degree to which a new firm converges upon, or diverges from the institutionalized norm affect performance? Table 2 presents the results of our OLS analyses on the averaged performance data for 1999–2000.

Table 2. The Effect of Divergence from Institutionalized Practices on New Professional Service Firm Performance: Results of OLS Analyses[a].

Variables	Average Revenues per Lawyer (1999–2000)		Average Gross Revenues (1999–2000)	
	Model 1	Model 2	Model 3	Model 4
Divergence		−0.442***		−2.975****
Divergence squared		0.029***		0.187****
Firm size	0.002	−0.005	0.509****	0.504****
Firm age	−0.001	0.003	−0.084	−0.006
Specialist firm	−0.110	−0.106	−0.243	−0.173
Corporate-commercial firm	−0.012	−0.003	0.085	0.111
Downtown location	0.029	0.011	0.146	−0.007
Constant	0.634****	2.196***	0.709	11.80***
F	0.35	1.51	20.30****	21.04****
R^2	0.03	0.17	0.66	0.51

[a]Values in the table represent unstandardized coefficients.
***$p \leqslant 0.01$,
****$p \leqslant 0.001$ (two-tailed tests).

Hypothesis 3 predicted that new PSFs pursuing high convergence or high divergence would perform better than those following a strategy of moderate divergence. To test the curvilinear U-shaped relationship implied by this hypothesis, we added the linear and squared terms for divergence simultaneously to the baseline models of controls reported in Models 1 and 4. While the significance of the squared term may suffer from Type II error because of its collinearity with the linear term (see Table 1), the direction and joint effect of these terms are considered trustworthy (Greene, 1993, pp. 269–270). The findings reported in Models 2 and 4 provide strong support for Hypothesis 3. The coefficient of the linear and squared divergence terms are highly significant and in the anticipated directions for both measures of performance. These findings indicate that, for the range of divergence exhibited by our sample, the relationship between divergence and performance is U-shaped, as expected. Moreover, the minimum point for the first divergence–performance curve, based on revenues per lawyer, is 7.41 and that for the second divergence–performance curve, based on gross revenues, is 7.59. Both of these points fall in the range of moderate divergence. In other words, PSFs using the high convergence or high divergence strategy outperformed those practicing strategic balance.

Hypothesis 4 predicted that the performance benefits of divergence would be greater than those of convergence. To test this hypothesis, we ran a sub-sample analysis in which we examined the effects of divergence on the performance measures for two sub-samples: firms with above-average divergence scores and firms with below-average divergence scores. Table 3 contains the results for the 1999–2000 averaged performance data. In the first sub-sample, divergence had a positive and significant effect on both performance measures. In the second sub-sample, divergence was negatively related to both performance measures, but its effect was not statistically significant. Put another way, these findings indicate that a strategy of high divergence is more effective than one of high convergence, as predicted by Hypothesis 4.

Finally, the findings reported in Tables 2 and 3 provide interesting insights into the importance of convergence or divergence relative to other predictors of new firm performance. Our indicators of product-market strategies – specialism and corporate-commercial emphasis – were not significant predictors of performance once the strategy of convergence/divergence was entered into the models. These results suggest that the strategic decision of whether and how far to conform to industry norms has more effect on performance than decisions on product-market strategies (i.e., service diversification and the pursuit of narrow market segments), which have been the focus of previous research.

Table 3. Comparing the Effects of Divergence versus Conformity: Results of OLS Subsample Analyses[a].

Variables	Divergence Subsample		Conformity Subsample	
	Rev/Law	Revenues	Rev/Law	Revenues
Divergence	0.185***	0.706***	−0.001	−0.506
Firm size	−0.038	0.269*	−0.003	0.471****
Firm age	−0.008	−0.076	0.003	0.057
Specialist firm	−0.040	−0.191	−0.097	0.350
Corporate-commercial firm	−0.078	−0.513	0.183	1.298*
Downtown location	0.003	0.067	−0.054	−0.473
Constant	−0.910	−4.774***	0.616	11.80***
F	2.313*	3.585***	1.062	13.03****
R^2	0.38	0.48	0.23	0.78

[a]Values in the table represent unstandardized coefficients.
*$p \leqslant 0.10$,
***$p \leqslant 0.01$,
****$p \leqslant 0.001$ (two-tailed tests).

DISCUSSION

This study was predicated on two observations, one long recognized by organizational sociologists and the other more recently articulated. The first is that new firms generally lack established external reputations (Stinchcombe, 1965). The second is that achieving a favourable external reputation is especially critical to the performance of PSFs (Greenwood et al., 2005). Combined, these observations prompt interest in how new PSFs position themselves in markets where reputation is a crucial asset and in whether some strategies are more successful than others.

Consistent with strategic balance theory, our findings indicate that most new PSFs follow the strategy of moderate divergence from a field's institutionalized practices – possibly as a result of modeling themselves upon successful incumbents. Ironically, this strategy is less successful than high conformity, as predicted by institutional theory, or high divergence, as predicted by strategic management theory. Our results further suggest that the strategy *least likely* to be pursued by new PSFs (high divergence) is the one that yields the highest performance benefits.

Theoretical Contribution

Our study offers contributions to understanding of PSFs and to strategic balance theory. In terms of the PSF literature, very little attention has been paid to the links between the strategies and performance of PSFs (Hitt et al., 2001; Malos & Campion, 2000). Studies that have examined these links focus on product-market positioning strategies, primarily service diversification or the pursuit of particularly lucrative market segments, such as corporate-commercial work in the legal profession (e.g., Hitt et al., 2001; Malos & Campion, 2000; Sherer & Lee, 2002). Our research extends this work by drawing attention to the critical role played by strategies of *institutional* positioning – i.e., by the extent to which a firm diverges from/or conforms to a field's institutionalized norm of how to organize and deliver services. Our findings suggest that institutional positioning may be more important than product-market positioning. We have argued that this effect is because institutional positioning strongly affects a PSF's external reputation. However, our dataset does not allow us to test this reasoning directly. Future research into this line is clearly warranted.

Greenwood et al. (2005) noted that few studies have empirically examined the relationship between organizational practices and the performance of PSFs. Moreover, those studies that have done so focus upon a narrow range of organizational design elements, such as leverage ratios (e.g., Greenwood et al., 2005; Hitt et al., 2001; Malos & Campion, 2000; Sherer & Lee, 2002) or forms of governance (e.g., Greenwood et al., 2005). Although choices regarding each of these individual organizational practices may be influential, our study highlights the performance implications of a firm's *configuration* of organizational practices. As such, this study is one of the first to demonstrate that a PSF's adherence to a particular configuration of practices significantly affects its subsequent performance.

Finally, most work on PSFs has focused upon large, established firms. Very little is known about the much greater number of smaller firms that constitute professional service fields. Similarly, scant attention has been paid to the *creation* of PSFs. Questions pertaining to the emergence of PSFs and their subsequent evolution remain largely unasked and unanswered. More specifically, we hope that our study provokes researchers to ask such questions as: What factors influence the degree to which a newly founded PSF conforms to or diverges from the field's institutionalized practices?

This chapter contributes to strategic balance theory by highlighting an important scope condition. Resolving the tension between conformity to institutional pressures and the high potential offered by differentiation is an important one. Our study indicates that the worst possible option for a new firm would be to seek a position of strategic balance. In this way, we provide an important qualification to strategic balance theory by highlighting its inapplicability to an important sector of organizations, namely, the start-up firm.

This chapter begs the question, of course, of whether successful strategies are sustainable. For example, do firms that initially exhibit high conformity and successfully establish a reputation as legitimate organizations, subsequently proceed to diverge from institutionalized practices? And do firms that initially diverge subsequently evolve towards a moderate level of divergence, or does their success trigger a shift in the field's commonly accepted practices? That is, do new firms cause changes to industry norms?

These are critical and theoretically intriguing questions that would, if explored in future research, provide greater insights not only to how PSFs compete, but to institutional theory and entrepreneurship theory because they would show the relative pull of institutional and competitive forces over time.

NOTES

1. Consistent with Deephouse (1999), we use the term differentiation in a more inclusive manner than Porter's (1980) generic strategy, to reflect the broader notion of being different from an industry's dominant configuration of strategies.

2. Main sources included Brockman (1990, 1991), Cooper et al. (1996), Daniels (1991), Galanter and Palay (1991), Hagan and Kay (1995), Kay (1997), Kay and Hagan (1993), and Stager (1990).

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APPENDIX. OPERATIONALIZING THE ORGANIZATIONAL PRACTICES OF LAW FIRM START-UPS

Structural Aspects. (1) *Form of governance* was measured by whether the firm was governed as a partnership, cost-sharing arrangement, or solo-owned practice. (2) *Personnel configuration* was measured by (a) the number of lawyers per partner and (b) the number of support staff per professional. (3) *Divisionalization criteria* was measured by whether lawyers were grouped into divisions based on their area of legal specialization or some other criterion (e.g., by client, geographic region).

Decision Systems. (4) *Centralization* was measured by (a) whether any non-partners attended partnership meeting or were responsible for key operating decisions (e.g., hiring or firing) and (b) whether any non-lawyers were responsible for supervising divisions. (5) *Decision-making interaction* was measured by whether major decisions tended to be made by only one partner, individual partners in some cases yet jointly in other cases, committees of partners, or by all.

Human Resource Practices. (6) *Apprenticeship recruitment model* was measured by (a) whether the firm preferred to hire associates straight out of their articling period or preferred those with prior associate experience and (b) whether the hiring of associates was based on legal ability, business ability, and/or personal compatibility. (7) *Up-or-out promotion system* was measured by (a) whether the firm preferred to promote partners from within or preferred to admit partners from outside, (b) whether partnership decisions were based on legal ability, business ability, and/or personal compatibility, (c) the existence of positions not on the partnership track, and (d) the existence of different tiers of associates and partners. (8) *Compensation system* was measured by the extent to which the compensation system for (a) partners and (b) associates was based on merit, seniority, or equality. (9) *Control mechanism severity* was measured by (a) the type of quantitative targets set by the firm, (b) the level at which the targets were set, (c) the frequency with which the targets were monitored, and (d) the firm's tolerance level. (10) *Work arrangement flexibility* was measured by the existence of alternative work arrangements available for (a) lawyers only and (b) all personnel. (11) *Privilege equality* was measured by (a) whether the firm implemented a profit-sharing system for non-partners and (b) whether certain perks were available for support staff.

Underlying Values. (12) Emphasis on commercialism was measured by the percentage of the participating founder's relevant interview excerpts emphasizing values such as efficiency, productivity, and competitiveness. (13) Emphasis on professionalism was measured by the percentage of the participating founder's relevant interview excerpts emphasizing values such as autonomy, collegiality, and democracy or the corresponding view of lawyers as professionals who possess esoteric knowledge and represent public interests to ensure that justice prevails. (14) Emphasis on lifestyle promotion was measured by the percentage of the participating founder's relevant interview excerpts values such as creating a more flexible and supportive work environment. (15) Emphasis on crusading was measured by the percentage of the participating founder's relevant interview excerpts values such as revolutionizing aspects of the legal profession or society in general. Relevant interview excerpts reflecting a firm's underlying values were content-analysed by two independent coders, with discrepancies resolved through discussion.

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ARE CONSULTANTS MOVING TOWARDS PROFESSIONALIZATION?

Claudia Groß and Alfred Kieser

ABSTRACT

Due to impressive market growth over several decades, consulting can today be regarded as an influential industry. In spite of this success, consulting is confronted with prejudices, which, to some extent, can be linked to difficulties in the evaluation of consulting services. By guaranteeing certain qualification levels, professionalism is generally considered useful for reducing this kind of uncertainty. In this chapter, using a German case as an example, we analyze professionalization efforts among consultants. We argue that these efforts will never be successful if the classical concept of professionalism is applied. However, seen from the perspective of the "new professionalism" that concentrates on work behaviour, consultants qualify as highly professional.

1. INTRODUCTION

From the early 1980s to the late 1990s, the consulting market in industrialized countries grew annually by more than 10 per cent (Anonymous, 2002;

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Wood, 2002). After a period of stagnation and decline between 2001 and 2003 (Byrne, Muller, & Zellner, 2002) the forecast for 2004 is three per cent growth (Kennedy Information, 2004). Consulting has established itself as an important force in the tertiary sector with total revenues of just under 125 billion US dollars (Kennedy Information, 2004). While in 1980, less than five companies with more than 1,000 consultants existed worldwide, their number had grown to more than 30 by 1997 (Canback, 1998). Companies and their managers, therefore, have come to rely more heavily upon the help of consultants. Individual companies' annual expenditures for consultants can reach enormous sums. For instance, until 1998, Bayer regularly spent more than $100 million per year on management consulting (Schellhardt, MacDonald, & Narisetti, 1998). Between 1989 and 1994, AT&T paid nearly half a billion dollars ($456,528,000) for management consulting (O'Shea & Madigan, 1997, p. 6).

Ernst and Kieser (2002) argue that the enormous growth of the consulting market is, to a large extent, due to the consultants' ability to create demand for their services by inducing in managers a perception of control loss and, simultaneously, offering means to restore their perception of control. The consultants' most powerful instruments for inducing a perception of control loss in managers consist of raising expectations and pressures among their company's constituents, interpreting the environment as complex, dynamic and hostile, and inventing new management fashions. By contracting with consultants who implement control systems and best practices, managers are left with the impression of having regained control. After the consultants are gone, however, managers regularly discover that managers of other companies have also increased their effectiveness with the help of consultants. Additionally, they are confronted with new management fashions. Thus, managers tend to develop a dependence on consulting.

A typical response to crisis is to ask experts for help. According to Power (2004), experts define and identify the problems which they then solve. Risk management through experts has become a fashion:

> [I]t is undoubtedly the case that professionals of varying kinds play an important role in reconstructing the conceptual architecture of risk management, making it readily portable and diffusible as a model of best practice. (Power, 2004, p. 40)

Companies that are held internally and externally accountable for how they "handle" uncertainty will contract consultants as a sign of good management. Even patients who principally distrust physicians cannot avoid consulting them. Managers depend on consultants because they do not see alternatives. Good managers prove themselves not only by solving problems but also by identifying the *most trustworthy* consultants.

Therefore, the impressive growth of the consulting market does not necessarily mean that managers are becoming more trusting of the consultants' services. The enormous sums that failing companies like Enron or SwissAir spend on consulting has been intensely discussed in the media (see, e.g., Byrne et al., 2002). Companies are increasingly filing lawsuits against consultancies (O'Shea & Madigan, 1997) and clients are more often insisting on contingency fees from consultants (Donkin, 1997). There is a common opinion that the consulting industry is interspersed with pretenders and charlatans (Argyris, 2000; Huczynski, 1993; Micklethwait & Wooldridge, 1996; Pinault, 2000). Critics point out that management fashions, often created by management consultancies with the intention of increasing demand, in many cases produce more hot steam than useful knowledge (Abrahamson, 1996; Crainer, 1997; Kieser, 1997).

Nevertheless, the relationship between consultants and their clients requires trust: the clients essentially buy expertise that they themselves do not possess. Additionally, consulting is indeterminate, requires interaction with the client and is unique in the sense that one consulting project is never exactly like another one (Clark, 1993; Ernst & Kieser, 2003; Fincham, 1999). These characteristics severely aggravate the problem of the evaluation of consulting projects (Ernst & Kieser, 2003). Because of these uncertainties, potential clients would like some assurance with regard to the qualification of consultants.

Situations as noted above could be considered ideal grounds for professionalizing the consulting industry. Professionalization, to some extent, protects clients against experts who are unqualified and who therefore expose their clients to greater risks. Alternatively, the experts themselves are protected against colleagues who could ruin the reputation of the entire industry (see Section 2). Indeed, a number of approaches for professionalization can be observed in Germany (and probably other countries). Among these is the establishment of specialized university programmes or attempts to make the right to use the title "consultant" dependent on the attainment of certain qualifications. Nevertheless, consulting is not yet a profession, at least not in a classical sense. In all likelihood, it will never become one. Conditions that all expert occupations are exposed to, prevent professionalization to some extent (see Section 5). We arrive at this conclusion by analyzing the interdependent characteristics that turn an occupation into a profession (Section 3) and by applying theories of professionalization to the consulting industry (Section 4). Notwithstanding the lack of professionalization, consultancies are in high demand. Therefore, we have to ask how they succeed in winning the trust of their clients without enjoying the privileges of professionalism (Section 6). Our analysis explores the extent to which the classical concept of professionalism can be applied. Using the concept of the "new professional" we consider why employees of international consultancies appear professional just like physicians or lawyers even though, according to the classical concept, they are not professionalized (Section 7).

2. PROFESSIONALIZATION AS A SOLUTION TO QUALITY PROBLEMS IN OCCUPATIONS THAT REQUIRE EXPERT KNOWLEDGE

Archetypical professions like law or medicine originated far back in history. Nevertheless, professionalization can still be regarded as an appropriate solution for organizing the work of experts. According to Freidson (1994, 2001), professions, markets and bureaucracy can be regarded as alternative modes for coping with quality problems in expert work. Among these, he considers professionalization the most effective. Without disregarding the problems of professions, Freidson (1994, p. 9) states: "so we may hardly consider professionalism to be the optimal solution to the problem of organizing work; it is merely the better of the three alternatives I discuss".

This conclusion is based on the assumption that expert knowledge is an undisputable ingredient of any contemporary society. Though we may question whether expert knowledge is really needed to the present extent and whether experts have too much influence in society, it is obvious that modern societies could not exist without them. But how do those who depend on experts to manage their risks determine who is trustworthy and who is not? What seems to be needed is an institutionalized way of attesting expertise.

> In any large and complex community there must be some conventional way by which people can identify an expert without having to rely on word-of-mouth testimonials, on prior personal experience, or on time- and resource-consuming, risky, trial employment. (Freidson, 1994, p. 159)

Such systems of guaranteeing quality seem particularly necessary for "relatively esoteric experts who cannot be evaluated by everyday criteria or by recurrent contact and use" (Freidson, 1994, p. 159). By requiring specified academic education, professionalization reduces uncertainty for clients by assuring that the professionals have acquired a minimum qualification standard. For its members, a profession provides certain protection from market risks, which is a strong incentive for potential applicants to shoulder the long, hard educational process (Freidson, 1994, 2001). More succinctly, professionalization offers benefits for both members and clients. The existence of a profession is also seen as a prerequisite for building and maintaining a specific ethos, which helps to foster trust among potential clients and the public (see also Sokolowski, 1991).

3. THEORIES OF PROFESSIONALIZATION

Professions assume an important role in modern societies. They require extensive academic training, they are protected by the state and they are committed to a self-designed ethical code. These characteristics bestow trust onto members. However, theories of professionalization offer a much broader range of professional characteristics and functions. Due to spatial constraints we can only concentrate on the two most important approaches to explain professions: functionalist and power approaches (for other approaches see Oevermann, 1997; Oevermann, Allert, Konau, & Krambeck, 1987). Many authors dealing with professions do not rigorously define "profession" or "professional". This may be due to the fact that most people, on the basis of everyday language, have an idea about what these terms mean. In the English language, "profession" and "occupation" are used almost synonymously and in sociology several concepts of profession are in use. In this chapter, we will apply classical concepts for an analysis of professionalization in the consulting industry. Towards the end, we will analyze the value of these classical concepts in the context of professionalization in the consulting industry and will apply a new concept: the "new" professional.

3.1. Functionalist Approaches

The functionalist approach began with attempts to identify criteria that distinguish professions from occupations. Carr-Saunders and Wilson (1964) were the first to present an elaborate concept for professions. They describe different occupations (physicians, nurses, opticians, journalists, brokers) and identify activities that convey a specific quality to an occupation. They use the ancient professions of physicians and lawyers as models. Carr-Saunders and Wilson (1964) fluctuate between two positions: on the one hand, they assume – in accordance with later functionalist authors – that professions exhibit a specific "complex set of characteristics". On the other, they are convinced (and this notion seems to have been lost in later functional studies) that it would be difficult, even impossible, to draw a clear dividing line between professions and non-professions. "[T]he drawing of a line, which though arbitrary is clear, presents great difficulties if it is not impossible" (Carr-Saunders & Wilson, 1964, p. 284; see also Freidson, 1994; Greenwood, 1957; Macdonald, 1995).

According to Goode (1972), professions are characterized by eight basic features: its members share a *common identity*, and they define themselves very strongly by their vocation. A physician remains a physician even when he is travelling privately. Being a professional usually is *a life-long calling*. The members of a profession *share common ideals* and feel obliged to follow a specific ethical code that is created and controlled by a powerful *association*. They also possess a *shared self-conception* and exhibit a distinctive *style of behaviour towards non-members*. They demonstrate their exclusivity by the use of *a specific language*, e.g., terms that make it *easy to recognize members* of one's own vocation and partly exclude non-members from communication. In addition, their distinctive behavioural style makes it difficult for non-members to appear as being on par with them. Professional circles are closed communities, represented by powerful associations that exercise *self-control* and select the aspirants who are allowed to enter the inner circle. Endorsing these features, comparable to the medieval guilds; professions, assisted by their strong associations, produce and reproduce their own identity (Goode, 1972).

It quickly becomes obvious that consultants do not live up to these criteria. Introducing semi-professionals as a new category, as has been suggested by Etzioni (1969), is not helpful since it is difficult to clarify what "half a professional" means. Thus, functionalistic approaches provide useful criteria for identifying professions. However, since they stick to a static analysis, we will base the following discussion predominantly on social closure theories.

3.2. Power Approaches and Theories of Social Closure

Power approaches represent the second major camp of professionalization theories. They are distinguishable as a specific group predominantly because of their contrast with functionalist approaches as well as a high degree of internal congruence (Burrage & Torstendahl, 1990; Torstendahl & Burrage, 1990). In the 1970s, professions and professionals were viewed with increasing criticism in the US. They were characterized as members of the society who were all too willing to pursue their interests at the expense of others. However, this critique of expert knowledge as being elitist and uncontrollable led to a fresh view of professions. Freidson's book *Professional Dominance: The Social Structure of Medical Care* (1970) marks the birth of the power approach. Larson's (1977) *The Rise of Professionalism* extended Freidson's analysis and developed new ideas along these lines. One of her most central concepts, the concept of a ''professional project'', contains a radical new view of professions. In contrast to the functionalists, she argues that professions and occupations on the way to a profession are no longer seen as an unavoidable consequence of the societal differentiation process, but as groups which try to achieve and defend an exclusive expert status in society (Abbott, 1988). To these ends, professions manipulate markets, exercise pressure on politicians and use levers of capitalism for their advantage (Witz, 1992; see also Leicht & Fennell, 2001).

3.2.1. Social Closure Approach

Social closure theories emphasize the active engagement of social groups in efforts to improve status. Possession of specific expert knowledge and organization of the educational process that controls access to the profession are powerful means applied in these efforts. While the US-centred power approaches concentrate on the power of vocations, the UK-centred social closure theories have chosen a wider theoretical basis – social closure. Social groups, the basic idea of these concepts, try to gain and defend social privileges (Giddens, 1995). Social closure is not restricted to specific occupations. A society is seen as dynamic and characterized by tensions that result from permanent struggles between groups trying to improve and defend their status. In a way, Max Weber (1968) was the first social closure theorist:

> Usually one group of competitors takes some externally identifiable characteristic of another group of (actual or potential) competitors – race, language, religion, local or social origin, descent, residence, etc. – as a pretext for attempting their exclusion. (Weber, 1968, p. 342)

By emphasizing the active role of professions, social closure theories differ radically from functionalist approaches; though the criteria that, according to functionalists, demarcate professions from non-professions remain in use (Collins, 1990a).

3.2.2. Aspects of Social Closure

When comparing different definitions of professions offered by different social closure theories, a wide range of aspects emerge: Freidson (1986) emphasizes the autonomy of professionals, Abbott (1988) the closure through knowledge and Parkin (1979) the intention to raise market prices.

By distinguishing three basic questions of social closure, Macdonald (1995) provides plausible access to these theories:

(1) Closure efforts are successful if the state can be convinced to convey an exclusive status which can be established in the form of vocational laws, regulations of the educational process, certificates or subsidies – simply as a result of ''a special relation with the state'' (Macdonald, 1995, p. 34).
(2) The establishment of borders that exclude competitors from providing similar services is a process that Abbott (1988, p. 51) called ''jurisdiction''. Establishing a professional knowledge base that is scientific, specified and standardized constitutes the ideal way to lock out competitors and to reach an exclusive status (Macdonald, 1995).
(3) In order to achieve legitimacy for an exclusive professional status, a profession has to deliver an outstanding contribution to society, like healthcare or justice (Macdonald, 1995).

3.2.3. Directions of Social Closure

Along these lines, Macdonald (1995) offers categories that describe ''professional projects''. These categories largely concur with those of most functionalist theories. Witz (1992) takes a more dynamic approach as she characterizes vocations according to the directions that are prevalent in their closure process. There are two basic directions: closure occurs between different vocations, e.g., between physicians and nurses; and closure occurs within an occupation, e.g., the differentiation of tasks between senior physicians and junior physicians in hospitals. Witz borrows this distinction from Freidson (1970) as physicians ''enjoy not only an occupational monopoly but also a position of dominance vis-à-vis related and adjacent occupations in the medical division of labour'' (Witz, 1992, p. 44). She combines these aspects with Parkin's (1979) arguments that groups with high status try to maintain their position and ''weaker'' groups defend themselves against degradation. The combination of internal/external processes, activities of upward mobility and defence against attacks from below lead to four different strategies of closure processes:

(1) *Exclusionary strategy*. It refers to internal fighting within an occupation where the group with higher status tries to erect borders against the group with lower status with the goal of ''creating a monopoly over skills and knowledge'' (Witz, 1992, p. 46). In Germany, medical specialists have a higher reputation than general practitioners. Referring to consultants: the daily rates of McKinsey consultants are considerably above those of the ''everyday consultant'', suggesting different qualities, values and reputation levels.

(2) *Inclusionary strategy*. Members of lower status groups try to gain access to additional tasks, thereby extending their professional basis and improving their status. The border that protects members of higher status professionals is shifted to the advantage of the lower group. Referring to consulting: small- and medium-sized consultancies try, with the help of associations, to build up a reputation as a group in order to increase their competitiveness with regard to the bigger and more famous consultancies (Witz, 1992).
(3) *Demarcationary strategy*. This strategy includes attempts to shift borders in favour of one's occupation at the cost of other occupations. The more powerful occupations are assumed to be, the better the chances of redefining their borders and restricting access for others (Witz, 1992). In Germany, lawyers have established functions and responsibilities that are regulated by the state and cannot be adopted by consultants. Consulting has no such restrictions, allowing lawyers to move into the field.
(4) *Dual closure*.

> A dual closure strategy is so called because it involves the simultaneous exercise of power in an upwards direction – its usurpationary dimension – and in a downwards direction – its exclusionary dimension. (Witz, 1992, p. 49)

In this sense, the association of consultants tries to reach a deregulation of the right to provide legal advice, so that consultants would be allowed to offer broader services to companies without having to rely on lawyers when giving legal advice (BDU, 2002b). Simultaneously, through a legally protected use of the title "consultant", the BDU (Bund Deutscher Unternehmensberater – Association of German Management Consultants) intends to shield its members from common or "garden" variety consultants (www.bdu.de).

3.2.4. Our Understanding of Professions

In the next section, we apply Witz' scheme to analyze efforts and processes of social closure in the German consulting industry (for an extended discussion see Groß, 2003). First, we have to identify the different interest groups in the field of consultancy. The *vocational associations* are generally considered promoters of professionalization and of an improvement of its members' social position. However, not all consultancies pursue the same interests. Large consultancies' interests are different from those of small consultancies, and this can influence professionalization activities. Efforts to establish a profession always ensures a *struggle against neighbouring vocations. From a consultant's perspective, the neighbouring professions include* *lawyers, tax advisers and qualified auditors. State agencies* are another important group of actors who have the means to support or restrict professionalization processes. Furthermore, we will consider the different fields through which social closure is affected, including *the issuing of regulations and legislature, the building up of reputation and identity, the development of an ethical code of an occupation and of its knowledge base*.

Our understanding of professions is derived from social closure theories and rests on the assumption that occupational groups actively seek to improve their social status. Concepts like reputation or knowledge correspond to the criteria in functional approaches. Although the proponents of the more critical and dynamic approaches energetically dissociate themselves from the static functionalist concepts, they continue to apply the same criteria. Nevertheless, viewing occupational groups as actors who try to improve their social position has a decisive advantage: with this concept it is possible to reconstruct professionalization processes that have not been completed yet and probably never will be, as it is the case with consulting (see Section 5).

4. THE CONSULTANTS' STRUGGLE FOR PROFESSIONALIZATION

4.1. The Vocational Association

The main aim of occupational associations is to improve working conditions for its members (see also Greenwood, Suddaby, & Hinings, 2002). It is typical that associations present the regulations and restrictions they fight for as objectively necessary imperatives (BDU, 1992). However, in effect they are, as social closure theories suggest, elements of a strategy with which they intend to improve the status of members (Schulze-Krüdener, 1996).

The most important association for consultants in Germany is the BDU. It is an association for consultancies rather than for individual consultants, as only organizations can become members. Around 550 consultancies employing as many as 16,000 consultants are members (www.bdu.de). Of the approximately 14,440 consultancies that existed in Germany in 2002 only 0.4 per cent were members of this association (BDU, 2003a, p. 8). However, member consultancies employed 23.3 per cent of German consultants and represented a market share of 26 per cent. According to these figures, membership in the association does not appear to be especially popular among consultancies. It seems that non-members do not have to be afraid of the disadvantages of non-membership (Gönczöl & Tiessen, 1991).

This means that this consultants' association is not able to provide a common occupational identity. The low representation is also a handicap for the association's political influence. A stronger association representing a higher proportion of consultants would be a more effective actor for the institutionalization of a reliable, self-controlling quality standard, which is one of the main objectives of the BDU (www.bdu.de). In spite of its low membership quota, the BDU sees itself as an institution that is able to set quality standards (BDU, 2003b).

State regulations are a precondition for professionalization. Thus, in the 1990s, the BDU tried to achieve legislation regarding the right to use the title "consultant". Their intention was to link the right to use the title "consultant" to the acquisition of a standardized qualification. It would also have increased the political influence of the BDU. The federal government rejected BDU's initiative in 1997. Nevertheless, the BDU still pursues the general objective of regulating the use of the title "consultant" (www.bdu.de). At the same time, the association is trying to establish quality standards for individual consultants. The main instrument here is awarding the international title CMC/BDU (Certified Management Consultant/BDU) that, in Germany, is only available through the BDU (www.bdu.de). "As we haven't been successful with a professional law at the political level, we are now creating our own professional directives that are bound to a protected brand name" (BDU, 1998a, p. 4).[1] This move is similar to the market strategies of big consultancies like McKinsey who develop their own quality brands instead of relying on state regulations.

4.2. Large vs. Small Consultancies

Consulting is a highly diversified field. The market in which one-person-consultancies operate is significantly different from that of big international consultancies which are able to establish their own quality standards (interview with BDU representatives).[2]

Interestingly, in the first half of the 20th century, early leaders of the consulting industry in the US also decided that it was necessary to find an association. In 1929, the Association of Consulting Management Engineers (ACME) was established (presently Association of Management Consulting Firms). "ACME was originally founded as a means of distinguishing its member firms, including Booz Allen and Hamilton Inc. and McKinsey and Company Inc., from the growing number of incompetent and unscrupulous firms that were giving scientific management a bad name" (Mellet, 1988, p. 66).

The ways that the big consultancies maintain their brands have changed. According to Wooldridge, for a long time direct marketing was considered a contradiction to the "carefully cultivated mystique" (Wooldridge, 1997, p. 16): "Robert Duboff of Mercer Management says that 'ten years ago, if I'd suggested we advertise, I'd have been shot; five years ago, I'd have been whipped.' Now Mercer has started placing discreet advertisements in *Forbes* magazine" (Wooldridge, 1997, p. 16).

Additional ways of branding consist of creating management concepts that remain tightly linked to their creators like the BCG portfolio or the 7 S of McKinsey. According to Jürgen Kluge, the present head of McKinsey in Germany, the company invests around 10 per cent of its capacity in creating new and revising existing management concepts (Steppan, 1998).

The fact that small- and medium-sized organizations are much more likely to rely on occupational associations than the large ones is quite typical for professionalization processes (Macdonald, 1995). The four largest German consultancies, McKinsey, Roland Berger, BCG and A.T. Kearney are not members of the BDU, but No. 5 (Deloitte Consulting), No. 7 (Detecon International) and No. 8 (Dorege & Comp.) are. The four largest consultancies have a higher turnover than the next 21 consultancies in the list (Lünendonk, 2004). According to the BDU, the membership structure more or less reflects the market structure. Some of the large consultancies would be welcomed and would make the association more "powerful" (interview with BDU representatives). Large international consultancies, however, are not concerned about the image of the occupation as such, and they are not at all interested in the establishment of a state-regulated title that would make it easier for their employed consultants to become self-employed. Many employees of international consultancies see their job as a platform for a career as a self-employed consultant or a partner in a smaller consultancy. A title would signal some degree of qualification and would thus facilitate the finding of split-offs from large consultancies. A legally protected title would therefore have advantages for small- and medium-sized consultancies; but, according to the BDU, for large international companies, it would "be a market barrier" since their employees would then have to acquire this title as well (interview with BDU representatives). Consequently, the FEACO (European Association of Consultants) opposes any regulation, as a representative of the BDU explained: "Yes, the FEACO is obviously dominated by very large consultancies … they are totally against the regulation" (interview with BDU representatives).

This mix of different interests leaves both sides dissatisfied (Consulting Intern, 1997; Niedereichholz, 1998). The CMC label seems to be a somewhat paradoxical outcome of conflicting lobbying. CMC is thought to signal qualification, but consultants who are employed by a company that is a member of BDU can only carry it and it becomes invalid as soon as its bearer leaves that organization.

Interestingly, in the US, an early move towards professionalization was also directed at the consultancies and not at individual consultants – a decision which McKenna (2001, p. 678) holds responsible for the failed attempts to turn consulting into a profession:

> In contrast to lawyers and accountants, the leaders of the management consulting profession believed that their firms were more important than their individual reputations … The most prestigious firms, like McKinsey and Booz Allen, chose not to demand certification of their employees and actively campaigned to stop individual states from requiring licensing.

It is plausible that individuals would be able to develop a professional identity if they could attain the status of a professional. If their company is granted this status they cannot compare themselves with professionals like lawyers or physicians. In contrast to lawyers or physicians, with consulting, the firm was more important than the individual right from the beginning. Consultancies had an interest in preventing their employees from seeking independence from them.

4.3. Consultants vs. Tax Advisers, Lawyers and Qualified Auditors

The use of the job title ''consultant'' is not regulated at all in Germany. Anybody may use it. This is an ideal situation for lawyers, qualified auditors and tax advisers who enjoy state-regulated professionalization and who are interested in expanding into other fields. In the struggle with consultants they occupy the more advantageous position.

> The more powerful group is that which is able to maintain a monopolistic structure for its own members, while controlling the labour services of other occupations through keeping them unmonopolized and subject to market pressures. (Collins, 1990b, p. 34; see also Abbott, 1988)

For these self-appointed consultants from different occupational groups it is not only important to improve their reputation, but also to establish an image as the *real* (and only) experts for solutions to all kinds of problems that companies are confronted with. This image is difficult to achieve since a well-defined field for consulting does not yet exist. In this situation it becomes critical for the consultants to demarcate their specific expertise with respect to neighbouring occupations. This problem has been identified by the BDU as the following statement shows: "This concerns the power structures of an occupation and these are always directed against related occupations such as lawyers, tax advisors and qualified auditors" (BDU, 1992, p. 186). As these neighbouring occupations are older they have a longer tradition of political lobbying and, therefore, a big advantage in promoting their interests:

> A while ago I said with a very sharp tongue that every one [of the other professions] has a lobbyist in parliament, but we haven't. And we need one, but his place is occupied [by representatives of lawyers, tax advisers and auditors] and that's the problem. (BDU, 1992, p. 206)

These considerations led to the question whether highly regulated professions still fit into contemporary society or if they should be deregulated since the state no longer provides adequate protection (interview with BDU representatives).

4.4. The Federal State, the States and the RKW

Further "actors" in the consultants' professionalization process are the federal government and state (Länder) governments. Federal institutions can influence working conditions by issuing regulations and laws. In addition, they can subsidize a vocation or support it ideologically. In Germany, the federal government grants subsidies to specific groups of companies for consulting services, for example to newly founded or small- and medium-sized companies. This can be seen as an indirect way of supporting the institutionalization of the consulting industry. In 2002, for example, the German state provided 13.5 billion Euros for the consulting services of such organizations (www.bafa.de). By the beginning of the 1990s, the support had increased to 33.3 billion Euros due to the reunification of Germany (BMWi, without year). Subsidies of this kind are also contributed by the German states, for example through the RKW (Rationalisierungs- und Innovationszentrum der Deutschen Wirtschaft – Rationalization and Innovation Centre of the German Economy). This organization acts as an agent between consultants and companies and it provides funds from the states to (partly) pay consultants' fees.[3] In 2003 it maintained a nation-wide total of 118 support programmes on 40 different themes. In its official leaflet, this organization states that the reason for the employment of consultancies is that these recognize – "as physicians do" possible problems of companies (RKW BW, without year).

That state money provides legitimacy becomes obvious when we look, for example, at the history of the professionalization of physicians, for whom the introduction of the official health system at the end of the 19th century was crucial. In Germany the system of health insurance could provide "health care for a far larger proportion of the population than in Britain or the US" (Macdonald, 1995, p. 93).

Though the amount of state money that goes into consulting is not directly comparable to the money that the health system provides for physicians, subsidies from state institutions in general contribute to spreading the idea of consulting as a self-evident aid for any company. The RKW subscribes to the idea that their task is to popularize consulting with small- and medium-sized companies that are known for shying away from consulting (www.rkw.de; Olschner, 1998, p. 31). This kind of support has a long tradition in Germany where the importance of state support via consulting has been emphasized since the 1970s:

> [I]t has to be accredited to the public authorities that they have attached high priority to consulting, in particular within the framework of supporting small and medium-sized companies in state and federal programs. (Ibielski, without year: Lfg. VIII/77, 4000, p. 1)

The state has to publicly defend subsidies and this defence contributes to the professional legitimacy of consulting:

> [S]ignificant impulses were provided which led to an increase in performance and competitiveness … For small and medium-sized companies, well timed, qualified consulting increasingly turned out to be an important contribution to competitiveness and a guarantee for success. (BAWI, 1999; for current information: www.bafa.de)

4.5. Legal Regulations

An occupational law that regulates access to a specific field, as well as the way in which tasks have to be performed, is a central characteristic of any profession. It officially legitimizes and stabilizes a profession's privileged position by protecting it against the forces of the market (Abbott, 1988). In addition, it navigates possible clients through the various professional services, thereby reducing uncertainty for suppliers and customers alike. However, state regulation should not be seen as a panacea. It does not do away with the uncertainty that is inherent in the consulting process. A regulation simply provides orientation by determining *who*, according to *which* qualification, is an expert for *what* kind of task. Austria has such a regulation. Whoever wants to become a licensed consultant (Unternehmensberater or Betriebsberater) has to pass an exam that is administered by the state or has to provide proof of either adequate work experience as a consultant or an adequate university degree (Wirtschaftskammer Österreich, 2004; see also

1991). In this way, the number of service providers is reduced and the status of those remaining is increased. The risk of being wronged by badly qualified consultants is decreased.

In 1997, the BDU initiated legislation on consulting. The proposed law attempted to define which persons would be allowed to use the title "consultant" and mandated the publication of a public index of all licensed consultants (BDU, 1998b). Other titles, even similarly sounding ones like "management consultant", were not to be affected by this law. Therefore, the BDU spoke of a "lean" regulation. It mentioned several rationales for such a regulation, among others the need for the protection of clients and "consolidation and preservation of our occupational field as management consultants" especially as a means of demarcating consultants from lawyers, tax advisers and qualified auditors (BDU, 1992, p. 171).

The Minister for Economic Affairs turned down this initiative. He wrote:

> [W]e arrived at the conclusion that both system-political and constitutional considerations speak against regulations for your vocation. The fundamental right of vocational and economic freedom laid down in Article 12, Paragraph 1, of the Constitutional Law fixes the levelling board for a limitation of a vocational entry very high. (BDU, 1998b, p. 2)

As an additional argument, it was suggested that a lean state required less regulation instead of more. Theobald adds a further argument: assuming that laws have to be applicable to all European countries, it would be hard for Germany to create such a new law. The European Court of Justice, "declared on request by German ministries that a legal regulation is impossible because this, on a European level, would lead to 30,000–40,000 complaints from non-professionalized consultants" (Theobald, 2001, p. 18).

The BDU suspects that the lobbying of powerful professions, in particular accountants, qualified auditors and lawyers has also contributed to the failure:

> The refusal of the minister is finally the result of an active exertion of influence by pressure groups that would feel negatively affected by a law for management consultants. (BDU, 1998b, p. 1)

Public institutions like the RKW also would have felt disadvantaged by such a state regulation. And big consultancies were afraid that employed consultants would have a much higher chance of becoming self-employed consultants (BDU, 1998a).

Pursuit of a "lean" law that would protect only the title "consultant" while neglecting other titles with similar meanings might suggest that the initiative of the BDU had nothing to do with gaining a monopolistic position. Again, a look at the history of the medical profession reveals that a similar procedure in the 19th century successfully brought about professionalization. Physicians realized that a law that would guarantee monopoly would not pass parliament. Therefore, only a partial regulation was suggested that looked similar to the law suggested for consultants:

> The outcome was a curious mixture of self-control and state control ... and the existence of a register for all qualified doctors, but no prohibition of practice by the unqualified. (Macdonald, 1995, p. 106)

Therefore, adoption of a BDU-sponsored "lean" law would have been a major step towards professionalization. Since 1997, the BDU has not repeated the attempt to introduce a law for consultants, instead they pursued a strategy of making the association responsible for the assurance of quality (Theobald, 2001, p. 18).

Nevertheless, to "implement quality standards by means of professional regulations and principles" is still an official goal of the BDU (www.bdu.de). One has to bear in mind, however, that physicians in England waited 50 years for regulation:

> The transition from this state of *laissez-faire* to the Medical Registration Act of 1858 took over fifty years to achieve. (Macdonald, 1995, p. 106)

Referring to accounting, Macdonald lists three typical steps for any vocation before becoming a profession: "internal dissent, external challenge and government indifference" (Macdonald, 1995, p. 109).

4.6. Reputation, Identity and Code of Ethics

Professions enjoy a high societal reputation. Status is a precondition as well as a consequence of professionalization.

> What makes such a group a 'profession' is the addition of one more ingredient ... It is a 'calling', not merely a job. It is carried out from high motives of altruism, of glory, or of moral, spiritual or aesthetic commitment, rather than for mundane gain. (Collins, 1990b, p. 35f)

Therefore, one of the main tasks of occupational associations is to convince the public that its members are doing work that is highly important for society. Thus, the BDU is continuously emphasizing the value of consulting, though not always as pathetically as in the following statement:

> Consultants are often alone, when they try to prevent psychic violence in organizations, to build cultures of dispute that do not hurt, to separate images of competition from images of enemies and to convince managers to apply principles of understanding instead of principles of power. (BDU, 1997a, p. 11)

Positive self-descriptions of this sort correspond to the political strategy of associations to improve their vocational reputation independently of market trends (Schulze-Krüdener, 1996).

The idea that consulting is a calling and not just a job is not widespread. It conflicts with the fact that the occupation of a consultant is often only a transition to a career in management. (With regard to accountants in the UK, see Anderson-Gough, Grey, & Robson, 2002). Nevertheless, the BDU published an article in its journal titled "Consulting – From job to calling", referring to the classic professional ideal (BDU, 1997b, p. 3). Remarkably, is pointed out in this article that the main aim of a profession is not to make money but to contribute to the welfare of society. Thus, the professional self-conception of the consultants' association implies a business ethos, which is supposed to contribute to making this occupation trustworthy to outsiders. As early as 1972, the president of the American Institute of Management Consultants emphasized: "To become more professional we should not only improve our standards but be seen to be doing so" (Tisdall, 1982, p. 95).

A trust-arousing professional code of ethics implies that the profession controls itself; that neither laypersons, nor the clients, nor the state are supposed to monitor its proper implementation (Schulze-Krüdener, 1996, p. 49). Such self-control is also demanded by the BDU. The association maintains an honorary council that rules on misconduct (www.bdu.de). Exactly how this control is exercised is not publicly known (Hoare, 2000) – quite a typical feature of professions.

As already mentioned, German consultants lack a unifying identity. (See Anderson-Gough et al., 2002 on how professional behaviour develops in the socialization process and how occupational members deliberately enact it). A generally accepted profile of the "typical consultant" does not exist. Thus, such clients have difficulty evaluating the self-representations of consultants. Freidson (1994, p. 203) emphasizes the value of a shared self-concept that can lead to solidarity for a profession:

> A critical but often ignored method of sustaining the solidarity of the profession lies in the norms governing relations among its members and lay people. They may be written as rules or practised as unwritten custom.

If stereotypes of consultants exist, they tend to be derived from the behavior of members of international consultancies like McKinsey or BCG. Consultants owe loyalty to individual *organizations* and not to *all members of the vocation.* An increase in solidarity and development of a common style is unlikely. Based on empirical analyses, Fincham (2000) argues that consultants do not want to distance themselves as experts from their clients but rather seek closeness and partnership. This attitude is paradoxical since, similar to a psychotherapist, a consultant who becomes a member of the client organization ceases to act as a consultant (Kieser, 2002).

> Professionalism was seen as a strategy that distanced them [the consultants] from clients; it ill-matched a work orientation dominated by a desire to get close to clients. (Fincham, 2000, p. 8)

High membership rates in occupational associations may promote the development of a shared identity. Potential clients would be able to develop a clear impression of the kind of service to be expected. Considering the highly dispersed interests within the consulting industry, it is unlikely that membership rate will ever become substantial. Consultants' associations do not have the authority to make membership obligatory, as is the case in legal or auditing professions. Membership in the BDU is restricted to organizations. This adds to the difficulties experienced by individual consultants who seek to develop a common identity. The lack of a common identity results in a twofold effect: identification with the occupation is relatively weak and, from the outside, it is hard to distinguish a consultant from a lawyer, accountant or qualified auditor giving advice to businesses.

4.7. Knowledge Base and Education

Members of professions typically have to go through a common vocational training which provides them with a common knowledge base (Abbott, 1988; Macdonald, 1995). Consultants do not have a common vocational training and therefore they do not share a common knowledge base. This provides a further handicap for the development of a professional identity.

While German consultants typically complete a course of academic training, their areas of study can vary dramatically. Education that is considered appropriate for entering the consulting business is not different from training for management positions (Gross & Brügger, 1992). This does not mean that consultants do not need specific knowledge. Rather, it indicates that associations have not yet succeeded in establishing a particular academic program for consulting that is generally seen as providing an appropriate qualification. Nevertheless, they keep trying. In 2002, the Swiss association ASCO (Association of Management Consultants Switzerland), the "Wirtschaftskammer Österreich" (Austrian Chamber of Economy) and the BDU agreed on a common "Uniform Body of Knowledge" as a basis for acquiring the CMC certificate (BDU, 2002a).

An academic discipline that is exclusively dedicated to a profession performs a double function for the identity of this profession. On one hand, it provides knowledge *for* doing the respective tasks properly. On the other hand, it affords knowledge of appropriate behavior, transmitting a "scientific knowledge base … *about* the profession" (Kyrö, 1995, p. 193). To date, knowledge on appropriate behavior is not provided in a standardized educational program but acquired on the job. Moreover, a standardized educational program would contribute to the development of a common identity by establishing a clear difference from other professions: "But without the academic organizational structure, they find it much more difficult to acquire the same 'professional' status" (Collins, 1990a).

Such an academic structure is missing for consultants, though first steps towards establishing academic programs for the training of consultants are observable. Several German universities and polytechnics have established programs for the field of consulting. State institutions offer programs and the RKW also organizes courses for consultants and those who are starting out in this occupation. The first complete academic programme in consulting was organized at the University of Applied Sciences in Ludwigshafen in 1998. An "International Management Consultant, MBA" (www.mba-imc.de/) is offered as a part-time program and is seen as an important contribution to professionalization by the BDU. According to the founder of the program: "The associations of consultants definitely see further demand; they consider us as being the pilot project and they wait patiently for the 'roll out'" (e-mail interview with Professor Ch. Niedereichholz, 2002). In their attempts to legally protect the title of a consultant, the BDU suggested that the alumni of the Ludwigshafen programme should more or less directly acquire the title "consultant" – in contrast to persons with other qualifications (Redley, 1997).

Beyond an academic degree, consulting knowledge is typically acquired "on the job" (Weyrather, 1998). Thus, larger consultancies have established their own training programs. IBM consultants, for example, are obliged to attend courses which predominantly discuss case studies. (Metzler, 2001, p. 52). Due to tough selection, members of the big consultancies are generally considered to be highly qualified; or as Anderson-Gough et al. (2002, p. 52) state for accounting recruits in the UK, joining a Big Five firm is "a passport to wider and indeed, diverse, career goals, which might often be outside" of accounting. Since the big consultancies believe in diversity with regard to the academic training of their employed consultants and are very successful in terms of reputation and growth rates, it seems unlikely that academic training for consultants will ever be standardized. It is important to note that the value of standardized qualification programs does not lie primarily in the acquisition of a superior knowledge base, but in the ability to constitute a separate, uncontested field of knowledge (Fournier, 2000) that helps to create and maintain a common identity. A regulated title as the outcome of a standardized qualification program would make consultants clearly distinguishable from lawyers, accountants and qualified auditors who also offer advice to businesses.

5. WHY CONSULTING IS NOT A PROFESSION AND WILL NEVER BECOME ONE

We have pointed out that some interest groups in Germany propagate professionalization of the consulting industry. We also attempted to show that unanimous need or preference for a state-regulated quality standard cannot be identified, even within the consulting industry. In the following section we discuss the obstacles facing the professionalization of consulting in Germany.

The first impediment is the immense variety in consulting specializations. A perceived common ground among members' activities and a common identity are important criteria for any profession. However, consultants are hired for many different tasks: to develop strategies, to design MIS, to improve company images or to improve the self-confidence of managers, to name just a few. A more standardized approach to the training of consultants would presuppose more standardized tasks. It would also require *more overlap in the interests of small and big consultancies*. (Similar problems are discussed in Anderson-Gough et al. (2002) with regard to accountants in the UK.) Because they are so highly specialized, consultancies do not feel well represented by the BDU. Furthermore, international umbrella associations are not helpful in defining common political goals as they attempt to simultaneously represent big and small consultancies, which "makes lobbying and public relations work increasingly challenging" (Hoare, 2000, p. 11).

As professionalization is a political process (a view that is in accordance with social closure theories), the lack of harmony among consultancies is a major obstacle to organizing a powerful lobby. As Fincham (2000) points out, not all consultants aspire to reach professional status. One has to bear in mind that consultant lobbying implies, to a large extent, *a power struggle against other, already established professions* like lawyers, tax advisers and qualified auditors who are represented by associations that are able to successfully influence politics (BDU, 1992). While the "classical" professions attained their status at a time when only nation-wide concerns had to be taken into account, today the *European Union* influences national decision making, including that affecting consulting, and therefore makes enactment of a law much more difficult (Theobald, 2001).

This leads us to the question whether professionalization can currently be achieved as it was during the 19th and early 20th century. The classical profession is "a mechanism of transition from the society of estates of early modern Europe to the functionally differentiated society of modernity" (Stichweh, 1997, p. 95; see also Kurtz, 2000).

It is doubtful that *a modern differentiated society still offers similar chances for professionalization* as when professions like lawyers and physicians developed (Clarke, 2000). Today, professions are criticized for having too much power, for engaging in intensive lobbying, and for being more profit-oriented than value-oriented. Consequently, *trust in established professions is eroding* (Dent & Whitehead, 2002b). Though expertise is increasingly more important in differentiating societies, it is difficult to defend the status of professions, to say nothing of establishing new ones. The trend is towards *deregulation and deprofessionalization of existing professions rather than towards establishing new ones*.[4]

Complexity of the economic system has intensified and with it the need for advice of experts. The number of experts is growing as well as the number of specializations. In the face of this heterogeneity it is hard to imagine that management consultants as experts will be able to gain the same dominance in their field as physicians have done in the health system. In this sense, Fincham points out that *managers are not willing to leave consultants a prerogative for business knowledge*:

> Viewed reflexively, consultants seemed well aware that managers were unlikely to grant them [managers] a monopoly of knowledge. (Fincham, 2000, p. 8)

That professionalization is all but an easy and quick process does not, *per se*, work against a further regulation of the consulting industry as "legally established jurisdiction comes slowly and endures forever" (Abbott, 1988, p. 64). The classical professions also needed several decades to establish state regulation – in the case of physicians in the UK, for example, it took 50 years (Macdonald, 1995). It is up to the BDU to pursue regulation again. However, as we have pointed out, the conditions for professionalization have changed dramatically. For example, some consultants oppose the professionalization efforts of their colleagues, as is the case in the health and legal professions. Additionally, major international consultancies agitate against state regulation of the consulting industry, at the national as well as at the EU level (see Section 4.2).

National legislation must be in accordance with EU rules, which renders national professionalization efforts in the consulting industry problematic. We also have to ask *whether the state is still seen as an institution that can guarantee quality* of highly complex services such as consulting. Therefore, in the next section we consider alternative forms that could generate an impression of quality and build trust.

6. ALTERNATIVE WAYS OF BUILDING TRUST

In spite of lacking the status of a profession in the classical sense, consulting manages to demonstrate trustworthiness and, thereby, reduces potential uncertainty among clients (after having increased client uncertainty, as we pointed out in the introduction). How is this achieved without state guarantees of minimal service standards? A survey of 150 German consultancies identified criteria that companies apply in the selection of consultants. While for 73 per cent of the respondents, the perceived competence of the consultant is a decisive factor in contracting with a consultant, for almost 50 per cent receiving recommendations from managers of other companies is a deciding factor. References supplied by the competing consultancies are considered most important by 36.5 per cent. Membership in an association (6.1 per cent) or a certificate according to DIN ISO 9000ff (4.1 per cent) is not considered important (Däfler & Rexhausen, 1998).

How do clients assess the competence of a consultant? *Large consultancies* invest heavily in efforts to build and maintain their own brand. In contrast to professions that are not allowed to advertise, for example physicians in Germany, consultancies spend a lot of money for *direct advertising*. Marketing extends to advertising for recruiting events or eye-catching offers in national newspapers for the most prestigious management positions. Large consultancies make it known that they spend a lot of money on their *search for and selection of recruits*. McKinsey claims to pick only the most talented alumni of the top universities to build a consulting elite. According to its homepage, new members receive extensive training and are assigned two tutors: a younger and a more experienced one (see www.mckinsey.de). The strict "*up-or-out-policy*" guarantees that employees maintain an extremely heavy work load (though, to some extent, this is impression management: it is, for example, a rule for McKinsey consultants not to leave the client's office before the last manager has left). Consultants are evaluated after each project and every six months. Evaluation results are made known (see www.mckinsey.de). Additional efforts to attain public attention as a provider of high-quality expertise include creating and pushing innovative management concepts, publishing books and carrying out high-exposure projects (in an article in the *New Yorker*, Gladwell, 2002, convincingly argues that winning battles for talent is not tantamount to winning wars of competition).

The marketing budget of s*mall- and medium-sized consultancies* is much smaller. Nevertheless, these consultancies have to follow those who set the pace:

> With recent corporate branding campaigns form large professional service firms, the perception or image held by stakeholders of smaller organisations is being dictated by these powerhouses. (Lory & McCalman, 2002, p. 426)

Thus, branding can be seen as an investment in clients' trust. As Keller (2003, p. 16) emphasizes, for an intangible service a brand can provide or at least suggest a more specific picture of the benefits offered: ''Brand symbols may also be especially important because they help to make the abstract nature of services more concrete''.

Since small consultancies do not have large marketing budgets at their disposal, they use alternative forms of quality assurance, for example, membership in the *RKW consulting network*, being a member in an *association* or holding a *CMC certificate.* However, the survey on the criteria for choosing a consultant referred to above shows that a formal membership in an occupational organization is not considered very important (Kohr, 2000).

References to successful past projects are another way for big and small consultancies to gain clients' trust (Däfler & Rexhausen, 1998; Glückler & Armbrüster, 2003). Previous successful projects with the same company provide the most powerful recommendation. In Kohr's (2000) study, consultancies with earlier contracts in a company that is considering hiring consultants have good chances of being short-listed. The high percentage of renewing clients can be interpreted as an indication that on the basis of personal ties, trust has developed. From a more critical perspective it can be interpreted as the ability of consultants, while they are present in a client company, to identify additional problems that require their help (Ernst & Kieser, 2002).

7. THE DECLINE OF THE 'OLD PROFESSION' AND THE 'NEW' PROFESSIONAL

Consultants have been able to establish themselves as widely acknowledged and sufficiently trusted experts. They have done so without having achieved professionalization in the traditional sense. However, these traditional sociological concepts are not capable of comprehensively explaining the expert status of such "new professions" like consultants. This shortcoming has brought classical concepts under heavy attack (Fournier, 2000). Critics accuse theories of profession of no longer being appropriate when dealing with changes in modern society (Greenwood & Lachman, 1996; Krause, 1996a) or of not sufficiently taking into account the restrictions of professional autonomy in organizations (Collins, 1990b; Dent, 1993; Lipartito & Miranti, 1998).

A typical response to this critique is to modify theories of professions so that they effectively come to grips with changes in expert work that have occurred in recent times. Leicht and Fennell (2001) belong to these theory modifiers. According to their observations, the actual expert workplace requires teamwork, flexibility, broad training and project-oriented work in groups whose membership changes from project to project. The "new" professionals, encompassing managers as well as consultants, are confronted with pressures for relative conformity in their professional behavior. Like the "old" professionals, they strive for maintaining or gaining control over their work and relative freedom from accountability to outside constituents.

Watson (2002), a more radical critic, suggests abandoning the terms "profession" and "professionalism" as sociological categories since in colloquial language they have taken on a different meaning and, therefore, no longer allow neutral critical analysis of changes in occupations:

> First, notions of 'profession' and the 'professional', as they are generally used in society, are slippery and ambiguous, and can create unfortunate confusions if carried over into analytical work. And second, professionalism, in certain of its usages, tends to be a 'bandwagon' idea – a vehicle used to further or defend particular occupational interests. (Watson, 2002, p. 94; see also Clark & Fincham, 2000)

Such harsh criticism also brings the usefulness of our analysis into question. Though we try to keep a critical distance to sociological theories of profession, we are of the opinion that the analysis of consulting along the lines of these theories is not futile. At first, such an analysis allows critics to identify professionalization efforts independent of their success rates. In everyday language, consultants are pictured as professional. In spite of Watson's critique it is worth the effort to point out that, according to some sociological criteria, this is not the case and to explain why it is not the case. With the help of theories of social closure it is, for example, possible to show which kinds of dynamic manoeuvres develop between the occupational groups of consultants, lawyers, accountants and qualified auditors.

Therefore our approach is well justified. However, we now want to reverse the perspective by assuming that consultants are the real experts of the modern economy, so-called "Supra-experts" in the sense that they "solve" the conflicts between the different experts, for instance, marketing, personnel or production experts who they have helped to establish and to empower in the first place (Ernst & Kieser, 2002, p. 48). The question, then, is which concept of expert service is best able to capture this phenomenon. This formulation brings the notion of the "new" professional to our attention (Dent & Whitehead, 2002b) since this term most strongly corresponds to the trend-setters of consulting – the employees of the big international consultancies.

As Watson (2002) argues, through inflationary use in everyday language, the term "professional" is not very meaningful any more. Dent and Whitehead (2002b, p. 1) reflect on the causes of the inflationary usage of the expressions "profession" and "professional" in colloquial language: "[I]n this new era we are all expected to be professional, to perform professionally. In losing its exclusivity, being professional has become the *Leitmotif* of the post modern age". In this (post-modern) perspective, being professional no longer refers to membership in a professional group but reflects the growth in challenges with which occupations are generally confronted. Being professional is no longer dependent on a formal title, for example, that of a physician, and membership in a group such as the medical profession, which such a title bestows. Instead each individual and organizational group is now responsible for demonstrating professionalism in their behaviour. Along these lines, professionals are those who are "more efficient" than the average members of an occupation.

> Any difference is now limited to those at the top of a particular performance 'league table'; those who can perform their market-oriented professional tasks, and do so with an entrepreneurial flourish. (Dent & Whitehead, 2002b)

The right to use a title no longer communicates the difference between a "normal" expert and a professional one. This subtle difference has to be demonstrated again and again. In this sense, Dent and Whitehead (2002a) conclude that there is no "true" professional any more. Being professional means being exposed to a permanent discursive process. However, how is a claim to be professional negotiated? How does such a self-attribution prevail against "normal" experts? The following description of how British accountants express their professional status, also applies to consultants:

> Being professional entailed the adoption of a particular physical appearance, including issues of personal grooming and 'appropriate' clothing. Relatedly, appearance in terms of ways of talking and writing were relevant. Also highly important was good time-keeping and readiness to work overtime as and when required. (Anderson-Gough et al., 2002, p. 46)

The shift of professionalization from the level of the industry to the level of the individual is reflected in the recruiting strategies of the big consultancies. While the classical professions do not claim to make membership dependent on the talent of the individual physician or architect, McKinsey claims to exclusively have extraordinary talents in their ranks:

> We are proud that they [our consultants] are acknowledged to form an exceptional talent pool, and that our firm enjoys broad appeal as a place for talented people to grow. (McKinsey & Company, 2004)

In this way the big consultancies try to create an image of their consultants as the true elite of the industry, the "real" professionals. Impression management and the accompanying self-confidence are essential inputs for that image – skills that are trained in consultancy courses and on the job:

> If consultants are to be successful ... a core feature of their work must be to manage the way in which these 'images' of their service quality are formed. Since these evaluations are based upon a client's experience of the interaction process it is natural that this will be where consultants' impression management activities will be concentrated. (Clark, 1995, p. 132)

Considering the extensive market of consulting, it becomes obvious that this service industry has managed to achieve a strong impact on the modern business world. It has not become a profession, but consultants are seen as a "reflection elite" (Faust, 2003) for almost any business problem. The international consultancies are especially successful as "new" professionals.

However, there is one aspect that allows consultants to stand out from other experts: the ability to define their areas of expertise themselves. As explained in the introduction, they define their areas of expertise better than other experts, except perhaps for physicians who, in cooperation with the pharmaceutical industry, permanently invent new health problems and diseases. Consultants can induce demand by inventing new management problems (e.g., shareholder value) and management fashions to cure them. The exclusive position of professions "allows a group of experts to define and construct particular areas of social reality, under the guise of universal validity conferred on them by their expertise" (Larson, 1977, p. xiii; see also Abbott, 1988).

Seen from the perspective of classical professional concepts, consultants will never complete their professionalization process. But if one understands professionalism as a category of individual behavior, consultants are the real champions of creating a "new" professional *appearance*. In this respect consultants combine a characteristic of the traditional professional with one of the new: a combination that promises market success and professionalism – "market professionalism":

> I believe, as consultants, we are in the fortunate position that each economic turn is a good one for us. If companies are enjoying good times, they plan to diversify and think of opening up new business fields. If they are experiencing bad times, they have to cut costs and to knock down hierarchies. In both cases they need consultants. (BDU, 1992, p. 137)

NOTES

1. The authors have translated all quotes from German sources.
2. All personal interviews were conducted in 1999.
3. As space is limited, the role of the RKW as an additional actor cannot be fully addressed here. This organization has a strong interest in avoiding any regulation of the consulting business. One of three main functions of the RKW is brokering trustworthy consultants to small- and medium-sized companies. Thus, it would lose influence if an official title or certificate guaranteed credibility. Therefore, RKW and BDU are antagonists as illustrated by Mayerhöfer (1988).
4. For the impact of societal change on professionals and professional service organizations, see Greenwood and Hinings (1996); for the influence of organizations on professional autonomy, see Collins (1990b); for the change of social conditions under which professions have developed and exist, see Krause (1996b); for a critique of "professions" and "professionalism" as a useful category for social analysis as such, see Watson (2002).

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LEADING CHANGE IN THE NEW PROFESSIONAL SERVICE FIRM: CHARACTERIZING STRATEGIC LEADERSHIP IN A GLOBAL CONTEXT

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ABSTRACT

This chapter examines the impact of adopting a global strategy upon leaders' roles and identities in an engineering consultancy firm. Drawing upon process and social practice perspectives on leadership; our results explain leaders' resistance to changing practices despite major process changes as due to the threats to their identity caused by the new role requirements to implement a global strategy. Our emerging process and social practice model of leadership highlights the complementary nature of process and practice change, creates a distinction between good and malign ambiguity in professional services firms and has implications for regulating the pace and timing of major changes which impact upon professional identities.

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INTRODUCTION

Globalization has been very influential in driving large professional service firms (PSFs) into different forms of organizing and managing professionals (Cooper, Hinings, Greenwood, & Brown, 1996; Greenwood & Lachman, 1996; Morgan & Quack, Chapter 15 this volume). These firms are now focused upon achieving a greater standardisation of the quality of services while simultaneously maintaining a customer focus (Fenton & Pettigrew, 2003). A duality of purpose is also reflected in changing management roles and styles as senior professionals grapple with the task of coordinating and controlling greater complexity and dynamism (Pettigrew & Fenton, 2000). This situation is becoming increasingly common for professional organizations as sectors consolidate (Greenwood, Hinings, & Brown, 1990) and skill diversity becomes essential for competitive advantage. However, the literature is relatively silent on the impact of these changes upon leadership. Thus, our central research question is: How has the leadership role changed in professional organizations which have adopted a global strategy?

We do not adopt a particular definition of leadership, but, following Alvesson and Sveningsson (2003), we are concerned with what leaders mean by it. Also, we take the view that leadership is cultural (Alvesson, 1992) and situated in practice (Brown & Duguid, 2001). Leadership does not exist outside of action within a specific context and is bound with the role and organizational identity of leaders. Therefore, we emphasise the importance of organizational context and the dynamic nature of leadership as that context evolves (Denis, Lamothe, & Langley, 2001). Specifically, we view leadership as an ongoing process of construction and reconstruction (Giddens, 1984), at times adapting to, at other times challenging and shaping the organizational context.

Professional services belong to a unique subset of organizations characterized by knowledge-intensive activity and driven by professional ideology, which require special theories of their own (see Chapter 1, this volume). There is thus not much to be gained by taking existing theories of leadership as a lens for interpretation. In any case, numerous reviews of the leadership literature have concluded that the results lack insights, and are inconclusive and contradictory (Knights & Willmott, 1992; Mintzberg, 1982). What is required is a theory of leadership congruent with the nature of professional services in their dynamic economic and social contexts.

Radical organizational change in professional services often demands the unravelling of professional identities to accommodate additional managerial activities and skills. By identity we mean, the relatively stable and enduring constellation of attributes, beliefs, values, motives, and experiences by which people define themselves in a professional role (Schein, 1978). Only Alvesson and Sveningsson (2003), however, have considered leadership in terms of changing roles and identities in this unique context. Hence, this chapter aims to make a contribution in this direction by examining the interplay of organizational and managerial adaptations and the changing nature of leadership roles and identities.

This chapter has six sections. First we discuss why leadership is important and different for PSFs, which leads us to propose a process and social practice perspective. We then outline and discuss our methodology, followed by presentation of empirical material drawn from a case study of Arup, an engineering design firm. We discuss four analytical insights into leadership roles and identity in the context of change, from which we propose a model based upon a dynamic conception of the leadership role mediated by professional norms and practices, organizational culture and context. Finally, we conclude with some implications for leadership capabilities and skill requirements and suggestions for further research.

WHY LEADERSHIP IS IMPORTANT AND DIFFERENT FOR PSFs

Many authors on professional services note that because people are the primary asset of these firms, personal and social relations become of decisive importance (Alvesson, 1992; Boxall, 1996; Lowendahl, 1997). Leadership is therefore important both in terms of human capital and its role in the creation of social capital (Fenton & Pettigrew, 2000b). As Alvesson (1992, p. 194) notes: 'The ability to utilize (exploit) the personal as much as possible is crucial'. This argument is echoed by Ibarra (1999) who notes the suitability of PSFs for exploring identity construction because of their requirement to convey particular images of competence and credibility.

Alvesson and Sveningsson (2003) launch a full-scale critique of the leadership literature suggesting that leadership theory is flawed generally, rather than needing reformulation for organizations such as PSFs (see also Alvesson, 1992). These authors centre upon as the notion of leadership in PSFs as a high-level moral activity: "… reflecting harmony, voluntarism and shared interest, and involving none or little formal power or coercion" (Alvesson & Sveningsson, 2003, p. 965). Additionally, they emphasise the importance of organizational context in understanding leadership. The leadership literature on professional services may thus be seen to embody two interrelated themes: leaders' roles as defined by and expressive of, organizational context; and, leadership role ambiguity. We propose integrating these with a process (Denis, Langley, & Cazale, 1996; Denis, Langley, & Pineault, 2000; Denis et al., 2001) and social practice perspective (Brown & Duguid, 2001) in order to provide insights into leadership identities and into how they are reproduced and changed.

Leadership Defined by and Shaping the Organizational Context

There is an explicit recognition by writers on leadership in professional services of the importance of the cultural and ideological context of the organization in shaping leadership roles. In particular, Alvesson (1992) argues that most leadership styles are severely constrained by, and draw upon, this cultural and ideological context in the use of ideas rather than instructions to facilitate social integrative action. In a later article, Alvesson (1996) extends this theme when writing about how leaders introduce particular symbolic cultural mechanisms, which serve to define social reality for others. This shaping of social identity may reinforce or run counter to the influence of the professional context. Robertson, Scarbrough, and Swan's (2003) findings show that leaders' reinforcement of an organizational (rather than professional) context, whereby considerable efforts were directed towards promoting a strong social identity grounded in elitism in order to maintain high retention rates. This elite social identity drew on the institutional context as an important discursive resource. We see similarities in these contextually driven and contextually shaping leadership roles with Mintzberg's (1998) 'covert' leadership of professional service organizations. Here leaders do not control so much as manage information through people and influence action and roles at all levels inside and outside the organization.

A changing organizational context can impact upon leaders' roles and identity. Alvesson and Sveningsson (2003) found radical organizational change leading to greater bureaucratization undermined the image of leaders as visionaries and strategists. Similarly, the context of the top management team is identified by Denis et al. (2001) as an important influence upon the integration of a new leader within professional services. They conceptualize new leader integration as a mutual adjustment process between the trajectories of the organization and the new leader. Leadership here is inspired by structuration theory (Giddens, 1984; Ranson, Hinings, & Greenwood, 1980) and conceptualized more generally as collective, processual, dynamic, and supraorganizational: a product of the mutually reinforcing interplay between the individual and social domain.

The contextual perspective views leadership actions and organizational context in a dynamic interplay of shared ontologies. However, we are left without a deeper understanding of the leader, that is, their identity as situated within their particular organizational role. Additionally, an overcontextualized view is in danger of cultural determinism rendering leaders without agency. Greater insight into leaders' actions and identities is afforded by the literature on role ambiguity.

Leadership Role Ambiguity

Following Alvesson (1993, 2001), we define ambiguity as persistent uncertainty not easily reduced through more information and that involves confusion and contradiction. Ambiguity is inherent within the context of knowledge-intensive companies (Alvesson, 1992, 1993, 2001), which require the management of corporate rhetoric, image, and social processes as well as the need to regulate employee identities. Ambiguity is also manifest in the relationship between leadership talk and what managers actually do, or organizational outcomes (Alvesson & Sveningsson, 2003). This is due to an uncertain organizational context in which to exercise influence and the ephemeral nature of the meaning and role of leadership in these firms. Of particular relevance is Alvesson and Sveningsson's (2003) finding that radical organizational changes created role ambiguity for leaders.

We distinguish between ambiguity inherent within PSFs, to which leaders adapt over time, and role ambiguity experienced during radical organizational change, to which leaders have difficulty adjusting: we term the latter 'malign ambiguity'. Malign ambiguity threatens professional identities and can lead to resistance to organizational change.

It will be argued here that globalizing PSFs inflict incongruent demands upon leaders because the increased requirement for managerial practices conflicts with traditional professional practices. Reed (1996) lists the requirements to integrate the global firm as including political and economic strategies to standardize expertise, and use of organizational forms that enhance control over experts. Recently, the global PSF has become concerned with boundary spanning roles, knowledge management, network leadership, and managing dualities (Pettigrew & Fenton, 2000). These managerial and administrative tasks are increasingly devoid of the professional skills which have traditionally earmarked the professional employee for promotion, thereby creating malign role ambiguity for leaders. However, malign role ambiguity can also be a lever for change, in line with the argument of structuration theory that contradictions within structure become the opportunities for individual action to instigate change (Giddens, 1984).

Leadership as Process and Social Practice

A *process* perspective on leadership has been adopted by a small group of academics examining the actions of leaders during periods of change (Denis et al., 1996, 2000, 2001). This perspective highlights what leaders do to mobilize others. Knights and Willmott (1992) study process from an institutional perspective, devising a conceptual framework comprising the phenomenological, existential, and structural dimensions. This framework redirects the focus of theorizing towards accounts of power involved in the production of organizational culture. However, process perspectives lack accounts of the daily activities and roles of leadership which are at the heart of leadership identity and meaning for individuals (Denis et al., 2001). For this we turn to *social* practice accounts of leadership.

A social practice perspective aims to understand knowledge and organization (Brown & Duguid, 2001; Dougherty, 2004; Werr & Stjernberg, 2003) and work, identity, and knowledge formation (Brown & Duguid, 1991; Lave & Wenger, 1991; McCabe, 2002; Orr, 1996) but has not yet been applied to leadership in any systematic way. However, social practice's emphasis on social activity offers an understanding of how identities come to be fashioned and how they are changed:

> Work practice, then, seems critical to understanding the acquisition of identity and knowledge at work … identities developed through participation will be social if the work is social. They will be dynamic, changing as practice and community changes. (Brown & Duguid, 2001, p. 202)

The nub of the argument here is that leadership does not exist separate from its execution, but requires subjective appreciation, practical accomplishment, and a structural context. People who share leadership practice and experience are a community linked through this practice (Wenger, 1998). In this context, leadership is cultural and situated. As Brown and Duguid rightly argue, the most salient cultural forces "… are those arising through and at the point of the individual's engagement in the organization and its work". (2001, p. 201). In the case of many PSFs and particularly Arup, we will argue that the greater homogeneity of occupational roles, combined with the long tenure of the majority of the leaders lend the culture of Arup UK greater determinism. This culture draws its practices and standards from its founders and the engineering profession. It has matured over time with the organic growth pattern of the firm, undisturbed by merger and acquisition. The unique nature of Arup resembles, especially until the mid-1990s, the communities of practice described by Brown and Duguid (1991) and Lave and Wenger (1991).

In short, process accounts document action and context interdependencies, involving the considered behaviour of leaders in often strategic and collective action. Practice accounts focus on conditioned behaviour embedded in a system of social relationships, which includes leaders and those being led. Practice consequences reinforce community norms within an organization while process consequences mostly impact across communities of practice within large organizations. In this way, practice is routine and local whereas process is eventful and organization-wide. However, these perspectives are interrelated. Practice accounts inform us of the rules and norms of behaviour, upon which leaders draw to legitimize actions studied in process accounts. For instance, where leaders are called upon to take strategic decisions or mobilize others, they inevitably draw upon a constellation of attributes which comprise their identity as leaders: status, power relations, skills, social norms, and rules, in order to legitimize their actions to themselves and others. Process and practice may be complementary where leaders adapt to organizational change, *or*-contradictory where leaders challenge changes, which undermine established identities. We thereby propose a dynamic relationship between organizational context, leadership processes, and practices as they create identity and meaning for leaders.

METHODOLOGY

We approached our research questions by using a replicated and longitudinal (Eisenhardt, 1989; Pettigrew, 1990) case study methodology on a design engineering firm at two points in its history. The first, during 1996–1997 was the second year of a five-year global strategy ('Reformation') to integrate their worldwide subunits. The second point of entry was three years later in 2000 when the organization had moved from 'Reformation' to 'One Arup' and was in the process of creating a global partnership. This study involved two main types of data: in-depth interviews and documentary data. During the first point of entry a chronology of the firm's history was written from 17 interviews with senior firm members (see Table 1) and documents to

Table 1. Interview Respondents at Two Time Periods of Data Collection.

1996–1997	2000
2 Chairman	3 Chairman
3 Policy board members	4 Policy board members
4 Functional directors	2 Functional directors
7 Directors	18 Directors
1 Associate	6 Associates
	1 Training manager
Total 17	Total 34

develop the first proforma, which was subsequently tested in further interviews. We were interested in the major strategic changes, which had occurred within the firm in terms of innovative organizational design. Our data highlighted an emerging theme of incongruence between the changing requirements for leadership and the capabilities, roles, and identities of the leaders.

At the second point of entry in 2000, the focus was on knowledge management which identified firm leadership as a significant factor, although not the only one, in the underdevelopment or misuse of knowledge. We interviewed 34 respondents over a three-month period (see Table 1). We attempted to see as many of the same people as possible to assess perceptions of change within the firm. Of the previous sample, one had died and another retired and we managed to interview 11 people again from the remaining 15 in the first sample. All respondents held senior positions in the firm and only two had worked in Arup for less than five years.

In professional engineering consultancies such as Arup, leadership is traditionally shared in terms of strategic decision making across a large group of senior directors and distributed, in terms of revenue generation throughout the firms' offices, as the responsibility of group leaders who assemble human resources and maintain the reputation of the firm in leading individual projects. Group leaders may also be directors, thereby straddling both strategic and operational leadership roles. This research is focused largely upon the leaders of the Arup UK firm (historically the head office has always been London) and as such, gives an account of one strand of the leadership within the global firm. However, it does embrace a wide spectrum of leadership roles and experiences. We interviewed leaders at the very top of the organization such as the UK Chairman and his deputy directors, directors in charge of operational divisions, functional heads such as finance and human resources, as well as group leaders with the status of principal or director (see Table 1).

We discussed a broad range of organizational changes during both visits, including the role of leaders and what leadership meant in the context of the emerging global firm. More importantly, we probed what leadership meant to a firm that was demonstrably one of the best in its sector. A director who had been with the firm for 21 years summed up a common view of the firm:

> This is the only firm of its kind in the construction professional area – the only firm that has consistently been in the top five, never been taken over, never merged, never gone bankrupt. Never made a loss … So, despite the fact that we are all so woolly and vague, we have actually got the best business performance of anybody in our sector. It is extraordinary to be the biggest in the league which we very nearly are and still be rated the best in the league which most people do.

Data analysis occurred in three stages, each subjecting the data to more abstract levels of analysis. The first stage of analysis involved coding the data into broad categories using a grounded approach (Glaser & Strauss, 1967) to develop themes. This allowed the production of early outputs in the form of a chronology at entry one and a case report at entry two. These were essentially narrative strategies (Langley, 1999) involving the construction of detailed stories from the raw data. The narratives served two purposes: as a preliminary step to prepare the data for subsequent analysis and to incorporate an analytical element (Pettigrew, 1990). This analytical device presented the data in terms of chronologies and themes that allowed leaders and leadership activity to be traced over time. Thus, there were themes on promotional practices, the activities of leadership, leadership roles, perceptions of leadership capabilities, and the meaning of leadership to firm members. Additionally, the chronological data was analyzed using a temporal bracketing strategy (Langley, 1999). This involved decomposing the data across the two entry points into discrete time periods or phases that become comparative units of analysis. Phases were defined according to continuities in the context of Arup and the actions of leaders but discontinuities at their boundaries (Denis et al., 2001). In this case, boundaries are defined by the introduction of distinct aspects of a global strategy: Founder leadership style in phase 1, Reformation in phase 2, and One Arup in phase 3.

The second stage of analysis involved identifying some early analytical themes from the descriptive categories in each time period. These themes, which form the basis of the present study, concerned the importance of the changing context to conceptions of leadership, the adaptations that leaders made to their roles to accommodate or resist the changes, and the subsequent role ambiguity they experienced. We then linked these themes to the way in which, leaders' identities were construed within the firm and by themselves.

The third stage of data analysis involved a meta-analysis (Pettigrew, 1990) of the firm, conducted across the phases to identify more abstract conceptualisations of the data. Here, we wished to move beyond the surface structure of activity sequences to the underlying forces or generative mechanisms driving leadership roles and identities (Tsoukas, 1989). This involved identifying the relationship between the organizational context, leadership process changes, leadership practices and identities over time (see Tables 2–4).

Data validation was established by circulating to key informants written material from both entry points, in the form of case chronologies and reports, followed by draft publications.

ARUP

Arup is an engineering consultancy with over 50 offices in more than 40 countries. Founded in London in 1954 by Ove Arup, a Danish engineer, Arup grew steadily by internationalization throughout the next 40 years. By 1997, it employed 6,000 and 7,000 by the second site visit in 2000. London remains the "head" office. During the 1980s Arup underwent significant international growth but it was during the 1990s that the firm experienced its most radical changes to its structure and international partnership (Fenton & Pettigrew, 2000b; see Tables 2–4).

Traditionally, leadership in Arup has been a collective endeavour, comprising both functional heads at director level and group leaders in charge of attracting clients and building staff teams. The group leader has always had a great deal of autonomy to interact with clients and in the style of service delivery. While there was much overlap of leadership styles and behaviour across the time periods of study, we have tried to capture the character of leadership identities in each phase, that is, the reflections upon, aspirations and intentions by the leadership of their own roles and behaviours. We will see that these identities are very much tied to the strategic changes, which dominated the firm during these periods. The leadership of the firm is analyzed in terms of three phases: the Founder leadership style pre-1990, characterized as a professional anarchy; changing conceptions of leadership in the 1990s with the introduction of a five-year global strategy entitled Reformation; and redefining leadership in the new millennium with the One Arup strategy (Tables 2–5).

Case Descriptions

It is not easy to present complex process stories succinctly (Denis et al., 2001; Miles & Huberman, 1984; Pettigrew, 1990). We have therefore adopted an approach used by Denis et al. (2001) in which we provide a vignette in Tables 2–4 of each phase, accompanied in the right hand column by extracts from interviews that illustrate the organizational and leadership conditions described.

Each vignette begins with a description of the context of the leadership phase, describes key leadership processes or actions arising from this context, in terms of changes to leadership structure, promotion, or other organizational policies. Then, the vignettes describe leadership practices in terms of roles, behavioural and skill traits, decision-making styles, and the basis of command. The vignettes are summarized by a description characterizing the leadership identities in each phase. A comparative analysis of the three phases is given in Table 5 and brief synopses are provided below.

The three phases are distinct in many ways but display similarities in the means by which leaders strive to construct their identities. In the first phase the founding leadership style is very much conditioned by a culture, which encouraged autonomy, innovation, and creativity as hallmarks of a leading engineering design firm. In this way Arup resembled Winch and Schneider's (1993) creative architectural practices in providing intangible, heterogeneous, and non-storable services, regulated by a professional association.

The second phase depicts the firm undergoing major structural changes in the 1990s as well as developing integrating mechanisms for the international affiliates. This involved both subtle and gross changes to the requirements for leadership. At the top level (executive directors) there was the perceived need for greater and faster strategic thinking while at middle levels (operational heads: e.g. civil engineering, acoustics, and structural engineering,) leaders were required to be more accountable and take on new roles in managing networks. Dual organizational requirements were beginning to emerge, for instance, alongside the traditional values of seeking to do well and good engineering design, there was acknowledgement that good organization also mattered (Fenton & Pettigrew, 2000a). Although, various managerial adaptations to leadership behaviour were instigated, these were not without challenges from other leaders within the firm who clung to traditional antimanagerialist sentiments in their interpretations of the changing leadership style. Leadership identities were still largely conditioned by professional values, the culture and history of the firm, and policies such as promotional practices. This led to role ambiguity as leaders strove to

Table 2. Phase 1, Founder Leadership Style pre-1990: Professional Anarchy.

Leadership Components	Interview Extracts
Context	
The leadership of the first 40 years of the firm had been shaped by a strong organizational culture of excellence fashioned by the founder (Ove Arup) who was a charismatic personality and innovative engineer. Ove laid down the guiding vision of the firm in a keynote speech in 1979, which is still recognized and valued by the firm today. Since 1946 Arup steadily internationalised and had a history of important and creative projects such as the Sydney Opera House and the Hong Kong and Shanghai Bank. The founding partners left an enduring legacy in terms of perceptions of leadership which was characterized by a relatively chaotic style of management within a strong elitist culture. Despite an unstructured approach to leadership the firm had never made a loss and was consistently rated in the top five engineering consultancy firms.	1. *The Chairman now say, would be no comparison to the Chairman of 20 years ago, who would be more personal, magical touch, black magic. Whereas now it would be more corporate … The personal magic of Ove, that is different to the corporate.* (Board Member) 2. *They had what it takes to run great things; they were special men, all of them, the ones that I remember, seven of them.* (Director) 3. *… it was thoroughly disorganised and led by enthusiasm and ability*. (Board Member)
Leadership Processes	
The UK firm had a loose federal structure whereby 50 groups reported to the executive to make strategic decisions. All directors were equal in making decisions, which resulted in unwieldy decision-making.	4. *… barons marauding with their troops*. (Director)
Leadership Practices	
Leadership was characterized by strong individuals fuelled by enthusiasm, ability and mobility and was very much a function of professional values around engineering design skills, creativity, and winning contracts, even more than profitability. Promotion was based chiefly upon excellence in engineering. Leaders were role models for technical excellence, their identities shaped by both their professional values and the socializing influence of a strong culture. Junior staff were given responsibility very early on in their career, at least 10 years earlier than by the mid 1990s.	5. *The more you lose the faster you get promoted, is one of the standard statements. And there is an unfortunate correlation between promotion and losing money in other words. Winning prizes is much more highly rated than making money. Making money is not highly valued in Arup.* (UK Chairman)

The power base within the firm resided at the level of the group with the group leader. These were small businesses of anything from 30 to 200 people required to return profits to the centre. The establishment of a group was one of the key leadership skills within the firm, borne of long experience and networking ability. Team building was and still is today, a critical function of leadership, largely based upon personal networks. The role of a project director involved network knowledge of people to provide the mobilizing capability, which is built up over the years of working in Arup. Despite this, the role of the co-ordinating project director was often confused or simply unknown by those working on the project.	6. *The only people who can do anything else are people at my level who actually keep groups…you can't negotiate without a group. The group gives you power … No one can stop me doing anything.* (Director and Group Leader) 7. *Since I have been here 30 years … I just know the people and that would be true of most. I used to boast and I think it is probably true, that I know personally the leader of every Arup office including South Africa, Australia, Los Angeles – I used to play cricket with a guy who leads the Johannesburg office in South Afri*ca. (Director)
Top directors were poor at strategic decision making, as a consensus based leadership meant that historically decision making was slow, fuelled by an anti-managerialist culture within Arup.	8. *"Too much management not enough room for designers" and so on, "too much bureaucracy and not enough space for designers". You do not hear that now … we are an organization where historically, we have found it very difficult to make a decision. We need consensus.* (Director)
Leadership Identity Leadership was legitimated by the professional values of individuals who claimed a track record of technical and expert knowledge; their achievements over time were reinforced by the culture of elitism and the creation of personal peer networks throughout the firm. Leaders' power was localized at the group level where a culture of autonomy allowed risk taking to flourish and spawned innovation and creativity.	

Table 3. Phase 2, Changing Conceptions of Leadership in the 1990s: Reformation.

Leadership Components	Interview Extracts
Context	
The early 1990s recession and greater international competitiveness created a turbulent and unpredictable environment for Arup. There was an awareness of the need to work more cooperatively and standardize the service internationally. To this end, the Reformation initiative spearheaded by the Chairman encouraged affiliate firms to buy into some shared policy initiatives to encourage greater integration. The international board was becoming an important forum for change. This changing international context provided an added complexity to the management of culture at a time when the firm was reinforcing traditional cultural values alongside new managerial ones.	1. … *successively the firm changes, its inspiration moves away, and more corporate things come in and gradually now it is a corporate business, totally corporate now. With people in power I would say who have learnt to manipulate the bureaucracies very well and therefore it is truly corporate.* (Director)
Leadership Process Changes	
A new generation of leaders gradually brought different perspectives: they identified a need for strategic decision making, greater financial awareness and the input of professional personnel management. In shaping an organizational context to receive the new leadership behaviours there was a general perception amongst the top team that a culture change was taking place within the firm. Managerialist principles such as being more decisive were being promoted alongside a reaffirmation of the founders' key speech.	2. … *we have become more decisive, partly as a result of the recession. We had to become more business-like, more financially aware, more efficient, and that was actually quite hard to do for the first few years, because those who were running the firm came from a previous age when that was not important.* (Director)
In 1995 Arup moved from their loose federal structure to a divisionalized structure overlaid by specialist networks to assist in decision making. Five operations boards were created which reported to a policy board. The top-level leaders were putting effort into supporting the operations boards, while operational leaders were instrumental in slowly shaping change at group level. However, issues around different levels of decision making were not properly resolved which prevented leaders from implementing greater	3. *Far more centrally controlled, we have given more power to the centre. Or we acknowledge a centre more than we ever have.* (Director) 4. *We were putting our trust in leaders* (project leaders) *to drive things. And a most effective way to deal with things was to infect people with enthusiasm, and that is the angle I was pushing.* (Principle)

efficiency measures. A lack of understanding about the difference between operational and strategic leadership resulted in leaders of operational boards wanting to get involved in the business of the policy board and policy meetings were highjacked by operational issues. Finally, it was agreed that decision making would only be accelerated by forming an executive policy board consisting of the Chairman and his two deputies who would deal with strategic issues.	5. *I said it was uncomfortable in the beginning, which is not surprising. Because all main board members were considered equal. And then we agreed it would have this executive and there was a bit of: "we'll have to see about this, who reviews the executive" you know…* (Executive Director)
Changes were made to the finance policy committee so that the leadership gradually took responsibility for how money was working globally. The decentralized firm gave divisions rather than groups, responsibility for setting up and running contracts. This greater financial awareness now meant that the chairmen of divisions sat with the finance director to determine which group leader was not sharp enough commercially. It was up to individual directors to create greater financial awareness within their group. However, this devolution of control was not accompanied by training in financial or project management for project leaders.	6. *To actually then take a view of the money centrally, which we always did through our bankers and accountants, but not as people leading the practice. So all this gradual awareness of things, becoming more and more aware of the business and how money was working for us globally in the business has come to the leaders.* (Finance Director)
At this time the staff policy board were looking at a whole range of HRM issues including continuous professional development in leadership and management. In 1996 Arup appointed its first professional HR director, the first woman to be appointed at board level to a post previously occupied by an engineer. She became instrumental in shaping the new leadership context over the next four years of our contact with the firm. She felt the firm should be looking at a wide range of skills, which were not in evidence or even realized that they were needed. Little formal management training was provided for senior level managers and despite being provided with training budgets none of the main Board had been trained in any management skills. She was also concerned with retaining staff that were technically excellent but were not interested in promotion into leadership roles. This was an astute move, given the traditional recognition afforded to innovators within Arup.	7. *There is a preoccupation with leaders here… which I am trying to break. I am trying to create a culture of promotion being forward not upward, and that not everybody can be leaders, otherwise they can become very crowded, and that there is a place for all sorts of skills in all sorts of ways in the company …* (HR Director)

Table 3. (*Continued*)

Leadership Components	Interview Extracts
Despite a step change in thinking during the early 1990s, the firm had never been very strategically driven until the mid 1990s. Previously staff had operated opportunistically, to do things better or in new markets. Now the move toward strategic thinking was beginning albeit slowly because of fears it would lead to a loss of creativity. This fear underpinned a general anti-managerial stance, and hence an unclear view of what the leadership role could be in the changing organization. In response, the top team were considering non-executive directors or other external people to advise the board, which was still very much in a state of flux at this time.	8. … *we have a strategy. We do have strategic plans much more formally done than we did before, not universally seen as a good thing. It is viewed with suspicion by people who think: "what do we need strategic planning for?"* (Executive Director)
Leadership Practices	
The identity of the leader in practice extends beyond their group to the wider firm, as it is very much linked to his or her personal and professional networks over many years within Arup. This networking ability was related to the personality of the individual leader and human chemistry, which was closely associated with the meaning of leadership within Arup. The route to leadership, unaccompanied by any formal management training, was more a measure of the attainment of engineering consultancy experience, which included project management skills. Leadership was thereby a function of excellent networking abilities and technical expertise. Both technical and managerial abilities were regarded as essential to the composite of leadership capabilities on the board but definitely not managerial abilities alone.	9. *It is still seen at the lower levels, that if you want to make it big in Arup, O.K. you need to establish yourself as a good engineer … But having done that and got a few jobs under your belt, and shown that you are capable, the real route to success is through more of a project management and managerial side* … . (US Chairman)
Among the key skills lacking at board level was strategic thinking. The newly proposed leadership roles clashed with cherished professional values and were also resisted due to a lack of understanding about what the roles entailed in practice. Even the term management was still regarded with some dislike and this spilled over into views about the new structure. Underlying the distrust of management was the perceived threat this would bring to some leaders' professional identities as engineers.	10. *The other guys on the board have got day jobs, that is how they view it. And they come along very seriously to the policy boards and take it very, very seriously, but the amount of preparation the majority of them have done is minimal.* (HR Director) 11. *You find most Arup employees start getting nervous when people mention the word" managers", the truth of the matter is it is a managerial restructuring.* (UK Chairman)

Leadership Identities Threats to professional identity from managerialist logics as well as an unclear notion of what leadership entailed, served to create an ambiguous context through which leaders had to navigate, in the course of implementing strategic change and in that process, fashioning a new leadership identity for the firm at different levels. This ambiguity was particularly stark for middle management who populated the five operations boards. A lack of role models or outside expertise meant leaders were unsure as to how they should behave.	12. *I say "you ask for authority, you ask for responsibility, now don't come to me with these problems it is yours, the problems are yours, the solutions are yours. Tell me when you have solved them." In other words," take it away". It's turned out … they are not the big men they thought they were. It's like putting ten hundred-weight rucksacks on their backs. They are battling. They know what to do but they can't do it. Because they have not been trained … – the culture of the firm has enabled them to complain and do nothing. I am saying: "stop complaining and do it."* (UK Chairman describing the devolved responsibility of middle ranking leaders)
At the top of the firm the Chairman experimented with behavioural styles, which would be congruent with the required leadership image.	13. *Each boss, he is not acknowledged as boss, the board is held to be a board of equals but each boss in hindsight has brought his character for better for worse to the show. In other words it is not a conscious decision. It's not an iron mast. When faced with problems or opportunities he responds. It's always been a "he", and I am just finding what matters to me.* (UK Chairman)
Senior management felt the strains in coming to terms with greater managerial complexity, for instance the US Chairman's key task had been to resolve conflicts among the three offices in the US which had worked independently for the past 11 years, in order to bring them under one US board.	14. *The biggest concern I have about being the Chairman of the USA is that it drags you into the meeting syndrome and the minutes, and the politics of Arup … There is far too much internal focus in Arups in general, particularly at my level. And not enough external focus which is actually where a lot of our work comes from … Because … you should be thinking strategically about what Arup USA is all about, where it is going.* (US Chairman)
All the Arup offices around the globe had different leadership styles which were up to the individual to develop, thereby promulgating a self-taught approach.	15. *You can't teach management, you can read books on it, but I don't think anybody in Arups is ever coached as to how to run an office…and there are not any tools given for management … . I think mainly it is up to the individual to train themselves.* (US Chairman)

Table 3. (*Continued*)

Leadership Components	Interview Extracts
A perceived lack of tools for solving management problems in the firm is contradicted by the notion of management as common sense, which has an innate quality or must be self-taught.	16. … *we sort of wallow around and the thing is, you should find out about it and sort it out. Some of us do. A lot of people don't … And I think that is maybe part of the problem we have. Because most people think they are managing, and are actually running large groups … but they are doing so without really knowing whether they have the right tools for it…I think if you start reading the management books, a lot of it is just common sense. And most people read the first few paragraphs or first few chapters and think "this is bull shit; let us throw it away because I know all this."* (US Chairman)
The heart of the leadership dilemma for a professional engineer is the language and ideas behind the management role of leaders were seen as antithetical to professional engineering practices.	17. *There is nobody going to sit down and say management is x, y or z. Which is what an engineer wants to see, because you see a problem you think: "ah to solve this problem I first need to understand this, then I will look at that and then I will do this and off you go and get a solution"… Because nobody can tell you what management is particularly, or prescribe the way that you yourself has got to approach management because it is a personal problem sort of thing.* (US Chairman)

Table 4. Phase 3, Redefining Leadership 2000: One Arup.

Leadership Components	Interview Extracts
Context	
On entering the firm three years later we found evidence of changes to leadership style and behaviour but many expressions by organizational members of the need for greater effectiveness. The business context of the firm had become more important to leaders' thinking, although had not superseded professional values. At this point in time Arup were in a growth phase, one third of the firm had been employed for only two years and several acquisitions had been made. The changes to the structure of the firm and HR policies were ongoing. However the challenges to the new requirements for leadership were becoming more acute in terms of the disparity between those leaders who saw a need for more strategic and business thinking and those whose behaviour and style harkened back to the founder era of the firm.	1. *And over the years the commercial emphasis has changed enormously. And now there is much more emphasis on making money and being commercially aware. That is still at odds with the design excellent work. We are still not at the point of turning down exciting work because we know we are going to make a loss at it.* (Training Manager)
Leadership Process Changes	
Managing a global firm had inherent tensions, for instance, three of the Chinese firms within Arup in South East Asia did not share resources such as marketing due to the family firm issues around span of control within Chinese culture. At this time while the Australian practice was preparing to merge with the firm, others in South East Asia had no inclination, adding to the complexity of leadership. Nevertheless, the leadership were trying out innovative strategies for integration. For instance, the deputy Chairman chaired the group that coordinates the activities of the separate firms and his role was to get firms with common interests working together.	2. *… we get cultural issues – the second largest culture within Arups is Chinese and there are some characteristics of Chinese culture which produce some sort of separate thinking which is different to the ones we would like to see. So you get those sorts of tensions.* (Deputy Chairman) 3. *… so we have got separate firms in Africa we now have a grouping of Arup Africa – where they are now actively collaborating … So we have been able to get them to see the common interest in having a collective grouping of separate firms under the banner Arup Afri*ca. (Deputy Chairman)

Table 4. (*Continued*)

Leadership Components	Interview Extracts
In order to address some of the ambiguities around leadership roles, the HR director had devised a leadership programme. She arranged for the board to have leadership training with London Business School and coaching. At this time the firm were putting the directors through a board module programme of which 75 had completed the first module. Arup had therefore been exposed to a degree of outside influence in terms of leadership and management skills.	4. *They are stimulating, getting the guys to think. But whether or not it's changing behaviour, I doubt … I can only start at the top and then start to introduce others … They don't act the job; they don't act like magnificent leaders.* (HR Director)
In terms of operational leadership, the current terms of reference were too vague and open-ended leading to a lack of confidence. The HR director was working on a formal job description to support group leaders. However, she was aware that this might be considered too bureaucratic for the Arup culture. Additionally, the firm had adopted a competency profile as part of the appraisal process, which included leadership among the seven assessed competencies. The HR Directors' solution to the problem of promoting technically excellent people onto the board was to create an Arup Fellow, whereby technically brilliant people could be promoted to an ambassadorial status for staff and clients. Thereby leaving business leadership posts open to only the most commercially able.	5. *… a need for an infrastructure, a procedural thing that would reinforce the role of the leader. Because at the moment the role of the leader is a verbal support – or not as the case may be … we need to declare what the responsibilities of a group leader are, then what the responsibilities of their reporting officer might be … .* (HR Director)
Leadership Practice	
Among the challenges to new leadership behaviour was the continued lack of strategic decision-making and divergent beliefs about the direction of the firm, particularly given the complexity of leading a global firm with diverse cultures and practices. Moreover, some leaders persisted in behaviours from a former era of the firm. The separation of operational from strategic decision-making was still a continuing problem in terms of understanding the roles of the operating divisions and those of the group board responsible for overall corporate strategy.	6. *And it is very hard for some people when they are at a meeting to remember that at that meeting they have got this hat on and at the next meeting it is another hat on. At group board meeting they should not have their divisional hat on. They should be thinking of the firm as a whole.* (Executive Director)

In particular, problems with strategic thinking within the firm could be traced to the divergent beliefs held by leaders around the firm.	7. *And you will find- it is not just disagreement … its polarised. There is the parochials in one corner, there is the globals in the other corner, and everything, every comment that comes from each camp is completely contradictory and inconsistent with what comes from the other.* (US Chairman)
Dissatisfaction was expressed with board leaders' grasp of and commitment to the Arup vision.	8. *… unless you have a leadership that is absolutely committed to those ideals and to those values ad objectives then you might as well forget it…But you pick on any board member and ask them to articulate the direction for the firm, the vision for the firm in the next five years and you will find blank faces. And if they can't articulate it, they are not believing it.* (US Chairmen)
Communication was a further problem identified by most respondents, both top down within groups and between leaders at the annual partnership meeting. This was supported by the results of an extensive 360 degree review of the directors.	9. *… one of the key weaknesses of the leaders of the firm, a common one is dealing with people and communicating downwards and managing performance. So the whole bit about speaking to people, walking the floor, finding out what is going on at grass roots level, just talking to people, does not happen. Or is very patchy.* (Training Manager)
There was a continuing problem of the imprecise and intangible nature of promotion, which tended to be associated with innovative capabilities but there was a difficulty articulating these in any precise way and no formal procedure for identifying specific traits or skills.	10. *There is a long way between joining as a graduate and becoming an associate, there is nothing in between and the personnel department are looking at that especially in the specialist groups because there is no clear career path. And suddenly you are deemed you are at associate level. Here is the title and the car allowance and wait until the white smoke comes out the chimney. ''Oh we have another associate''.* (Group Leader)
Despite radical structural changes during the mid-1990s and greater integration globally, there still persisted the view within the firm that power did not reside with the hierarchy but at the group level.	11. *Our firm is just a collection of people who do what they enjoy doing. So one of the characteristics of Arups is that whilst there is a hierarchy there is very little power associated with the hierarchy….So if someone wants to do something there is almost no mechanism for stopping it. So it is a little board in a kibbutz … .*(Director)

Table 4. (*Continued*)

Leadership Components	Interview Extracts
The ability to lead was still largely based on the respect which subordinates had for the leaders' professional ability. The key to leadership identity within Arup was still ascribed to the innovative quality of those employed by the firm who will not perform in a traditionally managerial or hierarchical context. Therefore, leadership could not be based purely upon roles but had to be earned by leaders based upon their professional career accomplishments. The fact that a more centralized and hierarchical structure had been implemented did not mean that leaders exerted power in this way in practice.	12. *They are visionaries rather than managers. Most of them…And respect I think is the key word. The only way things work in this place is by respect, so if somebody asks you to do something and you don't respect him, by and large you don't do it … And actually it has to be that way because the firm deliberately hires people that are virtuoso players. And people that are virtuoso players won't work in a hierarchical way where you have got this rigid command structure … .And we have always tried to have both and we are moderately successful in having both but actually if you examine it there are all sorts of gaps in the system. And we are prepared to live with that … And it has been a formula for great success.* (Director)
Leadership Identities The role of the leader was still opaque due to the continued fusion of technical and managerial roles for leaders. Management was not a skill which all board members possessed but it was felt in general that a good technical designer and manager were necessary for promotion. Respondents considered that leadership could be unpacked into a number of types, such as technical leadership, management leadership and commercial leadership. All elements were present on the group board but the emphasis had changed recently toward a more commercial emphasis which was still regarded uneasily by many around the firm as potentially undermining professional values.	13. *There are people who reached our main board who have been entirely creativity driven. Could not manage anything. But the main board on average…unless you can manage in the sense of manage a business and manage the people within it, and unless you can inspire, then on average…you are not going to do as well as someone who can. So the anecdotal thing would say if you want to get on, be a manger.* (Executive Director)

The continuing difficulty with strategic decision-making was identified by a personality profile of the board as too many similar personality types.	14. *In some ways too like minded…An extremely unbalanced team which makes decision making difficult. Very difficult in fact…because the firm is about creating individuals and therefore the best of those are the ones who filter up to these positions so you have a board that has a lot of those. And you work on a consensus basis…the trouble is the missing bits…are the completer finisher type stuff, the getting things done.* (Deputy Chairman)
At middle levels of the firm within the divisional boards, the role of the operational leadership was to encourage collaboration between regional offices. However, the roles and expectation of middle and essentially operational management were still subject to much of the ambiguity experienced in the mid-1990s.	15. *Roles and expectations have been a bit of a subject of debate in the last year. What does a business area leader do- it has been a hot topic.* Versus *what a project director should do. And where a project director is also a business leader on a big job, recognition does not actually work… It is too big a role generally for one person to hold. And there have been differences of opinion from the leadership on that one… So there has been some degree of awkwardness and lack of clarity in that area.* (Associate Director)
The identity of leaders was still very much linked to their ability to network within the firm.	16. *It's very difficult – a group leaders role – I run a £2 million business … There is a lot of power there and there is a lot of power at group board level in terms of strategic decisions…It does come down to individual relationships and maintaining communication.* (Group Leader)
But the group board was seen as increasingly distant from the interface with the daily business of winning contracts.	*… if people look at the group board and see how they represent the rest of the firm and what their relevance is to the rest of the firm there would be some interesting disassociations. Because I don't think they are directly related to the business we have and they don't have the breadth. A lot of them haven't run groups for a long time; a lot of them haven't run businesses.* (Group Leader)
The root of the ambiguity about leadership roles was attributed to the practices inherent in the engineering profession.	17. *We aren't very good at defining our roles and responsibilities. Partly I suppose because engineers are a bit shoddy at that sort of thing*. (Leader, skills network)

reconcile new behaviours with their identities in the emerging global firm context.

The third-phase in 2000 shows the firm advanced in its global strategic integration and undergoing training and policy initiatives related to leadership of the firm. However, persistent problems remain as those at the head of the firm grapple with organizational growth, international negotiations and greater managerial complexity.

Case Analysis

Table 5 provides a synthetic summary over time of leadership developments in Arup. Our analysis of Tables 2–5 leads to four analytical insights.

First Insight: Leadership Identities are Closely Coupled with the Organizational Context

The most obvious insight is that leadership identities are closely coupled with organizational features such as environment, culture, history, and professional association (Osborn, Hunt, & Jauch, 2002). We see Arup's business closely aligned with the norms and values of the engineering profession, reflected in the culture and leadership behaviours of the firm. A history of disorganized and chaotic management at a time when the firm's competitive advantage depended upon its innovative capabilities laid the foundations for the ambiguous leadership style which dominated in phase 1. In this way the history of prestigious contracts and an innovative reputation were benchmarks for promotion to leadership roles. Over time as the commercial context changed Arup implemented new leadership structures and behaviours, which proved problematic in the absence of role models or formal processes and training. Engineering skills had to be supplemented with greater commercial and strategic skill sets, but a 50-year history proved resistant to change.

As the organization became more complex with firm growth, international negotiations and greater competitiveness, leadership identities became more fragmented with managerial and financial skills being recognized as additional composites. Despite more commercial awareness, the need to think strategically about global issues necessitated separation of strategic leadership from the day-to-day business of the firm, creating a distance between board members and leaders at the cutting edge of winning contracts. Structural solutions to leadership problems and the increasing importance of the international board in creating firm-wide policy isolated the top leaders from operational leadership, leaving group leaders to develop their local power bases using the traditional leadership style. For instance,

Table 5. Comparative Analysis of Three Phases of Leadership in Arup.

Leadership Factors	Founder Leadership Style Pre-1990: Professional Anarchy	Changing Conceptions of Leadership in the 1990s: Reformation	Re-defining Leadership 2000: One Arup
Context	*Simple, predictable, environment*	*Complex, unpredictable environment, greater competitiveness*	*Complex, unpredictable environment, rapid growth*
External & Internal	• Organic growth, opportunistic market entry • Network of groups within UK, a central office (London) and international offices • Culture of excellence, innovation and professionalism	• Firm undergoing rapid growth. Early stages of a global strategy, implementing initial integrating policies • Structured into divisions with cross cutting networks overlaying groups • Increasing formalization of procedures • Founders' values reinforced, culture beginning to include notions of "good management"	• Global strategy now encompassing more substantive initiatives such as the merger with Australian firm • Structured into divisions, including country divisions, networks and groups • Bureaucratic policies to standardize operations. Raft of HR policies implemented • Culture of excellence, innovation and professionalism including notions of "one global firm"
Leadership Processes	*Informal*	*Becoming formalized HR director appointed*	*Increasing formalization*
Leadership structure	• Loose network of leaders	• Policy board created to make strategy and splits from operations boards	• Policy board, operations and country boards, networks and groups
Leadership succession	• Based upon expertise and reputation, no formal policies for promotion	• Based upon expertise and reputation, formal policies for promotion being considered. Arup Fellow being considered	• Arup wide global policy for defining leaders' roles and promotion

Table 5. (*Continued*)

Leadership Factors	Founder Leadership Style Pre-1990: Professional Anarchy	Changing Conceptions of Leadership in the 1990s: Reformation	Re-defining Leadership 2000: One Arup
Leadership training	• None internally	• None internally	• Coaching and university tuition.
Leadership Practice	*Group leaders dominate and share leadership decisions. Chaotic style*	*Split community between strategic and operational leaders*	*Fragmented community into strategic, operational, international leaders*
Decision-making	• Consensus-based decision making is slow. Anti-managerial	• Recognition of the need for strategic thinking but difficult to practice	• Continuing difficulties with strategic decision-making
Power basis	• Ambiguous, power exerted by respect and tenure	• Respect, tenure, expertise. Increasingly experiencing malign ambiguity	• Respect, expertise, position within structure. Continuing malign ambiguity
Skill traits	• Technical, innovation, winning contracts	• Technical, innovation, winning contracts vs. managerial and financial skills	• Technical, innovation, managerial, financial, commercial
Behavioural traits	• 'Black magic', special men, creative, networking, entrepreneurs	• Creative, networking	• Creative, networking, corporate
Leadership Identity	• *Professionally driven, intangible skills, embedded in networks*	• *Professionally driven, embedded in networks but increasingly undermined by managerial ethos*	• *Professionally driven, embedded in networks but increasingly associated with different types of leadership. Increasing distance between strategic (global) leaders and local (groups and operational) leaders*

the account in Table 4, extract 12, discloses the habitual way in which Arup lived with ambiguity as the preferred state at group leader level, in order to preserve their innovative capabilities. Ambiguous leadership roles were accepted because continuing good performance reinforced them as successful. In phase 3 however, this ambiguity was heightened by multiple skill and knowledge requirements, not all of which were regarded as having equal merit to professional skills. As a counterbalance the HR director created the Arup Fellow, to allow technically brilliant engineers to be promoted into non-managerial roles. In this way, organizational systems can enable the disentangling of roles seen by some to be antagonistic.

Second Insight: Process Changes Create Leadership Ambiguity
The new leadership requirements in phases 2 and 3 created ambiguity and tension for leaders in their roles, values, and practice.

Roles. Particularly in phase 2, leaders struggled to think strategically because they lacked role models or training. Directors were members of the board by virtue of their engineering and project management expertise. They had grown up in a successful firm characterized by a chaotic and disorganized leadership style. Moreover, directors did not take advantage of leadership or management training, despite a widespread acknowledgement of their need to be more strategic and financially aware. Not only were leaders unaware of what "strategic" leadership should look like, they were unclear about how to effect leadership change. Consequently, they fell upon their own resources, as illustrated by extract 13 in Table 3 where we see evidence of what Ibarra (1999, p. 773) terms 'experimenting with provisional selves', as the UK Chairman reflects upon the character he should display during board meetings. By phase 3 Arup implemented training and coaching for leaders but problems persist. In the absence of role models (Ibarra, 1999), leaders responsible for strategy had to fall back upon introspection and external consultancy input to fashion their identities.

Values. A business approach to leadership threatened professional values, which gave leaders status. Equating a corporate approach with a loss of inspiration (indicated by the first quote in Table 3) is indicative of feelings within the firm during phase 2. Managerial practices were suspected of undermining innovative design upon which rested the success of the firm. The identity of a leader at this time, at the group and executive level, was still very much fused with the professional values of the engineer. For instance in Table 4, extract 12 shows leaders referred to as "visionaries" rather than managers. In this way, traditional leadership practices are perceived as eroded by process changes designed to introduce new managerial behaviours. Further, the tradition of promotion on the basis of engineering skills and winning contracts was at odds with the mid-1990s strategic leadership requirements of the larger firm. These requirements took leaders away from the management of clients. Furthermore, traditionally engineers had a great deal of freedom to problem-solve, get new clients, grow their staff, and take risks. Now, risk-taking behaviour was subject to greater scrutiny, and strategic decisions were taken by a smaller number of people at the very top of the firm.

The global strategy threw into relief the need to lead and manage in a way which competed with the traditional ethos of the firm. Thus, we see in phase 2 conflicts between professional practice and required leadership practices. It is this conflict which became a significant lever for further leadership role change, leading to widespread revision of HRM practices in phase 3.

Practice. Ambiguity is created when beliefs about the traditional leadership style are retained and practiced in the new leadership context. Leadership in Arup is seen as a function of personality rather than behaviours or skill. Personality characteristics and 'chemistry' were seen as innate aspects of leaders. The importance of personality was heavily reinforced by a culture of leading by networking (Table 2, extract 7), a crucial requirement for building project teams, or by locating experts for specific problems arising on a project. In this way Arup is similar to Alvesson's (1993) computer consultancy and advertising firms where person-bound subjective qualities such as social attitudes and work climate were emphasized more than formal professional knowledge. Thus new leadership problems of a non-technical nature, such as strategic decision-making, were approached as a personal problem to be solved through one's own network (Table 3, extracts 15, 17).

Additionally there is the perception that management and leadership are not scientific, which undermines their importance as well as denying that it can be improved with learning. In other words, leadership is not afforded the same status as engineering as it is not perceived as being linked to a coherent body of knowledge. For instance, the US Chairman whose quotes dominate the last page of Table 3 read many popular texts on management and had attended a Tom Peters seminar where he found he already practiced activities required of ''good'' leaders such as 'walking around'. This gave him confidence to read more about the subject but confirmed his idea that leadership could be self-taught on the job.

Table 4 shows that efforts were made in phase 3 to combat leadership ambiguity by providing a leadership programme which addressed the lack of role models and provided leadership training. This training was aimed at the top management team, which had undergone significant changes in perspective on how the firm should be managed. This team now recognized the necessity for managerial and financial competence at board level. However, at the lower levels there was still ambiguity and hence resistance to the new style of leadership. This misalignment between managerial and professional values was addressed in part through policies for promotion, formalized job descriptions, and competency profiles for appraisal. Although these changes got to the heart of persistent beliefs about management, they required time for these initiatives to diffuse and embed themselves into practice.

Third Insight: Practice Changes Lag behind Process Changes
Despite process changes during the 1990s, we see a lag in practice changes within the leadership. Thus, there were problems with the separation of operational from strategic thinking, with taking strategic thinking seriously, and with resistance to management ideas and behaviours. By phase 3, when many structural and policy initiatives had been implemented, there was still resistance to managerialist thinking and behaviour. The repertoire of leadership practices was still largely unchanged from the first phase, with importance given to networking capabilities, engineering norms, and values, and an antithesis to managerial skills, reinforced by a culture in which leadership operated by respect (attainment) rather than command (role). Subordinates colluded in the continuing leadership behaviour. The traditional leadership style was especially persistent amongst group leaders with a local power base whereas directors on the policy board increasingly had commercial and managerial skill sets. Nevertheless, there were still significant shortfalls of new leadership behaviour at the top levels during phase 3. Leadership practices were resistant to the implications of changes at the higher levels of the organization because of the relatively unchanged culture of Arup through which they were mediated.

Fourth Insight: Process Changes must become Practice for Change to Stick
The lag of practice behind process changes gives the additional insight that for change to become permanent, practices must change. While it was important for leaders to shape an organizational context to accommodate the new leadership style, this was insufficient for wholesale change to occur. For instance, new human resource policies did not immediately change attitudes towards promotion or what makes a good leader. It takes time for new procedures to make a difference. Moreover, practice changes require all those within the community to participate in change. Where leadership is

concerned this requirement includes the recognition and behaviour of subordinates. In Table 4, extracts 12 and 13 illustrate subordinates shaping leadership behaviour. The argument is that without virtuoso staff the firm would lose its creativity and that such people require traditional leadership. Moreover, the slowness with which the firm came to terms with strategic thinking resulted from lack of leadership training, which only began to be implemented in phase 3.

However, the more modest success gained by individual leaders in changing attitudes during phase 2 can be attributed to their ability to "infect people with enthusiasm" (Table 3, extract 4) for managerialist principles. The same group leader explained how he argued for good management as a way to reduce firefighting, thereby freeing time for creative thought. This echoes Alvesson's (1993) conclusion that leadership in knowledge-intensive firms involves skilful use of rhetoric. That is, change was more successful where leaders utilized shared systems of thought to promote new behaviours.

In summary, leaders' identities were shaped by professional values and the culture of the firm despite significant organizational change. Indeed, the criteria for employment at the lowest levels ensured that future leaders would be predominantly technically and creatively distinguished engineers. This culture was perceived as vital to the continuing success of the firm and would not be relinquished in favour of a more managerial style. Nevertheless, a greater commercial awareness had penetrated the policy and operational boards, causing a separation of top leaders from activities at the boundary of the firm.

Towards a Process and Social Practice Model of Leadership

We began this chapter with two research questions: How have leadership roles changed in professional services organizations which have adopted a global strategy? Second, what is the impact of role change upon leaders' identities? In answering these questions we hope to provide the basis of a process and social practice model of leadership. From the analysis of our empirical material, five main components of an emerging model are apparent.

First, leaders of PSFs which adopt a global strategy require significant redefinition of roles in terms of their scope of influence and content, although the ability to adopt these new roles may be problematic. The inherent complexity of undertaking a global strategy demands that responsibility for strategic decision making be undertaken by those at the top of the firm unhindered by operational issues. This can be difficult where the traditional leadership context of a PSF is one where all directors participate equally in decision making. It may be doubly difficult where strategic thinking is not part of the leadership's repertoire of skills. In this situation it is necessary to make structural changes to the leadership group and redefine leaders into operational and strategic roles or by leadership expertise (e.g. technical, managerial, and commercial). This restructuring is reminiscent of Chandler's (1962) M-form organization with mid-level managers at the intersection of strong cultural pressures to change from above and pressures to retain traditional leadership behaviour from below.[1]

Once structural change has occurred, there may still be problems in enacting new roles, particularly those requiring new skill sets. The inevitable growth which accompanies any successful PSF will also result in greater bureaucracy than might seem comfortable to personnel who grew up in a smaller firm. Roles containing greater managerial content may be perceived to decouple personnel from "real" professional activities, which have sustained the firm for many years. This is accompanied by a diminution of expert power as technical skills become standardized globally and managerial skill sets consume time previously devoted to technical activity or maintaining clients. Resultant role ambiguity may mean that behavioural change lags structural changes. As our case demonstrates, even the passage of several years may be insufficient for new leadership roles to embed.

Second, major substantive change in PSFs involving fundamental alterations to leaders' roles but not to firm culture will create considerable ambiguity for leadership identities. Further, change to leadership practices will be slow or non-existent unless the organization enables practice changes alongside process changes. In this way we posit a complementary relationship between process and practice activities. As leader identities originate in the daily and situated practice of being a leader, the social context mediates the practices of leadership (Brown & Duguid, 2001). This echoes Ibarra's (1999) contention that the socialization practices of the firm are the most dominant situational influences on leadership identity formation. But where Brown and Duguid (2001, p. 202) argue that social identities of leaders are in a dynamic interrelationship with work and organization, this requires some qualification. Substantive process changes such as implementing new strategies or structures do not create behavioural change by themselves, as illustrated by our case. As Ibarra (1999, p. 764) writes: "… in assuming new roles, people must not only acquire new skills but also adopt the social norms and rules that govern how they should conduct themselves". Where the social norms and rules do not change in parallel with process changes, new behaviours are not instructed or reinforced by practice, creating role ambiguity for leaders whose identities are out of synch with the new processes.

All this suggest that process and practice exist in a complementary relation to each other. For instance, practices embedded in policies and procedures which govern working lives and relationships may reinforce or undermine implementation of new processes. Therefore, coherence between practices and processes is necessary for change to proceed. Change is resisted or slow where processes and practices are out of alignment. The type of ambiguous leadership by which the literature characterizes PSFs may thrive in an organization where the strategy process is driven by opportunism, and leadership practice is characterized by chaos or professional anarchy. Further, this ambiguity works in a benign firm environment where competitive advantage is based upon the talents of human resources embedded in professional identities. However, shifts in the firm environment and, subsequently, processes, create an uncomfortable ambiguity, what we call malign ambiguity, because discourse around management undermines identities by suggesting the future of the firm is at stake. This recalls Knights and Willmott's (1992) conceptualization of leadership processes whereby phenomenological and existential dimensions of leadership are undermined by new firm discourses and action. This malign ambiguity becomes the spur for practice change.

Third, personal influence is crucial. The importance of personal influence rests upon the traditional basis of leadership carried out by means of ideas rather than instructions (Alvesson, 1992) and includes influencing employees by securing and developing work as well as organizational identities (Alvesson, 1993). Personal and social relations are crucial for leadership and for maintaining a competitive advantage (Boxall, 1996; Lowendahl, 1997). Thus, leaders must be seen to be motivating and inspirational, particularly when introducing new managerial ideas, because professionals are disinclined to subordinate themselves to hierarchies (Robertson et al., 2003). Periods of high change, where leaders are (re)shaping their own identities, presents management with a double-hurdled task. It is therefore necessary for leaders to demonstrate how new processes add value to the firm. In particular, the top team require a coherent vision to convince middle-level leaders of the new logics of behaviour (Lowendahl, 1997). This coherence is best reinforced by a shared culture of practices aligned with the new processes: "Impression management is crucial" (Alvesson, 1993, p. 1012).

As previously argued, process changes, even accompanied by rhetoric, are not enough to change leadership behaviour in the long term. It is also necessary for practice changes to be spearheaded by influential leaders, such as for instance, implementing and *acting* upon new appraisal systems. There may also be the need for mould-breaking action where old behaviours persist, in order to send a direct message about what is required from leaders. Thus, splitting the leadership community was painful for Arup but necessary. However, in the absence of top team role models, change can be problematic, necessitating importation of standards from external providers. Outsiders bring a fresh perspective, highlighting resources and changes required which may be difficult for insiders to articulate. A note of caution is that outsiders need to understand the culture of the firm, as much to anticipate blockages to change as to be able to sell the change.

Fourth, it is important for leaders to maintain elements of continuity alongside high-level change (Pettigrew & Fenton, 2000). Typically, professional services derive competitive advantage from winning contracts, service delivery, and maintaining reputation. It is, therefore, difficult to reinvent new leadership practices, which dilute these competencies. Also role ambiguity is heightened for operational leaders in particular, who see the basis of their accomplishment undermined by greater bureaucracy. It might therefore be necessary to align organizational change with existing value systems such as professionalism, in this way preserving some crucial elements of leadership identity sensitive to a traditional leadership style (e.g. the creation of the Arup Fellow).

Fifth, managing change requires orchestration and timing of the process *and* practice of change. We have seen the interwoven and dynamic nature of process and practice within PSFs. Process changes inevitably advance ahead of practice changes as top management execute their vision of what the firm should become. This is reminiscent of Denis et al's (2001, p. 833) pluralistic organizations where change "… tends to occur in a cyclical manner in which opposing pressures are reconciled sequentially rather than simultaneously". The opposing pressures of entrenched practice are dealt with following major change initiatives as resistance becomes evident. Regulating the character, pace, and dynamics of change is a political and cultural act. Moving too swiftly could upset the balance to an overbureaucratic and less innovative firm. Moving too slowly could stymie change, undermining global integration and competitiveness.

CONCLUSION AND IMPLICATIONS

What can we conclude from our preliminary model of leadership in global PSFs? Our analytical distinction between process and practice enables deeper insights into leaders' resistance and adaptation to organizational change. Leading change to become a globally integrated firm is a challenging task for leaders in professional services, as it takes them away from established leadership practices to new logics of behaviour. Implementing new organizational and leadership processes can undermine leadership identities as established practices enshrined within roles may be inadequate. The gap between new processes and old practices shifts leaders from a zone of comfortable ambiguity to one of malign ambiguity, resulting in dysfunctional behaviour and role confusion. A central task is to close the gap between processes and practices in leadership. In the absence of internal role models importing knowledge and experience from outside may be vital, if only to establish new sets of internal policies around leadership training and succession; thereby establishing Boxall's (1996) human process advantages within the global PSF.

One critical feature of the comfortable ambiguity associated with traditional leadership practices in PSFs is the discretion it confers upon local leaders to be innovative and entrepreneurial (Lowendahl, 1997). To preserve these competencies it may be necessary to make structural changes to the leadership community, fragmenting global and local leadership without each undermining the other.

Our findings encourage awareness of the ambiguity and complexity leaders navigate during change (Knights & Willmott, 1992). Despite the lack of a clear "recipe", leaders accomplish practically the role of leadership through daily innovation (Brown & Duguid, 1991). A critical reflection of this daily practical accomplishment could enable analysis of significant incidents as well as routine events such as meetings, in the light of changing roles and identities. Such fine-grained reflexivity could aid leaders regulate the pace, scope, and timing of changes to leadership roles. This is an activity with potential ramifications beyond quarterly or annual profit targets: to maintain an organization which changes fast enough to accommodate strategic imperatives while at the same time being sensitive to asymmetric tolerances to identity shifts within the leadership community.

Identities are shown to be mediated by work practices and are fundamental to enacting the role of a leader. The way in which leaders revised their identities is not examined fully here as we have analyzed broad change patterns over time. Further research could usefully be undertaken on the self-construction process of leaders, focussing upon specific individual strategies and activity patterns over time. This would enrich Ibarra's (1999, p. 783) concept of adaptation repertoire which accommodates stability and change in identities and specifically leaders' learning strategies on "… how to accomplish their identity amidst a new set of threats". Orchestrating the timing and pace of process and practice change, as well as coordinating the gap between, is an accomplished skill requiring further research on how leaders learn and from where they derive resources to execute this successfully.

The criticism of research conducted using one case study has been dealt with both theoretically (Tsoukas, 1989) and practically (Knights & Willmott, 1992). We concur with Knights and Willmott (1992, p. 768) when they ask: ''… whether knowledge created by nomothetic methodologies is exhaustive of what is worth knowing about leadership processes''. Here we have adopted an inductive theory generation approach in which speculative ideas are tested within the field and against data. To generalize thus from a small non-randomly selected sample will appear problematic to positivists. We counter this with three points (1) that we are concerned with professional services organizations which we have treated as a unique population of firms; (2) that we are dealing with change phenomena which have very similar contextual and organizational features for this population; (3) that the focus upon leadership roles and identity has been shown by previous research to have a unique character within professional services organizations. One caveat remains: we have researched an organization in which the leadership within the UK could be identified as a distinct community of practice before the change. In much larger PSFs or those, which have merged, these will not be the same initial conditions. In such firms the adoption of a global strategy will have a different and more complex impact in terms of the reactions of the separate leadership communities. Further, the cleavages between separate communities will represent points of high resistance. It remains for further research in this field to verify or refute our predictions.

NOTES

1. We are grateful to the editors for this insight.

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PARTNERSHIP VERSUS CORPORATION: IMPLICATIONS OF ALTERNATIVE FORMS OF GOVERNANCE IN PROFESSIONAL SERVICE FIRMS☆

Laura Empson and Chris Chapman

ABSTRACT

For professional service firms (PSFs) the partnership form of governance is the most effective means of reconciling the potentially competing claims of three sets of stakeholders: shareholders, professionals, and clients. Increasingly, PSFs are abandoning this traditional form of governance in favour of incorporation and flotation. Very little is known about the implications of this trend. We examine an alliance between a partnership and a corporation and analyse the systems and structures that professionals in both firms deploy in their efforts to preserve and sustain the interpretive scheme of professionalism and partnership. We emphasise the need to develop a more nuanced understanding of the relationship between governance as a legal form and governance as an interpretive scheme.

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INTRODUCTION

The unlimited liability partnership has traditionally been the prevailing legal form of governance within the professional service sector. In recent decades, however, increasing size and organisational complexity have led partnerships to adopt management practices more typically associated with corporations (Malhotra, Morris, & Hinings, this volume, Chapter 7). Many professional service firms (PSFs) are abandoning the partnership in favour of incorporation and flotation (Greenwood & Empson, 2003; Greenwood, Li, & Deephouse, 2003; Pinnington & Morris, 2002).

Previous studies of PSFs indicate that such a development may be problematic. Partnership is typically portrayed as the optimal form of governance for PSFs as a means of simultaneously reassuring clients (Levin & Tadelis, 2002; Shafer, Lowe, & Fogarty, 2002; Sharma, 1997), motivating professionals (Covaleski, Dirsmith, Heian, & Samuel, 1998; Galanter & Palay, 1991; Greenwood, Hinings, & Brown, 1990), and satisfying shareholders (Alchian & Demsetz, 1972; Fama & Jensen, 1983; Leibowitz & Tollison, 1980). Shafer et al. (2002) suggest that the trend towards incorporation will have a potentially detrimental impact on the professionalism and ethics of public accountants. Augur (2000) and von Nordenflycht (2003) cite considerable anecdotal evidence which suggests that flotation has had a detrimental impact on firms in the investment banking, advertising, and consulting sectors.

In spite of the potential importance of this trend towards incorporation and flotation among PSFs, very few empirical studies have examined the impact of this development. This study addresses this deficiency asking: what are the implications of alternative forms of governance for managerial authority and organisational priorities in PSFs? To address this question we examine an alliance between two consulting firms, one a limited liability partnership, the other a publicly quoted corporation. The firms in the study present a unique opportunity to examine the impact of alternative forms of governance, by comparing two firms offering essentially the same, or similar services to the same, or similar clients in the same, or similar manner.

We begin by presenting a framework for analysing the dimensions of governance. We explain why the professional partnership has traditionally been viewed as the optimal form of PSF governance and examine the factors encouraging many PSFs to incorporate and float. We then outline the research design and develop a detailed analysis of the core principles of governance of the firms within our current study. We find that professionals in both firms believe strongly in the same core principles, which are associated with the interpretive scheme of partnership and professionalism. However, these principles are manifested and enacted through different organisational systems and structures associated with the firms' different legal forms of governance. We conclude that it is possible for professionals to counterbalance the potentially negative impact of incorporation and flotation, and we examine the implications for PSFs and governance more generally.

DIMENSIONS OF GOVERNANCE

The concept of organisational governance defines the structures and systems that support and control management decision-making, and guides managers in how to reconcile and prioritise the competing claims of organisational stakeholders (O'Sullivan, 2000). Our study is founded on the premise that form of governance can be viewed from two distinct but intimately related perspectives: governance as a legal form and governance as an organisational form.

Governance as an organisational form refers to those practices which are organisationally determined (or, more typically, institutionally determined). Such practices reflect the organisation's interpretive scheme, i.e. the shared background of mutual understanding that constitutes agreement between members and that enables the orderly production of roles and rules (Ranson, Hinings, & Greenwood, 1980). This interpretive scheme of governance is manifested and enacted through the organisation's structures and systems of governance, which also reflect the regulatory requirements imposed by the organisation's legal form of governance. Figure 1 represents this relationship between governance as a legal form and governance as an interpretive scheme.

This distinction between governance as a legal form and governance as an interpretive scheme represents a fundamental contribution of this study. Previous studies of PSF governance have not made this distinction explicit. Studies tend to focus either on variations in organisational form (e.g. Cooper, Hinings, Greenwood, & Brown, 1996; Greenwood et al., 1990; Pinnington & Morris, 2002), or on variations in legal form (e.g. Greenwood & Empson, 2003; Greenwood et al., 2003; von Nordenflycht, 2003). Once the distinction between legal and organisational form is recognised and emphasised, it is possible to allow for the possibility of incoherence, i.e. that a PSF may adopt a particular legal form of governance that is inconsistent with its interpretive scheme of governance.

As a legal form, PSF governance is highly geographically and institutionally specific. Typically, however, the partnership form of governance is

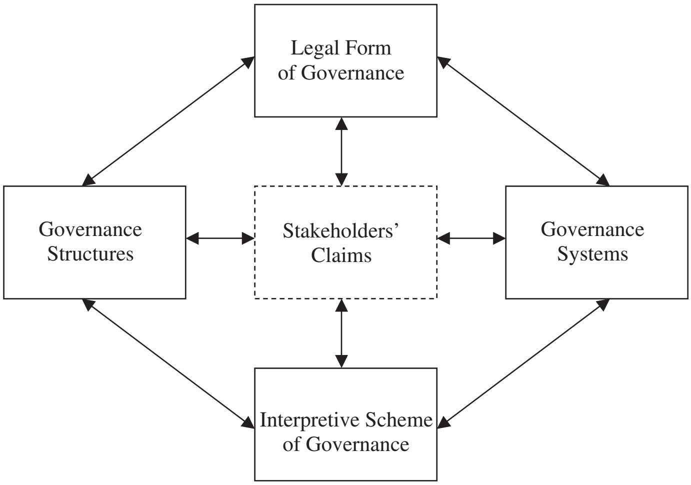

Fig. 1. Dimensions of Governance.

distinguished from alternative legal forms, such as the private or publicly quoted corporation, by two key characteristics (beyond the basic fact that the firm does not have a legal identity independent from its partners). First, ownership is confined to an elite group of professionals within the firm; and second, partners share unlimited personal liability for the actions of their colleagues. These two elements of personal ownership and collective liability are inextricably connected within the traditional partnership. In a limited liability partnership,[1] the first element will be present but not the second. In a corporation the first element may be present but the second will be absent.

Previous studies of the interpretive scheme of PSF governance argue that it is based on the twin concepts of "professionalism" and "partnership" (Cooper et al., 1996; Greenwood et al., 1990). Greenwood et al. (1990) show how these concepts are interconnected and mutually constitutive. These twin concepts revolve around three key elements: valuing the esoteric knowledge of the individual, allowing those individuals extensive autonomy over how they choose to deploy that knowledge, and expecting them to use their knowledge primarily for the benefit of their clients. As Cooper et al. (1996) argue, however, "there is no unique and unchanging meaning to ideas such as professionalism and partnership" (p. 634). As the interpretive scheme changes, so too do the systems and structures through which it is manifested and enacted.

PARTNERSHIP[2] AS EXEMPLAR?

The highly regulated professions, such as law and accountancy, traditionally required member firms to maintain the partnership form of governance (at least in the US and the UK where the majority of large PSFs are based). PSFs within less highly regulated professions, such as consulting, tended to adopt the partnership form in order to assume the mantle of professionalism that it embodied (McKenna, 2000). Therefore, from the beginnings of professional work, the interpretive schemes of professionalism and partnership were intimately related.

Ongoing debates within certain professions reflect how the partnership form of governance has been seen by many practitioners and their clients as inextricably bound up with concepts of professionalism (*The Accountant*, 1985a, b; *The Law Society Gazette*, 1987; *The Lawyer*, 1988). This view is encapsulated by a 1983 ruling of the Georgia Supreme Court:

> The professional nature of the law practice and its obligations requires each lawyer to be civilly responsible for his acts … It is inappropriate for the lawyer to be able to play hide and seek in the shadows and folds of the corporate veil and thus escape the responsibilities of professionalism.
>
> (Johnson, 1995, p. 100)

The link between the interpretive schemes of professionalism and partnership, however, is grounded in more than history and mimetic isomorphism. As explained below, it arises from the nature of the PSF's primary task, the application of specialist technical knowledge to the creation of customised solutions to clients' complex problems (Lowendahl, 2000; Morris & Empson, 1998) which creates the need to reconcile the potentially competing claims of three sets of stakeholders: shareholders, professionals, and clients.

Shareholders

A PSF is dependent upon the technical knowledge and client relationships of key individuals. These proprietary assets represent a potentially significant source of power and income for the individual professional (Empson, 2001; Morris, 2001). Why then should professionals share their knowledge and relationships with others? At the same time, how can these professionals (who are offering a complex, expert, and intangible service) be monitored and controlled effectively by those not directly involved in the provision of the service and who do not share their highly specialised expertise? Professionals forced to share their proprietary assets and submit to formalised and intensive managerial controls can simply choose to leave the firm, thus destroying shareholder value. Property rights theory and agency theory point to the partnership as an effective solution to these organisational dilemmas.

A property rights perspective emphasises that when key income-generating assets are proprietary to individuals, they should share jointly in the ownership of the firm and participate directly in decision-making (Hart & Moore, 1990). This decision-making authority should extend far beyond the basic control of operational issues to include fundamental strategic issues (Fama & Jensen, 1983). While collective ownership is possible within a corporation, this emphasis on collective decision-making is more typically associated with partnerships.

An agency perspective recognises that it can be difficult and costly to apply formal controls to the monitoring of complex and non-routine activities, such as the provision of professional services (Jensen & Meckling, 1986). To minimise the risks of free-riding and shirking, it is therefore advisable to share profits among core producers and to develop mutual and self-monitoring practices rather than rely upon formal controls (Alchian & Demsetz, 1972; Fama, 1980; Leibowitz & Tollison, 1980). This emphasis on peer rather than hierarchical control is further encouraged by unlimited personal liability, which provides a strong incentive to ensure that fellow professionals are intensively socialised to be trusted to deliver the appropriate standard of quality.

Rajan and Zingales (2000) bring together the preoccupations of property rights and agency theory in the context of a PSF. They argue that, in "knowledge-intensive" firms it is not clear who owns the most critical assets, shareholders or employees (i.e. professionals). In this context, shareholder interests are best served when aligned with the interests of the professionals. Extending their argument, it follows that partnership represents a logical solution to this dilemma. Both sets of stakeholders (i.e. shareholders and professionals) may still represent competing claims on the firm but, by combining the roles within individual partners, the partnership structure ensures that the conflict must ultimately be reconciled at an individual as well as organisational level. Rajan and Zingales argue that managers of knowledge-intensive firms should maximise "enterprise value" rather than shareholder value, i.e. they should view the organisation holistically in terms of the multiple needs of competing stakeholders rather than focusing exclusively on the needs of shareholders. Actions designed to increase shareholder value in the short term may be counter-productive in the medium term if they result in the destruction of stakeholder value more generally.

Professionals

Focusing on the professional as stakeholder creates an additional challenge for managers of PSFs: how can they ensure that professionals enjoy an appropriate degree of autonomy while operating effectively within an organisational context? The sociology of the professions literature emphasises the extent to which professionals expect and enjoy high levels of personal autonomy within their working environment (Heydebrand, 1973; Meiksins & Watson, 1989; Ritzer & Walczak, 1986) and the problems that can arise when autonomy is denied to them (Abernethy & Stoelwinder, 1995; Raelin, 1985; Sorenson & Sorenson, 1974). Bailyn (1985) argues that autonomy means different things in different professional contexts but defines it broadly as "the freedom to choose problems on which to work and to pursue them independently of directives from anyone except the precedents of (professional) discipline" (p. 132). Within this broad definition, Bailyn distinguishes between strategic autonomy over ends, and operational autonomy over means.

This emphasis on autonomy is derived in part from the nature of professional work. To deliver a customised service of appropriate quality, expert workers must be free to exercise independent judgement. But the desire for autonomy may go further than this, as Bailyn (1985) emphasises, because professionals value strategic as well as operational autonomy. Professionals seek opportunities to self-actualise by pursuing assignments they find intellectually rewarding, or which satisfy their creative or altruistic impulses (Winch & Schneider, 1993). Such assignments may not necessarily be in the interests of the firm and may even be in opposition to them.

The partnership has typically been viewed as an effective governance mechanism for delivering the appropriate degree of autonomy required to motivate senior professionals (Greenwood et al., 1990; Tolbert & Stern, 1991). From a structural perspective, partners combine the role of owner, manager, and core producer. Certain systems are associated with this structural form. Typically, partners retain the right to vote on key management decisions and to elect representatives from among their ranking on a fixed-term basis to perform senior management roles (Dirsmith, Heian, & Covaleski, 1997; Tolbert & Stern, 1991). Professionals may have considerable scope to pursue their professional objectives (e.g. to satisfy their intellectual or creative impulses or their desire to deliver a superior quality of service to clients) and are not necessarily required to focus exclusively on commercial imperatives (Leibowitz & Tollison, 1980; Pinnington & Morris, 2002). Individual partner autonomy is further enhanced in those partnerships which operate a lockstep remuneration system (Gilson & Mnookin, 1985). Under a lockstep system, each partner's compensation is based on chronological seniority rather than individual performance, thereby offering partners some degree of protection from managerial controls. In this way, both the systems and structures serve to support the emphasis on individual autonomy embodied in the interpretive scheme of partnership.

Clients

Just as PSF managers need to balance the competing claims of shareholders and professionals, so too must they balance the competing claims of shareholders and clients. Given the distinctive characteristics of professional work, how can the client trust the professional to focus on maximising quality of service rather than on maximising shareholder value?

When clients approach a PSF, they may not fully understand the nature of their problem and they cannot sample the PSF's service prior to acquisition (Wilensky, 1964). Potentially, this puts the professional in a position of considerable power relative to the client (Levin & Tadelis, 2002; Sharma, 1997). The client's trust in their professional will be based upon a complex set of factors, such as personal relationship and organisational status or reputation (Alvesson, 2001; Podolny, 1993), but traditionally the partnership form of governance has represented a fundamental and important source of reassurance. The combination of unlimited personal liability and internal share ownership ensures that partners share their clients' financial interests in maintaining quality standards and do not privilege the interests of external shareholders over those of their clients (Shafer et al., 2002).

Partners may, of course, choose to privilege their own interests over those of their clients, but the intensive inculcation of standards of professionalism through formal training and informal socialisation supposedly militates against such a tendency (Hall, 1968; Sharma, 1997; Tolbert, 1988). The protracted system of promotion to partner is designed to ensure that an individual's professionalism can be trusted by clients and partners alike (Anderson-Gough, Grey, & Robson, 1998; Covaleski et al., 1998; Galanter & Palay, 1991; Gilson & Mnookin, 1985). Marshall's (1939) statement (as quoted by Freidson, 2001) that "the essence of professionalism … is not concerned with self-interest but with the welfare of the client" (p. 158) is clearly idealistic in a contemporary context, but remains the basis of the professions' justification for resisting external regulation.

PARTNERSHIP UNDER PRESSURE

The professional service sector has undergone substantial changes in recent decades that have undermined the benefits of partnership as a vehicle for professional activity. A variety of factors have contributed to this, associated with the increased problems and costs of running large and complex PSFs (Greenwood & Empson, 2003). Many partnerships have become major multinational firms, expanding into multiple geographic regions and service lines (Lowendahl, 2000; Rose & Hinings, 1999; Spar, 1997). In this context, collegial decision-making processes have become too time-consuming and challenging, as consensus must be built among multiple constituents with differing backgrounds who may have little in common with, or knowledge of, each other (Dirsmith et al., 1997; Tolbert & Stern, 1991).

As described by Malhotra et al. in Chapter 7 of this volume, some partnerships, therefore, have begun to adopt management practices more typically associated with corporations. Whereas partners in traditional partnerships may operate as loose associations of peers relying upon consensus-based decision-making, partners in more "corporate" style partnerships delegate the day-to-day running of their firms to elected committees. In traditional partnerships, peer pressure and professional pride are the main control factors. By contrast, more "corporate" style partnerships utilise formalised structures and administrative systems for financial control, human resource (HR) development, and knowledge management.

These differences in the structures and systems are reinforced by differences in the interpretive scheme. Whereas the concepts of professionalism and partnership have traditionally embodied a dedication to sustaining professional standards and collegiality among peers, in more corporate style partnerships concepts of professionalism and partnership are reinterpreted to ensure that all professionals work together to pursue the commercial objectives defined by the management group. As a result of these evolving organisational practices, the professional service sector now encompasses multiple archetypes: the P^2 (the traditional Professional Partnership) and variations of the MPB (the Managerial Professional Business). However, these archetypes are derived from studies of partnerships and do not consider the possibility or implications of alternative legal forms of governance.

While pressures of size and complexity, in part, can be addressed through the creation of a more "corporate" style partnership, the financial pressures faced by PSFs are harder to address within the partnership structure. Professional partnerships typically find it difficult to raise capital (Ciancanelli, 2002). In recent years, this difficulty has become a significant cause for concern, as discussed by Greenwood and Empson (2003). The increasingly litigious nature of clients has raised partnership indemnity premiums to a prohibitively high level. The desire to exploit the benefits of localised technical knowledge and client relationships across large organisational networks has created a need for a substantial investment in information technology. In addition, the promise of partnership holds less attraction for new generations of graduates, many of whom prefer the immediate financial rewards available in publicly quoted investment banks or the faster opportunities for advancement within new business start-ups.

As a result, in the past two decades, PSFs have increasingly abandoned the partnership form of governance in favour of incorporation and flotation. For example, among the 50 largest consulting firms worldwide, the number of publicly quoted firms rose from 5 to 31 between 1989 and 2001 (Greenwood et al., 2003). Among investment banks, the partnership is now almost extinct (Augur, 2000; Pretzlik & Silverman, 2002). The more highly institutionalised professions, such as law, have been slower to abandon the partnership but the beginnings of a similar trend are observable. In the UK, law firms have been permitted to incorporate since 1992 and external ownership and public quotation is now a realistic possibility (Clementi, 2004; Sherwood, 2003). Within the accountancy and architecture professions, traditionally dominated by partnerships, publicly quoted corporations are relatively rare. However, the percentage of privately held incorporated firms among the top 100 firms in these two sectors has reached 44 and 82, respectively (Greenwood & Empson, 2003). Rather than incorporate, some PSFs have adopted limited liability status. The limited liability partnership is replacing the traditional unlimited liability partnership within the UK accounting sector and is beginning to be adopted within the UK legal profession (Peel & Eaglesham, 2002; Tsang, 2002).

Shafer et al. (2002) have argued that this trend towards incorporation and flotation is a potential cause for concern. If partnership is really the optimal form of governance for satisfying shareholders, motivating professionals, and reassuring clients, then we can infer that these changes will have a significant impact on the professional service sector. In a publicly quoted PSF, professionals are no longer personally liable for the actions of their colleagues and (at least a minority of) shares are held by external investors. Managers have the authority and the obligation to privilege the financial interests of shareholders over clients or professionals. The presence of external shareholders, therefore, can be used to legitimise a more overtly commercial orientation, to extend managerial authority, and to impose greater control on professionals (Robertson & Swan, 2004).

In spite of the trend towards incorporation and flotation in the PSF sector, very few empirical studies have explored the implications of changing forms of governance. Studies by Pinnington and Morris (2002) and Van Lent (1999) of architecture and accountancy firms are exceptions. They find that the move from partnership to incorporation is associated with the adoption of "corporate" style systems and structures to a limited extent, though organisational members retain a strong commitment to the interpretive scheme of professionalism and partnership. They suggest that flotation may lead to more dramatic changes. Indeed there is considerable anecdotal evidence from a wide range of professions including investment banking, consulting, and advertising to suggest that flotation may have had a negative impact on specific PSFs (Augur, 2000; von Nordenflycht, 2003).

The debate about the appropriate form of PSF governance is clearly complex. We seek to examine the implications of alternative forms of governance for managerial authority and organisational priorities. We contribute to this line of enquiry through our study of an alliance between two consulting firms, a limited liability partnership and a publicly quoted company.

RESEARCH DESIGN

We studied a UK-based partnership and a US-based company, working together in a long-standing alliance to deliver very similar services to very similar clients, in a very similar manner.[3] They are bound together through a formal alliance, cross-shareholdings, board representation, and joint membership of management committees. However, they maintain distinct organisational and legal structures. The company was floated on the New York Stock Exchange four years before our study commenced and, in an unconnected move, the partnership subsequently converted into LLP status (and will be known as "LLP" in this study). Although the company (which will be known as "Co" in this study) has never been a partnership, its shareholding structure at the time of flotation closely resembled one. Shares were held internally by a broad cross-section of employees, with no individual owning more than 1.5%. In the four years following flotation, half of the shares have been sold to outside investors.

The objective of the alliance between Co and LLP was to offer a "seamless" range of human capital and related consulting services to multinational clients on a global basis. In the 10 years since the alliance was established, this objective has apparently been achieved. As one interviewee explained:

> We market ourselves as one firm. We try to act one hundred percent to the outside world as one firm. But we are in fact two firms.
>
> (Co: Practice Head)

Both firms offer a wide variety of services, ranging from annual repeat business relating to technical valuations through to ad hoc consulting on organisational development. While the lines of business in the two firms are broadly similar, their operations are substantially geographically segregated. When our study commenced, Co had 4,000 staff in 61 offices across the Americas and Asia, generating revenues of approximately $710 million and net income of $50 million. LLP had 2,200 staff in 28 offices spread across the UK and Continental Europe, generating revenues of approximately £225 million and operating profit of £60 million.

We gathered three types of data over a 15-month period: interview data, archival records, and direct observation of various workshops, training sessions, and meetings. The main focus of our attention was interview data; archival and observation data were used to augment, challenge, and support interview data. We carried out 77 semi-structured interviews (see Table 1 for more details)[4] covering a wide range of organisational members, from senior full-time fee-earning professionals to trainees, from professionals in full-time general management roles to functional specialist managers (i.e. not "professionals") and their support staff, from lateral hires to long-serving professionals close to retirement. Consistent with deviant case analysis (Silverman, 2001, p. 239), we included interviewees who might be regarded as holding unusual views. In selecting interviewees from such a broad cross-section of levels, roles, and backgrounds, we were searching for consistency and points of difference, consistent with the constant comparative method discussed by Silverman (2001, p. 238).

Interviews lasted 75 min on average and ranged from 30 minutes to almost 2 hours. More than 70% of interviews took place with both researchers

Table 1. Interview Data.

	LLP	Co
Total number of interviews	42	35
Telephone/video conference interviews	1	5
Interviews for which full transcripts not available	5	6
Number of offices from which interviewees drawn	6	8

present, were tape-recorded, and subsequently transcribed. If transcription was not possible (because interviewees were uncomfortable about being recorded or because recording was not practical), we took notes during the interview and wrote-up more detailed notes as soon afterwards as possible.

The purpose of these interviews was to build a picture of how interviewees saw the role and functioning of the firm's formal structures and systems and to explore their values and beliefs about appropriate ways of interacting with one another and carrying out work. To this end, we used a semi-structured interview guide. This ensured that interviews covered a common set of issues and themes but allowed for flexibility to interact with interviewees, e.g. requesting illustrative examples to test our developing understanding (see Holstein & Gubrium, 2001). In between interviews we engaged in lengthy discussions with each other concerning the contents of preceding interviews. When we developed differing initial interpretations of interviews, we sought to resolve these issues through appropriate questioning in subsequent interviews.

Working separately, we both entered interview transcripts and field notes into Altas.ti software (Barry, 1998) and coded them independently. This software was used primarily as a tool for data management (Kelle, 1997) rather than data analysis. We dissected and reorganised the original transcripts around emerging significant issues in order to identify and explore areas of agreement and disagreement and to understand the firm's structures, systems, and interpretive scheme of governance. Following Silverman's (2001) notion of comprehensive data treatment, we carried out extensive analysis of transcripts using the software to compare accounts of different individuals regarding common issues, seeking to guard against anecdotalism in our understanding. This was in part facilitated by the independent coding, but we also engaged in extensive ad hoc use of the software's search facilities to look for competing viewpoints. Findings that did not appear to fit emerging patterns identified in this process were marked for subsequent exploration as the research continued.

We also reviewed archival data, including planning, control and financial documents, materials used in internal training, appraisal and promotion, etc. These materials were often presented by interviewees and discussed during interviews. We also used archival records to elaborate and confirm issues that arose in interviews and observations. For example, the claims of an emphasis on long-run financial returns were examined through an analysis of nine quarterly presentations made by the CEO to financial analysts between February 2002 and May 2004. Observation of various training sessions, general workshops, and management meetings provided additional opportunities to assess the validity and more richly contextualise our analysis of interview data. Our attendance at these events (two of which were residential) allowed additional, less formal, opportunities for interaction.

Formal feedback on our understanding was provided through reporting and discussions of our initial findings with the Senior and Managing Partner in LLP and with the CEO in Co. We also presented the analysis formally at two partner meetings of LLP and at a Co board meeting. We ceased data collection and analysis when we determined that theoretical saturation had been reached (Glaser, 1992; Glaser & Strauss, 1967; Miles & Huberman, 1984) and we had developed a clear sense of the structures, systems, and interpretive scheme of the two organisations.

CORE PRINCIPLES OF GOVERNANCE

> The partnership and the company are like twins separated at birth … The organizational structures you can argue are very different but the DNA is the same … We've got some of the very same types of people at two locations worlds apart and created two very similar organizations.
>
> (Co: Functional Head)

Although the two firms have fundamentally different legal forms of governance, organisational members believe in the same core principles of governance, reflecting similar views on the extent of managerial authority, the scope of individual autonomy, and the nature of organisational priorities. This section explains how these common core principles, which form an integral part of the interpretive scheme of governance, are manifested and enacted in Co and LLP through different organisational structures and systems.

Core Principle 1: Managerial Authority should be Constrained

The Managing Partner of LLP explains:

> As Managing Partner you're not actually managing anything in reality. The people actually managing the business are the Practice Heads. So you're actually managing through influence and persuasion rather than through taking decisions yourself.
>
> (LLP: Managing Partner)

A Practice Head in LLP also emphasises his ability to influence rather than direct:

> Am I a powerful person? In the structure here we bend over backwards to make sure people don't get too much power, but yes, I do have a very influential position.
>
> (LLP: Practice Head)

Traditionally, the partners[5] met every month to debate and decide a wide range of operational and strategic issues. However, as the partnership expanded and the firm became more diverse in terms of geography and service lines, this decision-making process proved impractical. A new management structure evolved during the 1980s and 1990s, whereby the Managing Partner took responsibility for day-to-day operational issues, together with the Management Committee of Practice and Functional Heads, and the Senior Partner took on the role of Chairman of the Partnership Board, exercising strategic and financial oversight of the management group on behalf of the partners. In 2003, a Delegation of Authority resolution was passed. This formally recognised the rights and responsibilities of key individuals and committees to act on behalf of the partners in a limited range of operational and strategic decisions. This delegation of authority is renewable on an annual basis by a 75% majority of the partners on an annual basis. Moreover, as many partners emphasise in interviews, management decisions are *in extremis* subject to reversal by partnership vote. As one full-time fee-earning partner (i.e. not in a management role) explains:

> At the end of the day, the Management Committee and the Partnership Board derive their authority from the partners, they have delegated authority. But, if they are doing things which we partners in general do not feel appropriate, then there is a sanction.
>
> (LLP: Partner)

As this quotation illustrates, the owners of the key income-generating assets (i.e. the partners who possess the specialist technical expertise and who control the key client relationships) retain the right to be involved in key decisions and delegate responsibility for managing the firm on a temporary and, at least hypothetically, contingent basis.

The Managing Partner and Practice Heads recognise that the ultimate source of their authority rests not in their formal management roles, but in their ability to demonstrate that they have the support of the majority of the partners. For example, the Managing Partner explains how he managed to win the approval of the Partnership Board and Management Committee for a particularly controversial proposal:

> Throughout the whole process I had talked to a much wider body of people than anyone else and, as we talked and talked and talked, and the others started consulting more

> widely, they came around to my view, because they could see that I had sensed the organisation correctly.
>
> (LLP: Managing Partner)

The Managing Partner therefore emphasises how key decisions can only be made after lengthy consultation with partners (to "talk and talk and talk"). He stresses the need to have a good "sense" of the mood of the partner group rather than simply to approach management decisions on the basis of what may appear to be the economically rational choice for the firm.

To illustrate the distinction between the reified nature of the firm and the individualised nature of the partner group, the Senior Partner contrasts managerial authority in LLP and Co as follows:

> There is a difference between the CEO and the Managing Partner. As far as the Managing Partner is concerned, if you take some of the Partners, they'll say he's their servant and they just want him to manage the firm for them. But the CEO of the company has been chosen by its Board to actually run the company. He's definitely in a more powerful position than our Managing Partner.
>
> (LLP: Senior Partner)

The CEO of Co (who is also President and COO) supports this view:

> When you have a corporate structure, people expect the senior management to take decisions – certainly the smaller decisions. We are seen as doing a reasonably good job of that. But in the LLP the problem is that the partners want to be involved in the small stuff too.
>
> (Co: CEO)

In a corporate structure there is ultimately one individual at the top of the hierarchy. In Co, interviewees are clear that the ultimate formal decision-making authority lies with the CEO but emphasise that he exercises authority in a subtle and relatively collegial manner. The CEO recognises that, in order for his "decisions" to have weight, he must first win over his colleagues and build consensus. As a Functional Head explains:

> We don't have a classic management structure that says 'you shall.' The CEO, my boss, creates opportunities and platforms for new ideas, but he very rarely says 'you shall' – he says 'you should listen to what Ray has to say about whatever,' but he will rarely ever say, 'we're going to do this' – it doesn't work like that. So it becomes a very time-consuming process of selling your ideas to people.
>
> (Co: Functional Head)

While differences in the legal form of governance potentially allow the CEO more formal authority than the Managing Partner, the way in which he exercises it in practice is highly constrained. A core principle of governance deemed to be necessary for the effective management of PSFs has not been abandoned in Co. The core producer-owners of the proprietary knowledge and client relationships, in effect, retain the right to be consulted and believe that they have the capacity to influence the decision-making process. The following lengthy quotation from a Co board member explains the relatively ambiguous nature of managerial authority:

> I have heard some funny things over the last couple of years about who is really running the company. A lot of people probably think it's the Management Committee – that's a logical guess – but a number of the people on the Management Committee don't think they are, they feel like they're not on the inside. Some people think it is whoever Bill (the CEO) happens to feel the closest to. Then there are people who think that somehow people here in New York have some sort of an inside track on running the company – people like me and Harry that see Bill every day. And yet there are people here in New York that feel like, well it's got to be people like Philip out in California or Bruce in Chicago – they're the ones that are managing the company – them and Bill. And I don't know if Bill has tried to create this ambiguity or if it's just worked out that way … I don't think anyone particularly cares about it all that much because they're not concerned that important things are happening without their knowledge.
>
> (Co: Board Member)

In LLP, management authority is clearly vested in the Practice Heads. In Co, by contrast, management authority is more finely balanced between dual reporting lines of practice and geography. This diffusion of individual managerial authority is thus formally built into the management of the firm through a matrix structure. Management decisions and planning require approval from both sides of the matrix. Where agreement on management issues cannot be reached between peers, the decision is moved up to the next level of the matrix. Interviewees emphasise the benefits of the system of "checks and balances" and routinely argue that better quality management decisions get made after careful consultation and consensus building. However, there is some frustration about the time taken to reach decisions:

> The matrix means that there needs to be more cooperation and sharing of information. I happen to think it is a very good system. I think that several heads looking at problems and issues are better than one.
>
> (Co: Office Head)

> The nice thing about the matrix is that you can bounce decisions back and forth, very freely and openly. It is not like you have to hide anything … In the matrix we know we are all in this together.
>
> (Co: Practice Head)

> I have laid off senior people and it has been ferociously difficult. The quantitative information on them was categorical. In other words there was no ambiguity about whether they were terrible or not or whether we were losing money on them, but it still

> took months, and in one case years, to get rid of a person because of the inherent conservatism of the matrix.
>
> (Co: Practice Head)

The matrix structure, therefore, serves to constrain managerial authority by preventing managers from acting unilaterally to advance the interests of their particular geographic or practice responsibility. Sometimes this may be detrimental to the interests of shareholders since, in order to protect the interests of professionals, the matrix may delay the speed at which commercially advantageous decisions are taken. To counter-balance this, however, the inherent "conservatism" of the matrix also protects shareholders from the risk of ill-considered decisions on the part of individual managers. As discussed below, the third set of stakeholders, clients, are less directly affected by the workings of the matrix as professionals have considerable autonomy when addressing client matters.

Core Principle 2: Individuals should have Autonomy to Pursue their Professional Objectives

Given the emphasis on constraining managerial authority in both LLP and Co, one could infer that professionals in both firms are likely to have considerable autonomy. In fact, individual autonomy is highly prized in both firms, but interpreted in subtly different ways.

Consistent with the framework of Bailyn (1985) discussed earlier, the partners enjoy a considerable degree of strategic as well as operational autonomy. They can choose what they want to do as well as how they should do it. The majority of partners interviewed joined straight from university and have remained with the firm for more than 20 years. When asked why they have stayed so long, they emphasise the freedom that the firm has given them to pursue a variety of different interests and roles. For example: "I have immense amounts of personal freedom to dictate my own destiny." (LLP: Partner); and, "I've been with the firm so long, nobody knows how to stop me doing what I enjoy doing" (LLP: Partner).

This sense of strategic and operational autonomy (i.e. the freedom to decide ends as well as means) is not simply a function of hierarchy. Senior consultants who have yet to make partner express similar feelings: "I kid you not, I feel I have got enormous flexibility and freedom" (LLP: Senior Consultant).

Consistent with the interpretive scheme of professionalism and partnership, interviewees in LLP typically explain autonomy in terms of the freedom to do what they want to do, to pursue work that is intellectually satisfying and which delivers an appropriate high quality of service to clients. In practice, this autonomy also seems to translate into the ability to avoid doing what they do not want to do. Functional Heads and senior managers express considerable frustration at the difficulties of getting some of the partners to cooperate with specific management initiatives, especially if they are seen to encroach on partner autonomy. For example, the issue of introducing formal appraisals for partners has been only partially effective: "In principle the Office Practice Head should have a performance discussion with me. But what does that really mean? I am on maximum lockstep" (LLP: Partner). The lockstep remuneration system denies managers a key mechanism of control over partners. Managers have very little scope to adjust partners' income to reward high performers and penalise poor performers as an individual partner's income is based almost entirely on the number of years since he (or, theoretically, she) became a partner. Reflecting this practice, there is little systematic effort to evaluate partner performance at an individual level:

> No one looks at the fees attributable to a single partner anyway. That kind of figure is arbitrary. If there is more than one partner involved with the deal, who do you attribute the fees to? Who is actually doing the work and contributing the most? We don't see the allocation of fees at an individual level as an issue.
>
> (LLP: Partner)

As individual performance is not systematically evaluated and partners' remuneration is largely independent from individual performance, managers have little scope for formally sanctioning "under" performers. In this way, managerial authority is constrained and individual autonomy is sustained. However, persistent free-riding and shirking is not tolerated, with peer pressure and informal mechanisms of social control used to encourage partners to bring their standards of performance up to an acceptable level. The Senior Partner often plays a key role in such discussions:

> There is a limit to what I can do because I need to respect their rights as a partner. So, I put it to them very diplomatically and subtly that people would appreciate it if they did this or stopped doing that. Or, do they realise that this is what people think about them, and what are they going to do about it? If somebody has dug their feet in, I don't think I've got the right to try and force them to do something. This is delicate stuff… I need to use a mixture of encouragement and suggestion without causing emotional upset.
>
> (LLP: Senior Partner)

These subtle social processes reflect attempts to ensure that the collective interests of partners as shareholders ultimately override the individual interests of partners as professionals.

Interviewees in Co also perceive themselves as having considerable autonomy. The remuneration of senior consultants is decided by a committee chaired by the CEO. Nevertheless, they perceive themselves as being relatively autonomous and free from managerial control:

> We are very entrepreneurial and decentralised, so you're not going to find anybody dictating to us, telling us we have to be at this particular point, this is the guideline, this is the policy.
>
> (Co: Regional Director)

> There is a certain amount of flea market mentality here. Each senior consultant has their own booth at the flea market, renting space from the flea market operator.
>
> (Co: Practice Head)

These quotations suggest that senior consultants within Co, as in LLP, have autonomy over both ends and means (i.e. both strategic and operational autonomy). Yet interviewees also emphasise the role of the matrix in acting as a check and balance constraining individual action. The interviewee who uses the flea market analogy also cites the following example. He wanted to award a $1,000 bonus from his "discretionary" bonus pool to a member of staff recently promoted from secretary to junior consultant. The HR department blocked this decision because secretarial bonuses across the firm were capped at $500. He appealed to the head of HR and ultimately to the US Geographic Head but was prevented from awarding the bonus.

A Practice Head in the US explains this apparent inconsistency as follows: people can make "huge decisions about clients" but can be very constrained about internal management issues. Whereas previous studies of PSFs have distinguished strategic from operational autonomy, this study suggests that we need to be aware of another dimension to autonomy: *external autonomy over client issues* versus *internal autonomy over management issues.* In effect, consultants may have considerable strategic and operational autonomy over client issues (e.g. which clients they serve and how they deliver the service to them), but less autonomy over management issues (e.g. what performance targets to aim for and how to reward people who achieve them).

Whereas some partners in LLP prize their autonomy because it gives them the freedom *not to do* things, interviewees in Co are more likely to talk about the freedom they have *to do* things, to be "entrepreneurial" – in other words, the freedom to make money any way they want:

> This place gives me room. It is very trusting. It relies on my entrepreneurial spirit to move forward ... This place lets you use your brain cells and lets you try, it gives you the opportunity to sell, to persuade.
>
> (Co: Functional Head)

This interviewee does not perceive a conflict between his professional and commercial orientation, which may help to explain why both firms are able to share the third core principle of governance.

Core Principle 3: The Firm should be Run to Generate Long-Term Value Rather than Short-Term Profits

As outlined earlier, the partnership form of governance supposedly reassures clients and professionals alike that partners will not be forced to privilege the interests of external shareholders over the competing claims of other stakeholders. In theory at least, the professionals and clients of publicly quoted firms have no such reassurance. At the time of Co's Initial Public Offering (IPO), its share prospectus explicitly recognised the potentially negative impact of flotation on its professional staff under the heading "Risk Factors":

> As owners, our associates have traditionally been able to influence the direction of the firm, which promotes an entrepreneurial spirit and motivates individual performance … A decline in associate ownership and an increase in non-associate influence could lower morale which could, in turn, adversely affect our business operations.
>
> (Co: IPO Prospectus)

Rather than talk in terms of the interests of the clients versus shareholders (external or otherwise) members of both LLP and Co see the key dichotomy as short-term profitability versus long-term value creation. Emphasis in both firms is on long-term value creation rather than short-term profits in the belief that this will deliver the best results for clients, shareholders, and professionals alike:

> We think of ourselves as custodians of the firm for the next generation … We want to look beyond the short-term financial benefits and to maximise the long-term.
>
> (LLP: Board Member)

> I think that as a public company we have duties to our shareholders. The question that everyone asks is, 'Is that duty to the shareholders a short-term or a long-term duty.'
>
> (Co. Board Member)

In LLP, because ownership of the firm is limited strictly to the partner group, partners could choose to prioritise short-term financial returns for their own benefit. However, the partner quoted above is clear that the firm should not be run for the short-term financial gain of (internal) shareholders. Partners recognise the debt they owe to previous generations of partners who built the firm and appear to be genuinely and strongly committed to preserving the firm for the benefit of future generations:

> People feel it is our responsibility to bring on the next generation. There's that sort of inheritance concept in the firm.
>
> (LLP: Partner)

This sense of responsibility is reinforced by financial incentives. Current partners are bound to the success of future generations of partners because, once they retire, until their death they continue to receive partners' annuities based on the ongoing profits of the firm. These reduce in value over time but represent a lifelong commitment on the part of the firm. Partners emphasise that this allows them to focus on the long-run value on the firm: "Partnership annuities are a method of passing of goodwill from one generation to the next." (LLP: Partner).

One might infer that the priorities of Co will be very different from those of LLP because of the need to satisfy external shareholders. Although the introduction of external shareholders and external board members has potentially increased pressure to maximise short-term profits, senior managers within Co have sought to manage this transition very carefully and to minimise the impact of this change on organisational members and the organisation as a whole. In spite of the structural and systemic changes associated with the IPO (the most significant of which is the requirement to make quarterly financial forecasts), management have done their best to ensure that organisational priorities remain strongly focused on long-term growth rather than short-term profitability.

Interviewees in Co described the traditional attitude as follows:

> I remember eight years ago having conversations with people who would say things like, 'Do we really need to be in business to make a profit? Aren't we here to serve our clients?'
>
> (Co: CEO)

> It was more about the big idea and about doing great things than it was about making money.
>
> (Co: Functional Head)

In the years immediately preceding the IPO and in the years that have followed, there has been a more overt emphasis on commerciality and a drive for growth and revenue enhancement. These changes are subtle, however, with emphasis on encouraging professionals to develop a more explicit focus on cost control and revenue growth, within the firm's broad strategic agenda, while maintaining a bottom-up and consensual-based method of budgeting and financial control. Interviewees emphasise that the impact of the IPO should not be exaggerated:

> I am sure that Bill (CEO) and Bruce (Practice Head) and co are very focused on shareholders, but it's interesting that that is not communicated to you as an anxiety – it's a broad orientation but the emphasis is on encouraging you to do the best you can rather than just saying, 'My God you've got to get here and you've got to boost our quarterly earnings.'
>
> (Co: Practice Head, Local Office)

Bruce, the Practice Head referred to above, explains how he and Bill have been able to contain the impact of the IPO:

> There's been less change than one would imagine. We've been maintaining a balance between long- and short-term benefiting employees and benefiting shareholders and so far that's turned out very well ... I thought this recession would test it, but Bill told the analysts that we were reserving a fair amount (of profits) for the bonus pool – the reaction from the analysts was, 'Good, your product is your employees and if you try to pay out too much in dividends you blow the whole thing.'
>
> (Co: Practice Head)

This analyst's reaction encapsulates the essence of Rajan and Zingales's (2000) argument that PSFs should be run to maximise "enterprise value" in a holistic sense, to embrace and reconcile the needs of key stakeholders, rather than focusing on the more narrow concept of shareholder value.

Analysis of the internal budgeting documentation in both firms reveals strong similarities in both the structure and style of the budgeting process. Emphasis in both firms is on a gradual bottom-up process of generating realistic revenue and cost forecasts, rather than imposing centrally determined targets, which might subsequently prove to be unachievable. In both firms, the process begins with an initial meeting of a senior management group to discuss and promulgate a broad strategic agenda, with a view to using the budgeting process as a means of drawing this agenda into day-to-day activities. Practice Heads then begin coordination of a detailed bottom-up process of forecasting, initially of revenues, then practice-level controllable costs, and finally firm-level costs. Budgets in both firms are expected to be challenging, but not unreasonably so. Group budgets are then subject to review by senior management groups, an element of "fine tuning" or "tweaking" occurs, but in neither case is there evidence of an unreasonable or simply financially driven top-down pressure.

This process and structure suggests that formal reviews are unlikely to produce expectations shocks since much sounding out takes place throughout the process. This is particularly important in Co because the requirement to talk to external financial analysts places great emphasis on the need to avoid expectations shocks and downgraded forecasts. As one Practice Head explains:

> We have tried hard to maintain good relationships with our analysts. It is important to be open and honest with them. Forecasting negative numbers won't win me any plaudits but it is far worse to produce an unrealistically optimistic number.
>
> (Co. Practice Head)

While the generic budgeting process follows broadly the same time span in both firms, Co is better able to deal quickly with performance problems because its formal systems identify such problems more quickly and, when financial problems arise, less time is taken to build consensus around difficult decisions. While the senior management team is intervening more rapidly now than it would have done in the past to stem losses, interviewees report that these changes are part of an ongoing trend over several years and reflect the need to respond to an increasingly competitive market, rather than simply a response to the IPO.

Referring to the introduction of external board members, one senior executive describes the impact of the IPO as follows:

> I think we feel much more compelled to ask ourselves how will we be effective competing, how will we win over the period of time? … Those issues seem more pressing in an environment in which there is considerable public scrutiny of operations, and people from outside our business are asking reasonable questions about how we will be successful in the long-term. So, for better or worse, we have achieved the benefit of having some very interested outsiders working in our business, asking good questions about where we're going and why we're doing certain things.
>
> (Co: Regional Director)

The terms of this external scrutiny have been carefully managed, however. Analysis of presentations made to analysts between February 2002 and May 2004 supports the image of a company keen to develop a long-run approach. Financial aspects are set clearly in the context of the strategic imperatives of a PSF, with detailed financial discussions occurring towards the end rather than at the beginning of presentations. Presentations consistently begin with discussions of the overall business in terms of strategic complementarities between service offerings, with discussion of client needs and the ways in which internal competencies such as research support these. In particular, there is an explicit and prominent emphasis on the long-run nature of client relationships both in fact and aspiration. The strength of the firm's relationship with associates (i.e. professionals) is consistently emphasised in terms of the wide ownership of stock.

For the past year, the majority of Co's Board has been composed of external directors to comply with the provisions of Sarbanes-Oxley. It is too soon to assess the full impact of such a structural change on organisational priorities; but, in the short term at least, the core principles of governance have not been compromised. Co is, in effect, still learning to be a publicly quoted company.

SUMMARY AND CONCLUSIONS

PSF governance is particularly complex because of the need to reconcile the potentially competing interests of three sets of stakeholders: shareholders, professionals, and their clients. Because of the distinctive characteristics of professional work, the interests of these three sets of stakeholders are inextricably connected and no single set of interests can safely be allowed to predominate.

Clients are purchasing an expert and customised solution to a complex and significant problem. As they cannot sample the product prior to acquisition, they need to be able to trust the PSF to deliver the highest-quality service rather than simply to maximise profits (and shareholder value). Individual senior professionals "own" and "control" key value-creating assets of a PSF (the client relationships and technical expertise) and require a degree of autonomy to deliver a customised service to clients. As they do not submit easily to managerial control, they cannot be relied upon to privilege the commercial interests of the firm over their personal and professional interests. Consequently, an exclusive emphasis on maximising shareholder value risks alienating clients and professionals alike.

The partnership form of governance is an effective mechanism for reconciling the competing claims of these three sets of stakeholders. Retaining ownership within the firm, widely distributed among senior professionals, ensures that each individual must personally reconcile his or her competing desires to maximise income and maximise autonomy. Combining the ownership of shares with unlimited personal liability ensures that professionals will share clients' interests in sustaining the highest levels of quality standards and will submit to self- and mutual-monitoring to ensure that these standards are maintained.

The abandonment of the partnership form of governance in favour of incorporation and flotation potentially destabilises this delicate equilibrium between the interests of shareholders, professionals and clients. Such a change in legal form represents a change in power dependencies manifested and enacted through the organisation's structures and systems. Structural and systemic changes may shape, and in turn be shaped by, changes to organisational members' interpretive scheme of governance. As the interpretive schemes of partnership and professionalism have been inextricably connected since the advent of the PSF, it could be inferred that a wholesale abandonment of the partnership form of governance would have negative consequences for PSFs, professionals, and their clients.

We compared and contrasted a limited liability partnership with a publicly quoted company, working together in an alliance. We found that, although Co had never been a partnership and LLP had abandoned its commitment to unlimited personal liability, both firms were united by common core principles of governance associated with the interpretive scheme of partnership and professionalism. Organisational members in both firms agreed that: (1) managerial authority should be constrained, (2) individuals should have autonomy to pursue their professional objectives, and (3) the firm should be run to generate long-term value rather than short-term profits.

These core principles were manifested and enacted through differing systems and structures that were actively managed to reconcile the interests of shareholders, professionals, and clients. In terms of ownership structure, Co's practice of encouraging employees to buy shares when the firm was privately held meant that a higher proportion of professionals had an ownership stake in Co than in LLP. Therefore, in both firms the interests of shareholders coincided to some extent with the interests of professionals, but to a greater extent in Co than LLP.

In terms of systems of managerial control, the emphasis in LLP was on constraining management authority via the partnership group, whereas the emphasis in Co was on sharing managerial authority by minimising the degree of top-down intervention and ensuring that professionals from the bottom-up were required to build consensus across both dimensions of the matrix. In this way, the interests of shareholders and professionals were reconciled by allowing a degree of individual autonomy while minimising the scope for abuse of authority.

The emphasis on long-term value creation rather than short-term profit maximisation in both firms offered some protection for clients and professionals. However, in pursuing intellectually satisfying high-quality work, Co and LLP were not simply satisfying the interests of clients and professionals, but were developing the intellectual capital of the firm and, therefore, contributing directly to the creation of shareholder value in the long term. In LLP, the coincidence of interests of shareholders, professionals, and clients was enshrined within the system of LLP annuities. In Co, the CEO worked hard to educate shareholders and stock market analysts to understand this coincidence of interests.

This study suggests, therefore, that abandoning the partnership as a legal form of governance does not automatically result in negative consequences for PSFs, professionals, and their clients. Pressures to change may be strong but they are not inexorable, at least in the short to medium term. Within a range of alternative legal forms of governance, it is possible for organisational members to construct systems and structures that embody the same principles of governance associated with the interpretive scheme of professionalism and partnership. However, for this process to be effective, organisational members must be strongly committed to this interpretive scheme and work actively to create and sustain it through systems and structures in a changing organisational and institutional context.

While it is possible to reconcile the competing claims of shareholders, professionals, and clients, this is not a stable equilibrium. Various organisational factors are likely to challenge the interpretive scheme of partnership and professionalism over the long term. The CEO of Co had joined the firm 27 years ago, and was deeply immersed in its core principles of governance. A new CEO, used to working within a publicly quoted corporation, might find it harder to exercise authority with the degree of subtlety required to sustain these principles. Over time, an increasing proportion of organisational members will have joined post flotation. It cannot be assumed that they will share the same degree of commitment to these core principles as their longer-serving colleagues. A similar challenge could be posed by the increasing influence of external board members.

The equilibrium is also potentially destabilised by the changing institutional context. Greenwood and Empson (2003) have already emphasised the impact on PSF governance of increasing scale, complexity, capital intensity, commodification, litigation, and social trends. Such institutional-level changes, in turn, affect the way in which professionals perceive and enact the interpretive scheme of partnership and professionalism.

While the LLP in the current study was keen to minimise the impact of the abandonment of unlimited personal liability on professionals and clients, widespread adoption of the limited liability partnership structure in certain professional sectors is a relatively new phenomenon, which may prove to have more significant implications in the longer term. For example, as unlimited personal liability no longer offers a safety net to clients, they may come to focus even more on organisational reputation than they have in the past. This suggests that PSFs may need to invest more heavily in brand building. In this context, flotation may prove attractive for a variety of reasons. It offers a greater degree of brand visibility in the market place and gives clients a degree of reassurance by demonstrating that the firm has complied with stock market regulations and submitted itself to the scrutiny of external directors (while a limited liability partnership must make its financial accounts public, it is not subject to the same degree of scrutiny). PSFs that do abandon the partnership in favour of incorporation and flotation, however, will need to ensure that the partnership evaluation and promotion process is replaced by equally rigorous systems of formal and informal controls, because of the degree of autonomy associated with professional work. Such changes may also call for a more nuanced interpretation of the nature of professional autonomy, where the differing requirements for autonomy over client-facing and internal management issues need to be understood at both an operational and strategic level. As the managers of PSFs grapple with the implications of this changing context of governance, management scholars too will need to build a greater degree of subtlety and complexity into their models of PSFs.

This study also highlights why it is important for scholars of governance more generally to build a more nuanced understanding of the relationship between governance as a legal form and governance as an interpretive scheme, and the systems and structures through which these alternative conceptualisations of governance are manifested and enacted. Once the distinction between legal and organisational form is recognised and emphasised, it is possible to allow for the possibility of incoherence, i.e. that a PSF may adopt a particular legal form of governance that is inconsistent with its interpretive scheme of governance.

Cooper et al. (1996) demonstrated that through a process, which they describe as "sedimentation," a partnership might continue to uphold the values embodied in the interpretive scheme of partnership and professionalism, even when the firm has, in fact, adopted systems and structures, which mimic the corporate form. By distinguishing between governance as a legal form and governance as an interpretive scheme, we go a step further by suggesting that an organisation unambiguously corporate (and publicly quoted) in its legal form, may mimic the partnership as an organisational form, in terms of its underlying systems, structures and interpretive scheme. The fact that it does so supports the suggestion that partnership is indeed an exemplary form of governance for organising professionals.

NOTES

1. A useful way of summarising the detailed legal technicalities governing UK Limited Liability Partnerships is that they are a corporate entity that is taxed like a

partnership. A central difference from unlimited liability partnerships in the UK, apart from the fact that partners are no longer collectively and personally liable for the actions of their colleagues, is the requirement to file financial returns at Companies House. This distinguishes them from US limited liability partnerships that are much closer to the US form of unlimited liability partnership and are not required to file equivalent returns.

2. The organisational characteristics of partnership outlined in this section are determined by convention as much as by the legal or regulatory regime within which they operate and, as such, are not present in all partnerships or indeed uniquely confined to the partnership form of governance.

3. The names of the firms and the individuals within the firms have been disguised to protect anonymity.

4. Approximately 15% of interviewees were functional specialist managers (i.e. not "professionals") and 70% of interviewees were partners or equivalent level in Co. The majority of comments in the subsequent analysis were taken from senior functional specialist managers and senior professionals (whether in full-time or management or fee-earning roles), as more junior staff had only limited awareness of governance issues.

5. References to "partners" typically relate to main equity partners rather than salaried partners.

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VARIATION IN ORGANIZATIONAL FORM AMONG PROFESSIONAL SERVICE ORGANIZATIONS

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ABSTRACT

This chapter examines the sources of variation in organizational form among accounting and law firms. We first summarize research in the organization of professional service firms and explain its evolution. This is followed by the argument that variations around the P^2 archetype have emerged in response to different market and institutional pressures faced by accounting and law firms. Drawing on contingency and institutional theory, we show how the changing balance between the influence of market and institutional factors has resulted in structural variation.

INTRODUCTION

Organizational forms and change have been central themes of research on professional service organizations for over 50 years. Much of the emphasis has been on the distinctiveness of professional from bureaucratic forms of organizing and whether this distinctiveness has diminished as professional

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service organizations change. In the last 20 years, research has focused on an in-depth examination of structures, systems and governance of these firms. The Professional Partnership (P^2) form was identified as the institutionalized template and, hence, an archetype for organizing professional service organizations (e.g., Greenwood, Hinings, & Brown, 1990) but as the market and institutional context of these organizations has altered research has turned to examining changes in organizational form. In particular, the need for greater efficiency and competitiveness has prompted professional service organizations to make structural and systemic changes that reflect corporate or business-like management. This emerging archetype has been termed the managed professional business (MPB) (Cooper, Hinings, Greenwood, & Brown, 1996). As a result, the field is now characterized by both the MPB and variations around the P^2 archetype.

In this chapter, we examine systematically the sources of variation in organizational form among professional service organizations using examples of accounting and law firms. We contrast the cases of accounting and law to illustrate variation and diversity in organizing modes. We first summarize research in the organization of professional service firms (PSFs) and explain its evolution. We then examine the sources of variation among these firms through a detailed analysis of their market and institutional context. We argue that variations around the P^2 archetype have emerged in response to different market and institutional pressures and more importantly, we show how the changing balance between the influence of market and institutional factors has resulted in structural variation. We draw on contingency theory and institutional theory to understand the sources of variation in organizational form. We conclude by suggesting future research directions.

Organizational Form and the Autonomous Professional Organization

Early studies of professional organizations were prompted by interest among sociologists in the role and organization of professions as areas of institutionalized expertise increasingly colonized by different occupations (Abbott, 1988; Gouldner, 1957; Volmer & Mills, 1966; Wilensky, 1964). At the same time, a growing trend toward the employment of professionals within organizational settings, rather than as independent practitioners, raised questions about the relationship between occupational and organizational forms of control (Hall, 1968; Montagna, 1968). Research interest focused on ways that professional values, emphasizing task autonomy and external regulation of professionals' activities, could co-exist with the use of bureaucratic forms, particularly as professional firms grew in size and scale.

In the 1960s, a number of empirical studies addressed the question of how a professional–bureaucratic conflict was managed in practice. These detailed how large professional firms blended professional authority that lay outside the organization with an internal administrative component that designed and implemented bureaucratic control. Litwak (1961) and Smigel (1964) coined the term *professional bureaucracy* to describe this organizational form. Montagna's (1968) study of accounting firms found that large firms used centralized managerial decision-making combined with a sharing among partners of other administrative tasks. Partners typically remained active in professional work undertaken by small teams using informal working methods. By comparison, centralization of decision-making in a sample of smaller firms was relatively low. Montagna concluded that the dysfunctional aspects of bureaucratization were offset both by the support provided by external rule-making bodies, such as professional associations and by the high level of personal autonomy in executing professional tasks. The results suggested that professionals were tolerant of complementary forms of organization combining professional forms of control with processes reminiscent of bureaucratic organizations.

While this appeared to be a benign structural solution, the idea of an inherent conflict between professional and bureaucratic forms of organizing persisted. Montagna (1968) argued presciently that as professions colonized 'new areas of uncertainty' (p. 540) the professional bureaucracy would come under strain because of the lack of an extant external professional regulatory framework: knowledge colonization, in other words, would outrun professional regulation. Hall (1968) concluded that there was no inherent conflict between professionalization and bureaucratization. Hastings and Hinings (1970) argued that the nature of accounting work in producing rule systems made accountants 'comfortable' with bureaucratic systems. Thereafter, debate on the professional–bureaucratic conflict thesis continued but the research focus shifted to problems of deprofessionalization (Haug, 1973), the nature of professionals' work commitments and the nature of professional power and its consequences (e.g., Johnson, 1972; Larson, 1977). Interest in the structure of professional organizations diminished.

Organizational Form and Archetype Ideas

Interest in the structure of professional *firms* re-emerged in the late 1980s for two reasons. The first reason was an interest in the 'knowledge-based' organization (Alvesson, 1995; Peters, 1992), of which PSFs were seen as prime examples. A second reason was increased competition over professional jurisdictions and the continuous expansion of professional services (Greenwood, Rose, Cooper, Hinings, & Brown, 1998). Organization theorists examining PSFs built on earlier intellectual foundations but their work had a more dynamic and managerial flavor. Research questions were framed around a detailed examination of the archetypal organizational form dominating PSFs (Hinings, Brown, & Greenwood, 1991). An archetype is a configuration of structures and systems consistent with an underlying interpretive scheme (Greenwood & Hinings, 1993). Greenwood et al. (1990) identified the 'P^{2}' archetype as the traditionally dominant form. This form can be characterized in terms of structures, systems and underlying values embedded in notions of *partnership* and *professionalism*.

Partnership as a governance form embodies three beliefs: the fusion of ownership and control; a form of representative democracy for purposes of strategic and operational decision-making; and the non-separation of professional and managerial tasks because the professionally and partnership focused organization discourages any emphasis on management (Greenwood et al., 1990; Nelson, 1988). Management positions are seen as part-time responsibilities with a managing partner retaining clients; being a managing partner is an addition to being a lawyer. There is minimal investment in formal systems of management as it is assumed that partners manage their work demands and client relations themselves. The notion of professionalism encompasses five key beliefs: professional knowledge is central; control and evaluation is exercised by peers; authority is widely distributed across partners as well as other senior professionals; consensus in decision-making is critical; work responsibility is indivisible; and there are strong individual links with clients (Cooper et al., 1996). Structurally, the P^2 archetype is characterized by a low degree of differentiation as specialties are built around individuals rather than formal departments. Use of integrative devices is low and the application of rules and procedures is minimal. Overall, the P^2 archetype has minimal hierarchy and emphasizes collegial structures.

In terms of human resource systems, the P^2 form emphasizes an up-or-out promotion 'tournament' (Galanter & Palay, 1991) toward the goal of partnership. Those who fail to make partner leave the firm (Maister, 1993). In the US, the up-or-out practice was first formalized by Paul Cravath in his New York law firm and was thereafter adopted by other elite law firms (Gilson & Mnookin, 1988; Hobson, 1986; Sherer & Lee, 2002; Swaine, 1948) and across other professions, including, for example, the consulting firm McKinsey and Co. (McKenna, 2006). Up-or-out provides a solution to the problem of monitoring work levels where outputs are difficult to measure, by providing a motivating mechanism wherein junior professionals exert great effort and handle cases with greater responsibility in return for the chance of the prize of partnership. Another important institutionalized human resource practice of the P^2 archetype is the use of a 'lock-step', i.e., seniority-based form of partner compensation. By rewarding on this basis rather than on the basis of an individual's contribution to the firm's earnings, lock-step assumes a sense of shared commitment to the partnership, encouraging cooperation between partners and limiting the transaction costs of monitoring partners' efforts (Gilson & Mnookin, 1985). Decision systems in the P^2 model entail weak emphasis on strategic planning, particularly long-term planning, and there is little analysis of market trends and opportunities. Strategic management is a matter of guiding, nudging and persuading. There is little specification of targets for portfolio expansion, market share or industry penetration and there is a high degree of tolerance if revenue targets are not met (Greenwood et al., 1990).

As changes in the external environment affected PSFs, there was a shift in research enquiry to understanding changes occurring in these firms. Environmental factors such as changing client demands, forces of globalization and regulations governing professional services precipitated changes in how these firms were governed and managed. An emphasis on efficiency, productivity, marketing and growth strategies became increasingly important (Brock, Powell, & Hinings, 1999; Cooper et al., 1996). In the interest of efficiency, there was pressure to separate professional and management roles, challenging the strongly held value of professional autonomy underpinning the P^2 archetype. More formal managerial structures and systems developed resembling larger corporations. Hierarchies developed, performance targets became more explicit and day-to-day decision-making devolved to management teams from the partnership at large.

These changes in structures, systems and underlying values suggested a new emerging archetype: the MPB (Cooper et al., 1996). This research was mainly grounded in accounting and law firms (Cooper et al., 1996; Hinings, Greenwood, & Cooper, 1999). Cooper et al. (1996), in an in-depth analysis of two Canadian law firms demonstrated that structures, systems and values characteristic of the P^2 archetype were being superimposed or layered by the more business-like and managerial structures, systems and values of the MPB, producing sedimented structures. The study suggested that the new archetype (i.e., the MPB) was still emergent since it retained attributes of the P^2 archetype. Studies of Canadian accounting firms have also shown movement from the P^2 to the MPB form and toward more complex forms of the MPB including multi-disciplinary practices (MDPs) and global differentiated network (GDN) structures (Greenwood & Suddaby, 2006; Greenwood, Suddaby, & Hinings, 2002; Rose & Hinings, 1999).

Subsequently, several studies supported the emergence of an alternative to the P^2 archetype. These studies confirmed that a combination of institutional and market forces were undermining the legitimacy of the P^2 archetype (Brock et al., 1999). It is important to note, however, that these studies did *not* confirm that the emerging archetype was necessarily the complete MPB form. Rather, they suggested that as professional service organizations deviate from the institutionally prescribed P^2 archetype they are adopting different forms of hybrids embodying characteristics of both the P^2 and the MPB forms (e.g., Flood, 1999; Kitchener, 1999; Morris & Pinnington, 1998a). Further, the cumulative results of these different studies in different contexts and sectors indicated that these hybrids might not be mere transition points or a stage leading up to an MPB but emergent archetypes in themselves.

We are, therefore, faced with a critical question: What are the sources of variation in organizational archetypes emerging in the field of PSFs? For institutionally prescribed archetypes to change, the contextual circumstances must alter. Several studies have identified contextual changes or 'jolts' that destabilize established practices including technological disruptions, changes in competition and regulatory changes (Fox-Wolfgramm, Boal, & Hunt, 1998; Lounsbury, 1999; Powell, 1991). In the context of PSFs, deregulation, technological developments and globalization have been identified as triggers for de-institutionalizing the prevailing P^2 archetype (e.g., Greenwood et al., 2002; Powell, Brock, & Hinings, 1999).

What is striking about these studies is that contextual changes and triggers have been generalized across the field of PSFs with little or no attempt to differentiate the nature of contextual changes and their impact upon different sectors. As noted earlier, through the 1980s and much of the 1990s the single most important focus of research was on establishing the distinctiveness of professional service organizations vis-à-vis other types of organizations. Insights and ideas were generalized to *all* professional service organizations from studies of one professional sector (e.g., law or accounting) and often from very small numbers of case studies. More recently, scholars have become cognizant of inter-professional differences and more cautious about treating professional services as a homogeneous category (e.g., Brock et al., 1999). In light of the diversity in organizational forms arising in the field of professional firms, systematic comparative analysis of the nature of contextual changes and the organizational responses these have invoked is required. Such an analysis would shed light on sources of variation in organizational form and the possibility of multiple emerging archetypes.

In the next section, we compare the contextual changes experienced by accounting firms and law firms and examine the implications of these contextual changes for organizational form. Such a comparative analysis has important theoretical implications. It expands theory to accommodate heterogeneity across different PSFs with greater potential to explain diversity in emerging forms. Comparative analysis, therefore, addresses one of the limitations of existing theory, namely an overarching assumption of homogeneity among all professional services that has restricted understanding of the variety of emerging organizational forms.

VARIATIONS ON THE P^2 TEMPLATE: CONTEXTUAL ANALYSIS OF ACCOUNTING AND LAW FIRMS

Most studies on change in PSFs draw attention to the variety of contextual changes affecting them. Market competition, technological changes, pressure of globalization and deregulation of professional markets are some of the changes that have been documented (Cooper et al., 1996; Greenwood & Hinings, 1996; Greenwood et al., 2002). We draw on two theories, contingency theory and institutional theory, as frameworks to analyze changes in the external context of accounting and law firms and examine their ramifications for organizational form. Contingency theory posits that variations in environmental and organizational characteristics produce variation in organizational structures and processes because organizations seek to attain a structural fit with their external and internal environments to enhance their organizational effectiveness (Donaldson, 2001; Drazin & Van de Ven, 1985; Lawrence & Lorsch, 1967). Institutional theory, on the other hand, emphasizes similarity in organizational form as organizations respond to strong isomorphic forces emanating from the institutional context (DiMaggio & Powell, 1983; Meyer & Rowan, 1977; Tolbert & Zucker, 1996).

There are two arguments for situating our analysis within these frameworks. First, both theories have been central in explaining factors and processes that affect organizational form (Hinings, Greenwood, Reay, & Suddaby, 2004). Second, both theories together allow a comprehensive analysis of the impact of the different types of contextual factors. Contingency theory focuses on elements both external and internal to an organization. The external environment is characterized by uncertainty and complexity emerging from changing customers, suppliers, technology, internationalization and so on. The internal environment comprises organizational characteristics such as the size of the firm (Pugh, Hickson, Hinings, & Turner, 1968) and technology or nature of work processes (Woodward, 1965). Organizations strive to achieve congruence between organizational structure and its contingencies.

Institutional theory shifts attention to a different part of the context. The institutional context is made up of normative and legitimated ideas and practices and of agencies that disseminate and reinforce ideas and practices (DiMaggio & Powell, 1983). These agents include authoritative and regulatory actors such as government agencies and professional associations (Greenwood & Hinings, 1996; Scott, 2002; Tolbert & Zucker, 1996). In the context of professional services, professional associations are especially important and have often been described as performing a conservative role in reinforcing prevailing norms of behavior (DiMaggio & Powell, 1983; Greenwood et al., 2002; Ruef & Scott, 1998). The accounting and legal sectors have experienced strong institutional effects and have also faced an increasingly volatile market environment. Therefore, we examine the nature of changes in the market and institutional context of both accounting and law firms and their implications for organizational form.

CHANGE IN THE MARKET CONTEXT OF ACCOUNTING

A rapidly changing market context has been a critical external contingency faced by accounting firms. Two market-driven changes are particularly salient: client-related factors and pressures for globalization.

Client-Related Market Contingency Factors

Increasing demand for professional services reflects growing demand for *existing* as well as *new* services. In the accounting profession, clients raised their expectations of existing services and generated demand for new services such as management consulting. As clients increased the scale and scope of their businesses, especially as a result of globalization, they faced complex management and organizational problems (e.g., Aharoni, 1999). They sought consulting advice from their audit and tax advisers who already had a good understanding of their businesses, seeking a 'one-stop shop' that would serve multiple needs across different geographical locations.

Greenwood and Suddaby (2006) describe this as a boundary bridging dynamic where interaction with major clients made the largest firms (the Big Five) aware of alternative opportunities to which they responded by developing a broader range of services.

The emerging demand for consulting services coincided with the commodification of audit, the core service provided by accounting firms. This process was partly instigated by clients' changing expectations as major corporate clients demanded standardized, consistent quality audit service in subsidiaries across different countries, making it difficult for accounting firms to build a sustainable competitive advantage based in auditing (Rose & Hinings, 1999). Audit commodification was further facilitated by computerization which allowed more standardization. Commodification and diminishing quality differences encouraged clients to pressurize accounting firms to reduce audit fees (Koza & Lewin, 1999).

At the same time, merger and acquisition activity shrank the client base of very large international firms, intensifying competition among the big accounting firms (Aharoni, 1999). Simultaneously, the accounting profession itself was undergoing changes, one of the most notable being removal of prohibitions on advertising. This change further empowered clients who became more aggressive, threatening to switch auditors. These factors resulted in intense price competition and made it difficult for accounting firms to differentiate themselves. Declining profitability from audit practices shifted attention toward businesses that were potentially more profitable, such as consulting services. Thus, the expansion of consulting services was motivated to a great extent by market and economic forces facing their clients. It is important to note that it was the Big Five (Big Six at the time) firms that experienced the greatest impact of these market changes as these firms controlled over 80% of the world market for accounting services (Aharoni, 1999).

Market Contingency Factors Related to Globalization

The process of globalization of accounting firms was triggered by the need to follow clients worldwide (Aharoni, 1999; Aharoni & Nachum, 2000). Among accounting firms, the very largest first experienced the pressure to globalize. Their clients demanded consolidated global accounts. Other developments accelerated the process of globalization, in particular, the transition of Eastern European countries from communist to market economies which generated demand for audit services (Aharoni, 1999). Accounting firms responded to developments in Eastern Europe and China by extending their international networks of affiliates (Aharoni, 1999; Aharoni & Nachum, 2000; Rose & Hinings, 1999). Geographical dispersion created new structural and systemic challenges to meet the requirement among global clients for consistency in the quality and delivery of service across countries.

Organizational Implications of Market-Related Contingency Factors

Commodification of the audit and increasing market pressures forced large accounting firms to focus on efficiency. Further, diversification into business advisory services increased the size and complexity of accounting firms, making it necessary to reconsider structures and systems. Several scholars pointed to the lack of 'fit' between the traditional P^2 model and the new context (e.g., Hinings et al., 1991). Contingency theory would predict that the larger the firm and the more diverse its activities, the greater the degree of required specialization, standardization, formalization of processes and coordination. Further, the more unstable the external market context, the greater the degree of specialization and integration required (Lawrence & Lorsch, 1967).

Studies in the 1990s suggested that the new generation of partners in accounting firms were focusing more on achieving profitability than on sustaining collegiality (Bruce, 1996; Hanlon, 1994). Professionals were advised that they would be retained and promoted on the basis of their ability to generate revenues and enhance the firm's profitability. The traditional understanding of professionalism was being transformed with the adoption of more business-like beliefs and values (Dezalay, 1997). Similarly, Hanlon (1994) observed that the professional ethos which had prevailed in previous decades was displaced by a shift toward one of competitive individualism. In terms of the human resource systems, partners were now subject to rigorous monitoring and regular formalized performance appraisals. This contrasted with the informal peer reviews typical of the P^2 archetype. Further, as these firms diversified into non-accounting services, new staff were hired with non-traditional skills that created greater heterogeneity within the firm. In terms of decision systems, there was an increased emphasis on long-term strategy and more systematic controls to ensure achievement of targets (Hinings et al., 1999).

Most importantly, the Big Five firms developed a systematic growth strategy based on a portfolio of global consulting solutions in diverse areas of management (Aharoni, 1999; Ferner, Edwards, & Sisson, 1997). Marketing, in particular, took on a whole new meaning and emphasis. In the mid-1990s, a survey of over 100 managing partners in the US found that a key issue affecting the rate of departure of partners was inadequate business development skills (Addams, Davis, Manos, & Nycum, 1997). Partners, then, were under pressure to cultivate business connections and build client relationships. Some large firms identified the critical core competencies for partners as business skills, client responsiveness, personal effectiveness, social skills, thinking skills and management skills (Acher, 1998). Thus, the marketing and business development function became formalized. Furthermore, specialists in human resources, strategic management and marketing were hired, increasing the functional differentiation in these firms. New systems such as knowledge-management databases were developed. For example, in the 1990s, Coopers and Lybrand had over a 100 libraries containing the organization's accumulated knowledge about strategic technologies; similarly, Andersen Consulting built a worldwide computerized network called Knowledge Xchange (Garcia, 1997). These systemic and structural changes and the new notions of professionalism resonated with the nascent MPB archetype (Cooper et al., 1996). These changes were prominent among the Big Five firms but more muted among second-tier accounting firms (Hinings et al., 1999). In fact, the Big Five developed a relatively complex version of the MPB called the MDP (Brock et al., 1999; Greenwood & Suddaby, 2006). In summary, client-driven market changes propelled the large accounting firms to break away from the P^2 archetype and move toward the MPB form and, in particular, to a complex MDP variant.

Thus far, we have traced the implications of competition *per se* for organizational arrangements. These arrangements were also affected by global diversification. To be able to deliver audit services consistently and effectively to transnational clients, the Big Five were forced to move from loose federations of national firms to more fully integrated structures (Aharoni, 1999; Aharoni & Nachum, 2000). The loose international federation has characteristics akin to the P^2 archetype. Thus, national firms have significant autonomy even though the international firm projects a cohesive international identity. Centralization is modest and trans-border transactions occur on an ad hoc basis rather than under the umbrella of a unified strategy (Aharoni, 1999). In addition, professional differentiation and integration is very low. This structure of loosely federated national firms would not be effective in fulfilling clients' expectations of consistent and standardized service.

One of the structural implications of developing standard audit methodologies in order to coordinate global audit processes was an increase in coordination and control across national firms. Accounting firms responded by developing international headquarters as separate legal entities that would facilitate structural integration and assume responsibility for a global strategy (Greenwood et al., 1998). This structural implication was characteristic of the MPB form. Subsequently, these international headquarters facilitated the development of worldwide audit methodologies that enhanced the standardization and technological sophistication of services. In addition, accounting firms recognized that it was efficient to mirror their clients' financial and operational decision structures and processes. So, a strong association between client systems and the structures required to serve them increased the effectiveness of service delivery (Rose & Hinings, 1999).

Diversification into management consulting services created different demands on the emerging global business advisory firms. It called for functional differentiation to accommodate a variety of experts, beyond accountants and auditors. The most challenging demands emerged from the diverse tasks and knowledge requirements of auditing and management consulting services. Consulting is project based, and does not lead to repeat work, unlike auditing where the relationship with a client is ongoing and the core task is repeated annually. Further, because management consulting projects require customization to different client needs, experience and expertise cannot be so easily replicated and standardized across different markets. Multiple bases of knowledge and experience are accumulated and shared across the organization. Unlike auditing, management consulting tasks involve ongoing knowledge sharing between the consultant and client in the process of producing a solution. So, the different task and knowledge requirements of auditing and management consulting demanded more structural complexity. This complexity and diversity required firms to accommodate both knowledge and human interdependencies necessary to deliver different services globally. As Rose and Hinings (1999, p. 49) observed "the structural response … to changing client demands is complicated because it is mediated by the specific task along the audit-consulting dimension, i.e., from a regulated, externally controlled task to an unregulated, mutually controlled task". Firms not only had to coordinate across services that had different structural implications, but had to do so across a highly geographically dispersed organization.

In response, these global business advisory firms developed global differentiated network structures similar to those in multinational corporations (Nohria & Ghoshal, 1997). In a global differentiated network, each subsidiary has different resources and capabilities and is assigned a different role as part of the worldwide firm. These firms, however, were dealing with another level of complexity: the need to focus resources and capabilities upon particular clients (Rose & Hinings, 1999). Serving each client required a configuration of interdependencies between a national firm, headquarters and other national offices. So a critical structural challenge was to build in sufficient flexibility to respond to changing client needs as well as a changing client portfolio. This involved moving resources, primarily professional staff, to meet the needs of local offices in serving multinational accounts and developing capabilities on a global basis.

Global accounting firms developed a high level of differentiation along multiple axes – by practice area, by function, by geography and by client sector – leading to a global differentiated network structure, an organizational form more complex than the MPB form. This multi-dimensional differentiation created a need for a level of integration and coordination well beyond the capacity of the P^2 archetype. Moreover, global clients expected firms to be as highly integrated as their own organizations. Hence, global firms adopted elaborate integrative mechanisms including international headquarters, common systems for information exchange on clients, client management structures, business unit/service line matrices and separate management consulting divisions (Greenwood et al., 1998). The new structures were not easy to implement because they challenged the values underpinning the P^2 archetype. For example, traditionally, control of the client portfolio is in the hands of individual partners, but the international firms increasingly sought to establish central authority over the client portfolio, thereby challenging the authority of individual partners. Despite these challenges, the pressures of globalization were compelling enough for the accounting firms to make structural changes that were even more complex than the MPB form.

CHANGE IN THE MARKET CONTEXT OF LAW FIRMS

Client-Related Market Contingency Factors

There have been significant changes in the perceptions and expectations of clients of law firms, encouraged to some extent by greater client awareness through access to information about the provision of legal services and the industry in general. Clients have become less committed to long-term relationships with their advisors (Morris & Pinnington, 1999). As clients have become more discerning, competition among legal firms has intensified. The basis of competition has increasingly been about enhancing efficiency and effectiveness in the delivery of service. Expectations have increased not only with respect to the provision of existing services but with the ability to provide new specialties in corporate and environmental law (Morris & Pinnington, 1999). Law firms were challenged to introduce new practice areas leading to growth in firm size and increased professional specialization. However, although law firms have diversified, they have generally chosen to avoid doing so outside the domain of legal services, unlike accounting firms who have diversified away from their core audit function.

Market Contingency Factors Related to Globalization

The legal profession responded quite differently to the pressure to globalize compared to accounting firms. By late 1980s, the 250 largest law firms in the US had, in aggregate, established 180 overseas offices, less than those of any of the (then) Big Six accounting firms (Spar, 1997, p. 10). Morgan and Quack (2005) calculated that in 2002–2003 the 10 largest (by gross revenues) law firms in the world were either US or UK headquartered. This group of firms had offices in an average of 18 countries. Baker and McKenzie had the most number of offices abroad (38) followed by Clifford Chance with 24. The same authors show that four of the top five German firms were UK–German mergers or alliances and the fifth, Hengeler Muller, operated a 'best friends' arrangement with Slaughter and May in London and Davis Polk in New York. As the demand for specific areas of law (such as mergers and acquisitions, banking and finance) increased, corporate law firms globalized their business but many remained reluctant to invest in international offices. Many leading Wall Street firms limited their expansion to the main financial centers of the world and only three of the leading US firms have invested in large international networks of offices: Shearman and Sterling, White and Case and Cleary, Gottlieb, Steen and Hamilton. Many European firms have also limited their international expansion to contiguous countries or economic hubs such as Hong Kong (Quack, 2003). Very few have entered the most lucrative legal market in the world, the US, apparently because the barriers are too great. Indeed, by 2005, the only European firm that had entered the New York marketplace on any scale was Clifford Chance, which in 2003 merged with Rogers and Wells (*The Lawyer*, 2004).

There are several explanations for the relative tardiness and limited ambitions of law firms in internationalizing their structures. First, there is the locus of work. Whereas accountants, engineers and management consultants execute professional tasks at the client site, lawyers do not. Second, many major corporate transactions are based on the law of one of the two jurisdictions, New York or England and Wales, regardless of the domicile of the transacting parties. The law, unlike accounting, is not an 'international language'. One indicator of this dominance of the two jurisdictions is that eight of the world's 10 most profitable law firms are located in New York (*The Lawyer*, 2004). Systems of law are much more nationally or regionally based than those of accounting. Third, an important institutional barrier to internationalization is variations in human resource policies. Whereas firms in different countries in Europe have similar profit-sharing arrangements, the predominance of eat-what-you-kill policies in American firms and higher profits-per-partner may be obstacles to transatlantic mergers. In 2004, of the largest 100 law firms in terms of revenues, only one non-US firm (Slaughter and May) was ranked in the top 20 in terms of profits per equity partner (see *The Lawyer*, 2004, 2005).

Organizational Implications of Market-Related Contingency Factors

Intense competition among law firms and clients' demands for better provision of existing and new services persuaded firms to emphasize technical efficiency and the efficient deployment of resources, language unfamiliar within the realm of the P^2 archetype. It was recognized that professional partnerships needed to be rationalized even if this meant compromising collegiality, autonomy and consensus (Morris & Pinnington, 1999). Bureaucratic controls were introduced or extended.

Contingency theory predicts that the larger the size of the firm and the greater the number of specialities, the greater will be the formalization of management controls and systems and the degree of differentiation and integration (e.g., Lawrence & Lorsch, 1967). Structurally, law firms responded to clients' demands for new specialisms by creating a higher degree of professional specialization. Further, these firms differentiated by function as the marketing, human resource, finance, quality control and knowledge management functions were formalized (Gray, 1999). A more elaborate hierarchy emerged as a coordinating mechanism. There was increased adoption of business-like systems such as financial control, client marketing, quality control, process redesign and strategic planning (Cooper et al., 1996; Gray, 1999). These changes were in line with characteristics of the MPB form.

As for human resource systems, there was a change in perception of the skills required in a law firm. Skills for generating more client business or rainmaking were emphasized in promotion to partner decisions (Morris &

Pinnington, 1998a). There was a shift in emphasis from the development of specialist skills to generalist legal skills among lawyers from early stages of their career. These changes redefined the traditional skill set in a law firm to resemble more closely corporate-like skills. The need for these skills had implications for recruitment and promotion policies. Promotion to partner in a P^2 law firm traditionally involved promoting internal, home-grown lawyers to partner (and until the mid-1990s the largest London firms had an informal agreement not to 'poach' each others' partners) but in the changing scenario firms sought to attract partners with requisite 'rainmaking' skills and teams of lawyers with specialist expertise (Galanter & Palay, 1991; Morris & Pinnington, 1998a).

These developments placed strains upon the seniority-based compensation systems. However, although there was much discussion of whether to adopt MPB-like human resource systems, these firms did not deviate significantly from the P^2 format. Morris and Pinnington (1998b) found modest evidence of innovation in profit sharing in UK-based law firms. Even movement to individual merit-based measures was combined with seniority rather than radically displacing the lock-step system. Profit sharing was not determined solely by considerations of efficiency; values and standards continued to be an important frame of reference. Notably, values were expressed most strongly among the largest firms.

These results lead us to infer that decisions about compensation strike at the very heart of traditional professional values of law firms; even the largest firms have been disinclined to compromise these values, unlike accounting firms. Furthermore, Morris and Pinnington (1998a) found that even firms that had been innovative in adopting managerial structures and practices still used the P^2 type up-or-out promotion system. In fact, the up-or-out firms were at the forefront of innovation in management: it was they who adopted sophisticated performance measurement systems and put in place mechanisms to enhance productivity and client satisfaction (Morris & Pinnington, 1998a, p. 18). Traditional promotion policies, in other words, did not constrain the overall rationalization of management in the interest of greater efficiency. The underlying argument for retaining the traditional promotion system resonated with a particular notion of professional development achieved through hard work, dedication to the firm and cultural assimilation of its norms.

It is clear that P^2 type compensation and promotion systems may co-exist with MPB-like changes in the management systems and processes of these firms. In other words, professional norms and ideologies were critical in shaping decisions about compensation and promotion systems, whereas other aspects of organization and management were changed in response to client-related market contingencies in ways consistent with contingency theory predictions. We infer that law firms have moved to a sedimented organizational form, embracing elements of both the P^2 archetype and the MPB form. In comparison with the large accounting firms, even the largest law firms have kept intact some of the core values of the P^2 form while introducing other more radical MPB-type organizational changes.

In response to the pressures of globalization, law firms have opted to enter networks of firms rather than build international offices under a single brand. Others are organized as decentralized federations (Morgan & Quack, 2005). This development is in contrast to accounting firms that shifted from a loose network of national partnerships to more integrated structures. In law, jurisdictional barriers, the absence of the need to execute work at a client's site, and fewer opportunities for repeat business explain why firms internationalized in different ways to accounting firms, by using structures that are more akin to the traditional features of the P^2 archetype.

Our analysis, thus shows that the organizational response of accounting and law firms to market contingencies is different. Overall, accounting firms have made more radical and complete moves to the MPB form and toward more complex forms of the MPB; law firms, in contrast have maintained sedimented structures that are closer to the P^2 form. This raises the question about *why* accounting firms changed their structures and systems more radically than did law firms. Contingency theory would suggest that market contingencies might be different in the two sectors implying different structural responses. However, we suggest that market contingencies *did not have the same impact* in propelling change in law firms as they did in accounting firms.

In the case of accounting, clients encouraged firms, particularly the largest, to diversify into management consulting, pressing them to step out of their jurisdictional domains (Greenwood & Suddaby, 2006). Exposure to greater diversity of tasks and the associated variety of skills and training required led these firms to become much more heterogenous. Heterogeneity challenged core beliefs underpinning the P^2 archetype and presented an opportunity for, and exposure to, new ways of organizing. Pressures to globalize further compelled large accounting firms to devise complex international structures, radically different from the P^2 form, to cope with the need to mirror their clients' global structures and systems. In contrast, the market-related contingency factors faced by law firms were relatively less challenging. Changes in clients' expectations and the demand for new services were largely confined to the domain of law, causing little change in the diversity of tasks or the workforce, allowing firms to preserve their professional homogeneity. Client factors certainly pushed law firms to adopt MPB characteristics in various parts of their structures and systems and law firms that diversified into specific types of corporate law work embraced the elements of the MPB to enable them to systematically manage work in very large teams. But these same client factors allowed firms to preserve some core values of the P^2 form, especially those underlying key systems such as compensation and promotion, resulting in a sedimented organizational form. Further, pressures for globalization did not demand high degrees of integration requiring radical changes in structure. Responses such as decentralized federations or international networks of law firms were within the scope of the P^2 form.

Other factors related to the nature of task, specifically the process of service creation and delivery, have also mediated the structural response of accounting and law firms to market contingency factors. The first has to do with the nature of the relationship between the client and the service provider. In the case of accounting, management consulting is usually project based and requires interaction with the client for the duration of the project with no guarantee of repeat business. In contrast, the audit requirements upon companies have been instrumental in creating annuity-type relationships between clients and the firms. Even though auditing became less important as a source of profits it played a crucial role as a conduit for gaining other business and ensuring continuity in the relationship with the client. In the case of law, the relationship between a client and the legal service provider has become increasingly transaction-based entailing short-term interactions between the two parties. As a result, the client–provider relationship is more strongly embedded in the case of accounting than in law. This embeddedness further increased the likelihood of isomorphic mimetic forces taking effect such that accounting firms began to mimic structures and systems of their client corporations. In other words, the embeddedness of the client–provider relationship may have further increased the accounting firms' proclivity to adopt MPB-like structures and systems. Further, accounting knowledge is itself concerned with efficiency, emphasizing cost–benefit analysis, formalized systems and the measurement of profit (Halliday, 1987; Hastings & Hinings, 1970). Accounting firms, therefore, are likely to be more amenable to adoption of efficiency and productivity as important values (Pinnington & Morris, 2002). The business advice that these firms were now providing was reflected in their own structures and systems.

The second mediating factor relates to the extent of knowledge asymmetry that affects the intensity of interaction between the client and service provider in the process of service creation and delivery (Fladmoe-Lindquist, 1993; Maister, 1993). Knowledge asymmetry is generally smaller in accounting advisory services such as consulting than in law. In the provision of business advisory services, clients engage actively with the consultant in creating solutions. There is an ongoing process of task definition throughout the project involving the redefining and reconstructing of the problem and the solution. This process involves a significant degree of knowledge sharing between the consultant and the client (Malhotra, 2003; Rose & Hinings, 1999) making accounting firms more open to innovative ideas originating from their clients. Consequently, they have been more open to new ideas and to being innovative structurally.

Finally, the combined impact of market and task elements is to produce accounting firms that are much larger than the largest law firms. Large size produces more specialized, standardized and formalized structures, typical of the organizational form of the MPB (Donaldson, 2001).

In summary, continuity in the client–provider relationship, the degree of asymmetry in knowledge, the involvement of the client in the process of service creation and their impact on organizational size have been strong mediators of the structural responses of accounting and law firms to market contingencies. These factors enabled accounting firms to make more radical changes in their structures and systems akin to the MPB form, whereas the same factors were less pronounced in supporting structural change in law firms.

INSTITUTIONAL CONTEXT

Institutional theory draws attention to the role of authoritative and regulatory actors in affecting organization design (DiMaggio & Powell, 1983; Meyer & Rowan, 1977; Scott, 2002; Tolbert & Zucker, 1996). The institutional environment imposes constraints upon organizations to conform to institutional prescriptions in order to ensure legitimacy. Consequently, irrespective of market context, organizations try to align their structures to an institutionalized organizational template, the process of convergence or isomorphism being underpinned by normative, mimetic or coercive dynamics (DiMaggio & Powell, 1983).

In the context of accounting and law, the P^2 archetype was the institutionally legitimated organizational template and professional associations played a crucial role in disseminating and reinforcing it. Organizationally, this suggests that professional firms would adhere to institutionalized expectations with regards to ways of organizing but market contingency factors pushed toward change in organizational form to fit the new market context. But both accounting and law firms have departed from the P^2 archetype. This raises two important questions: *First*, to what extent have the forces of stability and convergence tended to reproduce prevailing practices in accounting and law firms? *Second*, since both sectors have been exposed to market and institutional effects simultaneously, what has been the interactive dynamic between these forces?

Institutional theory neither contradicts nor is inconsistent with the notion of change (Greenwood et al., 2002; Tolbert & Zucker, 1996). Hoffman (1999) argued that the idea of isomorphic stability in an organizational field is overstated and that an organizational field is, in fact, constantly evolving. Abbott (1988) noted the political nature of professional activity that make boundaries of organizational fields a subject of continuing review and redefinition even though the fields ostensibly manifest isomorphic stability. It has been increasingly recognized that the jurisdictions of professions are subject to continuous claims and counter claims suggesting that the jurisdictional boundaries of professions are not absolute but constantly subject to forces of destructuration (e.g., Scott, Ruef, Mendel, & Caronna, 2000). In the field of professional organizations, while routines and practices have been reproduced by regulatory processes, there have also been forces of deinstitutionalization at play. Several studies show that the change in institutionally prescribed templates is triggered by contextual jolts that destabilize prevailing practices and set in motion the process of deinstitutionalization. The institutional contexts of accounting and law firms have been subject to various destabilizing forces emanating in the market context of the two professions. However, the response has varied across the two professions which can be attributed to two factors: *first*, there are differences in how the institutional contexts of the two professions have historically evolved and affected the permeability of professional boundaries; *second*, the dynamic between market contingency factors and institutional factors has evolved differently with different impacts on organizational form.

Historical Differences in the Institutional Contexts of Accounting and Law

The institutional context has an impact on the permeability (Greenwood & Hinings, 1996) or plasticity (Fox-Wolfgramm et al., 1998) of professional boundaries. Historically, some professions have been more plastic, that is, more flexible and open to change. For example, institutional structures governing law firms have been more conservative compared to those in accounting, architecture, engineering and consulting. Abel (1989) described legal associations as "dedicated to preserving traditional entitlements and characteristics".

Differences in the institutional context of accounting and law have emerged in part from strategies of the professions. For example, Freidson (2001) described law as a strong profession, enjoying power in its jurisdiction due to at least two sets of claims. First, its exclusive claim to understanding of the esoteric, substantive and procedural rules of law, supplemented by experientially based practices employed on behalf of clients (Solomon, 1992, p. 146). These sources of knowledge have been a critical determinant of power exercised by the legal profession (Freidson, 1986). The legal profession has primarily pursued consolidatory strategies, protecting its existing jurisdictions from intrusion by other occupations. Second, the legal profession receives special privileges from the state. None of the other business-based professions, including accounting has enjoyed the same degree of collective professional influence upon the state as law (Nelson & Trubek, 1992). Indeed, within the civil systems of law in continental Europe, legal training is designed to underpin entry to employment in the institutions of the state as much as to practice law privately. Buttressed by state support, legal professions have been able to execute their general strategy of exclusion and jurisdictional protection by opposing interprofessional competition. So, historically, a stronger position of power has offered legal associations and law firms greater degrees of freedom in how they respond to external pressures for change. For instance, despite clients signaling a need for non-legal services law firms, including the larger ones, did not respond.

Accounting firms have developed a wider range of products and services over the past 25 years. This, in itself, is an indication of the greater plasticity of accounting professional associations and the openness of the profession to new ideas and innovations. Greenwood et al. (2002) show how accounting associations were open to a redefinition of 'accounting' services and of the 'accountant' as 'business advisor' with a wider set of skills.

Central to this relative 'openness' of accounting are two key features. *First*, there is the size distribution of firms. Unlike law, accounting has been dominated by a small number of international firms for over three decades. These firms train the majority of accountants, do most audits, and provide most accounting advice; that is, they dominate the field (Aharoni, 1999). Thus, their voice is a strong one, and, as Greenwood et al. (2002, p. 73), say, "Importantly, the institutes did not *initiate* change. (They) were responding to the jurisdictional and organizational movements of the profession's largest firms''. *Second*, there is a difference in the structure of the professions. Accountants are evenly distributed between employment in private practice, business and government. Even though almost all accountants are trained in private practice, only about half stay in private practice, while the other half are employed in the business and government sectors (Hinings, 2001). This distribution facilitates stronger links between private practice and the corporate world creating an avenue for transmission of new ideas and practices from outside of private practice. In the case of law, a relatively small proportion of lawyers are employed as general counsel outside legal practices, limiting the potential for the transmission of new ideas from clients to law firms. So, there is more plasticity in accounting compared to law.

Interactive Dynamic between Market Contingency Factors and Institutional Effects

As noted above, accounting and law firms have responded differently to market contingency factors *and* historical differences in institutional contexts have had different impacts organizationally. But we also observe that market contingency and institutional factors have not been operating in mutually exclusive ways. We suggest that differences in the organizational responses of accounting and law firms can be better explained by differences in the interactive dynamic between the market contingency and institutional factors.

Change in institutionally prescribed archetypes is precipitated by pressures from the external context but these pressures in themselves are not sufficient to produce change; rather, it depends on how organizations in the field interpret and respond to them (Hinings, Sonpar, Golden-Biddle, & Reay, 2004). Even though accounting and law firms faced similar client-related and globalization pressures, actors in the two fields perceived, interpreted and acted upon those pressures differently. Accounting firms responded by formulating new ideas for organizing and structuring. DiMaggio (1988, p. 14) suggested that new institutions arise when ''organized actors with sufficient resources see in them opportunity to realize interests they value highly''. The big firms acted entrepreneurially and triggered a process of deinstitutionalization by articulating and presenting innovations in organizational forms and practices that were a significant departure from the prevailing P^2 archetype.

Greenwood et al. (2002) showed that the entrepreneurial role of large accounting firms did not stop at articulating and adopting organizational innovations; rather these firms went on persuasively to present the new ideas and practices to the professional associations. They perceived and interpreted signals from the market context, framed innovative ideas for organizing and provided justification to the professional institutes for innovations in organizational form. In other words, it was not the professional institutes that initiated change; rather, they *responded* to the jurisdictional and organizational movements of the largest firms in the field. The entrepreneurial role of the large accounting firms was critical to the unfolding of an interactive dynamic between the market context and the institutional context and its consequences for an alternative organizational archetype. As these firms responded to market contingency factors, they theorized new practices and presented them to the professional associations, sparking a change in the institutional context.

The professional associations asserted themselves not just as conservative mechanisms for reproducing existing routines but also as playing a role in legitimating new practices. Despite having the resources, prestige and political influence to follow their own interests, the large accounting firms sought endorsement from the professional associations because they perceived the role of the professional association as crucial to presenting the case for new ideas and organizational practices to external constituencies such as the state and other regulators (Greenwood & Suddaby, 2006). This draws attention to the relative effects of market and institutional contexts on organizational form. Strong market pressures altered the balance between market and institutional effects and set in motion a process of deinstitutionalization of the existing archetype and the reinstitutionalization of a new archetype. The interactive dynamic explains how in the field of accounting, market contingency factors, supported by the entrepreneurial role of the large firms, were able to dent the institutional context, resulting in the MPB form being institutionalized and diffused widely. It is this dynamic that reconciles any contradictions in understanding change in organizational form from a contingency perspective and an institutional theory perspective.

The interactive dynamic between market contingency and institutional factors evolved differently in the case of law firms. The influence of market contingency factors did not outweigh institutional effects and these factors were not perceived and interpreted in such a way as to trigger a process of deinstitutionalization as was observed in the accounting profession. Institutional entrepreneurship did not emerge in the legal profession so strongly, thereby limiting pressure for a radical departure from the P^2 archetype.

There are several explanations why institutional entrepreneurship has not appeared so strongly among legal firms. *First*, as noted earlier, there are significant differences in the structure of the two sectors. The elite accounting firms monopolize over 92% of audit work worldwide and control over 40% of consulting work for their audit clients (CIFAR, 1995; PAR, 2000). Such concentration of control of the client market is not found among legal firms. *Second*, as elite accounting firms expanded into multiple practices and dispersed geographically they experienced a disconnect from existing regulatory structures that continued to be geared to local jurisdictions. These firms thus became increasingly less embedded in prevailing institutionalized routines and practices. The lack of embeddedness of accounting firms in institutional routines was conducive to their emergent role as institutional entrepreneurs.

Such misalignment between the market and regulatory boundaries has been less evident in the case of law where even the largest law firms have remained predominantly located in their home jurisdictions with a number of small overseas offices. However, the beginnings of a similar process of institutional entrepreneurship may be evident among the largest law firms. A significant share of the market for corporate law services is dominated by the largest firms. For example, in London the five 'magic circle' firms account for 25% of total revenues of the UK legal services sector and over 50% of the market for specialized corporate legal services such as merger and acquisitions work and investment bank financing. These large firms have challenged the traditional institutional template more than other firms, introducing elements of the MPB form in strategic planning systems and the development of extensive 'business services' to support their lawyers and the outsourcing of work to offshore facilities. They have also initiated their own training of associates with different content and standards of assessment. Thus, there may be some convergence over the next few years between the accounting and law sectors in terms of institutional entrepreneurship driven by the largest and elite actors.

A *third* factor explaining the lower incidence of institutional entrepreneurship within law firms is that the very largest accounting firms controlled enormous resources that created growing resource asymmetries between the regulators and these firms (Greenwood & Suddaby, 2006). These resources enabled the Big Five to take in-house functions that were previously the domain of professional associations, such as lobbying, public relations and training, reducing their dependency on regulatory associations. The net result was that the influence of professional associations gradually reduced and they increasingly assumed the role of legitimizing the strategies of powerful groups of firms.

There is, then, a reflexive relationship between the external environmental drivers of change and the entrepreneurial activity of professional firms. Powell et al. (1999, p. 13) argued that "an adequate theory of archetypal change includes both external drivers of change shaping an organizational field and the active role of agents in challenging existing normative constraints". In the case of accounting, the dynamic shaped by the reflexivity between market factors and the entrepreneurial role of large firms, was critical in challenging existing institutionalized practices and propelling the change toward the MPB and global differentiated network forms. The entrepreneurial role of agents was not pronounced in the case of law firms. In the legal profession, market contingency factors played some role in changing the organization of law firms but not with the same impact in diminishing the role of institutional factors as in accounting. Even though law firms have responded to market forces they have done so in ways that have not strongly challenged prevailing values and beliefs resulting in sedimented structures (Malhotra & Hinings, 2005). Overarching institutionalized norms continue to be influential and support core values and beliefs at the level of the firm.

In summary, the interactive dynamic between market contingency factors and institutional effects in accounting was dominated by the influence of market factors, mediated further by entrepreneurial action, but similar market forces were less influential in the case of law firms. It is important to note that the nature of the interaction does not remain static as the relative power of the market and institutional factors shifts over time. For example, the balance of power has tipped toward the regulators in the wake of recent scandals, in particular the Enron collapse, triggering organizational changes. The most notable has been the Sarbanes-Oxley Act on financial reporting and control which followed from major accounting scandals in the US. The Act was meant to limit the accounting firms' risks of conflicting interests by restricting the range of services they could provide to a single client. Subsequently, most of the major firms divested their business advisory practices. Institutional forces have thus surfaced to initiate coercive action that is likely to reverse organizational changes that have occurred both in the accounting and legal professions. While the regulatory pressures have limited the development of the MDP model and the pre-Enron logic of diversification, major firms have turned the Sarbanes-Oxley Act to their advantage by building large, specialist advisory practices within their existing audit services advising on legislative compliance. As corporate governance has become more extensively regulated, the effect of regulatory activity has offered accounting firms opportunities to open up new areas of expertise, especially in what is generally referred to as 'risk management' and to pursue a modified version of the MDP model.

CONCLUSIONS

We have argued that the structure of PSFs has always been a central theme of research. Early work focused on the conflict posited between professional and bureaucratic systems, examining how it affected professionals' work in corporations, and the organization of large professional firms. Latterly research has been more concerned with the effects of change in institutional contexts upon the structures and systems of PSFs. A central assertion of institutional theory is that structural choices within professional arenas are strongly shaped by wider norms. While research has thoroughly examined the nature and causes of change at the level of the firm, we have limited understanding of influences at the level of the profession that mediate organizational change. This gap has become a pressing task for investigation because of the emergence of variation around the traditional structural archetype, the P^2 form. Firms are moving away from this archetype under pressure from market and institutional influences, toward diverse forms: of these forms some mimic corporate structures in terms of hierarchy, concentration of decision-making in the hands of a central management team and use of elaborate strategic planning systems; other versions are more loosely coordinated. Internationally, some firms have preferred a loose federation of partnerships and others more integrated arrangements. We have examined why there are variations of the traditional P^2 archetype rather than one universal archetype emerging in response to external pressures for change. Prior studies have identified market contingency factors and institutional factors as the precipitators of organizational change among PSFs without differentiating the nature of these factors between different professional sectors. We have examined differences in the market and institutional contexts of the accounting and law professions and suggested that the nature of the pressures they faced were (and remain) different *and* that the interactive dynamic between the market and institutional factors has evolved differently resulting in different organizational forms.

Future research calls for more comparative analyses to build comprehensive theories of organizational change in PSFs. We need to investigate, more systematically, organizational change across multiple professions and attempt cross-profession comparisons. While we have focused on law and accounting, other professions such as architecture, consulting, engineering and health need to be examined systematically.

We need more research spanning national boundaries so that we can understand the impact of institutional context on the structure of globalizing and national firms. This will require careful interpretation of institutional phenomena and their implications. For instance, German legal training is much more prolonged and focused on a general knowledge of the law than in Anglo-American models and the relations between institutional actors such as universities, firms and the state with regard to education are also different. One can hypothesize that these differences have important implications for institutional replication, for profession-level processes such as labor mobility and careers, and for firms' structures and processes of management. Further, as the internationalization of law firms continues and they seek to develop services globally, studies of how the transfer of particular practices and modes of operating affect existing institutional fields will be an important means by which scholars can learn more about the micro-processes of institutional change.

Future work should more closely link changes in firms' structures and broad market and institutional changes with micro-level analyses of changes to professional work as a way of understanding the depth of change from one archetype to another. While it has long been recognized that professional work bears little relation to the underlying professional knowledge base, we have indicated some of the types of changes in work that professionals have experienced in recent years. These include: greater specialization introduced earlier in professional careers; more extensive routinization of work due to the extensive codification of substantive and procedural knowledge, even in arcane areas of professional practice; emphasis on technique and technical know-how; more rapid changes to underlying expertise and the need to develop new ones as knowledge is commodified by its widespread availability; and a premium on processual skills to meet more educated clients' demands. Scholars will need to examine how these changes to work affect organizational change.

A final point needs to be made about *intra*-professional differences. Our focus has been on *inter*-professional differences. As in organization theory generally (Aldrich, 1999), research on PSFs has been dominated by attention to the biggest firms within a professional field. It may be useful to expand the scope of these studies to include the smaller firms in order to develop theoretical arguments that encompass the entire industry. Doing so would further illuminate intra-profession diversity in organizational form because a professional services industry may be comprised of different strategic groups or subfields facing different external contingencies. All business professions stratify with a small number of elite firms at the apex (Starbuck, 1993) and a much larger group restricted to routine work for smaller and less wealthy clients (Heinz & Laumann, 1982). In accounting, the current Big Four are so much bigger than the next tier that even a merger of two second-tier firms would not create a firm half their size. In law, London's magic circle firms and the elite New York firms dominate the market for the most lucrative corporate legal services. In architecture, a small number of the so-called 'signature' firms dominate the global market for prestigious projects. These 'within-profession' differences require further examination.

Essentially, the message of these proposals for future research is to carry on the task of systematically examining the sources of variation in organizational form among professional service organizations, going beyond the more frequently studied accounting and law professions and beyond the larger firms. Such research needs to be across professions, across national jurisdictions and deeper within individual organizations.

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PROFESSIONAL SERVICE FIRMS AS COLLECTIVITIES: A CULTURAL AND PROCESSUAL VIEW

Mats Alvesson and Dan Kärreman

ABSTRACT

This chapter discusses professional service firms as collectivities. Collectivity refers to the interface between the social and the cultural. It is a 'social unit'; however, it is defined through the meanings, definitions and distinctions of the people involved. This chapter addresses the cultural and processual aspects on collectivity. Eight dimensions of collectivity are highlighted. Two case studies of consultancy companies illustrate these dimensions as well as different forms of collectivities. This chapter also addresses the interplay between foci on individuality and collectivity in organizations.

INTRODUCTION

The relationship between individual and organization is a theme of fundamental importance in management as well as organizational studies and practice. Organizations are, to a large extent, a means of making collective action possible. This calls for shared meanings and the subordination of

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individuals' idiosyncracies and want for autonomy. At the same time, the individual is a source of initiative, creativity and variation and is, as such, an important resource, not to be completely subordinated to organizational and collective patterns. Also from the viewpoint of the individual, the relationship between individual space and belongingness to occupational and organizational communities touch upon a number of key themes for identity, discretion, loyalty, status, belongingness, meaning, commitment and motivation.

For work in professional service firms (PSFs), issues around individuality and collective belongingness become a bit more complicated, as professional work is normally seen as based on a high level of autonomy. This is a traditional defining feature of the classical professions, perhaps less pronounced today as professionals typically work in large bureaucracies (Mintzberg, 1983). Even though most people working in PSFs, here defined fairly broadly, do not belong to the classical professions and are typically oriented to commercial work in a corporate context, anticipations remain for a fairly high level of autonomy and individuality. In all knowledge-intensive work, and PSF work exemplifies this, there is a need for a high level of operative autonomy and authority. PSFs are often organizationally fragmented. Even a law firm developing strategic plans, management systems and attempting to concentrate power in the hands of a managing partner still was seen by people in the company as similar to a fashionable store: "a flash brand on the outside with a lot of franchises on the inside" (Morris & Malhotra, 2002, p. 16). Løwendahl (1997) refers to managers viewing the management of PSFs as like 'herding wild cats' and 'making ten or twenty racing horses pull a cart together' (p. 63). At the same time, we live in a mass society, increasingly dominated by large organizations and teamwork. This also affects professional work, and thus most professionals. There is a change of professional service organizations in the direction of greater managerialism, away from pure models of partnerships toward strengthening management and strategy, and toward greater integration (Greenwood, Hinings, & Brown, 1990; Morris & Malhotra, 2002). As a consequence, the individuality/collectivity theme becomes crucial for PSFs. This chapter aims to illuminate this important theme, both on a more general theoretical level and in relationship to the specific situation of PSFs.

In many PSFs, and in other knowledge-intensive firms (KIFs) as well, there are ambitious attempts to create environments and attitudes that result in the development of socio-emotional ties between employees and/or feelings of belongingness to the company (Alvesson, 1995; Grugulis, Dundon, & Wilkinson, 2000; Kunda, 1992). Such workplace environments and ties counteract an interest in more narrow instrumental rewards such as salaries and to some extent promotion (Alvesson & Lindkvist, 1993). Managing collectives is then of particular importance in order to increase corporate loyalty and a feeling of togetherness facilitating teamwork. This can be referred to as social-integrative management (Alvesson, 1995; Kanter, 1983). Sometimes, managing collectivity is implicit and hidden. This is partly a consequence of individuality being valued. Many people, and in particular people choosing careers seen as highly individualistic, want to see themselves as true 'individuals' and not as part of the crowd.

In this chapter we talk about collectives and collectivity, and the corresponding terms individuals and individuality. Collectives refer to social units, while collectivity is more the aspects of individuals and small groups being linked up or experiencing a connection to a broader social unit. We do not want to exaggerate the distinction; however, we find collectivity more interesting and novel. Consequently, we are more interested in individuality than individuals as a counterpoint. Individuality can be seen as the decoupling from collectives. This means that we are not naturalizing or prioritizing individuals as the key unit. Rather, in this chapter, we emphasize the dialectics between collectivity and individuality in organizations in general, and PSFs in particular.

This chapter starts by discussing the concept of collectivity from cultural and processual views, arguing that collectivity refers to social forms as defined from the actor's point of view, and that the notion of collectivity has a shifting presence and significance in organizational life. The process view is characterized by an interest in the moving back and forth of managers and employees, focusing on individuality and various forms of collectivity: in control, rewards and self-definition. Individuality and collectivity may be produced in different ways and to different degrees in actions and situations. Variation in the presence/absence of collectivity is considered.

We present a model for the understanding of collectivity in organizations, and apply it to two cases of IT/management consultancy firms, illuminating rather different notions of collectivity in operation. These organizations, as examples of PSFs, are of particular interest to study in terms of the collectivity/individuality interface, as the notion of and space for individuality is typically more pronounced in these companies than in most others. There is an expectation, at least by people starting in the companies, of a high level of autonomy and the use of judgment; at the same time that corporate success calls for linking individuals to organizational objectives, careers and to fellow workers. Collectivity here emerges as an important element.

This chapter thus has two aims. The first is to develop a processual, dynamic conception of collectivity in order to illuminate key dimensions of

PSFs, and in particular the individuality/collectivity interface. The second is to investigate the meaning and significance of collectivity in consultancy companies, both in terms of how management targets and tries to regulate collectivity in the light of individuality and how collectivity may be shaped very differently in otherwise fairly similar organizations.

ON COLLECTIVITY

There are a wealth of concepts that highlight the collective dimensions of social and organizational life: coalitions, groups, corporate cultures, subcultures, communities of practice, clans and so on. Concepts that refer to formal units, for example, companies, professions and management, also address collectivity to some extent. Although the general level of the collective, including shared meanings and actions, can be said to be the main theme of organization studies, there is not much work singling out the notion of collectivity as such. Here, we have in mind the linking up of individuals to an assembly of people, a collective unit of some kind.

What is a collective? One option, as hinted above, is to define collectives as aggregates of people in some way related to each other and see all social entities as collectives: organizations, professions, groups, societies. Another option is to use the term collectivity as a sensitizing device, encouraging us to view social phenomena in a somewhat different light than offered by other vocabularies. This chapter follows the second route, exploring some key dimensions of collectivity and, to some extent, illuminating the relationship between individuality and collectivity in KIFs in general, and PSFs in particular.

It would take more than an entire chapter to sort out the ways of using the various terms operating in the same linguistic landscape as collectivity; therefore, we refrain from such a project. However, we will position our view against the ideas of the collectivist organization and communities of practice. Rothschild (1979) talks about a collectivist organization, which is seen as the opposite of bureaucracies, rejecting instrumentally rational social action in favor of value-rational behavior. The collectivist organization is defined as a democratic, alternative organization. Authority does not reside in the individual, as an office-holder or an expert, but in the collectivity as a whole. While this offers an interesting antithesis of 'normal' organizations and points at some of the themes collectivity can highlight, it tends to see collectivity as an exclusive and rare phenomenon, for instance worker cooperatives or grassroot organizations. The criteria of the collectivist organization used by Rothschild (limited differentiation, value-rationality, selective recruitment, etc.) are relevant to consider, however, when we apply collectivity to illuminate key aspects of work organizations rather than as an exclusive and fairly homogenous type. Collectivity then, may refer to a more limited part of the organization, a constellation of people 'hanging together' in an organic way.

Sometimes community is treated in a way similar to or as broadly synonymous with collectivity. Still, making a distinction between them makes sense. We see community as characterized by experiences of social bonds, of a set of socio-affective qualities. This differs from the literature on communities of practice, which focus more on common work orientations, cognitive interaction and networking (e.g. Swan, Newell, Scarbrough, & Hislop, 1999; Wenger, 2000). This cognitive approach (where community is related to work practice and stands for similar work experiences and frameworks) is currently popular as part of the interest in knowledge, knowledge management and organizational learning. We view community as a social quality which may be an end in itself. Community thus includes a positive affective dimension. In the alternative organizations studied by Rothschild (1979), some had charity and/or political objectives as central motives, yet some emphasized community as a central rationale behind this way of working together.

Arguably, collectivity can add to the family of terms through drawing attention to the less formal aspects of organizations. To point to the level between small groups (e.g. teams) and organizations, to refer to the interface between the social and the cultural, and, in particular, to illuminate the dialectics between individuality and collectivity. Compared to many other approaches, which emphasize one level of analysis (for example, culture, theme, or shared cognitions), we try to illuminate a broader set of aspects around collectivity. Collectivity is of interest as a mediating dimension in how individuals relate to and are linked to organizations. In this chapter, we attempt to show the potential of collectivity by illuminating key issues such as motivation, commitment, social relations, identity and emotions.

A CULTURAL VIEW

Culture is a suitable starting point to understand collectivity. Culture, like many other popular terms, is often used in a broad-brushed and all-encompassing way. It is fruitful to cut culture down in size in order to offer a sharper analytical focus and to distinguish between social structure and culture. Geertz (1973) suggests that culture is, on the one hand, regarded as a more or less cohesive system of meanings and symbols in terms of which social interaction takes place. Social structure is, on the other hand, regarded as the behavioral patterns that the social interaction itself gives rise to. In the case of culture, we have a frame of reference of beliefs, symbols and values, by means of which individuals define their environment, express their feelings and make judgments. In the latter case, that is to say at the social (behavioral-structural) level, we have a continuous process of interaction. As Geertz (1973, p. 145) states "culture is the creation of meaning through which human beings interpret their experiences and guide their actions, while social structure is in the form of action, or the network of social relationships that actually exist".

Consequently, cultural analysis does not subordinate social conditions to culture, nor does it regard culture as a reflection of an overall social structure. Instead, it makes a clear analytical distinction between the social and the cultural system. The latter may be analyzed in relation to the former, yet clearly the culture researcher's primary task is to interpret culture, i.e. symbols and meanings.

Martin (2002) defines collectivity as "a collection of bodies bound together by interdependence", for instance, an organization, nation-state or a profession. People in a collectivity are bound together by some objective trait, such as kinship, employment status or shared fate (e.g. unemployment), she argues "A collectivity includes people in relationships, around whom borders (albeit debatable borders) can be drawn so that people within can be counted" (p. 330). Martin defines culture as "aspects of people's collective lives that represent their attempts to comprehend and make sense of their experiences" (p. 330). Collectivity and culture are seen as related, although not the same phenomenon. A different position is taken by Van Maanen and Barley (1984) who emphasize that the identification of a community (which here can be seen as referring to something similar to a collective) must proceed from the point of view and meaning of those involved. Their boundaries are what matter. Collectivity becomes culturally rather than 'objectively' defined. This does not imply that all features of collectivity need to be understood through close adherence to meanings of people in the collective. It implies that their view of the larger social context of people and groups they relate to and define themselves as part of, is one key element in the study of collectivity.

For us, collectivity refers to the interface between the social and the cultural. It is a social 'unit', though it is defined through the meanings, definitions and distinctions of the people involved. We refer to collectives (and collectivity) as a middle-range concept, less macro than social entities such as class, nation or large organizations and less micro than small groups. A collective, as we define it here, calls for a shared awareness of a group 'hanging together', also in the absence of strong immediate interaction or interdependencies. It is more experiential and socially integrated than macro social units such as professions or large companies, mainly populated by unknown others. Collectivity refers to the meso-level. We cannot identify a collective, or talk about a sense of collectivity, without taking the understandings and boundary-setting meanings of those being studied into account (Yanow, 2000). Collectivity in this sense ends with the experience-horizon, and is not used for the study of 'abstract' collective units such as occupations and formal organizations.

A PROCESS VIEW

In social science, issues around cause and effect, correlation and frequency are popular to study. One may, however, also ask the question, what is the *meaning* of a phenomenon? (Asplund, 1970). One may also take an interest in *when* does a phenomenon occur, for example, or ask when something is expressed or played out in a social context, or ask when do people experience something as salient and significant. Thus, taking the process and the occurrence rather than static 'essence' into account. To pay interest to themes like process, fluidity, and becoming is recommended by an increasing number of academics (Alvesson, 2002; Chia, 1995; Martin, 2002). Given our specific interest in this chapter, we ask when is collectivity more or less explicitly referred to or brought forward on the scene? When do people feel as members of a collective, or refer to, or think of themselves in terms of collectivity? This question is based on the assumption that collectives are not necessarily best understood as a fixed unit, a stable social or cultural form or consistently 'in operation'. However collectivity may be invoked or targeted by actors or may be formed by groups of people in their interaction. Managers may, for example, sometimes address subordinates as a collective, other times as individuals. Controls and rewards may focus on the group or the individual. Frequently there are a set of control forms, some of which are directed at individuality and some at collectivity. Individuals may sometimes perceive themselves as unique individuals, sometimes in terms of 'we', referring to a social category. This social category may look very different, at times a cohesive group of people, at other times a 'we' in the sense of the organization as an abstracted unit (associated with the corporate name and certain attributes ascribed to the company, more than people). Sometimes 'we' may refer to a general category (women, accountant, retired). As we see it, the last form of category goes beyond or outside the notion of collectivity. We think it makes sense to reserve the idea of a collective for a group of people that at least occasionally interact, have some knowledge of each other and define themselves as being connected in a fairly specific way.

From a process perspective, collectivities are artifacts of social processes of production and reproduction. The question of when collectivity emerges can be seen as inviting a long-term/macro as well as short-term/micro response. The first addresses the emergence and transformation of a collective over time; the second draws attention to how notions of collectivity are referred to, become targeted for managerial and other action and/or become invoked as an experience or a source of collective self-definition by people, in various specific instances. In the first case, collectivity is a created or recreated social orientation with some stability over time and space. In the second case, collectivity is created or recreated on a highly temporal basis. Collectivity may be present or absent, and this can change between different micro-level situations.

A long-term process view emphasizes the temporarily and spatially bound collectivity to be historically situated and not just temporal. Furthermore, they are socially constructed achievements rather than naturally occurring entities. The process perspective assumes that collectivities have borders (thus allowing some discretion and integrity to the notion); however views these boundaries to be outcomes of continuous negotiations and, thus, as products of social processes rather than properties of the object under study. Consequently, it is possible to deal with the often inert, framed and routinized nature of collectivities. However, this is not understood as inherent attributes of a robust entity. Rather, it assumes inert, framed and routinized collectivities to be *effects* of recurrent social practices; practices caught up in and interwoven into webs of power relations, traditions, values, meanings, interactions and technologies.

A short-term process view draws attention to how collectivity moves back and forth between being targeted and centered versus being sidestepped and latent. Of course, long- or repeated short-term processes create the 'groundwork' and the inclination to successfully mobilize or invoke collectivity: successful here meaning that the reference to a collective (a 'we', people feeling some social bonding in a voluntary manner) is accepted by those addressed as being part of this collective, thus downplaying their individuality or belongingness to other groups. Long-term processes thus form certain tendencies and inclinations to collectivity formation, yet these are not always salient or espoused in organizational life in society, in many ways propogating (the myth of) individuality. Collectivity is thus more fluid and processual than a fixed state. This calls for a short-term process understanding, sensitive to the dynamics of collectivity/individuality positioning, of the interplay between different kinds of collectivities, and to the relationship between collectivity and belongingness to other social units (company, profession, nationality), which may indicate a more abstract form of belongingness than what our concept collectivity primarily refers to.

A process view (whether long- or short-term focused) on collectivity means that a multitude of collectivities are acknowledged and that collectivities have shifting relevance in action, discourse and identification (three terms sometimes referring to overlapping aspects). This can be illustrated by a study of an industrial company, where we asked people who they thought of as 'we'. As one person said, outside work: 'we' are the company, at work: 'we' are the factory, within the factory: 'we' are the young ones (as opposed to the old 'walrusses') in the department. Thus, the collectivity experience shifts with context (Alvesson & Björkman, 1992).

In many organizations, the experience of a broad, company-produced collective may not be salient during most of the year. This experience may occasionally come forward, for instance, during social events manufactured to produce (temporary) collectivity (Kunda, 1992; Rosen, 1985). Extraordinary events may not be sufficient enough to construct a temporary version of collectivity that radically breaks with how people, upon reflection, consider the workplace in everyday life. Nevertheless, collectivity frequently comes through as different when manifested in the form of a cheering crowd where people feel closer to each other than in an everyday corporate situation. We are not advocating an extreme processual view on collectivity, rejecting any effort to conceptualize or empirically describe it beyond specific instances. We think that it is important to pay attention to feelings, cognitions and ways of relating to others beyond what is tightly bounded in time and space. However, we are skeptical about the possibility of firmly fixing collectivity (e.g. measuring it as if it was a static object), and instead embrace a more dynamic and processual view. This may be handled pragmatically through pointing at some of the typical and significant variations of the expression of collectivity.

DIMENSIONS OF COLLECTIVITY

The notion of collectivity can be illustrated through various key dimensions. Some proposals in this direction have emphasized the learning aspect (e.g.

Wenger, 2000). Our approach considers broader aspects than the cognitive focus of the organizational learning perspective. We suggest eight dimensions for the description of collectivities. These concern the scope and character of social relations included, the emotional and cognitive characteristics involved, the status and possibly community (socio-affective) qualities associated with collectivity and the different experiences of collectivity as elements of subjectivity and identity formation.

The dimensions can be summarized as follows:

- Vertical relations: the degree of experiences of collectivity across hierarchical levels;
- Scope: how far does the experience of collectivity reach;
- Emotions: the type and intensity of feelings involved;
- Cognitive clues: the ascription of meaning associated with the membership of the collective;
- Affiliation status: the extent to which collectivity membership refers to a particular status category (feelings of superiority, underdog position);
- Community: the extent collectivity leads to the experience of being part of an affectively bounded social group (comradeship, gemeinschaft), positively defined, having a value in itself;
- Presence: the frequency of invocation of the collective. This presence may be found in discourse and/or manifested in specific acts of collectivity (rites and ceremonies expressing social-integrative qualities);
- Thickness of experience: the extent to which notions of collectivity permeate individuals' experiences.

The dimensions are analytically distinct, however they may, in reality, affect each other. Thickness often means, for example, a certain element of emotional involvement and feelings of community. The latter two dimensions also tend to go together. However, no single dimension can be totally subsumed by the other seven. This framework for understanding collectivity in organizations will be applied on two case companies in the IT/management consultancy sector. After a few words about methodology and the corporate context, we will address the two cases.

A NOTE ON METHODOLOGY

The empirical material consists of two case studies of PSFs (both are management and IT consulting companies), Big and CCC. We have mainly used qualitative methods. The study has been conducted through interviews as well as observations of a variety of organizational gatherings. However, we have avoided mainstream data processing approaches, as they tend to privilege 'data' and provide an impression of rationality through emphasizing procedures, rules and a clear route from empirical reality to theory (Glaser & Strauss, 1967; Strauss & Corbin, 1994). There has been increasing critique of this approach (Alvesson & Sköldberg, 2000; Charmaz, 2000; Lincoln & Guba, 2000) for over reliance on 'pure data' as well as neglecting the constructed nature of empirical material, the centrality of theory, language and the researcher in producing representations and results.

This paper draws upon a different approach, based on interpretive principles. A central principle here is the idea of hermeneutic reading (Alvesson & Sköldberg, 2000). Rather than codifying empirical material, this is looked upon as text, in which one tries to go beyond the 'surface' and look for something less obvious or less easily revealed in a (quick) coding process. The text as a totality is kept carefully in mind, which means that variation and contradiction are taken seriously. In our interpretations we have used the concept of collectivity as an overall concept for grasping some key dimensions in the organizations studied.

Fieldwork was conducted through an open and emergent approach (Alvesson & Deetz, 2000). Initially, both cases were studied from an anthropological and exploratory point of view. Exact research questions have been formulated after a good understanding of the sites studied has been accomplished, thus giving space for empirical material to affect the research process and results. For example, interviewees' references to a "strong culture", and the employees' relative instrumental and calculative relationship with the employer in the case of Big created an interesting (and surprising) contrast to CCC's warmth and emphasis on social relationships, which awoke our curiosity. A guideline in this kind of study is to look out for significant deviations from what could have been expected, given a strong familiarity with the literature in this field. This makes it possible to produce a "mystery", offering in itself an interesting source of further thinking, as well as providing impetus for solving the mystery and thus adding new knowledge (Asplund, 1970). In our case the mystery was the sharp differences along dimensions of collectivity between organizations that operate in highly similar contexts.

Obviously, we have not restricted ourselves to a strict interview protocol. Instead we have based interview questions on different sets of common themes, which consequently have been adapted to (a) the stage in the research process and (b) the particular developments of each interview related to the interviewee's specific work situation, seniority and experiences.

A rather long exploratory phase characterized the research project. For example, findings and observations from our first 15–20 interviews were organized in emergent themes that were used as input in new interviews, both in terms of questions asked and whom to talk to. In this way we have been able to refine our understanding of the themes emerged, without providing excessive a priori closure to fieldwork practices.

The research aims to arrive at a rich, in-depth illumination of the case firm. The study is a kind of quasi-ethnography, comprised of interviews as well as observations of a variety of organizational gatherings. We have also studied documentary material, for instance, manuals for giving feedback, project methodology, etc. We thus cover the three means available for qualitative research: 'asking questions', 'hanging around' and 'reading texts' (Dingwall, 1997). This paper reports mainly interview material, however it is implicitly backed up by other kinds of data.

As noted above, the empirical material draws upon two sets of data. The CCC data set consists of 50 interviews and several observations, including a weeklong introductory course mandatory for all newly recruited employees. The Big data set consists of 52 interviews as well as observations, including following a project group at work during two days, observations of training sessions, competence group meetings and the yearly meeting for all employees in managerial positions. People from all parts of both organizations have been interviewed: the CEO, subsidiary managers (in the case of CCC), partners (in Big's case), consultants on various levels of seniority, support staff, newly recruited organizational members and so on. Our interviews cover the entire spectrum from job applicants to ex-employees, although most of the interviewees were, at the time of the study, working in the firms. Participant observations, contact with ex-students from our department working in the firm, and repeated interviews with people who appeared to have some distance from the firm and who were willing to air critical comments are all techniques that have been used in order to facilitate access to the inside of the organization.

THE CASES OF TWO CONSULTANCY FIRMS

Before we present our two cases, a few words about these in the context of PSFs are warranted. Many authors on PSFs focus on law and accounting firms (e.g. Cooper, Hinings, Greenwood, & Brown, 1996; Greenwood et al., 1990). Do management and IT consultancy firms qualify for the PSF label? There are many opinions about which occupations qualify for the more or less exclusive term 'profession'. As Abbott (1991) puts it:

> "... because the term 'profession' is more an honorific than technical one, any apparently technical definition will be rejected by those who reject its implied judgments about their favourite professions and non-professions". (p. 18)

There are good reasons to avoid too strict a definition of professions in many cases. The term can, for example, be used for illustrating organizations in which a large proportion of the personnel belong to a well-paid, high-status occupation with a longer education who share an occupational community; but is not formally regulated or sanctioned. It does not seem reasonable to see law and accounting firms (the most commonly recognized professional businesses) as distinct from architecture firms, management, engineering or computer consultancy firms in terms of most management, organizational and work aspects. Of course, one can use the concept of a professional organization more widely than a traditional or strict definition of a profession allows. Many have done so. Sharma (1997), for example, suggests that "much like doctors and lawyers, professionals in advertising, banking and consulting apply in their work a body of knowledge and techniques acquired through training and experience, have a service orientation and distinctive ethics, and have a great deal of autonomy and prestige in the modern economy" (p. 763). It is common to refer to engineering, marketing and other consultancies as PSFs (e.g. Empson, 1998; Løwendahl, 1997; Löwendahl, Revang, & Fosstenløkken, 2001; Robertson, Scarbrough, & Swan, 2003; Suddaby & Greenwood, 2001). Acknowledging the arbitrary task of where to draw the line between a PSF and a non-PSF, we adhere to the fairly common practice of incorporating management and IT consultancy firms in this vague category.

There are many common features between the two studied firms, at least if one looks at the Scandinavian component of Big (a large MNC). Both firms have about 500 employees, which were founded 10 years before the time of the respective study, and are consulting firms combining management and IT (although Big's assignments include more management and strategy) and employ mainly younger people [with an average age around (CCC) or slightly below (Big) 30 years]. More than 80% of the personnel are professionals (e.g. work as consultants). Often the projects are carried out at the workplace of the clients, meaning that the employees of the consultant firm have more contact with the client's personnel than those in the 'home' company (outside the project concerned), although Big's employees seem to have more distance from the client's personnel. The employees in a project group may, in some cases, know the organization of the client better than that of the 'home company'. The space for 'organic collectivity' through close and tight interaction between numbers of people (here meaning more than the small team group of often 3–6 persons) is limited and the threat of 'social deficit' is significant.

Big Consulting

Big Consulting is an international IT/management consultant company with more than 20,000 employees. The company relies heavily on particular technical expertise, spanning the IT and management fields. Big has highly qualified personnel according to themselves, which is also broadly confirmed by clients, competitors and the informed public. Big Consulting's strongest competitive advantage lies in their capacity to deliver the solution on time (a rare phenomenon, particularly among IT consultant companies) and in their particular work procedures.

The team is the key organizational unit in Big Consulting. Every project and customer contact is organized around a particular team. Thus, management control in Big Consulting revolves generally around team management. As a consequence, the individual is typically rather insignificant, at least as an organizational resource. On one level, the individual is highly visible in the organization; it is the individual who is carefully evaluated, rewarded and punished (by means of deferred pay raise and promotion). On the other level, the individual is hardly visible at all. Instead, the individual is viewed as perfectly exchangeable and possible to replace.

> We enter as a group. We are perhaps not individuals but work more as a group. We always work in teams and it is not the particular individual that makes it good.

> We have been extreme in the delivery and process direction in our way of working. It is more a matter of putting the team together and [ensuring] competence on different levels than to look at that person who has just rolled off a similar project and now wants to develop. We try to improve but still it is like: oh, now that person is free and we have an empty hole there.

The organizational hierarchy is strongly pronounced formally, with several career steps and associated titles (from analyst and consultant, to manager, senior manager and then partner). People, at least on junior levels, experience the hierarchy as strong and comment in interviews that they have little contact with partners, feel small compared to them and do not know what they are doing. People refer frequently to the title of others, see titles as reliable indicators of competence, and seem to have great respect for and compliance with formal hierarchy.

Young persons, in particular, frequently experience the company at large as somewhat impersonal, which is not the case with the projects and the relations in the project team.

> There is an impersonality here in the office. There is a personal side, and that is in projects where you are living [working] very close with people in the project for a long time.

At Big Consulting, employees are expected to work their career. Big Consulting is also at pains with regard to developing and sustaining an elitist image. They claim that they recruit the "best people", and that they are an "up-or-out" company. Employees typically respond by viewing Big Consulting as a vehicle for their personal career. Obviously, such orientation hardly fosters a communal spirit or loyalty. The relationship between the company and employees seems to be somewhat calculated and instrumental. Communal feelings and loyalty are generally channeled toward teams and projects. As teams are non-permanent, feelings of togetherness do, only to a limited extent, stretch beyond this and incorporate into broader parts of the organization.

CCC

CCC works with different kinds of IT consultancy projects. Projects of various sizes exist, employing from one person for a short time, to a dozen people for over a year. In order to attract and retain people and to produce positive work relationships within the company and with clients, CCC's top management argues that it is important that the employees feel satisfied and that the managers know their work and also life situation in other respects. The structural arrangement of the company (subsidiaries employ maximum 50 people each) is partly grounded in the idea that every subsidiary manager should know every employee and people should develop group feelings associated with the subsidiary.

As part of a people-oriented management style, hierarchy is downplayed in many respects. Management says that the company only has two levels: managing director and consultant. In practice, however, it is not so simple. Managers try to minimize all forms of visible status symbols. Senior people behave rather informally and try to reduce social distance across levels. As one interviewee expressed it, even junior consultants expect that they can have a beer with the CEO. The employees have a strong influence on hiring decisions. They are also consulted in the selection process of managers and can, in principle, veto candidates, although this can be difficult in practice.

In CCC, there is an assumption that the well-being of employees directly influences the quality of their work. One of the strongest qualities of the company is the ability to satisfy employees. The CEO said that "if there is anything that we are good at it is this, we are damned good at this". An element in this is to make the employees see the company as 'a family'. This can be illustrated through the allocation of space in the corporate building. The consultants (i.e. the third of all who are not located at the clients' workplaces) have only limited individual office space at their disposal. People sit tightly together. The social areas in CCC's workplace are, however, large and appealing. The top floor of the company is designed as a home (TV, sauna, kitchen, etc.). There is also a piano bar. Several social activities sponsored by the company, like navigation and other courses, an art club, a choir, etc., also express and reinforce feelings of community. CCC holds a high profile in social activities in which people in the company invest much energy and emotion, for instance, corporate celebrations. For the company's 10th anniversary, employees gathered together for three days on an island in the Mediterranean.

There are strong feelings of corporate pride in the company. People broadly see the company as progressive, innovative in its approach to customers and personnel and as highly distinct. A client said that "CCC is not a company, it is a religion".

Marketplace and Community Conceptualizations of Employees

Legge (1999) discusses images of employees in the corporate world and in social science, based on marketplace and community conceptualizations. The values associated with the former are individualism, free choice and economic rationality, while communitarianism is associated with values of collectivism, social consensus and social rationality (including social bonds and loyalties). She argues that there are five major images of employees: customers, resources, commodities (market-based), team and family (community-based). The three market-related images are present in both our case firms (labor is sold to clients making the commodity metaphor relevant), but are more salient in Big, while the family metaphor exists strongly in CCC. In Big, experiences of community are perhaps better indicated by the term 'club' (sometimes used by interviewees in this company). The team metaphor is relevant at both companies, although more so at Big. One could say that Big offers the personnel a good trade in market terms (as 'customers' on a labor market, they pay a great deal as resource and commodity, however also receive a lot in 'products' such as income, development, titles and status), while CCC employees think that they get a nice deal in community terms. However, belongingness to the collectivity associated with the company is also crucial for the employees of Big; this social identity is significant for their self-image, and being components in a large, effective corporate system is a key part of their work experience.

COLLECTIVITIES IN THE TWO COMPANIES

If we proceed from the aforementioned eight aspects or themes of collectivity, we can compare the organizational situations of Big and CCC.

At Big, in terms of *scope*, there is a fairly strong feeling of temporary small group community associated with projects and teamwork. Here, people frequently work together for a few months, often some distance from home, during long work hours. Often at Big, people keep to themselves during lunches, etc., and do not interact that often or intensively with client personnel. Based on participation in projects people develop relationships, but these tend to be dispersed in the company over time, therefore there is no strong on-going *community* on a kind of collective meso-level, which extends beyond the small group or includes more than a few dozen people.

There are, however, some shared experiences of common belonging on a global level. This is manifested when people cooperate across nations. Interviewees report that they can get altruistic help from the entire global company, for example over the phone from a person who they have found to have valuable experience through consultation of the knowledge management databases, but have never met in person.

> The use of a similar model for the design of the company and the same methods plus the same courses means fostering of a culture that is extremely strong … making it possible for me to go to the USA and be productive within a day.

(Does this mean that people are exchangeable?)

> Yes, I think so. It may be a bit of a problem because in our company and personnel there are people who do not want to be exchangeable. Personally, I prefer to be exchangeable, because I have seen the advantage in it. If I train people below me and coach them all the time and delegate to them, then my work tasks in principle, are taken care of and I can move on to the next role. (Consultant)

Thus, they claim that people fit in effortlessly, very much an effect of global standardization of systems, procedures and vocabulary, but also a consequence of a broadly shared social identity, i.e. *a tendency for people to define themselves through the organizational membership* (Ashforth & Mael, 1989). Thus, there is a widely stretched but rather *thin* experience of collectivity across the entire company. This is an imagined or abstract collective that people belong to, also in the absence of previous contact. However, the feeling of belonging is rather weak. It does not strongly balance an instrumental orientation to the workplace, where pay and promotion are viewed as the key motivators.

CCC is different in these respects. There is a strong feeling of *community* associated with the subsidiary level, involving a group of 30–45 people. One consideration of the organizational structure and the system with dividing subsidiaries when one becomes more than 50 employees is to facilitate the creation of community. Here, we can talk of a medium-range collectivity, characterized by considerable *thickness*, at least in relationship to what is common in the corporate world. A variety of social activities, emphasis on social-integrative leadership, employees having a strong voice in recruitment and selection of new employees contributes to this. At CCC, collectivity is also fairly salient on the corporate level. There are skillfully organized activities and corporate identity-building practices emphasizing the corporate level. A lot of emphasis is placed on corporate culture.

> They spoke from the start that one should have a culture: to be close to each other, to know what everybody was doing, to be able to know who worked with what and be able to phone and get assistance from people. I don't know if one did so that often, but the feeling was there. (Consultant)

The top management is somewhat concerned about subsidiary managers emphasizing their own units and strong bonds within them, and try to counteract strong divisions within the firm through pushing for the corporate level as a source of community. One incident where the major part of a subsidiary defected and started a competing company reinforced this ambition.

The two companies differ heavily in the way collectivity appears in *vertical* terms. In Big, people in junior positions felt considerable distance and uncertainty in relationships with senior persons (partners). Junior persons had little knowledge about what the partners were doing and saw them as very disassociated. The junior people felt that they had low status. "You feel small compared to partners", as one interviewee expressed it. This response indicates alienation and frustration. This is softened by the idea that the hierarchy is viewed as representing levels of competence, and is neither arbitrary nor a simple control structure.

In contrast, in CCC, the opposite opinion dominates; it was very important for senior people to reduce any tendency to experience a gap between hierarchical levels. We can now talk about the cultivation of a non-hierarchy collectivity. In CCC, it is said that no manager is employed that cannot make friends with the subordinates. Managers are expected to be socially active, being present and visible at social gatherings. Managers are central in collectivity building, while partners in Big are somewhat peripheral and not very active in collectivity-constructing work. One person even described them as demanding counterparts rather than co-workers.

In terms of *emotions*, CCC strongly pushes for the significance of affective bonds. Friendship is a popular word and senior managers signal this orientation. The founders often exhibited strongly affectionate behavior and inspired other managers.

> I am impressed by the fact that they sat down, often, and thought this through: what affects people? What makes them feel good, and had a strategy for this. They had a common view which spread and affected other people who thereby got the same view. (Consultant)

During a week-long introduction course for new employees, two teachers (a subsidiary manager and a vice president) gave each other a big hug in front of a somewhat surprised audience before one of them returned to his office. Big is a much less emotional place, with an emphasis on analysis and instrumentality, much less expressive than CCC. Publicly expressed emotions place very little imprint on collectivity in Big Consulting.

Associated with collectivity in both cases are certain *cognitive clues* for how employees understand themselves. In other words, ideas about the nature of collectivity give some indication about being a person in this corporate context. In the case of CCC, this is partly about the emotions and social bonds; social relations are important, one does a good job through establishing contacts, creating a good atmosphere and friendly work relations with client personnel.

> The company succeeds in making people feel happy with the company. In turn they feel better about the work they are doing. Then the job is performed a bit better, resulting in the happiness of our customers. (Consultant)

The social spirit and community-creating abilities are an important part of the corporation's 'key competence' and this is used in client relations and project work. Collectivity then becomes a key resource, indeed an active ingredient in how the company works through giving guidelines for modes of operating in the firm. In Big, collectivity plays a less salient role in these respects. Efficient teamwork is not primarily viewed as an offspring of ideas of collectivity, though it is seen more as a function of efficient systems, structures, procedures and training. Ideas about collectivity, however, do matter in Big in how people perceive themselves. Here it is very much a matter of being part of a chosen, highly distinct, successful group.

> I must confess that I like the aura of the Big brand. I know that I was recruited to an elite company and that I am still considered to be worthy of an organization that recruits the best students, has the best clients and makes a lot of money. We employ one out of one hundred that apply for work here. We have long, trying tests and evaluations and I have passed them all. (Consultant)

People in the firm reason that the value of those included is signaled. The collective provides clues for behaving, talking and appearing. There are jokes about people being look-alikes, with similar dress code and manners.

The above is related to collectivity as indicating *affiliation status*. Collectivity in a corporate context, in particular one in which success and prestige are very much focused on, is not just an internal issue (something 'intra-collective'), but also a matter of social positioning on a wider social field. The 'we' element here is not necessarily very strong. Collectivity in this sense may be rather downplayed and the status value of having been accepted into and promoted within a prestigious, or according to one's own opinion superior, institution may be the central element. Nevertheless, the shared construction of collective positioning makes the prestige and self-esteem element more powerful. Unification around ideas of what group membership says about relative positioning may be an important part of collectivity. In Big, this differentiation in relationship to others is central. Here, there is a club feeling of being part of an elite group through working in this company. Also in CCC, there is this notion of being special. In this company, being special and different is not necessarily the same as being better. The case for superiority in any absolute sense here would be difficult to substantiate. The exclusive and original nature of the company nevertheless encourages beliefs such as being part of a progressive, creative, different and even unique organization.

As briefly addressed in the introduction, we do not see collectivity and community as synonymous terms. Collectivity does not necessarily imply community. A good question then is to what extent does collectivity indicate the experience of being part of an affectively bounded social group (comradeship, gemeinschaft)? In the case of CCC we can see such qualities overlapping in the organization. In Big, there is less community; social relations tend to be less integrated and less characterized by affective bonds. People share an identification with corporate membership; however, feelings of impersonality exist within the company.

Collectivity, in a sense, lacks continuous *presence* for both CCC and Big. People work autonomously or in small project groups, often away from the company headquarters. Strong manifestations of collectivity at fairly regular occasions can be seen as compensating for this 'social deficit' for many people, particularly in CCC, characterized less strongly by teamwork. In CCC there are gatherings of the entire subsidiary every week, two-day sessions every quarter and company-spanning social activities a couple of times per year. Here the collective is very visible. The events are carefully planned and staged, and the ritual confirmation of corporate collectivity is emphasized. Collectivity reinforcing rites are a vital part of the corporate landscape.

In Big, collective events are more instrumental and often hierarchically selective. An annual meeting for managers, associate partners and partners, gathers the more senior third of the company. Collectivity thus comes through less distinctly and is seldom highly visible. An indication of collectivity appears regularly during work at the client site, when Big people tend to keep to themselves during lunches and breaks and feel happy about this.

	CCC	Big
Scope	Fairly far-reaching, but mainly within subsidiary	Concentrated to the project, broadly but thinly shared collectivity outside core group of the team
Vertical relations	Inclusion of senior people, top people central in collectivity	Experiences of hierarchical distance, top people are perceived as disassociated and calculative
Emotions	Strong focus on affective and expressive dimensions	Celebration of rationality, limited emotional expressiveness
Cognitive clues	Collective membership indicates a specific way of being and working	Membership signals status and indicates worth. Standing (formal position) within collective is important
Affiliation	Some feeling of being special	Membership experienced as part of an elite
Community	Group membership and social bonds vital	Social bonds to some extent downplayed
Presence	Collectivity infrequently, however strongly and intensively expressed during specific rituals and ceremonies, in highly visible corporate symbols	Collectivity to some extent emphasized through joint work and gatherings during work project
Metaphor	Extended family	Gentlemen's club

Corporate and work life can be seen as a mix of singling out the individual for managerial action and viewing the individual as part of a collective. Corporate culture and bureaucracy indicate the latter, career issues and most incentive systems assume the individualistic perspective. CCC emphasizes in its rhetoric, (HR) management and culture the collectivity member, the social person, at the same time as a large part of the work is carried out by individuals. Big emphasizes in its rhetoric, (HR) management and culture the career-oriented individual, at the same time as almost all work is carried out in tightly integrated teams and the reliance on the unique individual is minimized. This is only superficially a paradox.

Collectivity has very different meanings in the two companies. CCC manages the collective as a key integrative vehicle within the company. Collectivity stands for inclusion in a tightly integrated community, based in the organization, but transcending the company as an abstraction or an institution, as people and specific relations are important. The organization as a whole means community; people expect to have a personal relationship with the CEO. In Big, collectivity represents belongingness to an exclusive group. Membership represents status and self-esteem. Collective belongingness is important as a marker of difference. This marker means that people tend to share a social identity, which leads to favorable dispositions to other people that are part of this global group when approached by, or expected to cooperate with them. This 'we' is fairly minimalistic, though is still a resource that makes the corporate machinery run a little smoother in many situations. The membership of this elite is, however, always conditional and (as the company operates on partnership up-or-out basis) for most employees, temporal. It is not so much the collective as a value in itself, as its ability to form a shared understanding of its distinctiveness that makes a difference.

A focus on collectivity is more or less explicit during different moments and in different situations. To put it in drastic terms, collectivity in CCC does not exist on an ongoing basis and therefore needs to be powerfully produced at regular occasions. In Big, individuality is not a strong feature of everyday work, however it becomes heavily targeted in HRM: assessments, feedback sessions, promotion decisions, wage-setting. Here, individuality is sharply constructed; the individual is abstracted from the team activities in which at least younger (the majority of) employees are embedded most of the time and thus constructed in a non-collectivistic fashion. The organizational structures and processes that highlight, and thereby produce, collectivity and individuality are therefore important to study. This includes the regulations of identities around the organizational member as the integrated part of a larger whole and as the abstracted individual; singled out from the work team contexts where she/he usually finds her/himself.

The managerial and employee focus on collectivity can be related to a number of important aspects of management and organization, such as learning and knowledge sharing (e.g. Wenger, 2000), organizational loyalty and commitment (Alvesson, 2000) as well as the exercise of power and creation of compliance (Rosen, 1985). Important in all these cases is how identity is (re-) created through identification with social categories (e.g. Ashforth & Mael, 1989), which is partly accomplished through emphasizing collectivity.

The different versions of collectivity are neatly summarized in the metaphors that appear to describe collective life at Big and CCC, respectively. The clan (extended family) metaphor implies relatively inclusive and undifferentiated structural relations, an emotional and expressive safe haven, a place where the whole matters more than individual social distinctions, and where the whole clan needs to be summoned on in order to appear as an entity. The gentlemen's club, on the other hand, implies exclusive and highly differentiated social relations, where emotions are controlled, conduct is coded and behavior is reasonable. Its less pronounced community qualities means that it, for most people most of the time, comes out as a 'thinner' form of collectivity. It further implies the importance of social distinctions and elite orientations, and manifests itself as soon as any two members meet, regardless of occasion.

CONCLUSION

The concept of collectivity, as used here, enters an already crowded conceptual territory of organizations, groups, cultures and subcultures, communities, etc. We do not propose that this chapter offers any groundbreaking news. We think that it may offer something partly novel through:

(a) proceeding from the combination of a cultural and social approach;
(b) pointing at the significance of social bonding and formation of larger entities than groups; and
(c) pointing at socio-cultural formation more emergent and less organization-based than formal organizations (although in certain occasions, corporations and senior managers may put strong and conscious imprints on collectivity formation, as CCC in particular demonstrates).

We also think that these aspects may be particularly useful for developing insights on KIFs and PSFs. More specifically, the interplay between collectivity and individuality, the processual nature of collectivity and the eight dimension framework for conceptualizing collectivity are intended as contributions to a collectivity-based understanding of organizations in general, with a special relevance for PSFs.

A strong sense of collectivity can be expected to facilitate a willingness to share knowledge and support new ideas. These elements are significant in our two case studies: interviewees emphasize cooperation and support as broadly shared orientations. In Big, predictability and the effective use of human resources are also crucial issues. Here the emphasis of the idea of unique individuals is important. The mix of carefully monitoring and assessing the singled out individual as well as the emphasis on broadly shared norms and understandings mediated through structures, procedures and a heavy emphasis on group work seem to bring about a high level of compliance (Alvesson & Kärreman, 2004). In CCC, social support, satisfaction and an experience of meaningfulness are important issues connected to the management of collectivity. A cultural meaning system then contributes to the creation of the social person, being tied to the collectivity and not just being an individual, a group member or a specimen of an abstract social category (such as a German or an accountant).

The difference between CCC and Big is evident in most key dimensions of collectivity in the framework proposed above. While both organizations tinker with ways to manage the scope of the collective, CCC through size limits on subsidiaries, Big through competence groups, business lines, and, above all, teams and projects, there is a fundamental difference in attitude toward hierarchy. CCC management downplays and suppresses signs of hierarchy, while people at Big almost boast about the hierarchy, at least those who have climbed above the lowest levels and link such strongly to development, competence and meritocracy. People at CCC are enveloped in an environment that emphasizes expressiveness and emotionality. The people at Big, in contrast, work in an ambience that encourages social distance, emotional control and calculative rationality. In the social dimension, people at CCC perceive themselves as belonging to a *special collective*, while people at Big believe that they belong to a *collective of special individuals*. Greatness in both cases is associated with the company, this is produced through being part of a company-driven exceptional collectivity in CCC and being chosen to be included and promoted in a meritocratic, corporately based collective in Big. Finally, in the processual dimension, the people at CCC address, and are addressed by, the collective, in particular, social gatherings. These are often carefully designed, impressive and seem to affect social relations within the organization. Such gatherings exist at Big, however are secondary to the way life in the project team and teamwork provide notions of collectivity for the people at Big, admittedly a scaled-down version of it, though still pervasive.

Collectivity is an important source of personal identity building, also in addition to the use of a positively constructed corporate identity as a mechanism facilitating personal identity work. It is not only how the company as a whole is constructed in terms of distinctive features, organizational identity (Dutton, Dukerich, & Harquail, 1994; Gioia, Schultz, & Corley, 2000), which may inform identification, but also experiences of collectivity (or collectivities) within the organizations. Collectivity may influence how members construct the characteristics of an organization (as in CCC), although often there are other features that people find to be distinctive and vital, for example systems and procedures (as in Big). Organizational identity cannot thus be a priori equated with collectivity. The eight dimensions suggested above point at other dimensions than those emphasized by the organizational identity literature, for instance social qualities rather than organizational core characteristics.

Arguably, it is important not to conflate the organization as a formal unity, for instance as an abstraction, with specific collectives of people working in the organization as sources of identification. Although in many organizations they may overlap, and in some, e.g. CCC, these may strongly do so. In comparison to organizational culture/subculture, collectivity draws attention not primarily to more or less shared meanings and values in general, but to the linking of individuals to social formations culturally defined. It thus divides organizations through the interface between the social and the cultural. In relationship to community of practice studies with the emphasis on cognition and learning, the proposed idea on collectivity encourages an interest in a broader set of dimensions and does not emphasize occupational groups but also other forms of collectivity. It is also seen in relationship to the notion of individuality and in the context of management control. People may link up or be linked up with collectives as a focused object of control, which is quite different from assuming the existence of a community, or any other social unit.

Corporate and working life can be seen as a mix of singling out the individual for managerial action and viewing the individual as part of a collective. Managerial control and identity work are outcomes of a variety of acts, arrangements and experiences in which collectivity and individuality are at stake. Work organizations, control and rewards/sanctions may score at different ratios and different degrees of explicitness, focusing on collectivity/individuality, as illustrated by our two cases.

Related to this theme is the appreciation of the processuality of collectivity (and individuality) in organizations. Rather than seeing collectivity as a fixed and coherent entity exercising a stable influence, it is better viewed as contingent upon discursive practices, managerial acts, rites and ceremonies, in addition to distinctive forms of identity work. As such, it varies in its presence and significance in organizational life, its influences on organizational commitment, collaboration and motivation as well as team formation and other respects.

In this chapter we have suggested eight dimensions for the description of collectivity in organizations; addressing not only the scope and power structure of collectivity, and its qualities, but also its presence/absence and intensity. This framework can be combined with the processual view favored in this chapter, but also with more static approaches. Within a process perspective, in particular, the variance of the dimensions must be kept in mind. Thus, collectivity is best viewed as a multi-faced and organic entity. Accordingly, organizations in general, and PSFs in particular, can be conceptualized as arenas in which a variety of individuality/collectivity experiences, discourses and control actions are being shaped and thus shape organizational life.

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PROFESSIONALS, NETWORKING AND THE NETWORKED PROFESSIONAL

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ABSTRACT

Drawing upon an eight-year-long study of two of the global accounting firms, this chapter suggests that a key aspect of professionalism is networking. Networking within these firms is crucial to achieving and demonstrating professional competence and to career advancement. It involves sophisticated forms of social practice and permeates a range of organizational processes. It is argued that networking also implies and potentially creates and regulates a particular kind of identity, namely that of the networked self or, more specifically, the networked professional.

INTRODUCTION

This chapter considers the role and consequences of networking practices in large professional service firms. It has two main aims: to provide a detailed exposition of the ways in which, and the reasons why, networking is part of the fabric of daily life within professional service organizations, and to show

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how this implies the construction and enactment of a certain kind of identity. We call this identity that of the 'networked self' and more specifically the 'networked professional'. In pursuit of these aims, we will draw upon a range of literatures within the sociology of organizations – including those relating to professions, networking, and the production of identity – which are perhaps more usually treated separately. The examples that we discuss draw in detail upon empirical work conducted in two of the large public practice accounting firms.

It is important to make clear at the outset that these firms constitute a very particular context which, while not unique, certainly has its own specificities. Originally concerned with auditing, they have grown and diversified into areas such as tax advice, insolvency, and management consulting, so that the majority of their fee income now derives from non-audit services (Robson, Humphrey, Jones, & Khaligfa, 2004). They are amongst the largest corporations of any type and certainly among the largest of professional services firms (although it is possible to find some law and consulting firms of a similar scale). They have a global reach, turnovers measured in billions of dollars, and employ tens of thousands of people. As we will see, this carries particular implications for the kinds of networking within them.

It is also worth specifying that, in brief, what we mean by networking in the context of this study are the processes through which professional knowledge is received and transmitted by means of personal relationships, although we will amplify upon what this entails. Networking is a social process, which occurs both within and between the formal structures and boundaries of organizations. In recent years, an extensive literature has developed relating to social capital as organizational and individual assets, and its relationships to economic and political outcomes (Bourdieu, 1986; Putnam, 1993). Networking, of course, enables the building of social capital, which in turn facilitates coordination and co-operation for mutual benefit (Granovetter, 1985; Putnam, 1995, p. 67). In reaction to an 'undersocialized' view of economic action Granovetter (1985) called attention to the role of social, including network, structures in economic activity. And in turn, a body of research has now developed examining the structural, cognitive, and normative processes that help effective networks and alliances to develop (Gulati, 1998; Nahapiet & Ghoshal, 1998; Portes, 1998; Uzzi, 1996). Whilst in our discussion we consider how social networks extend beyond the boundaries of the organization in economically beneficial ways, precisely because the firms we will analyse are so large and complex there is considerable scope for networking *inside* the organizations (Cooper, Greenwood,

& Hinings, 1996). Much of our analysis is at the level of the behaviours (and construction) of the individual professional and in this way responds to an identifiable gap in the literature for as Dacin, Ventresca, and Beal (1999) have remarked:

> To date, much of the focus in network research has been on the firm level of analysis. We need to know much more about the role of individuals in the creation and management of linkages. (p. 327)

Until relatively recently, surprisingly little research data have been gathered on everyday life within the big accounting firms. However, over the last two decades there has been a steady growth of studies, including our own, so that an increasingly comprehensive picture of their everyday life has been established, as well as some increasingly sophisticated historical and institutional analysis of their functioning (e.g. Anderson-Gough, Grey, & Robson, 1998a, b, 2000, 2001, 2002; Barker, Monks, & Buckey, 1999; Coffey, 1994; Covaleski, Dirsmith, Heian, & Samuel, 1998; Dirsmith & Covaleski, 1985; Dirsmith, Heian, & Covaleski, 1997; Grey 1994, 1998; Hanlon, 1994, 2004). In this chapter, we present some findings from our empirical projects on two of these firms which disclose the way in which networking operates within them. These projects were conducted in UK offices of the firms between 1992 and 2000. There have been, within that period, a series of restructuring and mergers in the sector, which have many reasons and implications but not, particularly, for the kind of everyday activity denoted by networking. For reasons of confidentiality we will not elaborate further upon the firms we studied except to say that they either are large accounting practices or are now subsumed within such practices. On the few occasions when it is necessary to differentiate between the two firms, we will call them Firm A and Firm B; however, in general, the arguments we will make refer to both firms.

The research projects were concerned variously with socialization, training, and professional identity. Over the eight-year period we have conducted over 200 interviews with employees of these firms at all levels from new graduate trainees to partners. These semi-structured interviews, each of approximately an hour in length, have been coded (including codes for networking) and stored using qualitative data analysis software. The material presented in this chapter draws from this data set. Almost all of the people we interviewed in the firms were professionally qualified or training for qualification as chartered accountants, thus when we talk about networking in these professional services firms we are talking about the networking of professionals. Accordingly, we begin this chapter with a discussion of concepts of profession and professional. We introduce the concept of the 'networked professional' and locate our work within the relevant networking literature.

The bulk of the chapter is given over to the presentation of some detailed material from the empirical projects. Initially, this takes the form of expanding and elaborating upon some of the issues pre-figured in earlier work (Grey, 1994), namely the way that networking impinges upon the career projects of the accountants. However, networking has other identifiable characteristics apart from career building. These include selling opportunities, knowledge sharing, and cross-divisional communication. We will explore these issues through a series of detailed illustrations of how networks – both inside and outside the firms – are planned, built, and used by professionals.

Having elaborated the ways that networking and networks exist in the firms, we will resume the theoretical discussion of the networked self and the networked professional, that is, how networking relates to (professional) identity. Our thesis is that the culture and activity of networking constructs a category of actor, namely the 'networker', which puts a premium upon the socially competent individual. In this sense, it is a regulative (i.e. constraining and enabling) construct because the alternative is to be rendered as a socially incompetent individual. More specifically, successful networking regulates a particular form of professional identity and in this sense it is indeed an aspect of working.

PROFESSIONALS AND NETWORKS

Before discussing in more detail 'the networked professional', it will be helpful to indicate briefly how such a conception relates to and differs from more familiar understanding of the professional. These are of course the subject of a very extensive literature, much of which is concerned with how and/or why particular occupations are constituted as professions (Abbott, 1988; Larson, 1977), the relationship between professions and the state (Johnson, 1972), and the social and political effects of professions when constituted (e.g. Freidson, 1994). For our purposes we assume that, no matter what stance is taken upon these debates, and however a profession may be constituted as such, the people who practice it are understood by themselves and others to be 'professionals'. The question then becomes: what does it mean to social actors to be a professional?

As Atkinson (1981) argues, broadly speaking there are two traditions of thinking on this question. On the one hand, a professional can be thought of someone in possession of a body of technical, specialized knowledge, and accredited as being so. On the other, a professional can be thought of in terms of someone who exhibits other, non-technical skills, principally those of appropriate behaviour. This distinction between professional knowledge and professional behaviour can be traced to the classic study of the medical profession in which it was argued that

> … Science and skill do not make a physician; one must also be initiated into the status of physician; to be accepted one must have learned to play the part of the physician in the drama of medicine. (Becker, Greer, Hughes, & Strauss, 1961, p. 4)

It does not follow from this that professional behaviour alone is a sufficient basis to function as a professional, but the suggestion is that neither is mastery of professional knowledge and technical skills enough. The position is more complicated than a simple dichotomy of knowledge and behaviour would suggest, as more recent work has begun to argue. Thus, for example, Alvesson (1994) suggests that advertising professionals, whose expertise is less clearly defined than in the 'classical' professions, seek to display professionalism through the deployment of more personalized qualities and appropriate behaviours. It is better, then, to see knowledge and behaviour as interrelated rather than as being separate entities.

These kinds of issues have been explored in some detail in relation to the accountancy profession (e.g. Anderson-Gough et al., 1998a; Coffey, 1994; Dirsmith & Covaleski, 1985; Grey, 1998), and the purpose of this chapter is to offer a new set of insights relating, specifically, to networking and the professional. These insights illuminate understandings of both professional knowledge and professional behaviour. In relation to professional knowledge, we aim to show how the image of the individual professional carrying it around inside his or her 'head' and bringing it to bear upon specific situations or problems is somewhat outmoded (if, indeed, it was ever much more than a myth). Instead, we will show that having 'knowledge about knowledge' is what defines successful professionals, at least in the firms we studied. However, to have knowledge about knowledge entails involvement in a social process (networking) which can only be achieved through appropriate behaviours. In this way, we seek to extend the point just made about the intertwining of knowledge and behaviour. In relation to professionalism, specifically, we will suggest that the process through which such knowledge and appropriate behaviour is both learned and displayed is a process in which networking is of central importance. This is evident when we come to examine the role that networking plays within career advancement in the firms but also has consequences beyond the immediate organization in ways that advance the firm.

In these terms, it is possible to see how networking refers to a form of skill or expertise which is largely tacit and yet provides a kind of 'social architecture' within and through which both professional knowledge and professional behaviour can be transmitted. But before we explore how that is the case, it is necessary to give a little consideration to what networking means.

As we noted earlier, much of the focus in this chapter is upon the *intra-organizational* aspects of networking. However, we also indicate how the career paths of professionals finally help constitute inter-organizational networks. We consider how the networks that emerge are both an outcome of *formal* organizational processes of firm-based socializing and *informal* exchanges of information (Davis, 1953; Pahl, 2000). Drawing upon the concepts of strong and weak ties (Granovetter, 1973; Stohl, 1995) the 'strength' of the networks established is also considered.

Networks have often been studied quantitatively, in the tradition known as 'sociometry' (Laumann & Pappi, 1976; Lincoln & Miller, 1979; Moreno & Jennings, 1960). This is not our approach, for it suffers from the limitation that it

> … cannot explore the subtle nuances of each particular social relationship and the systems of classification have to be somewhat crude. (Pahl, 2000, p. 7)

By considering quantifiable features such as frequency and duration of contacts, valuable as this may be, the situated and contextual *quality* of relationships is concealed or ignored. It is this quality which our data allow us to explore.

Finally, before beginning that exploration, it is appropriate to mention that in recent years a great deal of the scholarly attention to networking has taken place within the context of an interest in 'social capital', a term employed, albeit with different emphases, by Bourdieu (1986), Coleman (1988), and Putnam (1993) and which has been taken up extensively in sociology (Portes, 1998) and organization theory (Adler & Kwon, 2002). The notion of social capital is used to denote the social processes and knowledges that facilitate co-operation and interaction, and in that way has been useful in identifying many of the non-economic relationships within organizations. Nevertheless, we would contend that much of the research on networking and 'social capital' references the economic consequences of social relations in terms of economic exchange, possession, and organizational effectiveness (Edelman et al., 2004; Jones & Hesterly, 1997) with much less to say on the relations between networks and culture (Dacin, 1997; Emirbeyer & Goodwin, 1994) or the relations between networks and cognitive sources of organizational identity (Ashforth & Mael 1989; Dutton & Dukerich, 1991; see Dacin et al., 1999 for a review). An important consequence of this predisposition is that much of the social capital literature has been restricted in what it has to say about the subjectivity or identity of the 'networker'. If relationships are defined in terms of the possession and distribution of capital then identity is of little importance except in the abstract sense of a 'variable' (e.g. ethnicity or gender) derived from pre-existing characteristics which impact upon organizational relationships. To put it slightly differently, identity is seen as something which actors 'bring to' social relationships in organizations rather than something formed through those relationships. Yet we want to argue that both networks and networking in professional firms presume not just actors but specific kinds of actors, namely networkers, and, more than that, that networking contributes to constructing the networker as an identity within professional service firms. Let us now begin to make good that claim by turning to the detail of how networks operate in the firms.

NETWORKING AND CAREER PROJECTS

As one of the most obvious and important areas of networking, career building has been explored both within the 'traditional' network literature (Granovetter, 1974) and through the more recent social capital approaches (Seibert, Kraimer, & Liden, 2001). In relation to professional service firms, both our own previous work and that of others (e.g. Covaleski et al., 1998; Dirsmith & Covaleski, 1985; Grey, 1994; Morris & Pinnington, 1998) has shown that forms of mentoring and networking – for example, being 'known' to senior staff – are part and parcel of the management of individual career projects. In this section we elaborate on some of the ways this works.

In a mundane but important sense networks offer a form of knowledge sharing that helps individuals to manage and develop their careers. We found numerous examples of how interesting jobs, or jobs that would enable people to move in their preferred direction, were gained through effective networking:

> If you keep your ear to the ground you hear of pieces of work coming and you say I want that piece of work. If you keep close to the senior managers, if you keep close to the partners, if a piece of work comes in you say I'll do that. And that's how I get the work. (Senior[1])

This exemplifies networking, because it resides in personal contacts, being ‘close’ to ‘co-operative’ colleagues. Although, networks can be thought of in terms of a metaphor of strong or weak ties (Granovetter, 1973), a metaphor of closeness and distance is also operative here, and it tells us something about the qualitative features of the social relation. Closeness might mean no more than frequency, but it also implies some degree of emotional familiarity, shading, possibly, into friendship. There is no doubt that more junior staff try to develop relationships with partners for instrumental reasons, and it would be quite naïve to suggest otherwise. Yet an unsubtle instrumentality – expressed through sycophantic behaviour or ‘brownnosing’ – would be a relatively ineffective means of networking. That does not necessarily imply that ‘closeness’ is achieved by simply masking the instrumentality of the relation, although that must sometimes occur. Just as it is important to avoid naivety so too it is necessary to avoid undue cynicism in the interpretation of ‘getting close’ to partners. For it should not be forgotten that the people within the firms bring more to their relationships than pure self-interest. For example, it is quite common for junior staff to evince a sense of admiration for the achievements of certain partners, and an aspiration to ‘be like them’ encompasses a search for identity as much as the slavish pursuit of organizational position.

The way that networking impacts on careers is in part a result of the fact that the firms operate in a way which puts relatively little stress on formal systems. This means that in some cases networking is, in effect, the *principal* way of negotiating career:

> There’s not that many that are ever advertised internally … What I did was I knew a manager … I’d worked with him on a number of clients and got on with him fairly well. So I went to see him to see if there was an opportunity, he said yes … there would be an opportunity [and that] they would love to have me. (Senior)

This kind of networking may appear to be simple, but it requires a sophisticated and largely tacit understanding of how ‘things work’. This entails a process of knowledge building (in terms of the way the organization works and appropriate behaviours) which might be seen, cognitively, as creating a form of ‘ordinary seeing’ (Neisser, 1976) or, in other words, the enrolment of individuals into prevailing norms of perception and understanding, which is manifestly an aspect of socialization processes. Clearly, networks go beyond the shaping of individual cognition, as the constructed world of each social actor is a cultural product, and we can regard them as being better captured as the medium and outcome of a social process through which a ‘community of practice’ (Lave & Wenger, 1991) is created and learning occurs. This implies the existence of a particular delimited grouping (e.g. organizational, professional) in which practitioners both share and shape common categories, scripts, and concepts of agency (DiMaggio, 1994, 1997; Meyer & Jepperson, 2000) – clearly closely linked to socialization – and develop mutual trust and generalized reciprocity.

Knowing how to manage 'closeness', who to ask, how to ask, and when to ask, whilst perhaps being taken for granted is neither innate nor independent of the context in which action takes place. For example, appropriate ways of interacting within and outside of the office are informed by social rules that are not self-evident to trainees. In interviews with people in their very first days within the firms we found quite a degree of puzzlement as the learning of these social rules unfolded. For example, within the 'work hard, play hard' ethos (Anderson-Gough et al., 1998b), it is appropriate to engage in firm-based socializing: to join in with drunken sessions during training courses or after work, especially, although by no means exclusively, in Firm A. However, when behaviour became too raucous, or even anti-social, this was the subject of disapproval and sanction by the firms. Similarly, translating social informality into office hours can be frowned upon if done 'inappropriately'.

In this sense, the accomplishment of skilful networking is not something that can be assumed to exist but is rather an outcome (and a medium) of socialization processes, which define 'appropriateness' and 'how things work'. Indeed, it is notable that some people never properly learn these lessons, and they tend to be marginal within the firms and to have the least promising career prospects. Many interviewees explained this to us. For example,

> If your face fits they'll promote you if it doesn't they won't. If you speak properly, act properly, get on with people, make friends with the right Partners, etc., then you'll get promoted and I'm sure, I'll never be able to prove it, nobody will ever be able to prove it .... (Senior)

Here we can see how the political aspects of networking are in play. Networking can be associated with the formation of 'cliques' and also, necessarily, the accompanying creation of 'isolates' (Monge & Contractor, 1988). For the absence of a network membership has damaging consequences:

> If you're a bit of a nobody who doesn't really have anybody that'll speak up for you in the meetings you'll probably end up missing out at the end of the day. (Senior)

This points up quite sharply the way that networking is regulative, in the way we suggested in the previous section. To be outside the network, to not be a networker, is to face almost an abyss – the pure negation of selfhood implied by being a 'nobody'. Whilst the use of this term in the quotation may be seen as throwaway, it does reveal the high stakes involved in the networking process in the firms. Of course, fitting in is not an entirely passive process. It is not just a matter of someone's face fitting, or not; or being a nobody, or not. Like any social system, it is an outcome of both pre-existing structures and individual agency. There is a socially generated script of what kind of face fits, but this is to some extent negotiable and, in any case, can be responded to by the front-stage presentation or development of an appropriate 'face':

> A lot of it's word of mouth, getting to know the right people, being seen to do a good job on one thing, it opens doors to do something else and that's how it works. (Manager)

As well as indicating quite a high degree of tacit knowledge about how 'things work', this quotation links two aspects of networking. One is about the *reception of messages* (e.g. hearing about opportunities, or reading social rules) but the other is about the *transmission of messages* (e.g. showing that one is doing a good job, or presenting a face which fits the social rules). For promotion within the firms is about more than technical competence. Issues of reputation and appropriate behaviour are also important. In terms of reputation building, this necessarily implies a social process – others have to be cognizant of an individual's capabilities and characteristics for reputation to be a meaningful construct.

BUILDING NETWORKS

Because of the way that (successfully) socialized members of the firms treat all of these processes as 'just the way things work', it is tempting for them to interpret networking as no more than the extension of personal social relations into the workplace. However, it should not be assumed that networking is purely spontaneous and unmanaged. Networking often implies a deliberate, instrumental process. In political terms, it can be a form of coalition building:

> It's not what you know it's who you know. And whilst there's obviously the criteria there that somebody can't just promote you on a whim and you have to be good at your job and you have to be doing all the things I think it helps if you've got the right people fighting your corner. (Senior)

As the members of the firms – as in other organizations – are in a situation of competition for the scarce resource of promotion, they are drawn, ironically, to the need to construct co-operative or at least collective activities in order to pursue their goals. To this extent, networks are partly a matter of building support and this requires planning.

There are undoubtedly some individuals who consciously begin to build networks from very early on, whether from school, university of the earliest days of their employment, in the same way that it was common for new recruits to have already dedicated themselves to career as a 'project of the self' (Grey, 1994). These pre-employment networks are necessarily best regarded as inter-organizational. For example, the networks that persist amongst graduates after finishing university will almost inevitably be networks that go beyond the organizations employing any individual member of an alumni network. But in the firms we studied, what is of crucial significance is the development of an intra-organizational network and that cannot be achieved until after the firm has been joined.

We found that even at the trainee stage, some are already aware of the importance of intra-organizational networking. However, the crucial, initial period for developing networks is after qualification as staff began to work up the managerial hierarchy. Successful and extensive networking (both intra- and inter-organizational) is seen as being an important characteristic of the work of partners, as is borne out by other studies of professional partnerships (Morris & Pinnington, 1998). For the manager with ambitions for partnership, networking is, first, a way of achieving that goal; second, a way of demonstrating partner-like attributes in advance of promotion; and third, a way of preparing the ground for successful performance at partner level. Thus, those at the manager stage begin to take networking more seriously:

> … if you're going to make Partner the thing you've got to do is network and get on and if you're not doing it to make manager at the moment then you're just not going to do it later on. (Manager)

Networking, then, is seen as requiring a certain degree of preparation, so that it almost becomes an ingrained habit. This, again, points to the way that networking is a behaviour to be internalized so as to constitute an aspect of identity. People are socialized into networking but networking is also a process of socialization. In one sense, the capacity of managers to network can be read as a sign that they are serious about becoming partners and have the capacity to operate at the partner level. So not just the networking itself, but the very fact of being engaged in it is a pointer to the future.

As has been explored elsewhere (Anderson-Gough et al., 2001; Coffey, 1994), the temporal structuring of various activities is highly significant, and networking, while deploying a spatial metaphor ('closeness'), also has a temporal character. Network allies may, as it were, lie dormant for some time only to be re-activated at particular junctures. Moreover, the rate of turnover of staff in professional service firms is significant both because of the rigour of the training and examination system, and because clients can offer a lucrative source of future employment for the professionally qualified. In such ways are the markets for audit and non-audit services constructed (Barber, 1995; Granovetter, 1985). For these reasons the intra-firm, inter-actor ties can translate in time to inter-organizational ties across the career paths of firm staff. And in these ways the social capital invested in networks is transformed to economic capital for the professional firm. Thus, it is necessary to look ahead, and be 'proactive':

> Part of it's sort of thinking ahead like you're a Partner you need contacts right … develop it over five years, ten years because at the end of the day if you make partner suddenly you don't get a letter, right you're a Partner, right you have 400 contacts. You've got to build them up over time so if you start now it probably puts you in a better position than if you started when you were a senior manager. (Manager)

Here we see networking operating not just within the firm, but also externally and this is crucial in that one of the main values of a network is the selling opportunities it can represent. For success at senior levels is intimately linked with the ability to generate business, as well as to keep existing business. Thus, even before selling becomes a central task, networks can be used to demonstrate one's potential:

> But it's also, so good if you're able to demonstrate to a client and also for your own promotions, to be able to demonstrate to the Partner that you're able to see a problem, go and get someone [for example] a piece of work has come in, that's not tax related, and I've taken it to corporate recovery department and I've got them a fee. Not a massive fee perhaps but I got them a fee and I was the person who introduced … if you've got the contacts and the people you can just say right, there you go, have that piece of work and it can't do me any harm whatsoever to do that sort of thing when they come to look at who to promote who not to promote …. (Senior)

From discussing the way junior staff form links with more senior people, especially partners, we now begin to see how much more extensive networks come into play. But, although it is easy to see that networking figures in the daily life of the firms, we have not yet explained how networks develop and what sustains them. It is to this that we now turn.

From the material presented so far, it is possible to see a certain tension in play between the need for networks and the things which make these networks effective, between instrumental and organic (Blau, 1955; Gouldner, 1954) aspects of networking. Clearly, many members of the firms seek to develop a network for instrumental reasons. And yet for networking to be effective it needs to have at least the appearance of not being entirely instrumental. One of the reasons why it is important to build relationships over time is that this enables contacts to be 'used' without 'feeling used'. There is no rigid dividing line between a 'friend', a 'colleague', an 'acquaintance', and a 'contact' but there is presumably some continuum across these categories. Of course, effective networking requires reciprocity over time:

> And the final thing really is to try and generate work out of it. If you develop the contact, you meet the person now, you develop the contact over a period of time and great. You might have to invest time and money in it now and you might not get anything out of it but in five years time if you've known somebody for five years and you've gone through the trials and tribulations of both careers you can say hang on a minute, I know that guy quite well, I know what he's like, I need this job doing, all right pick up the 'phone, you know it's going to happen. (Manager)

It is easy to see that this type of relationship, while instrumental, is also founded in shared experiences and personal knowledge, and perhaps even liking or friendship. For, as one interviewee explained, using very much the language of the formal and informal organization:

> … the informal bonds are much more useful than these sort of formalised ones because I think it's inevitable, if you have a friend who you socialised with as a student accountant in another division, you're going to phone him up first regardless of how many formal integration events you've been to you're going to phone your friend up, aren't you? (Senior)

This goes some way to explaining why the most enduring and commonly discussed networks are those which are relatively organic rather than instrumental. The prime example of such a network, which was often mentioned in the interviews, is that formed by the experience of training. In an earlier discussion of trainee socialization (Anderson-Gough et al., 1998a) we showed how the training group and/or year group in both firms is an important site of networking for people at that stage. But it also endures beyond training and has a number of dimensions.

First, those people who trained together in a firm and remain in that firm provide an ongoing network of mutual support. Very often this enables individuals to transcend, and communicate across, divisions and service lines within their firms. This is particularly important given the increasingly diversified nature of these firms:

> … those auditors who we were altogether in college with they've gone to like, some have gone to corporate finance, some have gone to corporate recovery, so now we've got points of call in those departments and so you end up going into those departments. You

> speak to that person, that person introduces you to someone else, you end up doing a job with that person, the other person. There you are, you've got two people in that department straight away. If something else comes up you'll go back, you'll talk to one of those, they may put you in touch with another one and it just grows and you need the contacts. (Senior)

Second, where people have trained together in the firm but have subsequently left, this provides a network of contacts. This may help an individual to develop a career outside the firm in due course or it may offer opportunities to sell to their erstwhile colleagues. The same opportunities obtain for those people from other firms met during study at the professional tutoring agencies. These relationships have a slightly different quality in that they are by definition not re-enforced by ongoing experiences within the firms. It is also the case that there is variability in the significance of these relationships. In some cases, where there is a large cohort of trainees from the same firm at a training college, the tendency will be to restrict contact to that cohort. It was reported by some trainees that this was particularly true in Firm A, where the trainees often chose to sit together and more or less ignore people from other firms. However, in other cases (and this would be even more true of trainees from small firms) a student might develop extensive contact with people from other organizations.

These nuances aside, what is important about the network derived from training is its capacity for endurance over time. The network deriving from training is grounded in a sustained common experience and often an experience of adversity:

> You come through three years and you all go through the same hard slog and you'll go out and get drunk together ... you don't quite buy into other years. (Senior)

It is much more likely that this kind of network will endure and be effective than one which is not so rooted in shared, important experiences, again pointing up the way that networks are a medium and outcome of socialization. That this is so is pointed up by the relative unimportance of, and dismissive attitude to, events explicitly designed to offer opportunities for networking. There are many examples of such events within the firms and also beyond them, such as those hosted by the ICAEW.

> ... that sort of thing [ICAEW social events] doesn't really appeal to me. It's a good networking opportunity but I guess I would view them [ICAEW] as either older people that attend or younger people that attend that are so bloody dull that you really won't want to be there mixed up with them. I hope the Institute doesn't get my name on this tape [laughs]. (Senior)

Although this interviewee does acknowledge the potential of professional association events for networking, the qualifying phrase ('but I guess') indicates a degree of scepticism, and the tone overall is negative. Certainly, throughout the various projects upon which this analysis is based, we found only a very few individuals who set any great store by these kinds of planned professional networks. The significance of this is not that the professionals eschew the opportunity for inter-organizational networking. It is that this is the 'wrong kind' of networking, partly because it is lacking in the 'spontaneous', organic quality that makes networks effective and partly, we suspect, because of a belief that useful networking takes place among those unlikely to be involved in the formalized events.

However, although strongly rooted, the traineeship network has some limitations. For trainees, the year group is a strongly tied network in that it entails frequent interchanges, it lasts for a long period of time and is often associated with strong group norms. It is also typically the case that it is the main network that trainees have access to, since their other networking opportunities are at that stage quite limited. As time goes on, this is too narrow and restrictive a focus for successful networking. In particular, after qualification the situation changes: the network is no longer sustained by frequent and enduring contact. A qualified member of staff needs to make the transition from being embedded in the trainee network to simply having that network as one among others. In other words, on qualification the trainee network transforms from strong to weaker ties, and networking moves from being, so to speak, 'uniplex' to 'multiplex' as people join other networks. One of the most obvious of these is that developed through the various post-qualification training courses, which are extensively undertaken. Such networks are perhaps less likely to be so deeply rooted as those evolving from traineeship experiences, if only because the latter are based on relationships of some longevity. Nevertheless, they serve to expand, both numerically and, very often, geographically the range of contacts an individual has:

> I've been to [training centre], you go there when you become a manager … for a one week course … it's just a jolly really. It is a networking [*sic*], you meet all the overseas, all the managers in the world in the audit division are there … they dress it up as a training course but it's not really. It's a networking event, that's all it is. (Manager)

We found numerous examples of this type of networking. It is very important that 'they dress it up' as a training course, as already noted it is a feature of an effective networking that is not manifestly or overtly *about* networking.

NETWORKS AND KNOWLEDGE SHARING

So far we have talked about networks mainly in terms of issues such as learning about job opportunities and sending reputational signals. These are, at least in part, knowledge-sharing activities but knowledge sharing also occurs at the level of exchanges of technical expertise. There is, in reality, no hard and fast separation of technical and social networking since the capacity to draw on contacts for technical information enables individuals to develop a reputation of competence and reliability (echoing the point made earlier about the intertwined nature of professional knowledge and behaviour).

In the firms, there are endless examples of this technical knowledge sharing, often linked to the networks formed through in-house courses and events:

> It [an international training course] was probably one of the most rewarding experiences I've had from the firm in the sense that you have to make a real effort to make friends and I've probably kept four or five quite close friends in the States, people you can call up and ask for help … I actually did it yesterday afternoon wanting help on US Corporate Governance which I didn't know anything about. (Manager)

Or, to take another example,

> Another project I'm working on talking to colleagues in Germany but through the international tax school, my colleagues in Germany that I know first name, generally in the tax department but I went through them to get to the Düsseldorf practice to get input from them. So it is very, you don't realise you're getting trained to do it but you're getting all the things there at your finger tips [if I send] an e-mail they'll always reply and they'll always be, you'll never get told off. (Manager)

It is perhaps no coincidence that both of these examples refer to the use of international networks for knowledge sharing. The global context of the firms and their clients makes the need for such exchanges highly likely given the near impossibility of an individual having expertise in, for example, every different tax regime in the world. But such exchanges routinely occur within and between national offices. This type of knowledge-sharing network, which may be as simple as leaning over to the person on the next desk, is so mundane and pervasive a part of everyday work practices as to be normally unrecognized as such. Yet it should not be underestimated how much it contributes to effective working. We found many examples of people who found the working environment difficult because they did not have good access to this kind of taken-for-granted interchange. These cases were occasionally the ones where an individual was considered to not 'fit in'. This did not happen often and presumably this was because such people tend to leave and therefore were rarely interviewed during the projects. However, we heard enough of such cases from those we did interview to be confident that they exist. More common examples among those interviewed were people who for various reasons had joined the firms late and lacked access to the networks formed during, and just after, training.

Such cases support the proposition that networks are important organizational resources in their own right. Recognizing this, knowledge-sharing networks have, in recent years, become the subject of sustained management activity in many organizations but perhaps especially knowledge-intensive firms (Alvesson, 1995, 2004) such as those we studied. Much of this activity has been directed at the use of information technology to facilitate knowledge sharing and to make more widely available the tacit knowledge, which is routinely exchanged in the ways indicated in the previous quotations. However, one, perhaps surprising, finding from our studies of the firms was that these types of system form a relatively insignificant part of networking activities compared with the social capital generated by informal methods. Thus, for example,

> You can run off a business model for a retail bank say [from a database]. It's about that thick! You're going to run that off and you're going to say well am I seriously going to read this. Or why don't I phone up my mate in banking? (Senior)

We found this view expressed by a number of people in both firms. It partly reflected a sense that there was much information which was not actually put on databases or, as in this quote, that the information available was not necessarily in an accessible or useful form. But, beyond this, there is a sense that personal networks, unmediated by computer networks provide a better way of gaining access to expertise:

> I don't know if there's a specific database on who does what and who's great at what but there are people that, I had a chat this morning with, it tends to be the person who's sat opposite you. Have you seen this before, Adrian? Or whatever. If he hasn't then he'd say thingy might know about this and it does get around very quickly [until you find someone who knows]. (Senior)

That is not to say that people do not use, in particular, e-mail to seek information, but this is typically a way of servicing networks, based in the first instance upon personal contact, as an alternative to the telephone, in a way which is consistent with more general research findings about the organizational impact of e-mail (Garton & Wellman, 1995).

In the light of the earlier distinction between 'instrumental' and 'organic' networks, our interpretation is that knowledge-management systems are seen as being of secondary importance precisely because they represent the attempt, and perhaps are the attempt *par excellence*, to mechanize, or instrumentalize, knowledge-sharing networks. So what is at stake is not the need for technical improvements to knowledge management systems so much as a recognition that these systems must be firmly embedded within the substantive social relations of work. Thus, to go back to those people who, for whatever reason, were 'isolates', the existence of knowledge management systems does little for someone who does not have the option of 'phoning a mate in banking' rather than downloading the business model off the database.

THE NETWORKED SELF

In the introduction to this chapter, we referred to the ways in which networking both as a concept and as a practice regulates and produces forms of individual subjectivity and identity – namely networkers. The details we have now provided on the way that networking saturates so many aspects of the firms has begun, we believe, to explain how this regulation proceeds, but in this section we will elaborate upon what this might mean in terms of an account of the production of the 'networked self'.

Within the firms, failure to network portends a negative and stigmatic account of the self, with all that this would typically imply for identity construction. Moreover, the social failings indicated by isolate behaviours inevitably have an adverse effect upon career projects and even upon the basic execution of everyday work tasks. If networking is about the acquisition and deployment of 'social capital', then it creates some individuals who are 'social paupers'. And the point here is not only, or even primarily, about those network incompetents. It is more that the pervasive importance of networking necessarily creates considerable insecurity and fear among those who are more or less successful networkers, just as the possibility of economic pauperism serves to discipline the economically active and successful (Himmelfarb, 1984).

Perhaps one way of bringing these points into sharper relief is to consider an important example of the exclusionary functioning of networking: the case of gender. Networking, with the premium it places upon fitting in and joining in, inevitably normalizes social relationships and part of this normalization is gendered (no doubt there are also issues of ethnicity, nationality, class, etc.). Throughout the studies, we found women in the firms identifying the way in which so much decision making took place informally, through networks, as being an important barrier, and many men made the same point.[2] There is plenty of research evidence which shows a similar picture in many types of organization both in the networking literature (e.g. Brass, 1985; McCarthy, 2004) and that on gender and careers (e.g. Halford, Savage, & Witz, 1997; Tierney, 1996).

But we also have tried to indicate a second and more subtle modality of power. For if networking excludes those who are 'different', so too does it police those who are included. This does not mean that they are 'forced' to conform and not be 'themselves' (although it can involve that, too); it means that networks produce and legitimate a form of rational social actor – the networker – and behaviour – networking (Meyer & Jepperson, 2000). Of course if this were not so then some other kinds of being and behaviour would exist instead – and not necessarily desirable ones. The point is that, out of the various possibilities, networking promotes a particular possibility and in this sense is an exercise in power. This does not mean that it is repressive of creativity or agency. On the contrary, it allows, in particular forms, precisely an expression of such attributes. As we have stressed, networking is an active process within which an identity is built. Indeed we have implied rather more than this. Our suggestion is that networking is an important mode of professional identity somewhat distinct from both the professional as possessor of technical knowledge and the professional as engaging in a particular kind of impression management. This means that networking as an activity is also bound up with the accomplishment of a certain kind of professional identity – the 'networked professional'.

We are not suggesting that professional services firms are unique in this respect. On the other hand, the firms do perhaps place a particular premium on networking. This is partly because, as a general proposition, work with high skill levels and extensive discretion is more likely to entail considerable networking just because the work processes are relatively unformalized. But it is also the case, we think, that the firms make a virtue out of providing a relatively unstructured environment so that the accent is upon the individual to negotiate work and careers through personal initiative. There is a sense that the 'sink or swim' of the network provides a survival of the fittest atmosphere which is all of a piece with the competitive individualism which tends to characterize the firms. Clearly, if this is so, it re-enforces the discipline inherent within the notion of social competence.

Networking implies more than individual social competence, however. Paradoxically, while being predicated upon individual qualities and attributes, the notion of a network implies the positioning and realization of self as being relational, in much the same way as individual career choice entails an encounter with the choices of others. That is, the individual as a networker only comes into existence by virtue of his relation to others. Although the dominant way of thinking about networks in the firms was as something garnered and nurtured by the individual, it is clear that networks also position that individual within a web of others – they 'capture and fix' a sense of the individual (Foucault, 1979). Thus the network derived from traineeship also positions the individual as a member of a class, cohort or year group. The subject may 'have' a network but no less does the network 'have' the subject. Once again, the issue is not so much – or, anyway, not solely – one of what happens to the people excluded, or marginal, within the network as what forms of identity and subjectivity are produced among those who are taken up within the network.

From this perspective, it is especially significant that organic forms of networking are so much at a premium within the firms. For what this implies is that networks 'demand' of their members something much greater than the discharge of instrumentally motivated reciprocities. If this were not so, we might deprecate networking for its lack of moral concern (in the sense that it involves treating others as means), but also see it as a relatively superficial phenomenon. As Pahl (2000) rather disparagingly puts it:

> Often people say they are 'networking' when all they are doing is adding new contacts to their address books. (p. 6)

However, effective networking calls forth a more 'authentic' form of social engagement. This must inevitably mean that the selves of the network can only distance themselves to a limited degree, if at all, from the relationships embedded in the network. For any significant distancing would mean an erosion of authenticity. This offers a potentially more comfortable sense of self than the alternative but, by the same token, a more disciplined and more all-embracing one. In many respects, the premium placed upon networks represents a particular instance of the erosion of public and private selves (Anderson-Gough et al., 2001; Burt, 1997), for as work networks shade into friendships, and networks emerge out of friendships, the possibility of such a separation is reduced.

This is not to decry networking, for it is not that separating public and private allows a space for the free and authentic self. On the contrary, the latter is also a disciplinary regime which itself produces a certain version of selfhood. However, it does mark part of a shift in which a different form of the self is produced, an insight which is lost when networks are treated as if they simply flowed from the activities in which individuals choose to engage.

CONCLUSION

We have attempted to show the very great extent to which networking pervades the cultural world of the accountants. In their career aspirations and their daily activities networking is written into the fabric of their lives. In this sense, networking is a form of *working*. By showing this, we hope that we have given credence to a second, more analytical, claim that we have advanced; namely that this net*working* implies and constructs a particular kind of legitimate identity for the organizational actor, that of the networker.

Understood as a form of working, we can go further than simply to note the identity of the networker. Within the professional services context, this work and identity take on a particular hue: it is a professional identity and networking is a legitimate part of the work of professional services. We have suggested that within the firms there are good reasons why this networked professional should be of such importance. Professionals in these firms cannot effectively discharge their duties solely on the basis of the knowledge they possess, nor solely on the basis of the adoption of appropriate modes of behaviour (although both of these are important). Because of the complexity of the organizations, in terms of their size and the range of their clients and services, networking becomes a key competence (or incompetence). Moreover, the career paths of trainee and qualified staff quickly extend beyond the firm to current and prospective clients (Anderson-Gough et al., 1998a; Chatman, 1991), regulatory agencies (Suddaby, Cooper, & Greenwood, 2004), professional institutes (Anderson-Gough et al., 2002) and the like. The establishment of inter-firm networks and alliances (Granovetter, 1985) in the professional services field depends significantly upon the legitimate culture of networking and the social construction of network identities existing within the firms.

We have shown that a capacity to network underpins some of the more familiar conceptions of the professional. This is very obvious in relation to the use of networks to share technical knowledge, often seen as the central part of professionalism. But networking is no less important for behavioural aspects of professionalism. Consider the example of displaying a 'face that fits'. The ability to manage appearances in this way has long been understood as a component of professional identity, and is itself a form of social competence. Networking draws attention to the ways that professionals learn what kind of face 'fits' (and, indeed, that the management of appearances is an important consideration). More importantly, networks help constitute critical frameworks of meaning that professionals draw upon to give accounts and make sense of their career and organizational world.

Networking can be seen, as it is by members of the firms, as 'just the way things are'. But this familiarization of, or familiarity with, networking hardly captures its significance. Networking is the name which is given by people in organizations to (many kinds of) particular social and cultural relations. As such, it embodies all the fascinating complexities of social relations of any sort. The 'simple' capacity to network abbreviates an extraordinary array of social abilities. To take just one example we have discussed – being 'close' to partners; this requires a fine judgment and an intricate reading of social signs. The negotiation of instrumental and organic relations entails a remarkable subtlety. This is absolutely the stuff of skilled and sophisticated social interaction. The fact that it is familiar to and taken for granted by members of the firms, and is very likely familiar to the readers of this chapter, should not negate how interesting and profound an accomplishment it is. Certainly, it is difficult to understand the firms we studied (and, it is fair to assume, other large professional services organizations) without understanding networking and the importance of the networked self. And this is relevant not just to the professional services firms but to the wider structuration of the field in which they operate to the extent that networks embrace former employees in client organizations, professional institutes and other important institutions.

To understand networks we need to understand the people who engage in networking (Dacin et al., 1999). But that is much less straightforward than might be imagined. It is not that there are 'people' who engage in networking and are left untouched by doing so. Rather, it is that both the need to engage in, and the experience of engaging in, networking implies and potentially creates a particular kind of actor and a particular kind of professional identity: the networked self, the networked professional. Networks as social structures generate forms of actors and particular opportunities for action at individual and organizational levels (Dacin et al., 1999; McGuire & Granovetter, 1999; Scott & Meyer, 1994). And this inevitably implies and potentially creates another kind of personhood: the marginal, the outsider, and the isolate. Such people will lack a crucial dimension of professional identity. In short – as both our theoretical argument and our empirical evidence suggests – networking constructs nobodies and therefore also constructs 'somebodies'. These 'somebodies' are the networked selves who inhabit professional services organizations or, in short, the networked professionals.

NOTES

1. For the purposes of exposition, we will simplify the grading structure of the firms as: trainee, senior (i.e. qualified), manager, and partner. We will not draw attention to the form of specialism of the interviewee unless directly relevant.
2. However, it is also the case, given what we have said about instrumental networking, that these problems are unlikely to be solved through developing formal women's networking events.

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PROFESSIONAL ETHICS IN FORMAL ORGANIZATIONS

Hugh P. Gunz and Sally P. Gunz

ABSTRACT

There has long been an ''ideal'' model of the profession in the sociology of the professions. Our point of departure is that the independent professional is something of a vanishing species, and professional practice is increasingly carried out within non-professional organizations (organizations not managed nor largely staffed by fellow professionals). Indeed, can we expect to recognize our ''ideal'' professional at all whether in the multi-disciplinary professional service practice or more focussed large private practices? Might in fact there be something fundamentally flawed about both in this model? This chapter explores these issues and their implications for how ethical dilemmas are resolved.

INTRODUCTION

One of the more disquieting aspects of the business scandals that erupted in the US in the early years of this century was the apparent enthusiasm with which professionals, legal and accounting, in both professional service firms (PSFs) and employed by the corporations themselves, facilitated the unethical behaviour underpinning those events. The behaviour of Enron's executives

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was shocking, but that of Arthur Andersen arguably was even more so. Somehow one is not surprised when the greed of some senior executives gets the better of them. But one does not expect professional advisors to collude in this and to destroy evidence of wrong-doing (Ley Toffler, 2003, p. 214) when they sense that they or their clients are about to be found out.

Professions occupy a special place of trust in Anglo-Saxon cultures, practising arts inaccessible to the layperson but on which laypersons depend, often for their lives. This creates a relationship of dependency and trust between professional and client which, when breached, raises very basic questions about how it could possibly have happened. Were there simply some bad apples in the basket, or was something more systemic happening that brought it about? Is it, in other words, a matter of disposition or situation (cf. Schneider, 1983)? Dispositional explanations, which attribute behaviour to the quirks of individuals, are always more comforting, because they say that there is nothing fundamentally wrong with the world. Once we have cleared out the bad apples, all will be well. Situational explanations, which say that we are all creatures of our environment, are more disquieting, since they suggest that we are getting the behaviour that we should expect. The apples have gone bad because there is a source of fungal infection in or near the basket, and unless we do something about the source of infection we can expect more bad apples.

Clearly, the regularity with which ethical scandals erupt suggests that the dispositional argument is unlikely to provide more than part of the story. Here, we concentrate on the situational, by asking: is there something about the situations in which professionals find themselves that causes them to betray the trust society places in them? Clearly, some people are more susceptible to these pressures than others, and it is entirely possible that some of this variance in susceptibility can be traced to personality (i.e. disposition). These dispositional issues are, however, beyond the scope of the present chapter.

We shall be drawing on the sociology of professions and organizational–professional conflict (OPC) theory to argue for a situational case. Our starting-point is the traditional functionalist, Durkheimian model of the profession, with its explanation of the need for professional autonomy and ethical codes governing professionals' behaviour. It follows from this perspective that any professional who is placed in a situation in which a powerful client wants him or her to behave in a way that is incompatible with the profession's ethical code must experience severe role conflict. Indeed, it has often been argued that employed professionals, especially those who are employed in non-professional organizations (NPO; i.e. organizations that are not professional service firms), are likely to be in a position of structural contradiction. It is only to be expected, the argument goes, that they will find themselves being asked by their employer to do things that their profession proscribes, because there is no reason to expect the (typically commercial) interests of the organization always to coincide with those of the profession. Auditors may be asked to approve the allocation of costs so that profits look good when the top management team (TMT) wants them to, rather than present the "true and fair view"[1] that the profession requires. Lawyers may be asked not to provide documents pursuant to a notice for discovery, though their obligation to disclose in the circumstances is straightforward. Engineers may have pressure put on them to overlook design problems in their firm's products. And so on.

This is the origin of the well-established thread in the literature on the professions, which argues that professionals should not fit well within formal organizations, because the essence of professionalism is autonomy and that of organization is control. It leads to the prediction that professionals employed in NPOs are bound to experience role conflict as they find themselves in situations in which the demands of their job – for example, the need to please senior management – clash with those of their profession. Yet, as we shall see, the evidence for this role conflict is patchy at best, which raises serious questions. Specifically, is it cause for alarm? If, for example, professionals do not experience much discomfort because, in practice, they typically comply with their employer's requests, then there is no reason to expect any other kind of behaviour than that which was seen in Arthur Andersen's handling of the Enron file. But there might be much more innocent and reassuring explanations for the lack of role conflict. Perhaps these situations of conflict simply do not happen much, or maybe professionals are well trained to handle them properly when they do occur.

In this chapter, we explore these arguments in greater depth using an ideal–typical model of employed professionals to distinguish between the different types of behaviour, which we describe above. We review some recent empirical evidence that suggests that it might indeed be the case that professionals' judgement in certain situations is swayed by the nature of their role in their organization. Finally, we explore questions of generalizability: across what kinds of professional experience might these findings be applicable?

THE AUTONOMOUS PROFESSIONAL

The classic view of the profession is of a class of occupations that involves the application of knowledge and skills beyond the capacity of laypeople to understand. We therefore must cede to the professional the right to decide how best to act in our interest. When we consult physicians or surgeons and they recommend intervention, we are aware that most intervention has side-effects or other risks, such that even the most innocent of surgical procedures can lead to the deaths of even the apparently healthiest of patients. Similarly, when we consult lawyers we are looking to them to see us through a thicket of menacing legal outcomes, any one of which, it seems, could land us in deep trouble. Consulting engineers design structures that, we hope, will stand up to whatever fate will throw at them. Typically, we tend not to give any of this much thought. We take our prescription drugs, sign legal forms and go to work in tall buildings, and it is only when things go wrong and a drug is mis-prescribed, our lawyer misses a crucial filing, or design limits are exceeded as they were in the September 2001 terrorist attacks in New York, that we realize just how substantial is this trust.

Professionals, then, are required to act always in their client's best interests (the concept of the fiduciary obligation: see DuPlessis, Enman, O'Byrne, & Gunz, 2005), and – because their clients are not competent to tell them what to do or judge whether they are competent to do it – their actions as professionals can only, the argument goes, be judged by their fellow professionals. This is the origin of the concept of professional autonomy, of professions as self-governing occupations. Laypeople cannot decide what gets taught in medical, law or engineering schools; only physicians, lawyers and engineers can do that. Equally, only professionals can decide whether and when their neophytes are qualified to practise.

This presents a somewhat romanticized and uncritical view of professions which has been challenged by ethnographers observing how professionals are trained and work (e.g. Becker, 1961) or critical theorists (e.g. Johnson, 1972; Saks, 1983). While the debate about autonomy and the professions themselves is important, it is not our primary focus. Here, we are concerned with autonomy at the individual level of analysis. In this respect, autonomy is significant not because it is a consequence of public trust, but as a reflection of control over work and its outcomes. The stronger the profession, the more control individual professionals have over work performance, since, it is argued, they alone know enough to be able to evaluate it properly, and are committed to ensuring that performance lives up to basic standards (Freidson, 1973, p. 33).

What is meant by autonomy or independence at the individual professional level? The concept is generally derived in the literature from the search for the defining attributes of the term "profession" or the long-running obsession with distinguishing a professional occupation from all others (see, for example, Flexner's famous 1915 musings on whether social work is a profession; Flexner, 2001) and capturing that from which trust flows and which provides prestige and privilege. So, if the professions themselves are "free" to control their own standards and membership (Greenwood, 1957), the individual members of those same professions define the relationship with the client, untempered by impediments other than their own professional skill set and standards: "The ideal, typical professional exists in an independent relationship with his client who desires to receive the benefits of professional service. And this service is expected to differ from any simple commercial service in that the purveyor has a special type of knowledge and is a special type of person" (Daniels, 1975, p. 307).

The obligation to prioritize the client's best interests also finds expression within codes of ethics that are prepared by the self-regulating professions. One interpretation of these codes is that they are a reflection of the altruism of the profession: its primary objective is to serve its clients specifically and society in general. Another, more cynical perspective sees the code as a defensive tactic adopted by professions to fend off interference with their autonomy (Daniels, 1975). Here codes are seen as a means of maintaining a monopoly and regulating competition between members rather than upholding client best interest or that of the public, and their enforcement may be biased in terms of the private good of the profession (Fisher, Gunz, & McCutcheon, 2001). For example, Daniels describes the role of codes as "… part of the ideology, designed for public relations and justification for the status and prestige which professions assume vis-à-vis lowly occupations" (Daniels, 1973, p. 49) or, more pointedly, "… every established and rising profession has such a code to which it can point. The membership anticipates that the ethical code is the equivalent of folding money, so to speak, or a certified check cashable into confidence that a client may feel when he puts himself into the hands of a practitioner. For the newer professions, formation of professional codes may be viewed as part of a defensive strategy. The occupation 'proves' that it is a profession by presenting its credentials (i.e. the code of ethics)" (Daniels, 1973, p. 46).

Returning to the notions of autonomy and independence, we know that they exist alongside another role. Professionals will also, at times, be "advocates" for their clients. A doctor may defend the right to treatment, a lawyer, the client's innocence or an accountant, the correctness of a tax regulation interpretation. This advocacy role, however, for all professions, will not pre-empt the obligation to maintain independence or autonomy. The lawyer/advocate always retains an obligation to the court and, in certain circumstances has duties that must be followed even though their fulfilment may in fact harm the interests of the client. For example, in discovery, a lawyer must hand over any documents relevant to the issue identified, provided that the issue is relevant to the case and the request not unduly broad, but even though those documents may be harmful to the client's case (unless they are protected by lawyer–client privilege). In rare instances, the doctor must violate doctor–patient confidentiality (for instance, to report notifiable diseases or elderly people no longer capable of driving) since, not to do so, may result in actual harm to others.

These are some of the arguments underpinning professionals' claims for retaining autonomy or independence. And while it is easier to identify independence in certain professions than others, it remains at the heart of our expectations of all those who practise these arts. And this leads us directly to a discussion of how such expectations might be met. Here, it is useful to examine this issue first in the context of professionals who operate in an environment that, on the face of it, is most likely to challenge this role; namely that of the employed professional.

PROFESSIONALS AND THE EMPLOYMENT RELATIONSHIP

Professionals operate within employment relationships in all types of formal organizations. Much writing on employed professionals has focused on non-professional organizations, only because the potential for role conflict appears, on the face of it, to be strongest. We shall draw on this body of literature here, but later argue that – at least as far as role conflict is concerned – the distinction between professional and non-professional organizations is not particularly material.

The question of how the ideal of the autonomous professional might play out in the context of larger, more bureaucratized PSFs and, most pointedly, where the professional is an employee of a large, non-professional organization, was first raised many years ago. The issue goes under labels such as "professional–client relationship within a bureaucracy" (Daniels, 1975), "bureaucratic–professional conflict" or "organizational–professional conflict (Harrell, Chewning, & Taylor, 1986; Sorensen & Sorensen, 1974). Here, for convenience, we shall call it OPC. It addresses the question: what happens to the "autonomous" professional who becomes an employee (either of a PSF or a non-professional organization) and thus subject to the pressures of a larger bureaucracy? If we define professionals in terms of their autonomy and commitment to a "higher" calling that is reinforced by an external code of ethics and professional body, what happens when those same professionals are now also responsible to an employer?

In a somewhat chilling foreshadowing of recent events, Daniels (1975, pp. 328–329) observes: "… members of the priesthood may acquiesce to bureaucratic control over their professional affairs … economic recession and governmental cutbacks put professionals in areas like aerospace dynamics, computers, or arms development in a poor position to assert their authority and practice their techniques". Wallace (1995a) summarizes the arguments in the form of two competing views she terms the "proletarianization" and "adaptation" theses. The proletarianization thesis reflects a long tradition of questioning the likelihood that employed professionals behave as they would in private practice (e.g. Benson, 1973; Davies, 1983; Goldner & Ritti, 1967; Miller, 1967; Prechel & Gupman, 1995; Ritti, 1971; Scott, 1965), and holds that "the professional department shares the same bureaucratic characteristics as the larger organization, and once professionals move into non-professional (i.e. organizations that are not managed and populated by professionals) settings, they hold the same position as everyone else in the organization (Freidson, 1986)" (Wallace, 1995a, p. 229). The adaptation thesis, by contrast, "suggests that most professionals in non-professional organizations work in departments that are clearly separate from the employing firm's hierarchical structure. In these departments, professionals have strategically attempted to mimic the structural arrangements of true professional organizations, rather than succumb to the control structures of the larger non-professional bureaucracy in which they are embedded" (*ibid.*, p. 230).

The identification of OPC as a "problem", at least in principle, was followed by various attempts to isolate its effects empirically. The results were not, however, as predicted. It has been known for some time that OPC among employed professionals such as accountants and lawyers is surprisingly low (Aranya & Ferris, 1984; Bamber & Iyer, 2002; Gunz & Gunz, 1994b; Kwon & Banks, 2004), suggesting that the classic view of employed professionals as being trapped between the incompatible demands of their profession and their employer is an oversimplification.

One response to these results has been to re-examine the understanding of the underlying dynamics in the professional employment relationship. For example, in our study of corporate counsel (Gunz & Gunz, 1994b), where OPC was not found in any more significant levels than it was among employed accountants (Aranya & Ferris, 1984), we concluded: "Perhaps lawyers who are strongly committed to their employers tend unconsciously to suppress potential conflicts with their professional interests? But there remains an unresolved issue of causality. It could also be the case that lawyers working in environments which place little strain on their professional sensibilities are more likely to become committed to their employers than if these sensibilities are under strain'' (Gunz & Gunz, 1994b, p. 823).

There is a range of possible explanations for the OPC findings. For example, arguably some professions are more ''professional'' than others, in the sense that they have, *inter alia*, long histories of independent practice and influential professional bodies, and therefore are more able to resist organizational pressures and thus report low levels of OPC (Abernethy & Stoelwinder, 1995; Johnson, 1972). There is also evidence that opportunities for career advancement within the employing organization have a significant impact on professionals' attachment to the organization (Wallace, 1995b) and the OPC they experience (Gunz & Gunz, 1994b); the more opportunity for career advancement, the more attachment and the lower the OPC. Similar effects can be found in terms of the role professionals play in the TMT of the organization and the proximity to strategic decision-making. However, the explanations say little about the way in which these accommodations might be reached. So, we know little of what the impact might be of different kinds of accommodation not merely on reported levels of OPC, but also on the way in which professionals actually exercise their judgement or make decisions.

We proposed two contrasting explanations for the low levels of OPC reported by employed professionals (Gunz & Gunz, 1994a). The first explanation is a very simple one: employed professionals experience little OPC because, contrary to the impression left by the literature, they very rarely feel themselves to be in a situation in which they *do* experience such conflict. The second explanation accepts that they do indeed find themselves in potentially conflictual situations, but argues that they adopt one of a number of strategies that have the effect of reducing the conflict that they subjectively experience.

We suggested three possible reasons for the ''no conflict'' scenario. First, it may simply be that when professionals encounter issues of potential conflict, their level of professionalism is such that they can act as professionals to balance organizational and professional roles in such a way as to experience little OPC. If, for example, legal training is effective preparation for handling difficult ethical situations, the more experienced the lawyer, the less difficulty such dilemmas should cause him or her. Second, if professionals' work primarily consists of routine matters, perhaps instances of difficult situations are simply very rare. But it might also be the case, third, that if such situations are not rare, the firm's senior management may choose to deal with tricky situations without involving their professionals. For example, it might seem sensible to avoid talking to the in-house lawyers, to avoid the risk of getting the kind of answer one "knows" to expect from one's lawyers.

The alternate explanation for low levels of OPC addresses the underlying assumption behind the OPC thesis, namely there is in fact conflict, but that professionals have ways of handling it which involve stepping outside, to some extent, their role as professional. If indeed there is evidence for such behaviour, then we have a potential explanation for the "unprofessional" behaviour with which we began this chapter. It is the search for an explanation, or, at the very least, greater insight into the behaviour surrounding decision-making in a conflictual context, that takes the existing OPC discussion in a new direction. We began by proposing two alternative roles professionals might assume within the organization that reduce the likelihood of their experiencing conflict.

The first ideal type we named the "technician".[2] One of the troubling post-Second World War debates was how physicians could have been co-opted into conducting some of the horrific medical experiments of the Third Reich. By dehumanizing their experimental subjects in their minds, they seem to have been able to focus on the technical aspects of their "research" without involving what any reasonable observer would assume to be their professional conscience. Similarly, the *Project Manhattan* team clearly became absorbed in the extraordinarily difficult theoretical and technical problems of designing a workable fission bomb, while, for most of the time, not apparently experiencing any concern for the hideous consequences of exploding their weapon over a city (Rhodes, 1986). The "technician" role, then, involves a narrowing of cognitive focus to the purely technical aspects of the problem in hand, largely to the exclusion of broader ethical issues that also should concern the professional.

The second ideal type is one we have termed the "organization person", drawing, of course, on Whyte's (1956) model of the "organization man". Organizational people see themselves primarily as employees and only secondarily as professionals, so that potential conflicts between the obligations to the profession and to the employing entity tend to be resolved in favour of the employer. Again, then, OPC might therefore not be high. Daniels (1975, p. 319) uses the example of an army chaplain being taught to persuade troubled soldiers to return to the fray by arguing "'It's not killing that is good, it's defending your country that is good' … [W]e'd average one guy a week who refused to take the plane back to Saigon. He was usually a guy who'd seen a buddy killed. We'd take him to the psychiatric ward at the military hospital, and in three days he'd be just fine, ready to get back on that plane to Vietnam''. The professional – in our terms, the organization person – reverses the importance to him or her of the primary and secondary clients (here, the soldier and the Army), thereby avoiding conflict between two value systems. But this carries the risk that he is pulled into the organizational value system ''so that when conflicts arise he will side with the organization rather than professional values'' (*ibid.*, p. 320).

Empirical evidence for technician and organization person roles is, at this stage, suggestive. More recent work on employed lawyers (corporate counsel; Gunz & Gunz, 2002) found evidence suggesting that the two-way technician/organization person categorization of strategies may be an oversimplification. There was some indication of two types of organization person response, which we called ''observer'' and ''advisor''. The *observer* involved a minimal response, maintaining a watching brief over events but not intervening if at all possible. The *advisor* was a variant on the traditional role of lawyer: ensuring that colleagues understand the legal implications of the situation, but with no suggestion that the advisor would fulfil his or her obligations as an officer of the court. Generally, practising lawyers have a sworn responsibility to the legal system – ''the court'' – which, means, for example, that an in-house lawyer who becomes aware of illegal activities taking place must first counsel non-continuance to the highest levels of the organization and, should this advice be ignored, resign from the employing organization. Additional obligations might arise to report to third parties if the lawyers become aware that serious bodily or psychological harm could result. The advisor role, by contrast, involves warning colleagues of the legal implications of the situation, but leaving them to decide on the action that they should take.

To summarize, then, despite the prediction that professionals' autonomy is likely infringed upon at intervals by their employer (professional or non-professional), and that this should lead to systemic role conflict for them, there is little empirical evidence that this process leads to much subjectively experienced OPC. We reviewed a number of potential explanations for this finding, including two which raise the possibility that professionals may adopt, to some extent at least, ''non-professional'' approaches, for example by focusing exclusively on the technicalities of the situation, by keeping a low profile, or by providing advice without ''teeth''. Next, we examine the implications of these potential responses for the ethical decision-making that might emerge.

PROFESSIONAL RESPONSIBILITIES: ETHICAL IMPLICATIONS OF THE EMPLOYMENT RELATIONSHIP

So far we have used the terms "conflict" and "dilemma" somewhat loosely to indicate difficult situations in which professionals might find themselves when subject to conflicting demands from their professional responsibilities and their employer. Traditionally, the OPC literature has presented as a fundamental assumption that not all demands from the employer will mesh with the professional responsibilities of the employee. The nature of perceived conflicts is generally assumed to be difficult or troubling but has not typically been discussed further.

Here we focus explicitly on conflicts or dilemmas that involve an ethical dimension, for both theoretical and practical reasons. Theoretically, ethical dilemmas are interesting because they are situations in which conflict between professional and organizational demands clash most identifiably, evidently and strongly. They therefore provide a strong test of the OPC hypothesis: if we are to see the impact of clashing demands anywhere, we should see it here. In practical terms, the turn-of-the-century North American business scandals are witness to the significance of ethical dilemmas. Indeed, if we return to the foreshadowing by Daniels that we described above as "chilling", we subsequently observe senior Catholic clergy failing to report sexual offences by priests to parishioners or police, or the NASA space shuttle *Challenger* disaster arguably stemming from the unwillingness or perceived inability of the relevant professionals to assert their professional ethical independence. The senior church officers appear to have placed the interests of the Church above those of the individual parishioners, and the professional engineer/managers at Morton Thiokol seem to have placed commercial pressures above their primary responsibility to the astronauts riding in the *Challenger*.

By "ethical dilemma", we mean an ethical conflict that has no easy resolution. It is a situation in which the professional "must choose between two or more relevant, but contradictory, ethical directives, or when every alternative results in an undesirable outcome for one or more persons" (Dolgoff & Skolnik, 1996). The way in which professionals handle ethical dilemmas has special significance in an employment context. Just as professionals have unique status in society, so they have status in corporations, and the language surrounding this status is often couched in terms of their ethics training and the responsibilities that place them on a different footing within the organization from managers in general. For example, Davis has argued that the professional reminds others within the organization either of what they do not know or what they might have forgotten, namely the morally right course of action (Davis, 1988; cf. Heineman, 2004).

If we consider the role of professionals in the firm, it would not be surprising if ethical conflicts are the most inherently difficult that they face. It is here that a member of a self-regulating profession is uniquely positioned to be required to oppose proposed actions of the employer (assuming these proposed actions would be unethical).[3] If we then find lower than expected levels of OPC, what are the implications for how professional employees resolve their ethical responsibilities? Returning to our earlier alternatives, is this because there are indeed no conflicts, or because the professional has found ways to accommodate conflict? And more specifically, in the no-conflict scenario:

- Is the level of professionalism such that the individual professional can balance organizational and professional roles so as to experience little OPC (and the more experienced the professional, the better equipped to do so)? or
- Is work either so routine for some professionals or at such a low or uncontroversial level that conflict simply does not arise (an unlikely proposition given what we know of organizational interactions)? or
- Does management simply bypass the professional if unfavourable outcomes are foreseen? This alternative raises serious governance issues, because it implies that the professional *can* be bypassed. Further, it would seem odd that professionals fulfilling their professional responsibilities would be unaware of their limited role. Are they, by default, complicit in the unethical transgressions?

And considering the alternate suggested strategies for accommodating conflict outlined in the previous section, each may raise its own serious ethical concerns:

- the *technician* strategy has obvious problems. By definition, decision-making based on a flawed recognition of the primary ethical obligation is problematic.
- the two *organizational person* strategies may or may not lead to ethical concerns. For example, the *advisor* role does not preclude compliance with professional obligations. There, are, however, also inherent risks. Might this not have been the role assumed by the engineers at Morton Thiokol? They spoke up but took the issue no further (recognizing that the "further" remains the difficult issue in this example – what was the "further"

to which they might have gone?). The *observer* role, in which the professional keeps quiet on the grounds that no actual crime is being committed, carries clear risk. It presumes an extraordinary amount of sound judgement on the part of the professional about just when intervention might be needed, and leads to awkward questions about what the observer's role in the organization ought to be. If professionals cannot be trusted to speak out to their colleagues to warn them of impending trouble, are they earning their keep? Of course there will be times where no intervention is adequate or appropriate. But in true dilemmas this cannot always be presumed to be the case.

In our work, we asked corporate counsel to respond to a series of cases posing ethical dilemmas drawn from corporate legal practice (Gunz & Gunz, 2002). While effects were not strong, there was evidence of differences in approaches by respondents to the cases. Initial analysis found, not unexpectedly, that experience helps in resolving the dilemmas presented. The more experienced counsel were, the less difficult they found the dilemmas to reason through. These more experienced counsel were also more likely to adopt what we called a "lawyerly" approach, namely one that was more akin to that taken by an independent lawyer than an employee (Gunz & Gunz, 2004). It is possible that seniority allows these lawyers to be more able to withstand organizational pressures. It is also possible they are simply more secure, less eager to please the employer, and more willing to adopt a position as defined by the profession.

We also found that the more respondents were closely involved at a strategic level in the firm, the more likely they were also to report that they had encountered dilemmas of the kind with which we presented them (Gunz & Gunz, 2004). This implies that the *less* involved counsel are in strategic matters for the firm, the less likely they are to encounter these difficult dilemmas, and the more the so-called "no conflict" explanation applies. It also fits with what we observe anecdotally where we see some counsel conducting their professional lives not unlike their counterparts in private practice and in relative isolation of management; they are the law firm to the organization (Gunz, 1991). The key question that has yet to be answered is what drives this "no conflict" scenario and, in particular, whether the alternative explanation of management bypassing the professional might also hold true.

Finally, and perhaps most worryingly, there was some evidence – albeit not strong – for a situational influence on the "lawyerliness" of the respondents' answers to the vignettes; that is the extent to which the answers followed the strict dictates of their professional code of ethics. The respondents differed along a dimension that we labelled, loosely following Gouldner (1957, 1958), ''local/cosmopolitan''. At one extreme were those who described themselves as employees of the company who just happened to have a law degree (''local''), and at the other there were those who saw themselves as lawyers who just happened to be working for the company in question (''cosmopolitan''). The more cosmopolitan the respondent, the more likely they were to choose a lawyerly approach, which is not, perhaps, an altogether surprising finding. However, it was also the case that the more they felt themselves to be part of their firm's TMT, and of the firm's ''mainstream'' career structure (i.e. not marginalized, as professionals often are, with little prospect of being moved outside the law department), the more *local* their orientation (i.e. the more they were likely to describe themselves as employees of the company who just happened to have a law degree).

The effect sizes were weak, as they normally are in studies of this kind (Ponemon & Gabhart, 1993). Indeed, in retrospect, we were surprised to have found any effect at all. Why, after all, should someone's position in real life affect the way they respond to hypothetical, if realistic, ethical dilemmas in the outcome of which they have absolutely no stake? It is much easier to do the professionally correct thing in a hypothetical situation when, for example, you do not have to contemplate the implications for your career of telling your fellow board members that their crude racist comments are inappropriate (one of the cases was drawn from the notorious Texaco imbroglio). Yet there did appear to be an effect, and one consistent with a situationist perspective. The closer these lawyers were to the strategic apex of the firm and (probably) inside its innermost inclusion boundaries (Schein, 1978), the less lawyerly their approach to ethical dilemmas.

We cautiously interpreted these findings as evidence of what we called a mindset: a cognitive bias affecting their ethical decision-making style that was related to their position in the organization. We have no way of knowing whether this is a selection effect: the kind of people who become included in the firm's inner counsels are those naturally less sympathetic to a strictly professional approach to their professional ethics. But in a sense this does not matter, because the people are there, in position, and (presumably) with an influential role in the running of the organization. Regardless of whether we invoke a strong situationist argument (the closer professionals come to the centre of organizational power, the less lawyerly they become) or a weak one (the more lawyerly someone is, the less likely they are to be included in the corporation's inner counsels), the result is the same: senior corporate lawyers who do not behave as much like lawyers as, perhaps, they should.

ETHICS IN THE PROFESSIONAL SERVICE FIRM

Our account of unethical behaviour on the part of professionals focussed on professionals in non-professional organizations, largely because that, to borrow the bank robber Willie Sutton's famous quotation-that-never-was (Cocheo, 2004), is where the research is. We now return to the issue we foreshadowed when introducing this account, namely the extent to which professionals working in PSFs may be subject to the same pressures, and therefore likely to exhibit similar behaviours when faced with ethical dilemmas.

PSFs increasingly have interests that resemble the corporations to which they provide services. Commonly, they experience pressure to become more "business-like", a term that is, in this usage, synonymous with efficiency and profitability. Even with the profession that typically epitomizes the independent private practitioner, the medical practitioner in the United States, we observe the conflicting demands from Health Management Organizations (HMOs) and other insurance providers and those of the profession itself. So there is a case for examining the assumption that it is appropriate to draw a sharp distinction between the experience of the professional in PSFs and in NPOs.

There is an interesting assumption behind Wallace's (1995b) distinction between the proletarianization and adaptation theses: at least in the "proletarianization" view of the employment relationship and likely in both, the private practice experience for professionals is substantially and significantly different from that in the non-professional organization. However, for at least 30 years the suggestion has been alive in the literature that some forms of private practice might carry equivalent pressures for the individual professional to those that are hypothesized under the OPC model:

> The power of the professional in even such powerful professions as medicine or law is always moderated when the professional faces a direct client in a fee-for-service relationship ... Professionals such as engineers, architects, and entire corporate law firms who serve a few clients (or only one large corporate client) are particularly vulnerable to such client control. Their clients may not only be excessively demanding and irritating, but they may also desire services which the professional thinks may actually harm them, and which raise ethical and legal questions. The prevalence of such problems is indicated by the scandals which arise from time to time, resulting in court action, fines, and even imprisonment of professionals who have colluded or conspired with unscrupulous and determined clients. (Daniels, 1975, p. 323)

Daniels links what she calls "client control" to what she observes as the problems of the professional generally, and not just the professional employed in an NPO. More recently, several authors have started using the alternative term "client capture" for this phenomenon (Leicht & Fennell, 2001; Macey, 2004; Macey & Sale, 2003; Prakash, 2004):

> … some professional groups have faced a situation whereby the consumers (clients) or new ways of performing work (technologies) will undermine professional prerogatives and status. We refer to these trends under the heading of professions "captured" by clients or technologies. Under client capture the consumers of professional work gain the ability to control the activities, timing, and costs of professional work. In effect the "consumer becomes sovereign" much as consumers search for (and price) other consumer goods and services. (Leicht & Fennell, 2001, pp. 105–106)

At first sight one might expect that the recent growth of PSFs should have reduced pressures on the professional exerted by client capture, since Daniels' observation in the 1970s. In a large PSF with many clients, surely, the influence of a single client, however big, should not be overly significant. In other words, the size of the client should be offset by the size of the PSF, because a large PSF has a great many clients, and even the largest will represent only a small portion of the firm's income. But this argument overlooks the way the relationship between PSF and client is typically managed:

> … the exclusive relationship between audit partner and client, upon which the partner's career largely depends, makes the partner particularly susceptible to client capture. And thus, even though Arthur Andersen was deemed "independent" because Enron accounted for less than one percent of Andersen's total billings, Enron accounted for all of the billings of the lead partner assigned to Enron and for several members of his audit team. Further, Arthur Andersen's management in Chicago apparently relied solely on the captured audit team for information about the client. (Macey, 2004, pp. 409–410)

In other words, the power of the employer over professionals in an NPO is replaced here by the power of the client through the process of client control or capture. In addition, in Arthur Andersen's case it is clear that its audit opinions were affected by the large amount of consulting income it also derived from Enron. When a member of Andersen's Professional Standards Group objected to some of Enron's accounting practices, he was removed from the account at Enron's insistence (Ley Toffler, 2003, p. 212). Indeed Lynn Turner, Chief Accountant at the US Securities and Exchange Commission during the late 1990s, said of the leading partners at Arthur Andersen: "At the end of the day, Grafton, Samek and Berardino were all businesspeople as opposed to public accountants. Meaning that their focus was more on running the business than on concerns investors might have" (Ley Toffler, 2003, p. 182).

In the case of the auditing profession, the potential for client control appears to have been exacerbated by a curious feature of auditors' careers:

a reasonable expectation that one could be hired by one's client. Indeed a great many Arthur Andersen auditors – by one estimate, more than 300 (Macey & Sale 2003) – ended up on Enron's payroll, including one of the central figures in the drama, Sherron Watkins (Fusaro & Miller, 2002; Prakash, 2004; Swartz & Watkins, 2003). If indeed one can look forward to a "cushy" (Fusaro & Miller, 2002, p. xii) job at one's audit client, it makes it all the more difficult to maintain a sense of professional distance when doing the audit.[4]

There is some evidence that client capture may not, however, be equally likely across different professional groups. Much of our recent anecdotal evidence of "client capture" has come from the international accounting firms. These were, however, structurally very different from, say, law firms in that, at various times several accounting firms housed more, or at least as many, non-accountants as they did professional accountants. Furthermore the non-audit functions – those functions that did not have to be performed by a public accountant – were significantly more profitable to the firm than auditing. It was only to be expected that such a structure could lead to accusations of conflicts of interest. More importantly, there were many contemporaneous observers who predicted that such a mix would inevitably undermine the ability of the accountant to maintain sound professional decision-making (e.g. Boyd, 1999). Reviewing the experience of Arthur Andersen, for example, suggests that these concerns were well founded (Ley Toffler, 2003). In contrast, even very large law firms have always been made up primarily of members of the legal profession who are obliged to uphold a common set of professional obligations.

Additionally, corporate law work, for example, is not always awarded in the same manner as auditing assignments:

> Although a "one client" practice is also possible in the case of partners in a law firm, this pattern has become far less common. [Corporations'] [g]eneral counsel have learned to move their legal business around to foster price competition among law firms; increasingly, recurring and/or less specialized activities are cheaper for the corporate client to internalize by moving such services "in house". In short, because corporations make the same "make or buy" decision with respect to legal services as they do with respect to other commodities and services, the law firm partner has increasingly become a specialist – one with high reputational capital who markets his or her services to multiple clients (for example, the mergers and acquisitions or bankruptcy specialist who typically has a "one shot" relationship with the corporate client and then moves on to the next client. (Coffee, 2003, p. 1305)

Despite these differences between professions that might suggest some are less susceptible to "client capture" than others, there remain reasons to expect a more subtle bias in the performance of professionals in favour of their clients across the board. Bazerman, Morgan, and Loewenstein (1997) argue that it is difficult for auditors to make truly independent decisions because the so-called *self-serving bias* (Messick & Sends, 1979) unconsciously causes the professional to select information that is favourable to his or her case and to underweight contrary information. Any professional retained by a client is likely to have at least some desire to have the matter come out in his or her client's favour, and Bazerman and colleagues argue that the kind of corporate linkages that auditing firms have with large clients can only be expected to exacerbate this.

To summarize, then, client capture may be a function of a number of features of the relationship between PSF and client. Given that we are not aware of any systematic work on this issue, it is only possible to speculate on the basis of the largely anecdotal data of the kind we have just been reviewing. Likely factors include the proportion of any given professional's billings that can be attributed, over a reasonable length of time, to one or a few clients; the extent to which the firm has other professional or related dealings with the client; and individual career interests of the professional him- or herself.

Clearly more work is needed on these issues, and studies are indeed taking shape (see, for example, Greenwood & McDougald, 2004). However, for present purposes it suffices simply to draw the conclusion that there is plenty of evidence to support the proposition that it is not merely professionals in NPOs whose ethical decision-making is likely to be affected by their employment relationship. Those working in PSFs may also be subject to the kind of pressures that arise from client control or capture and that can be expected to bring out similar behaviours. For example, David Duncan, Arthur Andersen's "engagement partner" (i.e. partner responsible) for the Enron account, seems to have filled the role that we described above as "organization person" almost to the level of caricature. Again, Ley Toffler's (2003, pp. 192–193) account of life inside Arthur Andersen describes behaviour of audit managers (who report to partners) that fits that of the "observer" with remarkable accuracy.

The commonality that leads either to OPC in NPOs or client capture in PSFs is the power of the client (Johnson, 1972). In an NPO the client is usually the employer. Corporate counsel provide legal services to the corporation; accountants do likewise. Scientists and engineers are typically working on products, processes, plant and equipment for their employer. Perhaps a lonely exception is the company physician, who at least ostensibly is employed to treat employees. Typically, the NPO professional is rewarded with salary and promotion. The link between performance as a professional and reward is therefore somewhat ambiguous, because it is mediated by the organization's reward system, which is typically not under the control of any one person. Many sources of influence, professional and non-professional, may be brought to bear on the result.

The situation is superficially less ambiguous in a PSF: the firm has clients who are billed by the firm, and rewards are distributed on the basis of professional performance. However, within a large PSF the complexities of the reward system can generate unintended and, as Ley Toffler (2003) shows in the case of Arthur Andersen, highly undesirable results. So the professional performance–reward link may be just as obscure as it is in an NPO.

In each case the client holds considerable power over the professional. The nature of the power and the way in which it is either exercised, or the professional believes that it *might* be exercised, varies from situation to situation. It may be as crude as the fear that a powerful NPO senior executive will have the professional dismissed if he or she refuses to endorse an unethical action, or that a PSF partner will block a suggested course of action because it would offend a client that is important to the firm or that partner's sole client. It might be as subtle as a concern about the need to build a career within the NPO by creating the "right" impression with senior executives, or a hope for an enticing job offer from the PSF's client. But the effect is likely to be the same: being employed either by an NPO or a PSF, under circumstances which put the client in the appropriately powerful position, subjects the professional to pressures which, potentially, may affect the way he or she exercises professional judgement. To return to the particular theme addressed in this chapter, this pressure has the potential to affect the professional's ethical behaviour.

So it is not necessarily being employed in an NPO that should be the source of anxiety concerning the unethical behaviour of professionals, *but the way in which the employment relationship places the professional in a position of dependency on his or her client, regardless of whether the employing organization is an NPO or a PSF.* That is not to say that all organizations always push their professionals into behaving unethically. Rather, it is to point to the risk that, given the right (or, more accurately, the wrong) circumstances, they might.

CONCLUSION

In this chapter, we have examined the issue of unethical behaviour by employed professionals. We began with the classical Anglo-Saxon model of the professions, which, to cite one of many attempts to define the phenomenon, "involve essentially intellectual operations with large individual responsibility; they derive their raw material from science and learning; this material they work up to a practical and definite end; they possess an educationally communicable technique; they tend to self-organization; [and] they are becoming increasingly altruistic in motivation" (Flexner, 2001). How, the puzzle runs, could members of such a class of paragons ever behave unethically? And yet, as we know, some do. They always have, and we can presumably expect them to continue.

Whenever misbehaviour appears where it should not, the metaphor that is almost immediately marched onstage is that of the bad apple: these people were the exception, and once we are rid of them, all will be well. The alternative explanation, that there might be something about the situation in which the miscreants found themselves that explains what they did, is more disquieting because of the questions it raises about the *status quo*. It is rather like the cool reception that conservative legislators give to explanations emphasizing social causes of crime. Such explanations are complex, troublesome to address, and raise uncomfortable questions about the distribution of wealth and privilege in society.

So might there be a situational explanation that accounts for at least some of the unethical behaviour of professionals? Here, we focussed on employed professionals, because there is a stream in the literature which argues that the pressures that the employment relationship places on them inevitably leads them to experience conflict between the expectations of their profession and of their employer. In other words, if the essence of professionalism is autonomy to practise the occupation as it should be practised in the view of the relevant professional body, and the essence of organization is control, what happens when autonomous professionals are controlled, especially in NPOs that have no particular reason to subscribe to the professionals' code of conduct? If professional misconduct is to be found anywhere and its origins understood, surely this should be as good a place as any to find it.

The problem, as we next showed, is that there is not much evidence that professionals employed in NPOs do indeed experience much OPC. Perhaps most professionals go through much of their professional life in NPOs without encountering the kind of ethical dilemmas that put them in a situation in which they could find themselves pushed into behaving unethically. Alternatively, it might be that the training of these professionals is such that they are able to deal with ethical dilemmas as their profession expects them to and without undue difficulty.

However, other explanations are possible, and we reviewed several. Each suggests a different way in which professionals might resolve OPC; we labelled them the "technician", the "organization person", the "observer" and the "advisor". We argued that each approach is likely to result in a tendency to handle ethical dilemmas in ways that do not entirely follow the dictates of the profession. Furthermore there is some empirical evidence to suggest that this might indeed be the case. The evidence is not particularly strong or convincing, but it is there, nevertheless.

Nor are there grounds for assuming that these behaviours are limited to professionals working in NPOs. Drawing on the case of Arthur Andersen and Enron, we looked at some of the arguments that professionals in PSFs may be just as vulnerable to organizational pressures as their colleagues in NPOs. Here the mechanism is a process called "client capture", in which the professional becomes so beholden to the client that his or her professional objectivity becomes less than it should.

The common factor, we argued, between the position of professionals in NPOs experiencing OPC and those in PSFs experiencing client capture is the power of the client. The concept of professional autonomy or independence was traditionally based on the model of the private professional service firm in which professionals either practised their art as sole practitioners or with other, equivalently qualified, colleagues. The larger firm partnership structure (mandatory in most common law countries) was established to be a relationship between virtually autonomous individuals. But professionals have never, in fact, operated in a truly autonomous fashion, even as sole practitioners. They are paid by their clients/patients and therefore, to some extent at least, beholden to them. Traditionally, this unavoidable potential compromise to autonomy were considered adequately tempered by the spreading of risk, portfolio-wise, over a large set of individual clients/patients.

These ideas have increasingly become subject to challenge (if indeed they ever worked). First, and most obviously, professional service firms have become ever more complex, adopting formal methods of control and with their own identities and structures that constrain the independence of individuals within them. Second, it is not uncommon for professional members of the firms to service the needs of a very few clients/patients. In such a situation, the economic impact of losing any one client/patient is severe. Finally, the client, while not being critical to the particular professional service provider, may be a major source of revenue to the firm itself. So the mechanisms by means of which the client's influence is exerted (or which the professional believes may be exerted) vary, but the potential outcome is the same. In each case, the professional is in a situation in which the client potentially can exert influence, typically through the professional's reward system, which he or she may find very hard to resist. It is this, at least in principle that seems to be responsible for much of the unethical behaviour that has been so evident in many recent business scandals.

That said, there is a great deal that we do not know about these situational influences. There is some – again, weak – evidence that responses to ethical dilemmas faced by professionals in NPOs varies with their situation in the firm. Equally, there are good reasons to expect that by no means all professionals in PSFs are subject to the pressures of client capture. We may speculate as to the factors that might differentiate these situations, and indeed we did so here, but we need to move beyond anecdotal examination of cases of egregious malfeasance to systematic research on the more everyday, widespread events that shape professional behaviour in practice.

Our understanding to date of how situational effects play out in the context of ethical decision-making by professionals is rudimentary at best, and inevitably the findings we do have are weak. However, this is clearly also a field that is rich with potential for future studies. It is also critical that these be done. It is one of those great ironies that at the same time the professionals (accountants and lawyers in particular) failed society's trust by "selling out" to the short term and often illegal interests of their clients, society once more turned to the same professionals to redress these shortcomings. The entire movement for increased regulation is operationally dependent upon key professionals within and outside the employing firms. Yet without a sound understanding of how and why ethical decisions are made in complex organizations – private professional firms and otherwise – such faith by regulators and society at large may continue to be ill-founded.

NOTES

1. The test applied by auditors in the UK. It varies somewhat across jurisdictions; the Canadian equivalent, for example, includes the phrase "fairly in all material respects".

2. We adapted this term from Daniels (1975), who uses it in a more encompassing sense, covering both that in which we use it here and our "organization person" ideal type described below.

3. As John Isselmann recently found to his cost. Isselmann was general counsel of an electronics manufacturer who succumbed to pressure from the firm's CFO to keep silent and not tell the audit committee that the quarterly numbers in mid-2002 were artificially inflated. He was prosecuted by the US Securities and Exchange Commission even though, five months later, he did indeed blow the whistle on the practice (Rubin, 2004); the SEC argued that this was too late.

4. Indeed this concern was reflected in the changes implemented by Sarbanes Oxley. No member of the audit team may now move to be CEO or Comptroller of the audited company for a period of one year after they leave the audit team. It has been argued that this is too short a period and that the corporate positions are too conservatively stated. Many, if not most, companies now are very cautious about hiring former auditors. Of course, it is the non-cautious that may well remain the concern.

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CAN WOMEN IN LAW HAVE IT ALL? A STUDY OF MOTHERHOOD, CAREER SATISFACTION AND LIFE BALANCE[☆]

Jean E. Wallace

ABSTRACT

Studies suggest that women in law appear dissatisfied with the practice of law due to the difficulties of balancing work and family. Little research has examined how the contextual characteristics of law firms affect women lawyers' sense of life balance and career satisfaction, which is the focus of this study. I propose that if women in law firms can have children and be just as satisfied with their careers and have the same degree of life balance as women without children, then women practicing law can ''have it all''. I show how contextual characteristics of law firms are important in understanding mothers' and non-mothers' work experiences.

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> There may be no setting more significant than the legal profession for observing the advances and setbacks that women today are experiencing in a changing world that structures work and family roles. Lawyers are often powerful players in the organization of social, economic, and political life, and women, often acting as lawyers, are now participants in these arenas of public and private influence. Yet there is serious doubt whether this participation is translating into opportunities for women to contribute all then can in and through the legal profession. (Hagan & Kay, 1995, p. 3)

As indicated by Hagan and Kay (1995), women's success in law firms has important societal implications. Women's access and opportunities for achieving highly ranked positions in law firms is sometimes used as a barometer of generalized gender equality (Beckman & Phillips, 2005). The most powerful positions in the profession are held by partners of the largest firms who are also often members of the elite class in society (Beckman & Phillips, 2005; Hagan, Huxter, & Parker, 1988). Large firms are influential in directing the ruling bodies of the legal profession itself as well as through their interconnections to the boards of directors of dominant corporations (Adam & Baer, 1984). While women have been entering law firm practice in larger numbers than in the past, many bump into the glass ceiling prevalent in firms or they exit through the revolving door such that significantly fewer women are promoted to partnership than men (Hull & Nelson, 2000; Kay & Hagan, 1995). Both pregnancy and parenting often result in women's delayed partnership or departure from private practice, such that women are not in as powerful positions as men to influence structural change at higher levels of the profession (Kay & Hagan, 1995).

Becoming a mother can make combining a balanced life with a satisfying career very difficult for professional women (Hill, Märtinson, Ferris, & Baker, 2004). Some mothers strive to "have it all" by simultaneously having a demanding career and a family. This often results in feelings of role overload, conflict and a general sense of imbalance as mothers attempt to satisfy two competing sets of demands and responsibilities. Other mothers "scale back" (Becker & Moen, 1999) their careers by significantly reducing their work hours and responsibilities. As Budig and England (2001) suggest, following the theory of compensating differentials, mothers may trade off certain job rewards, such as higher wages or career advancements, for jobs that make it easier to combine work and family. Thus, work–life balance for women often has economic and career costs that may take the form of forgone wages and career advancement (Tausig & Fenwick, 2001). This pattern is referred to as the "mommy track" experience (Schwartz, 1989), which can result in women feeling less successful and less satisfied with their career.

Research shows that the time demands associated with practising law and the difficulties encountered in attempting to balance work and family are major sources of stress and dissatisfaction, especially for women who are mothers (Brockman, 1994; Hagan & Kay, 1995; Wallace, 2001). The same studies also report that these stresses are often responsible for women leaving the practice of law at higher rates than men. Although it has been documented that significant numbers of lawyers are dissatisfied with the practice of law and are leaving the profession (Kay, 1997), little research has examined whether working conditions associated with law firms affect women's ability to have a balanced life and a satisfying career. This study addresses this neglected question.

In this paper, I examine the following questions: (1) Do mothers in law firms report the same degree of life balance and career satisfaction as non-mothers? (2) How do certain law firm characteristics affect women lawyers' sense of life balance and career satisfaction? and (3) Do these factors differ for mothers and non-mothers? I use survey data collected from mothers and non-mothers working in law firm settings. I propose that if women lawyers can have children and be as satisfied with their careers and have the same degree of life balance as women without children, then women practising law can, indeed, "have it all". I hypothesize that a number of contextual characteristics of law firms affect this possibility.

CONTEXTUAL AND JOB CHARACTERISTICS OF LAW FIRMS

Professional work involves long hours that spill over into personal time, private life or "after hours". Practising law is no exception. Lawyers are renowned for the long hours they work. Surveys show that they typically work for more than 50 h a week and that this is on the rise (Wallace, 1997). Law firm lawyers work relatively long hours not only in comparison to other professionals, but also compared to lawyers in other legal settings. Additional data from this study (available from author) show that law firm lawyers work on average for about 50 h a week at the office, with most working between 40 and 60 h in total. These lawyers also work two to three evenings a week, an additional half-day on the weekends and another 6 h at home per week. In contrast, on average, government lawyers work 44 h a week at the office, with most working between 35 and 53 h a week. Only about half of them work on weekends and they are less likely to work on evenings than law firm lawyers.

As a ‘‘greedy institution’’ (Coser, 1974), law firms demand total commitment and frequently expect lawyers to put work first and to be endlessly available to perform professional tasks (Epstein, Seron, Oglensky, & Sauté, 1999; Seron & Ferris, 1995). Many lawyers feel that they are always on call for their firms and are expected to drop everything to come into the office at any time or day. The pace of work in law firms is often characterized as in ‘‘crisis mode’’ (Epstein et al., 1999), involving long bursts of activity that may necessitate working through the night and over weekends in order to meet deadlines and client demands. In addition, law firm lawyers are expected to attend social functions with colleagues and/or clients, typically on evenings and weekends. Kanter (1977) refers to these as ‘‘diplomatic tasks’’. They involve after-hours dinners and weekend golf games with business partners and potential clients. The work context of law firms, then, is not only demanding because of the sheer amount of time that lawyers are expected to commit to their work, it is also unpredictable and often beyond the control of the lawyers involved. These time and work demands are not only stressful, but can also be sources of career dissatisfaction and can affect the ability to balance work and family (Brockman, 1992; Hagan & Kay, 1995; Wallace, 1999, 2001).

Increasingly, research on work–family issues is devoting greater attention both to the characteristics of the job *and* to contextual factors (Blair-Loy & Wharton, 2002). Much of this literature investigates how social relations and work context facilitate or impede employees' abilities to balance work and family. In this study, three contextual characteristics of law firms are examined: (1) the extent of female concentration within the firm at both partner and non-partner levels; (2) family-responsive working conditions; and (3) whether there is a supportive work–family culture. These three sets of factors reflect the social, structural and cultural conditions of the workplace, respectively, and each is elaborated below. Subsequently, we examine two characteristics of the job itself: work demands and rewards.

Female Concentration

The literature on sex segregation suggests that women tend to be highly concentrated in jobs believed to be compatible with family responsibilities (Reskin & Hartmann, 1986). Because women are responsible for the majority of family tasks and most likely to take advantage of work–family benefits, they are expected to receive greater social support in balancing family and career demands when more co-workers are women facing similar challenges. That is, the greater the number of women employed in an organization and in senior positions, the more family friendly should be the work setting. Consistent with this argument, research shows that women rate highly various work–family benefits (Frone & Yardley, 1996).

The support of supervisors affects whether employees actually use work–family benefits (Clark, 2001; Glass & Estes, 1997). If supervisors are themselves juggling work and family responsibilities, they are more likely to encourage and facilitate subordinates to take advantage of such benefits. The evidence, however, is mixed and several studies have challenged the proposition that female-dominated work settings are more compatible with parenting (e.g., Bielby & Bielby, 1988; Glass, 1990; Glass & Fujimotto, 1995). Nevertheless, we hypothesize that:

> **Hypothesis 1a.** A greater percentage of female lawyers in a law firm will result in greater life balance and career satisfaction for women lawyers with children.

> **Hypothesis 1b.** The presence of female partners will result in greater life balance and career satisfaction for women lawyers with children.

In this study, female concentration is examined by the percentage of female lawyers and the presence of female partners. Despite the recent influx of women into the legal profession, law remains a male-dominated profession. Women are under-represented in law firm practice and are more likely to be working outside private practice such as in corporations or government offices (Epstein et al., 1999; Hull & Nelson, 2000; Kay & Hagan, 1995; Robson & Wallace, 2001). In the jurisdiction examined here (Alberta, Canada), more than half of all lawyers work in law firms (64%) and 76% of those lawyers are men. In contrast, only 17% of male lawyers work in corporations or government offices compared to 30% of female lawyers (Law Society Annual Report, 2000). The same survey indicates that women represent 44% of associates in law firms but only 18% of partners. These proportions are comparable to those reported in other studies (e.g., Hull & Nelson, 2000; Kay & Hagan, 1995; Spurr & Sueyoshi, 1994). It is expected that most women will report being the minority in their male-dominated firms where they often hold a token status (Kanter, 1977). Most of their colleagues are likely men and many will report that there are no female partners in their firm.

Family-Responsive Working Conditions

Family-responsive working conditions are typically defined as those that require less energy, more flexible hours, fewer demands for travel and less weekend or evening work. Further, there will be on-site day care, opportunities to take time out for childcare needs, and, most obviously, the ability to work reduced hours or part-time (Becker, 1991; Blair-Loy & Wharton, 2002; Clark, 2001). Firms that are more family-responsive should help mothers balance their work and family lives and feel more satisfied with their careers. In the literature, the key indicators of family-friendly firms centre on reduced work hours, flexible hours and a supportive work environment (Glass & Estes, 1997). In this study, the family responsiveness of law firms is assessed by the extent to which they allow lawyers flexibility in their work hours and give them control over the hours they work, and by whether the firm offers alternate work arrangements. A supportive work–family culture is examined separately in this study.

Flexible work hours enable the balancing of work and family responsibilities by allowing employees to alter their daily starting and ending times at work or simply permit them to leave work when unexpected non-work demands arise (Glass & Camarigg, 1992; Glass & Riley, 1998; Golden, 2001). Flexibility in hours may be a formal work arrangement offered to part-time or full-time lawyers. Or, it may be offered informally by granting considerable discretion over the exact times that lawyers start and finish work, and the opportunities they may be given to leave work to attend to family obligations. Some have argued that the degree of control and flexibility over one's work time is often more salient to workers than the sheer number of hours they work (Holtzman & Glass, 1999; Kalleberg & Epstein, 2001). Therefore,

Hypothesis 2a. Provision of greater flexibility in work hours will result in greater life balance and career satisfaction for women lawyers with children.

Lawyers indicate that law firms may demand longer hours compared to other types of employment situations, but they also tend to offer more flexibility and control over one's work hours (Wallace, 2004). Having personal control over their work hours helps professionals structure their work time so that they can accommodate family responsibilities and minimize or reduce work–family conflict (Clark, 2001; Greenhaus, Parasuraman, Granrose, Rabinowitz, & Beutell, 1989; Thomas & Ganster, 1995). However, while law firm lawyers are usually able to exercise considerable discretion over when they work and to a greater extent than in other work settings, clients' demands or deadlines may exacerbate work-related pressures and reduce the flexibility often needed to fulfil family responsibilities. The number of hours worked, when they are worked and the degree of open-ended flexibility associated with them, thus often "depends on the day" (Seron & Ferris, 1995) or the client involved (Epstein, Sauté, Oglensky, & Gever, 1995). Further, the autonomy of junior professionals may be unexpectedly and suddenly eliminated when certain clients, files or senior partners demand their immediate and undivided attention. As well, emphasis on the documentation of billable hours has intensified with computerized accounting systems (Epstein et al., 1999) with the result that not only is the number of hours worked closely and relatively easily monitored, but when and where lawyers work are also carefully observed. Control over their work schedule, therefore, has a positive effect on family life and sense of life balance (Tausig & Fenwick, 2001). Thus,

Hypothesis 2b. Greater personal control over the *number* of hours worked will result in greater life balance and career satisfaction for women lawyers with children.

Hypothesis 2c. Greater personal control over *when* hours are worked will result in greater life balance and career satisfaction for women lawyers with children.

The availability of alternate work schedules refers to whether the firm offers part-time, reduced hours or other variations on the standard work arrangement of full-time hours. An alternate work schedule is "any alternative to the full-time norm of fifty hours or more per week and/or open ended schedules" (Epstein et al., 1995, p. 392). Such arrangements are an increasingly popular option enabling parents to balance work and family, especially for mothers (Becker & Moen, 1999; Epstein et al., 1999; Hagan & Kay, 1995; Hill et al., 2004; Moen & Dempster-McClain, 1987; Schwartz, 1989). Thus,

Hypothesis 2d. The availability of alternate work arrangements will result in greater life balance and career satisfaction for women lawyers with children.

Supportive Work–Family Culture

Recently, organization culture has been recognized as important in affecting employees' satisfaction with their jobs and work–life balance (Clark, 2001; Thompson, Beauvais, & Lyness, 1999). Even though employers may offer family-responsive benefits, if these policies are not embedded within the organization's culture, it is unlikely that good employees will actually use them (Kelly, 1999). For example, in organizations with a prevalent "overtime culture'' (Fried, 1998) that pressures employees to work long hours and put their work first, employees may believe that using work–family benefits will result in negative consequences for their careers (Blair-Loy & Wharton, 2002). Women who use parental leaves, part-time work or other alternate work arrangements, often feel viewed as less committed and that they receive less interesting and challenging assignments. Consequently, their opportunities for promotion disappear (Hagan & Kay, 1995; Wallace, 2004).

Work–family culture refers to the ''shared assumptions, beliefs and values regarding the extent to which an organization supports and values the integration of employees' work and family lives'' (Thompson et al., 1999, p. 394). The work–family culture may reflect the time demands or expectations that employees will prioritize work over family as well as the perceived negative consequences if employees use work–family benefits or devote time to family (Bailyn, 1997; Clark, 2001). A supportive organizational culture means that lawyers are not expected to prioritize work over family, there are no negative career consequences for using work–family benefits or devoting time to one's family, and it should be easier for lawyers to balance work and family (Thompson et al., 1999). Thus,

Hypothesis 3. A more supportive work–family culture in a law firm will result in greater life balance and career satisfaction for women lawyers with children.

Job Characteristics

In addition to contextual characteristics, two types of job characteristics are frequently cited as likely to affect a woman's sense of life balance and career satisfaction: work demands and rewards. These are examined in greater detail below.

The work demands variables tap the extent to which work may be excessive and potentially interfere with lawyers' non-work responsibilities. Multiple roles may compete for a person's time, which is referred to as role conflict, or more specifically, work–family conflict (Greenhaus & Beutell, 1985). It is important to take into account the extent to which work poses excessive pressures that may negatively affect a sense of balance between different life domains and satisfaction with one's career. In this study, work demands are examined in two ways: work overload and work hours. Work overload reflects the subjective, role-based component of work demands; and work hours reflect the quantitative, time-based component (Greenhaus & Beutell, 1985; Wallace, 1997). Work overload refers to whether the demands of the job are felt to be excessive (Wallace, 1999). Feeling overwhelmed by the demands and pressures of one's job and working long hours are often cited as illustrative of the all-encompassing nature of practising law (Kessler, 1997; Wallace, 1997). The amount of time that lawyers spend at work directly reduces the time they have available for non-work activities, such that they are likely to feel greater role strain and less satisfaction. Thus,

Hypothesis 4a. Greater work overload will result in less life balance and career satisfaction for women lawyers with children.

Hypothesis 4b. Longer work hours will result in less life balance and career satisfaction for women lawyers with children.

Extrinsic and intrinsic job rewards will have a positive impact on worker experiences and attitudes. Professional work can be very rewarding by providing both intrinsically challenging work in combination with the extrinsic reward of high compensation. Lawyers are renowned for the high salaries they earn and it is reasonable to suppose that women enter law in anticipation of securing good compensation. A second attraction of professional work is that it is challenging, interesting and stimulating, and lawyers report these as important characteristics of their work (Dart, 1988). Mothers, however, often report that their careers are derailed onto the "mommy track" (Schwartz, 1989), where they receive lower compensation and less important and less challenging work. Thus,

Hypothesis 4c. More challenging work will result in greater life balance and career satisfaction for women lawyers with children.

Hypothesis 4d. Adequate income will result in greater life balance and career satisfaction for women lawyers with children.

DATA AND METHODS

All lawyers practising in the Province of Alberta, Canada, were mailed a survey to their place of work in June 2000. The mailing list was obtained from the Law Society of Alberta and contained the names of all active members. A comparison of the sample data with the provincial statistics indicates that similar proportions of lawyers participated when compared by gender, practice setting (e.g., law firm, government office, etc.) and city (e.g., Calgary, Edmonton, etc.).

The analyses in this paper are restricted to the women working in law firms who completed the survey. These respondents consist of 135 (43%) mothers and 180 (57%) non-mothers. Most of the women were married (76%) and about 38 years of age at the time of the study (range = 26–62 years). About half of the mothers (49%) had at least one preschool aged child and 64% had only one child living at home. On average, respondents had prasticed law for approximately nine years (range = 1–32 years) and their average annual earnings was $94,377 (range = $8,400–$400,000). Most had traditional, full-time work arrangements (87%). On average, the women in this study worked about 51 h a week, including weekends and evenings at the office and at home (range = 10–94 h). Although the average size of law firm is about 100 lawyers, half of the respondents worked in firms with 27 lawyers or lesser.

Measures

As indicated below, a number of the measures included in this analysis are Likert measures. The response categories for these items are: strongly disagree (coded 1), disagree (coded 2), neither agree nor disagree (coded 3), agree (coded 4) and strongly agree (coded 5). An "(R)" indicates that the item is reverse coded.

Life balance is measured by a single Likert item adapted from Marks and MacDermid (1996): 'In general, I feel I have a pretty balanced life'. *Career satisfaction* is measured by three Likert items adapted from Greenhaus and Beutell (1985): 'I am satisfied with the success I have achieved so far in my legal career'; 'I am not satisfied with the progress I have made towards meeting my overall career goals in law' (R); and 'I am happy with the way things are going in my legal career' ($\alpha = 0.80$). *Motherhood status* is measured by whether (coded 1) or not (coded 0) the respondent has any children living with her.

Female Concentration

The *percentage of female lawyers* was computed by dividing the total number of female lawyers in the firm into the total number of its lawyers multiplied by 100. *Presence of female partners* is coded 1 for the presence of any female partners in the firm and 0 if there are no female partners in the firm.

Family-Responsive Work Conditions

Flexibility in work hours is measured by a single Likert item: 'It's very hard for me to take time off to take care of personal or family matters' (R). *Control over work hours (number)* is measured by a single Likert item: 'I have considerable control over the *number* of hours that I work'. *Control over work hours (when)* is measured by a single Likert item: 'I have considerable control over *when* I work the hours I work'. *Alternate arrangements available* is coded 1 if their firm allows part time, reduced hours or other alternate arrangements for lawyers and 0 if they do not.

Supportive work–family culture is measured by the mean score of three Likert items adapted from Thompson et al. (1999): 'Turning down work for family related reasons will seriously hurt one's career in this organization' (R); 'Many lawyers are resentful when people in this organization take extended leaves to care for new or adopted children' (R); and 'In this organization, lawyers who participate in work–family programmes are viewed as less serious about their careers' (R) ($\alpha = 0.79$).

Job Characteristics

Work overload is measured by the mean score of four Likert items adapted from Caplan, Cobb, and French (1975): 'I do not have enough time to get everything done in my job'; 'My workload is too heavy in my job'; 'I have to work very quickly to get everything done in my job'; and 'I often feel rushed in my job' ($\alpha = 0.80$). *Work hours* is the average number of hours per week that respondents report working at the office and at home, including evenings and weekends. *Challenging work* is measured by the mean score of five Likert items that Ettington (1998) adapted from Smith, Kendall, and Hulin (1969): 'The work I do in my job is challenging'; 'Generally, I find my work is boring' (R); 'I find my work allows me to be creative'; 'The work I do is routine' (R); 'The work I do is important' ($\alpha = 0.81$). *Adequate income* is measured by a single item adapted from Kelly and Voyandoff (1985): 'I feel I have enough money for all of my needs'.

Control Variables

Three control variables are included in the analyses: firm size, partnership status and marital status. *Firm size* is coded 1 if the firm has 100 or more lawyers and 0 if it has 99 or less. A continuous measure of firm size was not used because it was highly correlated with the female concentration variables. *Partnership status* is coded 1 for partner and 0 for associate. *Marital status* is coded 1 for married or common law and 0 for single (never married), separated, divorced and widowed.

It should be noted that due to collinearity problems, several variables were excluded from the analyses or alternate measures were used. Specifically, partnership status, law experience and earnings were highly correlated, yielding unacceptable tolerance inflation factors greater than 2.0 (Fox, 1991). Consequently, partnership status was retained, law experience was excluded from the analysis, and, rather than actual earnings, the measure of perceptions of "adequate income" was substituted. In addition, some women worked reduced hours in an alternate work arrangement, which was highly correlated with work hours. Work hours was retained because it is a more accurate measure of lawyers' work involvement. For example, some of the women working in "reduced hours" or "part-time" arrangements worked longer hours than women in full-time jobs.

Analyses

Table 1 provides descriptive information about the mothers and non-mothers included in the analyses. Tables 2 and 3 contain the results from the ordinary least squares (OLS) regression analysis used to answer the research questions presented above. The pooled results in Tables 2 and 3 address Question 1, that is, whether mothers report the same degree of life balance and career satisfaction as non-mothers. These results also show which variables have a significant effect on life balance and career satisfaction for both mothers and non-mothers (Question 2). To answer Question 3, OLS regression analysis, in conjunction with interaction tests, was used to determine whether the contextual characteristics of law firms similarly affect sense of life balance and career satisfaction for both mothers and non-mothers. OLS regression was used to estimate an equation for each dependent variable that included both mothers and non-mothers. These results are located in the Pooled models in Tables 2 and 3. Then, this equation was re-estimated by including all of the determinants, a dummy variable for motherhood status and cross-product motherhood-interaction terms for each determinant (not shown). The statistically significant interaction terms identify which regression coefficients differ significantly for mothers and non-mothers. These are also indicated in Tables 2 and 3. Owing to the large number of significant interactions, OLS regression was then used to estimate the main effects

Table 1. Descriptive Information for Mothers ($N = 135$) and Non-Mothers ($N = 180$).

Variable	Mothers	Non-Mothers
Female concentration		
Percentage of female lawyers	0.29	0.25
Presence of female partners	0.83	0.70***
Family responsiveness		
Flexibility in work hours	3.36	3.25
Control work hours (number)	3.41	3.07***
Control work hours (when)	3.72	3.57*
Alternate arrangements available	0.77	0.57***
Supportive work–family culture	2.83	2.81
Job characteristics		
Work overload	3.64	3.48**
Work hours	47.79	54.24***
Challenging work	3.79	3.77
Adequate income	3.38	3.51
Control variables		
Large firm	0.22	0.33**
Partnership status	0.46	0.24***
Marital status	0.93	0.63***
Life balance	3.41	3.23*
Career satisfaction	3.21	3.19

*$p < 0.10$.
**$p < 0.05$.
***$p < 0.01$.

of the determinants on women's life balance and career satisfaction for mothers and non-mothers treated separately (also presented in Tables 2 and 3). This analysis facilitates interpreting the similarities and differences in the effects of the specific variables on life balance and career satisfaction for mothers and non-mothers.

RESULTS

Table 1 provides descriptive information regarding mothers' and non-mothers' work experiences in law firms. The results show how the contextual characteristics of their firms differ for these two groups of professionals. Mothers report of having more control over the number of hours that they work and when they work them. Compared to non-mothers, they work about 6 h less a week and are more likely to work in firms that offer alternate

Table 2. Life Balance Regression Results for the Pooled Sample, Mothers ($N = 135$) and Non-Mothers ($N = 180$).

Variables	Pooled b (B)	Mothers b (B)	Non-Mothers b (B)
Motherhood status	0.137 (0.067)		
Female concentration			
Percentage of female lawyers[a]	0.001 (0.003)	−0.008(−0.207)***	0.010 (0.192)***
Presence of female partners	0.107 (0.046)	0.036 (0.015)	0.030 (0.013)
Family responsiveness			
Flexibility in work hours[a]	0.162 (0.170)***	0.077 (0.088)	0.233 (0.233)***
Control work hours (number)[a]	0.094 (0.107)**	−0.003 (−0.004)	0.117 (0.127)*
Control work hours (when)	0.039 (0.041)	0.092 (0.105)	0.005 (0.006)
Alternate arrangements available	0.071 (0.033)	0.240 (0.110)*	0.024 (0.011)
Supportive work–family culture[a]	0.117 (0.110)**	0.158 (0.177)*	0.088 (0.073)
Job characteristics			
Work overload	−0.297 (−0.217)***	−0.303(−0.228)***	−0.293(−0.211)***
Work hours	0.001 (0.002)	0.005 (0.080)	−0.010 (−0.085)
Challenging work[a]	0.136 (0.089)**	0.038 (0.028)	0.253 (0.154)**
Adequate income[a]	0.116 (0.126)***	0.199 (0.231)***	0.067 (0.071)
Control variables			
Large firm[a]	−0.191 (−0.085)*	−0.402 (−0.182)**	0.181 (0.079)
Partnership status	−0.122 (−0.056)	−0.091 (−0.049)	−0.102 (−0.040)
Marital status	0.106 (0.045)	0.032 (0.009)	0.119 (0.054)
R^2	0.289	0.307	0.365

*$p < 0.10$.
**$p < 0.05$.
***$p < 0.01$.
[a]Significant interaction at the 0.10 level.

work arrangements and that have at least one female partner. Despite their more manageable work arrangements, mothers report significantly higher levels of work overload than non-mothers, which may reflect a situation of mothers trying to do more with less. That is, mothers may feel their firm's work demands cannot be realistically met in the more limited hours that they work. Overall, however, the results suggest that mothers should work

Table 3. Career Satisfaction Regression Results for the Pooled Sample, Mothers ($N = 135$) and Non-Mothers ($N = 180$).

Variable	Pooled b (B)	Mothers b (B)	Non-Mothers b (B)
Motherhood status	0.013 (0.014)		
Female concentration			
Percentage of female lawyers[a]	0.001 (0.005)	0.002 (0.116)*	−0.002 (−0.100)
Presence of female partners[a]	0.078 (0.074)	−0.180 (−0.146)*	0.205 (0.213)***
Family responsiveness			
Flexibility in work hours	0.030 (0.070)	0.038 (0.085)	0.011 (0.026)
Control work hours (number)[a]	0.068 (0.173)***	0.021 (0.050)	0.120 (0.313)***
Control work hours (when)	0.041 (0.095)*	0.062 (0.138)*	0.022 (0.053)
Alternate arrangements available	−0.049 (−0.051)	−0.012 (−0.011)	−0.084 (−0.094)
Supportive work–family culture	−0.011 (−0.024)	−0.019 (−0.042)	−0.043 (−0.086)
Job characteristics			
Work overload	−0.041 (−0.067)	−0.048 (−0.071)	−0.064 (−0.112)*
Work hours	−0.001 (−0.002)	−0.003 (−0.008)	0.002 (0.043)
Challenging work	0.120 (0.175)***	0.156 (0.223)***	0.086 (0.127)**
Adequate income	0.093 (0.228)***	0.138 (0.315)**	0.063 (0.161)**
Control variables			
Large firm	−0.053 (−0.053)	−0.111 (−0.099)	−0.045 (−0.048)
Partnership status	−0.098 (−0.101)*	−0.075 (−0.080)	−0.072 (−0.068)
Marital status	0.047 (0.044)	0.107 (0.059)	0.010 (0.011)
R^2	0.188	0.277	0.209

*$p < 0.10$.
**$p < 0.05$.
***$p < 0.01$.
[a]Significant interaction at the 0.10 level.

in firms that should be more conducive to achieving a balanced lifestyle. And, the mean difference tests indicate that mothers do, indeed, report significantly more life balance than non-mothers. The two groups of women report similar proportions of female lawyers in their firms and similar degrees of flexibility and challenging work. They are also equally satisfied with their income and careers. The results for the control variables indicate that mothers tend to work in smaller firms but are more likely to be partners than non-mothers. It is worth noting that mothers have almost twice as much experience prasticing law (Mean = 12.07 years) compared to non-mothers (Mean = 6.68 years). Significantly, more of the mothers are married, compared to the non-mothers.

According to the pooled results presented in Tables 2 and 3, mothers report the same degree of life balance and career satisfaction as non-mothers. This suggests that women prasticing law in law firms *can* have a career in law, children, a balanced lifestyle and a satisfying career.

Table 2 gives some indication of how this might be achieved. None of the significant predictors of life balance are the same for mothers and non-mothers, except for work overload. For both groups of women, greater work overload reduces their sense of balance as predicted (H4a) and this variable has one of the strongest effects on their life balance as well. For mothers, three variables that are not significant for non-mothers are important in affecting their sense of life balance. As predicted, a more supportive work–family culture (H3) and an adequate income (H4d) are important in enhancing a mother's sense of life balance. Mothers are less likely to work in large law firms compared to non-mothers (Table 1), but those that do report significantly more life imbalance than those in smaller firms.

In contrast, three variables affect the sense of life balance of non-mothers but are not significant for mothers. The more flexibility they have in their work hours (H2a) and the more control they have over the number of hours they work (H2b) results in a greater life balance. It is somewhat surprising that these family-responsive variables are more important to non-mothers' life balance than mothers'. The third variable important for non-mothers but less so for mothers is more challenging work (H4c).

Lastly, the effect of the percentage of female lawyers differs significantly for mothers and non-mothers. For mothers, the higher the proportion of women working in their firm, the less they feel they have a balanced life, contrary to Hypothesis 1a. The effect is the opposite for non-mothers – the higher the proportion of women in their firm, the more balanced their life, consistent with Hypothesis 1a.

Several variables have no significant effect on life balance for either group of women. Table 2 shows that the presence of a female partner (H1b), control over when they work (H2c), the availability of alternate arrangements (H2d) and the number of hours worked per week (H4b) do not affect life balance, contrary to our expectations.

The results for life satisfaction are given in Table 3. There are far fewer significant interactions. Female concentration affects mothers and non-mothers in significantly different ways. For mothers, the greater the percentage of female lawyers in their firms, the more satisfied they are with their careers, consistent with Hypothesis 1a, whereas this variable has a non-significant effect on non-mothers. Conversely, the presence of female partners has a negative effect on mothers' career satisfaction, contrary to Hypothesis 1b and a positive effect on non-mothers' career satisfaction, consistent with Hypothesis 1b. The only other significant interaction involves control over the number of work hours, which has a significant positive effect on non-mothers' career satisfaction consistent with Hypothesis 2b, but no effect for mothers. Control over when lawyers work has a positive impact on career satisfaction for both groups of women (H2c). The two jobs rewards, challenging work (H4c) and adequate income (H4d), have significant positive effects on career satisfaction for both groups of women, whereas the control variable partnership status has a negative effect.

Several of the variables are unimportant in affecting women's career satisfaction and therefore do not support the hypotheses presented above. Specifically, flexibility in work hours (H2d), the availability of alternate work arrangements (H2a) and a supportive work–family culture (H3) are not important and neither of the work demand variables (H4a and H4b) affects women's career satisfaction.

DISCUSSION AND CONCLUSIONS

This paper sets out to investigate whether women lawyers in law firms can "have it all". The results reported above suggest that women in law firms *can* have children, a satisfying career and a balanced life. This conclusion is based on the findings that mothers are equally satisfied with their careers and report the same degree of life balance as women who are not mothers. Contrary to some suggestions in the literature, it does *not* appear that to have children women lawyers must sacrifice their careers or suffer from an imbalanced lifestyle.[1]

One reason underlying this conclusion may be that mothers tend to work in law firms that are more family friendly. That is, mothers are more likely to report that they work in firms where they have more control over their work hours, greater availability of alternate work arrangements and work lesser hours than non-mothers. By working in more family-friendly law firms, mothers are able to achieve satisfying careers and balanced lives comparable to those of women without children.

The results of this study also illustrate the importance of firm context. An interesting finding is the extent to which factors that affect mother's and non-mother's life balance differ dramatically. Only work overload contributes to a sense of imbalance for both groups of women. For mothers, a supportive work–family culture and adequate income are important in enhancing life balance, whereas working in a more female-dominated workplace or a smaller law firm reduces it. Kay (1997) found that women in small law firms have the highest quit rates compared to lawyers in other legal settings, and perhaps this is due to the difficulties associated with balancing work and family. In contrast, non-mothers reported a more balanced life if they worked in a female-dominated firm, had flexibility and control over their work hours and had interesting and challenging work.

These results suggest what measures law firms can take to enhance women lawyers' sense of life balance. A manageable workload seems important for mothers and non-mothers alike. Further, mothers need to feel they have a supportive organizational culture and an adequate income. If mothers feel they will suffer negative career consequences for their family responsibilities, they are more likely to feel that they cannot balance their work and family needs in a manageable way. There also seems to be certain choices that mothers can make in deciding what type of firm to work in – smaller firms and those (surprisingly) with fewer female lawyers appear to allow a more balanced lifestyle. In contrast, mothers who decide to work in larger firms and those with more female lawyers are more likely to experience a less balanced life.

The findings for career satisfaction are similar for the two groups of women. For both groups, having control over when they work, experiencing challenging work and receiving an adequate income are important for a satisfying career. However, there is an important difference between the two groups: the effect of female partners. For mothers, the presence of female partners *reduces* their career satisfaction, whereas for non-mothers they are associated with greater career satisfaction.

These results suggest what law firms can do to facilitate a more satisfying career for mothers. If law firms grant women professionals more control over when they work, it enhances their career satisfaction, regardless of parental status. As noted earlier, women who decide to have children often find themselves rerouted onto the ''mommy track'' and are given less important and less challenging work assignments, such that their opportunities for career advancement decline. The results of this study, not surprisingly, show that doing more intrinsically challenging and financially rewarding work results in a more satisfying career for mothers and non-mothers alike.

More surprising is that mothers appear more satisfied when there are more women lawyers in the firm, but less satisfied when there are female partners in their firm.

The unexpected findings regarding the effects of female concentration in law firms clearly warrants further investigation. It was hypothesized that the presence of female partners and/or a higher concentration of women professionals would enhance the life balance and career satisfaction of women lawyers, especially those with children. Our results, however, are not straightforward. It is not clear exactly how women colleagues and female partners influence whether mothers are satisfied with their careers or with their ability to secure a balanced lifestyle. While female concentration positively affects *non*-mothers' life balance and career satisfaction (as predicted), the results are more complex for mothers.

Several studies suggest that female concentration is negatively related to family compatibility, such that the presence of more women in a work setting reduces or has no effect on the availability of family-friendly benefits (Glass & Camarigg, 1992; McNeely & Fogarty, 1988). In subsequent analyses (not shown), comparisons were made between mothers' firms that have female partners and those that do not. The results suggest that firms *without* female partners are more family friendly. For example, mothers report a significantly more supportive work–family culture, significantly less work overload and a shorter workweek when their firms do *not* have female partners. In contrast, mothers in firms with a larger proportion of female lawyers report significantly more control over the number of hours worked and when they work, and a significantly more supportive work–family culture.

Alternatively, Hegtvedt, Clay-Warner, and Ferrigno (2002) suggest that work–family policies and the use of these policies may lead to resentment among workers because some workers receive more benefits than others, and those not using work–family benefits must compensate for their coworkers time off by working harder. These authors found, for example, that although men more so than women resent having to do more work for those who use work–family benefits, both genders share similar degrees of resentment regarding the availability of work–family benefits. That is, women are not necessarily more sympathetic or understanding of others (usually women) who use these benefits.

Women with family responsibilities may request or require certain accommodations with their work hours that may result in additional stress for colleagues who assume the extra workload. Lawyers interviewed by Epstein et al. (1995) reported that colleagues are critical in the type of support women can expect to receive if they have children. Interestingly, there appears to be a "generational gap" between successful younger and older women's views of motherhood and a legal career. Older generations report that younger women coming out of law schools now feel that they are entitled to child care and part-time work, and expect that their firm will accommodate their complex work–home schedules. Older generations also believe that younger generations are less willing to sacrifice family time and obligations for their careers. Senior female partners, in other words, feel that when they had children, they had to make many more compromises than younger women are prepared to make today. Younger women do not regard older women partners in their firms as positive role models. They view female partners as martyrs – as women who pursued their legal careers at too great a cost to their personal and family life. Clearly, we need to examine further the interactions and attitudes among women working in law firms to obtain a better understanding of these complex findings regarding the impact of female colleagues and partners on mothers' work experiences.

Finally, it is important to note that this study does not include mothers who have left law firm practice or the practice of law altogether and who may have done so to care for their children. These women may have found working in a law firm incompatible with having children, being successful in their career and having a balanced life. As well, this study does not take into account women who are still practising law, but who have decided not to have children because of their legal career. Because women in law tend to report lower incidences of marriage and parenthood compared to men, some researchers conclude that juggling a legal career and a family may not seem desirable or even possible to some women (Liefland, 1986; Pollock & Ramirez, 1995). Women who are not highly satisfied with their careers or do not feel they are able to balance work and family may quit when they enter the child-bearing, child-rearing stages of their life (Wallace, 2001). Future research needs to examine more carefully women who leave their careers to have children and those who choose to continue their career but forgo having children. As long as women continue to sacrifice their careers or family for one another, they will not achieve parity with men in combining the public and private spheres.

As a result of leaving both the legal profession and law firm practice at higher rates than men (Kay, 1997), women are under-represented in the high-status occupation of law as well as the most prestigious positions within law, respectively. This leads to the broader question as to why women are under-represented in certain occupations, specialties and work settings throughout the workforce compared to men. Two competing theoretical frameworks appear central in answering this question, which basically reflect either gendered choices or gendered constraints. On the one hand, it is suggested that women and men hold different work and family values and interests such that women prefer and choose jobs that facilitate work–family balance, despite being penalized by lower prestige, pay or status (Reskin, 1993). On the other hand, others point to certain constraints or institutional barriers that deter and differentially affect men's and women's entry into and success in particular occupations and settings by making it difficult for workers to balance professional and family responsibilities. Such workplaces may not appear to be discriminatory, but their practices do differentially affect men and women through the ways that employers recruit, assign jobs, mentor, promote and retain workers (Roos & Reskin, 1984). Regardless of which explanation is supported, the choices or constraints that women face are explicitly linked to family responsibilities. That is, women make certain career decisions and sacrifices as they attempt to juggle work and family, or women face certain barriers because employers assume they will place priority on their family responsibilities that invariably interfere with work. It follows then that it is important to determine whether individual choice or institutional constraint are key to understanding the broader issues of gendered inequality related to the different career patterns and outcomes observed between men and women.

NOTES

1. Moreover, a subsequent regression analysis of the equations presented in Tables 2 and 3 (available from author) shows that mothers and fathers prasticing law are equally satisfied with their careers and report the same degree of life balance. This suggests that mothers are able to obtain the same degree of career satisfaction and life balance as fathers in law firms.

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COMPUTER-MEDIATED KNOWLEDGE SYSTEMS IN CONSULTANCY FIRMS: DO THEY WORK?

Markus Reihlen and Torsten Ringberg

ABSTRACT

Computer-mediated knowledge transfer has been at the forefront of consultancy research. The underlying idea is that individual knowledge can be externalized into disembodied symbols and codes, which can then be disseminated and accessed electronically within and across organizations. Although the process of externalization and transfer of knowledge has been investigated from various theoretical perspectives (positivism, social constructionism, pluralism), little research has addressed the role of cognition in computer-mediated knowledge transfer. Based on a case study within an international technical consulting firm, we argue that the success or failure of computer-mediated knowledge transfer is influenced to a large degree by embodied mental frames, social networks, and individuals' creative and explanatory use of artifacts in real-world situations.

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INTRODUCTION

Mastering knowledge management is particularly important for professional service industries, such as management consultancy, accounting, and law firms, whose market propositions depend primarily on the creation and exploitation of intellectual resources and their effective transfer (Empson, 2001; Greenwood, Cooper, & Hinings, 2003; Lowendahl, 1997; Morris & Empson, 1998; Suddaby & Greenwood, 2001). Furthermore, the ability to transmit individual expertise is essential in establishing a competitive edge, especially in professional services, which are often governed by a dispersed team environment. Consequently, identifying means through which knowledge can be gathered, stored, and transferred has been a focal point for consultancy companies and has led to the development of computer-mediated knowledge systems.

According to a survey conducted by Ofek and Sarvary (2001) of the top 40 management consultancy firms in the United States, over 36 of the respondents claimed to have a computer-based knowledge management system in place. Most firms reported that the knowledge management system was an integral part of their business strategy. Consulting companies, especially, have invested heavily in their knowledge infrastructure. For example, Ernst and Young claims to have invested over $500 million in its knowledge infrastructure, dedicated knowledge centers, and people (Ofek & Sarvary, 2001). The underlying rationale is that individual knowledge can be externalized, converted, and combined as portable artifacts that can subsequently be accessed and disseminated electronically within and across organizations (Davenport & Prusak, 1998, p. 68; Hansen, Nohria, & Tierney, 1999).

Identifying experience from prior consulting projects and adapting it to new client problems is especially effective for consulting firms focused on commodified services, or services that allow for a replication of existing knowledge endowments, best practices, and proven methods in order to address recurrent tasks (e.g., Hansen et al., 1999; Maister, 1993; Werr, 2002; Winter & Szulanski, 2002). This follows Morris and Empson (1998), who point out that codification of organizational knowledge is particularly relevant for firms that pursue standardization of roles and work tasks because codification allows for the efficient re-use of electronic knowledge repositories. As Davenport and Prusak (1998) emphasize, codification converts knowledge into accessible and applicable formats that can be easily inputted and transmitted through computer-mediated knowledge systems, leading to faster and lower priced solutions that are already fine-tuned and have proved successful.

However, the codification and externalization of knowledge into symbols and codes that can be accessed and disseminated electronically within and across organizations (Davenport & Prusak, 1998; Hansen et al., 1999) rests on a theoretical assumption shared by positivism, social constructionism, and to a large degree by pluralist positions – namely, that knowledge is disembodied, embedded in data, practice and/or institutional structures and thus easily accessible to individuals, either through reading or participating in related activities.

Contrary to previous research into the influence of organizational design, corporate culture, and human resource management on electronic knowledge sharing (e.g., Davenport & Prusak, 1998; Greenwood et al., 2003; Hansen et al., 1999; Karsten, 1999; Osterloh & Frey, 2000), we find that computer-mediated knowledge transfer overlooks the influence of individual cognition to make sense of sensory inputs. By cognition we mean the mental process of knowing, including aspects such as awareness, perception, reasoning, and judgment. All of these cognitive processes are guided by prior experience enabling individuals to make sense of the world (Bunge & Ardila, 1987; Glasersfeld, 1995; Piaget, 1971).

More recently, research has illustrated that individuals use a range of interpretive strategies to construct knowledge from artifacts. Differently situated individuals "not only know different things, but also know things differently" (Dougherty, 1992, p. 187). Taylor's (2004) analysis of 212 software developers in one large IT firm shows that the construction of meaning from documents diverges according to the expert's cognitive style. Similarly, Petersen and Poulfelt (2002) show that no shared frame could be established for the codifying of data into computer repositories, causing difficulties in transmitting knowledge between consultants. Indeed, Taylor's (2004) and Petersen and Poulfelt's (2002) initial findings problematize the general claim that computer-mediated knowledge systems increase efficiency in consulting companies.

This research suggests that even experience-based consulting firms, which typically codify knowledge for future re-use, encounter substantial difficulties in transferring knowledge when relying on computer-mediated knowledge systems. Contrary to prevailing explanations that focus on cultural, structural or motivational barriers to knowledge transfer, our study addresses how consultants' cognitive dispositions (i.e., mental frames), social networks, and creative and explanatory use of artifacts significantly impact the efficiencies of computer-mediated knowledge transfer in real-world situations. We suggest that rather than being independent of the inquiring subject, knowledge is embodied and evolves from a co-production between computer-based artifacts and consultant's interpretive frameworks. Depending on consultants' prior knowledge and intentions, knowledge artifacts are used for a number of purposes such as inspiration, substantiation, and mutual understanding, which may differ from their original intended use. Furthermore, we suggest that computer- and network-based knowledge transfers are not exclusive but mutually supporting systems. These findings have wide managerial implications for the implementation of computer-mediated knowledge systems.

We first address the epistemological limitations in existing knowledge-transfer research. Then we empirically investigate and discuss the efficiencies of computer-mediated knowledge transfer in an international consultancy firm whose market proposition rests on its collective experience derived from past engagements. Finally, we discuss the influence and relevance of cognition in knowledge transfer and establish a conceptual framework for knowledge transfer and use of electronic knowledge repositories.

EXISTING VIEWS ON KNOWLEDGE-TRANSFER RESEARCH

Currently, three major theoretical approaches – positivism, socio-constructionism, and pluralism – dominate the ways in which knowledge transfer is conceptualized. Each approach is based on a unique set of assumptions that guide both inquiry into knowledge transfer and our understanding of computer-mediated knowledge-transfer systems (see Ringberg & Reihlen, 2004).

Positivism relegates knowledge production to a linear process that assumes knowledge (the meaning of data) is embedded in text and numbers as objectified data that contains its own codes for interpretation. The view that knowledge is a thing "out there" for which we can gain positive facts is derived from positivist theory (e.g., Donaldson, 1996). The objectification of knowledge perspective construes data as a commodity or resource to be traded, stored, and/or developed. More precisely, it is assumed that knowledge can be identified and characterized without referring to the specific cognitive conditions (i.e., memory capacity and intellectual acumen) that distinguish one knower from another. In general, positivism claims that if two individuals were provided with the same inputs, then, given the same training and experience, they would know exactly the same thing (see Antony, 2002). As a consequence, knowledge is understood, "as an abstract commodity ..., flowing along the channels of communication defined by the organizational structure of the firm'' (Stigler cited in Casson, 1999, p. 78). Knowledge transfer becomes a process of transmitting an objectified content of cognitive processes that cannot only be communicated face-to-face to other minds but also externalized in the form of cultural artifacts such as reports, tapes, images, or databases. Positivist knowledge researchers widely assume that the ''content'' of knowledge can be easily and univocally codified, accessed, relearned, and disseminated through impersonal means within and across organizations (Davenport & Prusak, 1998; Hansen et al., 1999). As such, organizations may be viewed as repositories of knowledge that provide templates for thinking as well as action, thus making relatively unskilled workers productive on a higher skill level (Alvesson & Kärreman, 2001).

Social constructionism views knowledge as embedded within socio-cultural codes. Since this view assumes that native speakers and individuals who share practice and social backgrounds have been collectively exposed to and thus share the required encoding and decoding strategies for knowledge transfer to occur smoothly, social constructionism, like positivism, defines knowledge transfer as a disembodied process that depends largely on non-cognitive processes (structures, practice, and social norms). This position suggests that knowledge exists within a ''thought collective'' (Fleck, 1979) and is acquired through a ''community of practice'' (Brown & Duguid, 1991, 2001). From this perspective, knowledge is defined through its social use. That is, words take on their meaning within the context of ongoing practice and relationships (Gergen, 1994). It is the ''ongoingness'' of these practices that make them appear meaningful and separated from the knower. For example, in a highly influential article, Brown and Duguid (2001, p. 198) suggest that practice serves as a basis for establishing a shared conceptual framework. In this view, practice (activity, routines, gestures, language) works as a carrier of meaning (concepts, values, etc.) that provides order in social life (McCracken Grant, 1988; Sahlins, 1985). For social constructionists, cognition is located in socio-cultural practices embedded in stable ''webs of significance'' allowing knowledge to travel along disembodied networks that can be studied and unraveled without engaging the cognizing individuals and their social networks. More specifically, organizations as systems possess a sort of communitized, collective expertise – a cohesion and coherence of the collective (Glynn, Barr, & Dacin, 2000) – and thus a capacity for organizational learning (Willke, 1998). It is to this end that computer-mediated knowledge systems are considered new and exciting means that may contribute to increased efficiency and competitiveness as well as to reduced vulnerability to employee attrition.

The *pluralist perspective* introduces a more nuanced position because it sensitizes researchers to the presence of disparate interpretive frames, leading to potential differences in the understanding of similar data. Abbott (1988), for example, shows that experts frame problems according to professional categories and overlook information that does not fit neatly into these categories. Tsoukas (1996) identifies divergent organizational knowledge across organizational entities reflecting different normative and collective enculturation processes (e.g., education, practice, and organizational structures) at play, suggesting that a firm's knowledge cannot be surveyed as a whole. This speaks to Watson's (1994, 1995, 1997) identification of rival discourses among which managers confusingly switch back and forth. Similarly, Palmer and Dunford's (2002) study of co-existing discourses in a flight center shows how discourses are anchored in ideological subtexts as well as power relationships that hamper communication.

Although cognitive issues have surfaced in the knowledge-transfer research, such as the effect of absorptive capacity (Cohen & Levinthal, 1990; Zahra & George, 2002) and knowledge tacitness (e.g., Brown & Duguid, 2001; Nonaka, 1994), these approaches in general disregard the role of cognitive dispositions, such as acumen, memory, creativity, experience, and life trajectory. The following case study illustrates the inadequacy of shared practice, training, and experience in facilitating knowledge transfer and shows the influence of cognition (i.e., individuals' interpretive strategies, creativity and reasoning), and informal social networks on computer-mediated knowledge transfer.

KNOWLEDGE TRANSFER IN AN INTERNATIONAL CONSULTING FIRM: AN EMPIRICAL INQUIRY

Site

A case study investigating computer-mediated knowledge management systems was conducted at Herrmann & Partners (H&P),[1] a leading international technical consulting firm specialized in a niche market. The firm was founded in Germany in the early 1970s and expanded rapidly as a result of its expertise in planning and implementing technical infrastructure. Its early engineering focus was gradually complemented with know-how in strategy consulting and change management. The partners believed that the principal element of their value proposition was based on H&P's broad experience and long-term history in the chosen market domain. Although the firm was also involved in innovative engagements that moved it into new markets and led to the subsequent creation of new competency fields, the largest proportion of the business was conducted within the scope of what was considered a "typical H&P project." These projects allowed the firm to apply case-proven methods and exploit their experience gained in prior engagements.

Following the cross-border move of client firms, H&P founded its first international office in the early 1980s. Today, H&P is composed of a network of 18 offices located in Europe, North and South America, and the Asia-Pacific region. The firm employs about 215 consultants worldwide and generates approximately 40% of its revenues in its foreign subsidiaries. The firm is organized as a federated partnership in which the primary locus of decision-making and structural differentiation is at the local level. While smaller offices (fewer than 30 consultants) are organized as small entrepreneurial firms, the German headquarters, which covers a large variety of functional capabilities and competes in multiple client industries, is structured as a matrix organization. This structure institutionalizes a "constructive conflict" between industry requirements enforced by market segment managers and the firm's existing experience, technologies, and methods represented by functional capability managers. The formal organizational structure on the national and international level is complemented by informal networks established through international training programs, cross-functional and cross-cultural project teams, and office rotations of consultants. These networks help build up an organizational culture that is consistently described as open, trustful, communicative, and collegial. One core value in H&P's culture is a cooperative work climate that gives consultants free access to information and stimulates participative problem-solving across H&P's network of offices.

Historically, H&P's knowledge management practices rested on a network of personal contacts. Knowledge search and exchange took place through social networks of acquainted consultants. With a growing and regionally dispersed business, network-based knowledge transfer was increasingly perceived as difficult and ineffective. In 1997, following an introduction and discussion at H&P's annual partners' meeting, it was decided that the firm would implement a computer-based knowledge management system. The new system was part of an ambitious goal to capture and disseminate knowledge (experience) among its consultants. As one of the knowledge operators remarked:

> The system has to capture knowledge that is stored in the heads of people because we don't want to reinvent what is already known in the firm. Especially nowadays, where experienced consultants retire or leave the firm, we recognize that we are losing expertise.

> Our objective is to make this expertise available independently of the persons who acquired it.

Data Sources

We were interested in describing and explaining perceptions involved in knowledge management practices rather than in identifying relationships between varying levels of inputs and outputs. Thus, the case study method, which involves tracing processes in their natural contexts, appeared most appropriate (Eisenhardt, 1989; Yin, 2003). Seven case studies of consulting projects within H&P were carried out to gain insights into the use of computer-mediated knowledge management systems in supporting the firm's consultancy practices.

The case studies involved multiple data sources, including in-depth interviews, observations, and documents. Primary data were collected through 28 in-depth semi-structured interviews with consultants from different hierarchical levels. The interviews lasted from 1 to 3 h each and focused on consultants' reflections on their experience with H&P's computer-mediated knowledge management system and the system's support of the company's client acquisition and consulting processes. Project data were supplemented by interviews with the founder (once), the partner responsible for knowledge management (twice), and the knowledge operators (twice) who administer the system and service the consultants. All interviews were taped and transcribed.

Secondary data sources included full project documentations, company, client, and staff data, full access to H&P's knowledge management system, internal reports, quality assessments of projects, and company publications. These data were used to prepare interviews, validate informants' statements, and recast questions to interviewees.

Data Analysis

The data sources were incorporated into our analysis as follows: first, we studied archival data such as the firm's history, internal reports, manuals, and the actual computer-based knowledge management system simply to gain a more wide-ranging understanding of the knowledge infrastructure at H&P. We then analyzed the data by building project case studies synthesizing the interview transcripts and archival data such as full project documentations, consultants' and clients' profiles as well as internal and external assessments of the projects. The analysis followed what Strauss and

Corbin (1998) refer to as grounded theory framework, which is essentially an open-ended discovery of emerging themes or essential types. Explicit and tacit themes were identified in the interview material through an open-ended coding procedure. Independent and double coding processes converged in all but a few cases, and such cases were subsequently discussed and resolved. An iterative process of coding, grouping, and re-coding, linkages between concepts, led to the identification and categorization of meta-themes that structure much of the informants' interpretive strategies. We maintained a practice of rigorously questioning our interpretations throughout the analysis in order to assure their grounding in the text.

The open-ended coding process produces more than 120 constructs. Interestingly, while new constructs emerged throughout the interviews, the number of additional insights diminished after the tenth interview. That is, the additional interviews added context and depth to issues that had already been raised by previous interviewees. This follows Zaltman and Coulter's (1995) findings that the majority of insights surrounding a given topic are generally covered during the initial 8–10 in-depth interviews.

Through the iterative process of coding, grouping, and re-coding, semantic *linkages* emerged between meta-constructs, pointing to underlying and constitutive parts of thematic orientations. This process of identifying and keeping track of constructs and linkages throughout the hundreds of pages of transcripts was greatly facilitated by the computer-aided qualitative software program Atlas.ti 5.0 (Muhr, 1997). The Atlas platform is developed around the open-coding analysis, a technique used in grounded theory (Strauss & Corbin, 1998), and facilitates the arduous process by which underlying themes are organized and linked. Three major themes were identified: (1) the role of embodied knowledge, (2) the varied use of knowledge artifacts, and (3) the significance of social networks.

Findings

In a dispersed organization like H&P, knowledge resides in different regional locations. Consultants' project-related learning experiences were encoded in knowledge artifacts like documents, computer programs, or benchmarking data and disseminated to others via electronic media. H&P's computer-mediated knowledge system offered common features like storage and retrieval of project-related documents; staff information, including professional background, project experience, and contact information; and communication support through online chat and e-mail. Additionally, knowledge sources were arranged according to functional competence centers and industry-related target groups. The computer-mediated system offered special query functions on the central document database and provided supplementary industry and functional information. Furthermore, commonly shared resources – including company presentations, drawing standards, newsletters, press information, forms, professional know-how, etc. – were entered into and disseminated through the computer-mediated system. Management emphasized formal training of consultants in the functions and use of the system and how to enter, distribute, and access information (i.e., knowledge).

We identified three types of knowledge artifacts the consultants were referring to when using the system to support their advisory practices. These were *contacts, cases,* and *methods and tools*.[2] This categorization parallels earlier findings from Werr and Stjernberg (2003), who identified cases and methods and tools as elements of computer-based knowledge management systems in large consultancy firms.

Contacts

Getting into contact with dispersed experts within the H&P network was considered crucial for improving problem-solving abilities. Two computer-mediated instruments, Yellow Cards and a central documentation center, were used to identify experts. The Yellow Cards, which include contact information and a professional profile of consultants, were hosted on an intranet application. To protect data privacy, the consultants administered Yellow Cards themselves. This resulted in very heterogeneous personal and professional profiles that were not always up-to-date. In practice, Yellow Cards offered information that was too rudimentary and of little use for evaluating professional skill sets of experts – a fact that basically reduced the function of Yellow Cards to that of an online telephone register.

The second and more important instrument was the central documentation center, which included information on consultancy cases as well as information on each consultant's previous projects. The latter was used as an indicator for his or her field/s of expertise. Before the introduction of computer-mediated knowledge management, information including earlier consultancy projects was stored in an old-fashioned archive and rarely used for identifying experts within the firm. This changed with the new system. As the founder, Dr. Herrmann, remarked:

> Contrary to ten years ago, the central documentation center is a great advantage. Today, at least we know which projects we have conducted, what the projects are about, and

> who was involved. Together with the fact that we have a relatively low fluctuation of consultants, there is a high likelihood of finding the appropriate person.

Cases

As consultants gained new experience during their advisory engagement with clients, the knowledge was partially codified and stored in the central documentation center. At the end of each project, project managers wrote up a ten-page summary of the consulting problem that included a brief outline of the results and a list of members of the consulting team. Additionally, most project documentations also included proposals, offerings, reports, presentations, data, and references to applied tools (mathematical models for analyzing client problems). Figuratively, each project left memory traces in the knowledge management system, which were picked up by others to help them understand and learn from the case experience. However, our interviews with consultants showed that case information served multiple purposes in supporting advisory practices and was used and interpreted in quite different ways.

Cases as Creative Devices

Consultants were interested in identifying possible framings, solutions, and lines of thoughts that would inspire their own understanding of their client's problems. As one senior consultant put it:

> For me, project content is a vehicle to learn from other cases and get inspirations for my own solutions.

Another senior consultant explained:

> [Cases] offer possibilities to learn something and to gain insights into possible solutions to my problem. For example, if you are concerned with robot transportation systems, which pick up pallets from the materials handling equipment and deliver them at the central pallet location, then you can see how it was done before. Such a description creates ideas for potential solutions.

Here, the computer-mediated system basically functioned as a pond for creative exploration with little regard for the intended use by the originator of the information.

Cases as Resources

Consultants also used cases to develop new solutions as well as to strengthen existing ones through an evaluation of the merits of opposing arguments. Contrary to the creative use, consultants needed to understand the cases in order to draw genuine analogies between their current problem and the solutions documented in the computer-mediated system's case repository.

As a project manager pointed out:

> Our first project with General Pharma was in Spain. We had been looking through the material to gain a broader picture of possible solutions. Our problem was closely related. This enabled us to take large parts of the solution and refine it.

Similarly, cases often included benchmarking data, best practices within an industry, performance indicators, or cost figures that were used by consultants to control and validate their ideas for problem solving. Furthermore, consultants used cases as a resource of templates for well-formulated proposals, presentations, and/or procedures.

Cases were also exploited as a resource for acquisition purposes because they reflected the firm's history with a specific client. Partners studied client histories derived from the case repository to help them understand the past and shed some light on the present behavior of clients. Client histories were then used to support claims of competence offered in discussions with potential business partners. As a managing partner commented:

> When I have a contact person of a client with whom we had a project in South America, then I want to know with whom we worked together. In acquiring a project, it is important to show the client that we worked together on several projects before and give them names with whom we were involved.

Methods and Tools

Various methods and tools supported consulting practices in analyzing client problems, evaluating alternatives, and supporting implementation. In general, methods were interpreted as "check lists," "generic procedures," or "catalogs of questions" whose basic function was to aid the structuring of a consulting problem and to offer clues for its resolution. Methods represented "rules of thumb" generated and preserved from previous projects. Similar to case knowledge, methods were a source of inspiration to stimulate creativity or a resource consultant used to develop a stance for problem resolution.

Tools, on the other hand, were mostly interpreted as instruments of conducting "calculations." With H&P's traditional engineering focus, these calculations were perceived as an important part of its advisory work. Tools helped consultants work out practical problems by formally modeling, analyzing, and interpreting client issues. They allowed fine-grained problem investigation and evaluation and were mostly programmed within an ACCESS or EXCEL application. Contrary to generic methods, tools required in-depth and detailed background knowledge of the model's formal structure and areas of application. Even for experienced consultants, tools were not self-explanatory. Mastering them required intensive and personal interaction, practical training, and application before consultants could use the tools properly for problem solving. Consultants spoke about extended periods – ranging from six months to one year – of intensive practice with a tool before they felt that they could comfortably apply that tool to a client problem and competently evaluate the results.

Because of the complexity of a model's structure and formalism, tools appeared as a system of "local knowledge" shared only within small groups of experts. Tools were cultivated at the interplay between specific client needs and the existing methodological background of consultants. Even for the same type of client problem as many as five different tools with various creators coexisted. This is explained by a senior consultant:

> Tools are a special issue for H&P. Since we love to analyze problems into the last details, we have difficulties with the use of generic tools ... The problem you have to deal with always differs. You start to tinker around and adjust the tool until it becomes a new customized solution.

Mastering tools required very specialized methodological skills and substantive case knowledge. While tools were broadly accessible through computer-mediated systems, they were not commonly shared within the firm. This stands in contrast to Werr and Stjernberg's (2003) argument that tools and methods in consultancy firms create a shared framework and terminology (i.e., language).

Problems with Computer-Mediated Knowledge Transfer in Practice

Although the computer-mediated knowledge system was enthusiastically supported by the company founder and had been in place for some time, consultants were still faced with the challenge of identifying useful knowledge artifacts. Computer-assisted knowledge search at H&P was supported by various functions, like a full-text search engine, a catalog of keywords in various languages as well as industry and competence classifications. Consultants found that the computer-assisted knowledge search that was supposed to match case experience with the current consulting problem was rather cumbersome and difficult to engage. As one consultant explained:

> Working on a project requires me to identify projects with a similar task. This is already a difficult issue ... I may find, in the ten-page summary, that a project matched my problem. However, then I explore how the problem was solved and recognize that

> despite task similarities, a method was chosen that cannot be applied to my case. I do this project by project. This is very time consuming and showed only moderate success.

Based on our analysis, an additional set of categories emerged that addresses underlying challenges facing computer-assisted knowledge search and transfer. We identify them as *problems of finding relevant content* and *problems of comprehension*.

Problems of Finding Relevant Content

Although content search in the central documentation center was supported by common research tools, consultants had difficulties locating relevant documents. Net searching was viewed as time-consuming and difficult. Besides some technical issues of user-unfriendliness, consultants complained about the system's classification scheme. A classification scheme maps the body of knowledge a firm uses to diagnose problems and screen solutions (Abbott, 1988; Manville, 1999). The value of classifying knowledge evolves from making it identifiable by knowledge seekers. H&P implemented various methods to catalog prior experience from consulting engagements. One dimension represented the industries that H&P was serving. Since each industry was unique, projects were easily assigned to particular markets. Another dimension represented the knowledge acquired by individuals located in functional competence centers like strategy, operations, or change management. Grouping knowledge according to functional criteria became especially difficult when complex client problems were solved in ways that involved multiple competence centers. Consultants would use standard queries to search the collective knowledge base, but industry and competence center classifications were generally rather crude and did not give consultants an easy recognition of relevant project-related experience.

H&P also established a catalog of keywords in order to facilitate identification of relevant knowledge – basically a dictionary of the firm's consulting knowledge. The system of descriptors became quite complex and included over 3,300 keywords in German and over 1,700 keywords in English. However, identifying documents through comprehensive keyword searches did not improve the ease of access. Although consultants could make proposals for new keywords, knowledge operators who had professional training as librarians but no experience in consulting work administered them as part of their task, which also included the development of relevant classification schemes for each functional area. Because of the operators' lack of experience in consulting, the resulting classification system was often at odds with how consultants would categorize documents for future retrieval. Divergent understandings of how to catalog documents caused difficulties in prioritizing and finding knowledge artifacts. Illustrative of this is the remark of a consultant who stated:

> The people who developed the system and assigned keywords think differently than I do … The whole strategic [practice] area is not well developed. I either have no hits at all or a mess that is only loosely related with my inquiry.

As a consequence, finding relevant content became very problematic as a senior consultant pointed out:

> "The structuring is not well done. When a project is archived, you can find it through the client, if you know something about the project. If you just look for a topic, it is hardly possible to find anything. The reason is that the archived documents are not classified."

Interestingly, to avoid the classification system administered by the knowledge operators, consultants developed and maintained a parallel system hosted on a local file server. This local file server was structured in a simple, hierarchical system of directories, and consultants preferred this system because its underlying classification followed a structure that was more logical and comprehensible to them. Based on a backward technological infrastructure, practice groups preferred to cultivate their own classification, terminology, and language, which were stored outside the central knowledge management system.

Problems of Comprehension

The aim of a knowledge management system is to facilitate mutual comprehension because "there clearly cannot be a cognitive productive community where people do not understand one another" (Rescher, 1998, p. 13). Problems with comprehension and outright miscomprehension became evident during the consultants' interpretations of knowledge artifacts (e.g., documents, tools, etc.) transferred through the computer-mediated knowledge system.

From a cognitive perspective difficulties of understanding arise when new signals create a disturbance that cannot be assimilated within an existing cognitive schema; and the result is confusion. Misunderstandings or misinterpretations, on the other hand, happen when sender and receiver construct different meanings from the same artifact (Glasersfeld, 1995; Piaget, 1977). Our analysis uncovers four main causes of problems of comprehension: idiosyncratic meaning production, inadequate contextual information, lack of process knowledge, and alternative interpretations of artifacts.

Idiosyncratic Meaning Production

Although consultants were trained in and followed a shared protocol on how to document (enter) previous project work, the consultants who entered the data often ended up including context and references to issues that were difficult to understand for other consultants. The difficulties arose because what was relevant and meaningful to the consultant who entered the data was not necessarily sufficient for the consultant, who was trying to make sense of the project insights. Thus, the transfer of experience (knowledge) from one consultant to another through the computer-mediated system was difficult because what is considered generically cogent depends on the cognitive framework a consultant applies. As one consultant expressed it, "You put a summary, a couple of tables together, but for outsiders it is difficult to understand its core." Another consultant suggested that in addition to the problem of anticipating the reader's framework, time and other logistics (space) also play a role:

> If you think about what is not only interesting from your own standpoint, but what is relevant for third parties, then you quickly recognize that there is not much preservable knowledge. Many issues require so much explanation. You either give up right away or you have to invest days to generalize from your single case.

This quote addresses the problem of not having sufficient contextual information to envision what the consultant who entered the data had in mind.

Lack of Context

The interpretation of knowledge artifacts also depended on the context the receivers relied on to facilitate their reconstruction of the meaning they assumed was intended by the sender. Consultants repeatedly collected contextual information to limit the diversity of possible meaning constructs from an artifact. Yet, not surprisingly, consultants frequently missed the emotional and less tangible aspects of a consultancy experience, which were referred to as the "soft aspects of the projects," "the color commentary from the person involved," "emotions," or "political issues." While consultants who shared the "cognitive context" of a project were able to easily understand, even brief descriptions by framing them within the broader experiential project setting, non-project members lacking project specific interpretative schemas had difficulty relating to the key content of a project from simply reading the documents. Although the 10-page summary written up after each project provided a detailed explication of the core findings and approaches, it generally excluded more contextual information, making it difficult for outsiders to evaluate and contextualize the true nature of the project, as made clear in the following quote:

> After each consulting project, be it two years or two months, we are required to prepare a summary. Spending so much time [with a project] makes it difficult to briefly formulate what was important so that others get a good idea of what we had been doing. If you copy 10 out of 200 pages, upload them as a briefing on the net, then read these 10 pages removed from the context, it becomes difficult for others to understand them in any meaningful way.

Another dimension of missing context that emerged throughout our interviews was related to the quality of artifacts. Although consultants shared project-related documents, methods, and tools, very little effort was made to ensure internal quality control of knowledge artifacts. The artifacts were neither assessed before being uploaded into the computer-mediated system by competence field managers or peers nor evaluated afterward by internal users (consultants). This was quite surprising, since internal and external quality control of client projects played a crucial role in H&P's quality management. However, quality control was not implemented for the computer-mediated knowledge system. With no way to access the relevance, significance, or success of an implemented project in order to decide whether or not to rely on another consultant's experience, consultants have established informal search criteria to acquire a "feel" for these attributes (relevance, significance, success) to help them select the best set of cases, tools, or methods for their own projects.

Lack of Process Knowledge

When entering project information, the consultants rarely included background information that described the activities involved in planning (research) and executing (process) the project or they did not include information about problems encountered, technology choices, and underlying assumptions. While information about the process was particularly useful as a learning tool for subsequent consultancy projects, the consultants who entered the data spent very little effort in describing the process. This could be attributed to lack of time, resources, and space and possibly to difficulties with recollection. Paradoxically, the consultants extracting information from the computer-mediated system viewed the lack of process knowledge as largely impeding the replication of other consultants' successful projects. A managing partner illustrates this:

> In the end you receive a PowerPoint page, which says what we did. I would raise the question, how did you approach this topic? It is not enough to state that we bought a production technique from this and that company. I'm rather interested in the

> description of the methodic leading to the results. But I think that this cannot be covered by an electronic medium.

One cause for the lack of comprehension identified above pertains to a lack of depth and breadth in context. That is, without access to sufficient formal and informal information consultants, even with quite similar educational and experience-based capital, experience comprehension difficulties when relying solely on the computer-mediated system. Interestingly, we noted from talking informally with the consultants that even in instances where they had acquired additional contextual information, providing depth and breadth, their understandings of projects often varied. These differences in interpretations we conjectured were likely to be caused by a divergence in the cognitive frameworks that the consultants applied to the information. We discuss this next.

Alternative Interpretations of Artifacts

In order to investigate the presence of interpretative differences between creators and receivers of the same document, we set up a simple test among consultancy teams at H&P that transmit extensive information through the computer-mediated system. We focused on an electronic 60-page project documentation that is rich in background (i.e., contextual) information, describing the design of a new warehousing and material flow system. We asked a member of the strategy practice group who prepared the document and members of the implementation practice group who are receivers of the document to provide us with their understanding of the content of the document. The strategy consultant who created the document told us that his intention was to present a *concept study*[3] (that links strategy with implementation). From his point of view, his task was to clearly outline the major concepts including different layout and equipment alternatives. In the mind of the strategy consultant the key remaining task for the implementers was basically to execute the recommendations. However, the content of the document to the implementing consultants had a very different meaning. From their standpoint, the content, they told us, was intangible and provided neither a clear guidance as to "key design options" nor important concept details. The content was open to interpretations by the implementing consultants. The existence of divergent perspectives with which these two groups made sense of the content of these documents were reflected by one of the consultants:

> Misunderstandings emerge from those areas that are not documented, but even those issues that are documented are sometimes differently understood by concept planners

> and detail planners [implementers]. Sometimes the detail planners simply understand it differently or apply a different understanding to the issue at hand.

During our research at H&P, the challenge of making sense of computer-mediated knowledge systems became more and more apparent to H&P, too. In fact, after we presented the preliminary findings of this paper to H&P a special committee was created to further investigate the issue. The committee came to the conclusion that the system, indeed, was in need of corrective measures. At the annual partners' meeting in late April 2004, the failure of the system to measure up to its initial aims was officially recognized and became a key topic of the agenda.

In an effort to resolve interpretive conflicts between interdependent consulting teams H&P decided to implement two additional coordination measures. First, consultants who conduct a concept study were asked to organize a "hand-over" workshop during which key data and documents are contextualized and explained in more detail (and informally) to those who have to implement the recommendations. Secondly, H&P introduced mediators to improve the coordination of knowledge transfers between concept planning and realization.

The consultants, all along, felt that the computer-mediated knowledge management system was not sufficient and that it could not be adapted well enough to their needs based on their experiences with the system that were described as frustrating and inefficient. From the interview statements included in this paper, it is obvious that externalizing consultancy expertise in a computer-based repository for future re-use was much more challenging and problematic than originally thought. Given the problems with computer-mediated knowledge transfer described above, H&P's consultants recognized the importance of creating a more informal network that emphasized the production of meaning through dialogue complementing computer-mediated knowledge transfer. We describe this network next.

Social Network-Based Knowledge-Transfer Practices

Historically, knowledge transfer within H&P was based on networks of acquaintances. These networks were cultivated by various formal and informal instruments within an organization that was consistently described as open, communicative, and collaborative. The primary reference group of a young consultant was the initial working group through which knowledge was transferred on a person-to-person basis. This network was extended further through international training programs that brought consultants of equal levels together for intensive "skilling," training, and socialization. These training programs were perceived as very useful for developing network ties used for knowledge searching by dispersed offices. Personal networks were also extended through cross-functional or cross-border project work and international office rotation. Consequently, the longer consultants were employed by a firm, the stronger the personal networks that emerged. Thus, senior consultants were able to draw on a tightly woven network of contacts for knowledge search and transfer. All the senior consultants we interviewed preferred network-based knowledge transfer, and many of them believed that the computer-based repository supported mainly the unskilled junior advisors. A South American office manager illustrated this as follows:

> I think the intranet is good for the younger engineers. The people who have less experience in the company know how to get started ... I guess we higher-level consultants ... should bother for soft aspects.

The social networks often served as an alternative knowledge-transfer system because they provided consultants with measures to interact and ask about issues that are not easily captured by a formalized system. Personal social networks were repeatedly described as superior, especially when complex knowledge (e.g., framings of advisory problems, conditions for the application of tools) was transferred. In particular, we were able to identify three main factors why social network-mediated knowledge transfer was viewed as advantageous to the computer-mediated one. First, consultants felt obligated and committed to respond in greater details to personally articulated inquiries from acquaintances. This resulted in more constructive and problem-oriented assistance. Second, consultants found that personal contacts provided more contextualized knowledge, including consultants' competence, problems, feelings, emotions, political issues, and methodologies. Contextualization was perceived as vital in order to learn from earlier cases and provide instructions for problem solving. Third, the interactiveness of network-based knowledge transfer allowed a dialog-based investigation of issues where consultants jointly framed and reframed new advisory problems, thus enabling brainstorming and targeted advising. Illustrative of this is the following statement by a senior consultant:

> [An acquaintance] gives me advice and helps me to find a possible solution, while [the computer-mediated system] presents only what was done and I still have to find a resolution by myself.

Social network-based knowledge transfer provided a forum for consultants where both consultee and consulter could engage in dynamic exchanges that brought to surface otherwise unarticulated issues that were relevant to the resolution of a project at hand. The network interaction provided unforeseen inputs as well as opportunities to follow leads, which were remained "hidden" from the receiver in the computer-mediated system. Our observation indicates that the network of acquaintances was not only useful for more complex problems that benefited from the collaborative exploration of contextual and procedural information, but also improved the efficiency of computer-mediated knowledge transfer through enhancing the ability of contextualizing documents based on personal experience.

DISCUSSION

H&P is an experience-driven consulting firm with dispersed national and international operations and has the ideal characteristics of a firm where a computer-mediated knowledge management system would improve its consulting practices. Yet, as the case analysis shows, few benefits are materializing, even after years of top management support and extensive consultant training. In the following section, we discuss three core shortcomings in computer-mediated systems designed to facilitate knowledge transfer, and we provide a theoretical explanation for why these shortcomings have been overlooked in knowledge-transfer research. The core insights are as follows: (1) knowledge is embodied and evolves from a co-production between text and the decoder's interpretive frameworks; (2) knowledge artifacts are used for a range of unrelated purposes (inspiration, substantiation, mutual understanding), which may differ from their original intended use; and (3) social networks eclipse computer-mediated systems in facilitating knowledge transfer.

The Embodiment of Knowledge

The claim of disembodiment – that knowledge exists and can be stored apart from a cognizing individual – runs across current knowledge management research (Blackler, 1995; Reihlen, 2003; Spender, 1996, 1998). Yet our case-analysis suggests that even with a high degree of sharedness (practice, background, training), the consultants we interviewed had persistent difficulties in making sense of one another's computer-mediated artifacts, leading to either miscommunication or a creative but unrelated use of the information. The contextual information deemed relevant and important for conveyance of a consulting experience differs from individual to individual and is based largely on the conceptual framework within which consultants operate. Current research approaches are largely inattentive to the influence of individuals' interpretive framing. Moreover, as computer-mediated knowledge systems typically function in decontextualized discursive environments even when users become aware of such discrepancies few, if any, opportunities exist for the involved parties to clarify the implicit as well as explicit meaning intended in knowledge transfer. Shore (1991) addresses the importance of personal interaction, when arguing that meaning construction involves the perpetual encounter of meaning-seeking subjects and a culturally conventionalized object-world (also see Bunge, 1998). The challenges involved in establishing intersubjectivity are well documented in research within psychological anthropology (D'Andrade, 1993; Lutz, 1988), social psychology (Gergen, 1994; Resnick, Levine, & Teasley, 1991), cultural psychology (Shore, 1991), social linguistics (McClamrock, 1995), sociology (Goffman, 1974), and communication studies (Carey, 1989). Building on this literature and on our findings, we argue that current investigations of the efficiency of computer-mediated knowledge transfer misidentifies knowledge-transfer breaches as attribute-based rather than due to divergent cognitive frames among meaning-seeking individuals. The lack of attention to these frames may be a result of their tacitness; they appear wholly natural and transparent to the individual – as if they were obvious facts of life (D'Andrade, 1993; Polanyi, 1966). This lack of immediate awareness among users of computer-mediated knowledge transfer systems may have misled researchers to primarily focus on protocols, training, etc. as culprits in ineffective computer-mediated knowledge transfer systems. What remains largely overlooked is that artifacts do not carry their own decoding strategies, that is, meaning can never be assumed to be obvious from the data itself but always rests within the meaning-seeking individual. For knowledge transfer to be successful information cannot be understood in absence of the cognitive background of both sender and receiver – a requirement that computer-mediated knowledge systems were not and cannot be built to accommodate.

The Production of Meaning from Artifacts

In our case study, we see how H&P consultants had to resort to extensive, informal, and personal interaction to reconstruct the intended meaning to understand what the encoding (information-entering) consultant had in mind. This challenge is only somewhat lessened when the consultant (entering the data) is careful to include descriptive narratives of the experiences surrounding a consulting project. Alternatively, other consultants preferred to use the information for creative and inspirational purposes whose overlap with the intended meaning was purely coincidental. The latter consultants, ironically, were the ones who expressed most satisfaction with the system. While both approaches (reconstructive and creative) may appear opportunistic in character, they are theoretically explainable.

The *creative use* of artifacts suggests that any interpretation is equal in merit as long as it serves the decoder's purpose. This "egality" is explained by Derrida (1976) in his *de*constructionist theory of text interpretation because text (information), or in a broader sense, knowledge artifacts, allows a variety of possible interpretations that have to be viewed as equal in merit. According to this theory, the understanding of artifacts in a computer-mediated system cannot be assumed a priori and inevitably leads to a plurality of variants, each interpretation equal in terms of plausibility and justification.

The attempts of several consultants to reconstruct the intended meaning (before resorting to a creative use of the data) reflect an approach that differs from Derrida (1976) because these individuals were seeking (albeit unsuccessfully for the most part) to remove the ambiguity of the meaning of artifacts. We refer to this type of meaning production as *reconstructive interpretation* – a process that is committed to a rational analysis of statement contents in the wider context of authorship (Rescher, 1998). The effort to sieve through plausible explanations and derive the most reasonable one based on the available context addresses Weber's (1922) early argument that the meaning of communicative efforts is not necessarily omnipotent but is constrained by reason and normative rules that encourage individuals to assign a degree of plausibility to potential interpretive outcomes (see also Bunge, 1996). Rescher (1997, 1998) also explored this objectivist concept of the evaluation of meaning in his reconstructionist theory of text interpretation, in which rationality is considered the tool to understand the thought worlds and positions of others with whom we have communicative contact.

The core idea of Rescher's (1998) rational analysis of statements is based on the principle of contextuality which, in turn, is predicated on two theses. First, the ultimate idea of interpretation is geared toward finding the best possible meaning of a text. Second, optimizing interpreting practices is best achieved when the whole range of hermeneutical factors, such as context and authorship (reputation, power, experience), are enumerated. Although context can be treated as yet another text open to interpretive representations – additional information serves as mediator with which individuals can home in on one another's mindset. From this perspective, context is considered essential as point of reference, both enabling and confining the interpretive possibilities.

Our case findings demonstrate that a contextual coherence of information is vital for the *reconstruction* of knowledge and consultants effort to understand other consultants' projects. When consultants relied entirely on the computer-mediated knowledge system, the reconstruction process was largely impeded. As a result, the consultants developed alternative and informal routes for acquiring contextual information, which they variously referred to as "soft information," "color commentary," "political relations," "reputation," and "experience." While vaguely conceptualized in the minds of the consultants, these cues were essential for their ascertaining of the content and relevance of other projects. The personal character of these cues makes them difficult to capture in a formal vocabulary, protocol, or computer-mediated data environment. Even what constituted as relevant features in ascertaining the reputation of the information-entering consultant was difficult to codify and formalize.

When looking at these activities from current theoretical perspectives, we see that the positivist approach is largely unable to account for both the creative and reconstructive efforts practiced by the consultants. With the meaning presupposed to be evident from the text, the presence of creative and explanatory reconstruction processes by consultants easily becomes seen as derived from technical shortcomings or lack of factual knowledge (training, experience, and education). Similarly, the social constructionists' assumption of the presence of shared rules of signification among co-practitioners (in organizational settings) leads to the argument that any breakdown in the computer-mediated system must stem from inadequate job rotation, lack of sharing of tools, and insufficient teamwork. However, based on our case analysis it appears difficult to garner support for seeing organizational practices as sufficient for establishing shared cognitive frames among the consultants. The social constructionist researchers' investigation of knowledge as "networks" and practice as "meaning-carriers" is insufficient in theoretically explaining what it takes for knowledge transfer to be successful and especially why computer-mediated knowledge transfer is likely to suffer.

The pluralist approach, which argues that meaning production is bound to be multifold because of the presence of differing interpretive frameworks, appears to be better at avoiding the theoretical shortcomings of the other two perspectives. Yet, even the pluralist position falls short in providing a fulfilling theoretical answer as to why consultants who share experience, training, and practice communities feel they have to invest time and effort into the reconstruction of meaning of codified data. From the pluralist position, such efforts are only necessary for consultants who move between interpretive communities – which is not an issue here, since they all belonged to the same community. The pluralist position would not fare much better when trying to explain consultants' creative use of information since, from a pluralist position, interpretive strategies are bounded by (disembodied) discourses and practices all of which suggest that creativity is an accidental outcome of inadequate training, practice, education or, alternatively, is the result of a particular perspective within a dominant discourse, in which case we cannot make sense of individual creativity, per se.

Reflective Conversations

The literature on professions argues that advisory problems represent "wicked" (Mason & Mitroff, 1981; Rittel, 1972) or "multi-context" (Kirsch, 1988) issues that require professional judgment (Abbott 1988) and reasoning (Toulmin, Rieke, & Janik, 1979). The complexities facing consultants necessitate that the professional advisor be a thoughtful practitioner who tries to establish knowledge-in-practice through reflective conversations that stimulates reasoning (Schön, 1983). H&P's consultants saw these reflective conversations as vital to their exploration of the contextuality and particularity of earlier cases with fellow advisors as carriers of local case experience. The exchange of complex knowledge, as our findings indicate, could not be easily facilitated through traditional computer-mediated means.

At H&P, the consultants had to switch to social network-based knowledge-sharing practices. This allowed them to engage in participative construction and negotiation of meaning, which provided them the opportunity to compare their own clients' problems with other consultants' experiences in prior projects in order to comprehend the proper application of tools and explicate tacit background assumptions. In short, a dialog was necessary to enrich consultants' understanding of other consultants' meaning structures.

Deetz (1992) explored the challenges involved in dialogue in accordance with Gadamer's (1972) theory of hermeneutics and Habermas' (1981) theory of communicative action. Both theories claim that understanding is best established when participants have adequate and equal opportunities for placing questions, expressing claims, or stating interests during communicative interactions. Accordingly, in order to embrace others' points of view, consultants have to collaborate and coordinate conditions for interpersonal communication that allow for the conveyance and explication of tacit knowledge and taken-for-granted assumptions (Brown & Duguid, 2001; Polanyi, 1966). Deetz (1992) also addresses this point when explaining that conversation is what drives the process of creating mutual understanding and helps establish the conditions of future unstrained formation of experience. We see how consultants intuitively engage in such activities and social networking becomes an expression of communicative theory in action; yet this fundamental aspect of human interaction remains uninvestigated and unaccounted for in current knowledge-transfer research.

Facilitating the negotiation of meaning, which is crucial for the transfer of complex knowledge, was not well supported by H&P's computer-mediated system. Although fragments of local knowledge were captured and stored as cases, methods, and tools in the computer-mediated repository for future relearning, these artifacts were useful for consultants only when their interpretation was simultaneously negotiated through social networks. Although the computer-mediated system could convey raw facts (Searle, 1995), such as prices, product attributes, address data, and fee income, the system was unable to communicate underlying points of view or interpretative schemes, which turned out to be integral to the understanding of the proper use of artifacts.

Our case findings provide a rather sober picture of computer-based systems as repositories of knowledge and experience for future use. From the consultants' point of view, the choice between engaging the electronic or the social knowledge-transfer system was obvious to them; they ended up more or less abandoning the computer-mediated system and focusing on informal social networks that allowed for a reflexive interaction with other consultants' frames of reference. Electronic knowledge transfer only worked when the meaning of artifacts was simultaneously negotiated through social networks.

CONCLUSION

While the current debate about computer-mediated knowledge transfer for professional service firms asserts that these systems can effectively capture and diffuse expertise throughout an organization, even on a global scale, few case studies exist that explore this claim in detail. Our case study of an experience-driven consulting firm – an environment in which one would expect to identify great benefits of knowledge codification – provides insights into the pitfalls of computer-mediated knowledge systems as well as theoretical reasons for why such pitfalls have evaded current theoretical perspectives. We see a great need for future research to creatively engage in approaches that investigate the influence of cognition and social factors in the transfer of knowledge. The understanding of computer-mediated knowledge transfer constitutes an important area of scientific and technological research and any study remains incomplete without the consideration of knowledge as constituted through and through by the interpreting mind (i.e., cognition).

NOTES

1. To maintain the confidentiality of the firm, we have changed its name and some key data.
2. A fourth category – client exchange – emerged, but it did not play a role in internal knowledge management practices.
3. The implementation of new infrastructure ideally follows four different steps starting with developing a new strategy, conducting a concept study, carrying out a detailed plan, and implementing the infrastructure in the client organization.

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MARKETING MARKETING: THE PROFESSIONAL PROJECT AS A MICRO-DISCURSIVE ACCOMPLISHMENT

Peter Svensson

ABSTRACT

This chapter provides an ethnographic account of the interaction between a professional marketing consulting firm and its client. The interaction is analysed as a 'narrative archipelago' or complex of discursive practices by which professionalism is constructed. In this case three narratives predominate: the narrative of instrumental reason, of neo-liberalism and consumer protection. The analysis demonstrates the microprocesses by which wider concepts of professionalism are recreated in daily interactions between professionals and clients.

INTRODUCTION

The Problem of Trust and the Symbol of "Professionalism"

It is hardly an exaggeration to say that marketing, both as an academic discipline and a business/management practice, has for long been looked

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upon with a great deal of suspicion and repugnance (Willmott, 1999; Chalmers, 2001), both regarding its management relevance and its wider, societal consequences. This is a fate marketing services share to some extent with management consultancy services in general (Alvesson, 2004; Clark & Salaman, 1996; Fincham & Clark, 2002; Jackson, 1996). The production of management advices is oftentimes accused of being manipulative (Jackson, 1996), common sensical (Guest, 1990) as well as unsubstantial and rhetorical (Legge, 2002; Clark & Greatbatch, 2002).

Given this, the production of trust and credibility becomes a paramount task in the marketing of marketing services. One mode of achieving trust, to overcome uncertainty, can be by means of laying claims to professional competence (Alvesson & Johansson, 2002). "Professionalism" then operates as a symbolic currency that certifies the trustworthiness of the promises made by marketing consultants (cf. Alvesson, 1993).

However, marketing and management consultancy can be conceived of as little more than a psuedo-profession when juxtaposed to a list of traditional professional attributes, such as: formal and standardized education, a defined and shared knowledge base, a regulating code of ethics, certification criteria and social sanctions. Marketing consultancy does not enjoy the kind of formal jurisdictions and credentials as do lawyers and doctors. Neither does it rest upon a firm body of esoteric expertise knowledge. Moreover, the knowledge put into use in the exercise of consultancy work is often suffers from a great deal of public suspicion. I think it is fair to say that the professional project, as Larson (1977) has described it, has in the case of marketing consultancy hitherto been less than unsuccessful.

However, if a less static view on professionalism is opted for, one that pays attention to the social and cultural foundations of the phenomenon of "professionalism" (e.g. Freidson, 1970; Becker et al., 1961), a different picture emerges. The professional status of an occupation is then, rather than a question of the inner features of the occupation, a phenomenon constructed, reproduced, maintained as well as challenged in everyday social interaction.

A substantial volume of work on talk and texts in institutional settings has brought into the limelight the interaction between professionals and clients as a consequential site of production and reproduction of professional status; for instance: through diagnosing (Agar, 1985; Heath, 1992; Maynard, 1991a), questioning (Silverman, 1987; West, 1984), consultation (Atkinson, 1995; Heath, 1982) in the doctor–patient interaction, through the construction of "discreteness" in the psychiatrist–patient interaction (Bergmann, 1992), and through challenging and mystifications in the interaction between lawyers and their clients (Bogoch & Danet, 1984). It is my contention that these local, everyday encounters between the professional and his/her client, make up the primary mould from which the professional project can start to grow. In a sense they constitute what Atkinson (1995, p. 31) calls the ''microcosm'' of the distribution of knowledge and power arrangement in society.

This chapter is an attempt to contribute to a phenomenological understanding of professionalism that acknowledges its coming into presence within the mundane interaction of everyday work. This ambition will be pursued by means of an exploration of how professionalism is being symbolically constructed and negotiated in a concrete micro-anchored social interaction between a consultant and a client. ''Professionalism'' is thus conceived of, not only as a resource (cf. Alvesson & Johansson, 2002), but also, and perhaps foremost, as an *accomplishment* of marketing consultants in their everyday work (cf. Maynard, 1991b; Ten Have, 1991; Travers, 1997).

The object of study in this chapter is an interaction between a marketing consultant at B&B consultancy firm and his potential client, DigitalTV. DigitalTV is a producer of fairly sophisticated technical products. In terms of power relations, this is a particularly interesting situation of professional service production in that the clients themselves can be said to enjoy, or at least lay claims to, professional status, albeit within a different occupation. Compared to the professional–layman relation, e.g. between a doctor and his/her patient, or a lawyer and his/her civil client, the consultant–client relation can be considered a more equalised one. This is not to suggest that the relation is symmetric per se, independent of the various local encounters between consultants and clients (cf. Maynard, 1991b; Ten Have, 1991). Rather, the asymmetry/symmetry of a professional–client relation should be conceived of as being produced and reproduced in interaction. It is in this case therefore perhaps more fruitful to talk about a relative predisposition or expectancy of asymmetry, that frames the interaction and render the accomplishment of professionalism more problematic for the consultant who:

> … must tread cautiously, for he must forbear his possibly customary practice of mystery and meaningless charade. His professional counterpart [client] will be able to translate his own impressive display of esoteric and possibly irrelevant knowledge and grow impatient. (Moore, 1970, p. 102)

In other words, the encounter between consultant and client can be seen as a face-threatening situation (cf. Kruse & Thimm, 1994, p. 221), a situation wherein the consultant can anticipate confrontation and resistance when it comes to his/her professional aspirations.

THEORETICAL FRAME OF REFERENCE

In terms of theoretical basis, I adhere in this chapter to the language sensitive social psychology advocated by, for instance, Edwards and Potter (1992), Potter and Wetherell (1995), and Shotter and Gergen (1994), as well as to the Critical Discourse Analysis (CDA) of Fairclough (1992, 1995). The importance of discourse, i.e. the use of language conceived of as a social practice, in the construction and maintenance (*and* subversion) of the social reality (thus including the categorisation of material reality) is thereby strongly emphasised. "Professionalism" is hence understood as an *outcome* of discursive activity, in conversations, media, meetings, popular culture, and so on and so forth, rather than a prerequisite for the latter.

Furthermore, CDA, according to version proposed by Fairclough, aspires to incorporate in the study of micro-level language use the wider socio-cultural context in which discourse takes place (Fairclough, 1992). In order to mediate between micro-social life and macro-sociological reasoning, or between agency and structure, Fairclough suggests the discourse analyst adopt a three-dimensional understanding of the study object "discourse": discourse as (i) text, (ii) discourse practice, and (iii) socio-cultural practice. The "text" refers here to the inherent features of the outcome of talking and/or writing, such as vocabulary, grammar, text structure, whereas the dimension "discourse practice" pays attention to the modes in which a single discursive event (a text) is put together, by the actors drawing upon different rhetorical resources. "Socio-cultural practice" is the notion used by Fairclough in order to take into account the wider cultural and institutional order within the boundaries of which the local text production is undertaken. One of the assertions of CDA is that language use in everyday life is invested by wider states of power relations in society. The latter is thus both observable in, and reproduced by, micro-discursive activities. The dimension of "discourse practice" is the mediating link between local discourse and the macro-institutional order.

METHOD

This chapter departures from an observation of a one and a half hour meeting between a marketing consultancy firm (B&B) and a potentially new client of theirs (DigitalTV). The methodological approach opted for may be referred to as "situational focus", according to which:

> A particular situation – a meeting, a job interview, a spontaneous encounter, an event, a decision process, a problem or a task delimited in time and space – rather than

> stable behaviour patterns, attributes or traits is the focus of study. (Alvesson & Deetz, 2000, p. 201)

In my view successful attempts that may fall under the label "situational focus" comprise the studies of a breakfast meeting (Rosen, 1985) and a Christmas party (Rosen, 1988) at an advertising agency, and an information meeting at a company (Alvesson, 1996). Focusing upon a single situation involves a relatively close-up and minute interpretation wherein details, such as choice of words, order of speaking, grammar, and metaphors, are given serious attention. In order to get some insight into the everyday work and micro interaction involved in organisational life, at the same time as one is writing under the constrains of presenting an intelligible account, a situational focus is very fruitful. Heterogeneity and inconsistencies becomes more interesting than broad, overriding patterns if a specific situation is brought into the researcher's limelight. Moreover, when concentrating the interpretative efforts to a relatively well-delimited situation – in my case: a single meeting between a consultant and a client – micro and macro levels of analysis, social agents and structure, text and context find their nexus (cf. Alvesson & Deetz, 2000, p. 201).

This is not to say, however, that the meeting presented is the only empirical material collected in the research project upon which this chapter is based. What is presented here is part of a larger study of marketing work, in which the everyday work at a Swedish advertising agency and a marketing consultancy firm (here referred to as B&B) was investigated. In total, the empirical material comprised 20 observations of internal work meetings, client meetings and project leader meetings, 20 interviews, a seminar and a media industry bar evening, and 15 or so informal conversations. This research project is presented in Svensson (2004).

The meetings were observed by me assuming the role of what Hammersley and Atkinson (1983, p. 96) called "observer-as-participant". I did not participate in the meetings but intervened only insofar as I was addressed directly by the meeting participants. As the clients and at times also the consultants experienced the meetings as dealing with sensitive and to some extent confidential matters, I was not allowed to tape-record the meetings. However, extensive field notes were taken during the sessions. These notes were transcribed immediately afterwards into fairly detailed accounts, and I soon realised that if these transcriptions were made within a short period of time after the observation, the levels of details would increase dramatically. Since I spent full working days at the consultancy firm during my field work, I also had the opportunity to return to the consultants and ask them about specific details concerning the meetings.

It should be noted that a transcription is anything but a neutral representation of the world. "To transcribe", says Bourdieu (1996, p. 31), "is necessarily to write, in the sense of rewrite", and indeed a transcription is very much a violent mirror that frames and disciplines unbounded social interaction. Even the, at a superficial glance, most simple and seemingly monolithic event can be described in numerous ways. Different aspects and dimensions can be emphasised depending upon what the purpose of the observation is. What has been included and excluded in my transcript and edition of the meeting presented and discussed in this chapter, hence, is to some extent a product of my research focus and interest at the moment of the meeting, the nature and complexity of the meeting (e.g. fast talking, interruptions, etc.), my concentration during the observations, cramps in my hand muscles and so forth. Thereby, observation transcriptions amalgamate fiction and social scientific writing (cf. Watson, 2000).

The remainder of this chapter is structured as follows. In the next section, a fairly detailed account of the meeting between B&B and DigitalTV is presented in as "raw" a format as possible. In the following section I offer some interpretations of this event. Following Fairclough (see above), these interpretations operate at two levels: the textual level and that of discourse practice, i.e. the discursive resources put into action at the meeting. The discussion is subsequently elevated to a higher level of analysis (socio-cultural practice), and brings into consideration the wider institutional order – what I refer to as *the narrative archipelago* – in which, I will argue, the meeting is embedded.

THE MEETING

Dramatis Personae

Anders, a marketing consultant at B&B consultancy agency
Mary, a project manager at DigitalTV
Susanne, an employee at DigitalTV
Ann, an employee at DigitalTV
Karin, another employee at DigitalTV
Peter (the narrating "I"), a PhD-student undertaking fieldwork for his dissertation

The e-mail icon on the computer screen indicated an incoming mail. In spite of feeling a bit hungry and being on his way to lunch, Anders, a

25-year-old consultant at the marketing consultancy firm Bodenfors & Behrenstam (B&B), opened up the mail and read that a Susanne Andersson, employee at the corporation DigitalTV, was interested in receiving some information about a study regarding buying behaviour on the Internet, that she had come across in an article in Business Magazine. The article carried the headline: "This is why the e-commerce companies fail: Too much focus upon Internet and too little on the customers". The initial part of the article informed the reader that:

> The e-commerce companies forget about the customers when they are writing their business plans. That is why companies such as Web-Books and Netshirts[1] did not function. The companies dealing with e-commerce between corporations run the risk of facing the very same thing, and this is a fact that many investors have not realised.

The article described a study co-conducted by B&B and BIG Business School, in which 1,400 Swedish people, between the ages of 18 and 65, had been interviewed in this study according to the article, concerning their consumer habits on the Internet. One of the conclusions that were drawn in the study was that customers tend to be neglected when the e-commerce companies place too much a focus upon the "e" in e-commerce. Susanne suspected that this could perhaps be something of relevance for DigitalTV. DigitalTV was a one-year-old company that had just finished the development of a so-called "TV-portal" that would enable various forms of interactive TV-viewing. The time had now arrived to release the product, and in due order a marketing plan was to be put together. The study reported in the article seemed to be a fruitful starting point, Susanne thus decided to contact Anders and B&B consultancy firm. After some rounds of e-mail correspondence, a meeting was arranged at which Anders was to present B&B and the study they had conducted.

(1)

Quarter to nine, at the day of the meeting, the taxi that at the moment was about to fulfil its task of carrying us to DigitalTV's office building halted, and we exited the vehicle. Anders was smartly dressed in a black, immaculate suit, a white shirt, a discreet, yellow tie and elegant black shoes. Susanne met us by the door on the third floor and she showed us to the conference room wherein today's meeting was to take place.

When all of the four DigitalTV representatives (Susanne, Mary, Ann, & Karin) had arrived, Mary, the project manager, defined the meeting as opened. 'Perhaps we should begin with some short introductions of each other', she suggested. We all agreed and after having done so, Mary embarked on presenting DigitalTV. It started just one year ago, she taught us, by three persons. Today the company employed some 60 persons, and the next year, Mary continued, not without a glimpse of pride in her voice, the staff would amount to about 80 persons. The product that was going to be introduced and marketed – and that was the one that brought Anders here – was a certain kind of digital TV-box which could be connected to a plain TV-set. This box would enable interactive TV-viewing, such as voting for the best player in a football game or the best song in the national song contest.

'Important', Mary concluded, 'is that our product doesn't mirror the Internet, but reflects what our end consumers want and demand. We don't know yet; we are not there at the moment. We are at present time setting up a market plan'.

(2)

Anders was the next speaker on the list, and he started to make his presentation of B&B and the study referred to in the outset of the e-mail correspondence. He described the history of B&B, its areas of expertise (marketing, strategy, and information technology) to his audience. While talking, Anders displayed PowerPoint images on the white wall behind him, images depicting historical moments and the various services offered by B&B. Karin all of a sudden disrupted Anders and explained that it was the *study* that she was interested in, whereupon Anders continued to the next PowerPoint picture, which summarised the areas of interests that Susanne had expressed in the initial e-mail correspondence with Anders.

'This is what you wished to know', Anders said. 'I will help you somewhat on the way there. The study is very broad, deals with buying behaviour in general, and I would never make use of the conclusions from this study on your specific customers. Then things can go very wrong'.

Karin barged in: 'How large was the study?'

'Thank you for that pass', Anders replied rapidly and showed the next PowerPoint picture:

(3)

This is how we did it …

Three qualitative studies
Quantitative study: 1400 phone interviews with people, 18–65 years old
Internet experience without importance
Questions concerning buying behaviour today and in the future

'In other words', Anders said, 'we didn't take into consideration whether or not they were on the Internet, and we asked about attitudes'.

'Did the study deal with what the consumers were lacking?' Karin wondered.

Anders displayed some hesitation: 'Hmm, you know, we as consumers are very complex. This is really a complex matter. You as a consumer behave differently. That is why it is important for companies to find out what precisely *your* customers want. You should not be interested in everybody'.

(4)

Anders approached the computer, pushed the enter button, and continued: 'Here is a quotation that we have used since the 1980s. Anders read it out aloud:

> A bloody inconvenience ...
>
> In too many organisations the customer has become a bloody inconvenience, whose unpredictable behaviour destroys minutely worked out strategic plans ... and who is stubborn enough to insist that the products that have been bought should work.

The four women laughed vividly after Anders had concluded his verbal performance.

'This is exactly what Web-books fell short of', Anders added. 'But, of course, the customer doesn't always know what it wants'.

Karin, displaying a clear sense irritation, wondered: 'But, did you find any pattern or anything? Otherwise, it is of no use'.

'Yes, absolutely. We found several patterns. There is more than one pattern you see; this is a very complex matter'.

(5)

Almost as if it were anticipated by Anders, the next image carried the title "We are all different". The picture showed a crowd of people, photographed in the street, and six arrows pointing at six different persons. Each of the arrows was assigned a label connoting what Anders referred to as consumer types: "price hunters", "lonely", "spontaneous", "picky", "planned" and "conservative".

'We have identified six types of consumers in Sweden', Anders explained. 'At this point I usually show this Mr. Bean-video. You know, the one when he is shopping in the store. Have you seen it?'

'I have', Ann replied. 'That is so funny'.

'Yes, isn't it?' Anders agreed. 'In that movie, Mr. Bean is all of the six types, isn't he? He is walking around in the store, comparing frying pans and stuff'. The DigitalTV team nodded, indicating that they had got the point.

(6)

A new picture, delineating a bell-shaped curve, a so called "diffusion curve for innovations", emerged on the white wall behind Anders. The curve was divided into the following segments:

Five consumer groups identified:

Innovators – 5%
Early adopters – 16%
The fast majority – 31%
The late majority – 37%
Laggards – 11%

'I have a friend who is an innovator', Anders said. 'When the Internet arrived he was there, in the front, surfing although the net didn't contain anything. The first day he got access to the Internet, he sat up surfing all night although there was hardly anything on the net, and although it was rather tricky. I believe that this model (he knocked on the monitored curve behind him) applies to the Internet. I am myself an early adopter. I enjoy new stuff rather much, but I am not as brave as the innovators are'.

'But we want to approach those who *don't* use the Internet', Karin pointed out.

Anders turned to the image. 'Yes, they are *here*'. He pointed at the segments "late majority" and "fast majority".

'You think a focus on these groups is needed if our business plan is to work?' Mary wondered.

(7)

Anders nodded. 'Yes. You cannot shoot broadly. History has shown that that doesn't work. You must decide whom you want to serve'.

'Is it possible to', Mary started. 'I mean ... by means of lowering the technical barriers, flattening the curve?' [she looked in the direction of the displayed diffused curve and then at Anders].

'No, not to flatten, but to increase the pace. That is the very purpose you see. If we try to locate DigitalTV today then ...' A new picture entered the whiteboard. It read: "How far has DigitalTV come today?" The picture was the same diffusion curve as the previous one except for one detail: a vertical red line that had been added to point out where DigitalTV's product was positioned, at least according to Anders' estimation. The red line was drawn in the midst of the category named ''early adopters''. 'I am not sure', Anders said, 'but I think you are here somewhere. But I am not sure'. He carried on. 'These people over *here* [he pointed at the segment ''laggards''], they are far, far away'.

'How long will such a study take?' Karin then wondered, referring to the study written about in *Business Magazine*.

Anders contemplated for a second or two. 'What takes time is the data collection'.

'Yes I see, but few people know what they need regarding our product', Karin said.

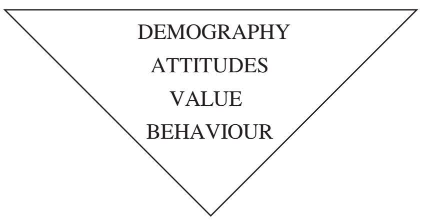
'In that case focus group interviews are recommended', Anders suggested.

'The question then is how relevant focus groups are in relation to the great mass isn't it?' Karin wondered.

(8)

Anders thought for a while. 'Here it is possible to do things in a number of ways. You can analyse what you know about people's behaviour. Then you can calculate the probabilities with regard to a particular consumer behaviour at the individual level'.

Anders turned to the whiteboard, grabbed a red pen, and started to draw a triangle turned upside down, subdivided into four horizontal parts named: ''demography'', ''attitudes'', ''value'', and ''behaviour''. The model was most likely to be interpreted as some sort of grading scheme as to the knowledge about consumers that one possessed. It looked something like this:



'It is always better to get information about this', Anders said and hammered with the pen on the segment ''behaviour''. He hesitated for a short moment, turned around and pointed at the category of ''value''. 'If I were you, I would enter here'.

'Ok. And values; do they have any relation to the six types you were talking about earlier?' Karin wondered.

‘No’, Anders answered.

‘You change during life, right?’ Karin suggested.

‘Yes. A lot of people use customer panels that you can return to regularly in order to follow changes. What you must do is to find out what is *your* need of knowledge about your customers. “Nice to know”; forget it! I mean, we could have sent you our entire report, but that would just have been “nice to know”’.

Anders paused for a moment, cautiously observing the reactions he might have produced. ‘Moreover, these things are very complex. Or you merely guess’.

‘Expensive’, Karin said.

‘Yes. Can be bloody expensive’, Anders replied.

(9)

Anders presented a new picture describing the, within basic marketing textbooks and courses so frequently referred to, AIDA-model.[2] The AIDA-model presented here at this meeting, however, also included the letter “S” that most probably signified “sale”. The headline of the PowerPoint creation had been formulated as “Prominent barriers”, which referred to the thresholds that according to Anders existed between the different phases in the buying process.

‘Have you ever seen this?’ a subtly smiling Anders asked his audience, and nodded in the direction of the image on the wall:

Prominent barriers

A	Insecurity must be removed
I	Clear value
D	Must be simple
A	Channel mix is often necessary
S	Must keep one’s promises
Innovators	Early majority laggards

Everyone except Susanne recognised the AIDA-model. Anders briefly explained to Susanne what the model aimed at delineating. ‘In any event, this is the buying process’, he concluded his mini lecture, after which he turned to the rest of the assembly. ‘Here we have studied three groups; how far they have come within the AIDA. Speaking of driving forces, I have a partner at work who attended a dinner once. During the dinner a lady told him that she had made some purchases on the Internet recently. The very first thing my partner did, when arriving at work the next day, was going out on the net to do some shopping. Just to be able to take part in the conversation.

So, there are many things driving the consumption behaviour. It is very complex'.

(10)
"The travel industry: the winner of the year" was the headline of the next PowerPoint image that Anders delivered to the potential client of his. The image was a summary, in the form of a pile diagram, of the development of various industries' e-commerce between 1999 and 2000. The diagram informed us that the industry that had increased its e-commerce the most last year was the travel industry.

'Here is some of what was bought last year', Anders commented on the picture. 'As you can see, all industries grow; travels grow most rapidly. This is really not very strange since it is here where you can find the largest customer value. I mean, you can't test the hotel room on the site, right? The customer value is important. If you have a real customer value, then you can also charge the consumers for it'.

Karin was apparently of the same opinion as Anders. She nodded intensely. 'Yes, exactly', she said.

(11)
Anders, being steamed up at the moment, continued to talk about customer value. 'Let us return to Mr. Bean. Why did he buy all these things he did in the movie? Did you notice the way in which he flashed his American Express card all the time? He was proud of it, compared it with other people in the line. What drove him to that purchase? I think it was the American Express card'. Anders paused. 'Ok. Back to the Internet again. The reason to shop there is that it *is possible* to do so. It is hence not only the rational reasons. You have to understand your customer, so you won't do the same mistake as FACIT. They produced the best typewriters in the world, and most likely they still do, but no one wants typewriters any longer. That is: you have to understand what customer value is. At a focus group interview I conducted once, there was this guy who answered the question "why do you do your purchases on the Internet?" like this: "To get a parcel."' The DigitalTV team members nodded jointly. 'Yes, precisely', someone said, and Anders continued. "What do you mean?" I said. "You know what is inside, don't you? It is not like it is the greatest surprise in the world, is it?" I mean, it is like opening a package you have packed yourself. But when I started to ask the rest of the group it appeared that everybody agreed. People started to nod around the table. There is a childish amusement related to the opening

of parcels, and I understand it … I really do'. A delighted humming spread around the table.

(12)
'Ok', Anders broke off. 'What determines the e-purchases then? This is very dependent on what kind of products we are looking at'. Next image, endowed with the title "Low prices determine the e-record purchases", came up on the wall. A set of figures was presented that depicted different "driving forces" behind the consumption of records on the Internet.

Anders let us reflect a while on the numbers presented before he started to explain. 'The most important reason for buying records on the net is, as we can see here, that it's cheaper. Actually, three marketing strategies would be needed here: One for those who think it is cheap, one for those who think it's convenient, and one for those who think it is a unique thing'.

The four DigitalTV employees took notes strenuously and nodded as Anders spoke.

(13)
Anders' presentation had now reached its final, and he wondered if the audience had any questions. Before deciding whether or not to hire B&B, Karin wanted some witness statements from other companies that had had similar studies conducted by B&B.

'You mean references?' Anders asked.

'Yes'.

'Well, that shouldn't be any problem. Shall we meet again?'

'Yes. Perhaps that is a good idea. Have you ever done anything for a TV company before?'

'Yes'.

'What company?'

'I don't know if I can tell you'.

'Is it a completed work?'

'Yes, it is completed'.

Karin smiled.'And you don't know if you can tell me? Perhaps it wasn't a well done job?'

'Yes it was. But I have to check with them first, before I can say something'.

'Ok. I respect that'.

After this dialogue the meeting had come to its end. Anders collected his things, put on his jacket and shook hands with the four women. I did likewise, and together Anders and I left the meeting room.

'These things are easy to sell', Anders whispered to me on our way to the taxi waiting outside the office. I nodded solemnly as if I agreed, and asked him if this meant that he was satisfied with today's events. 'Oh yes', he replied as we entered the taxi waiting for us to bring us back to the down town office. From my position in the backseat, I could observe him in the rear view mirror and he did indeed look as if he were satisfied.

SOME INTERPRETATIONS

In the interaction delineated above, a vast array of constructions, resulting from the talk and discussions, emerge. Taken together, these constructs constitute what I elsewhere (Svensson, 2004) have referred to as a "marketing scene", that is to say, a collection of conceptions, categories, world-views, and everyday knowledge about the world marketing practitioners are experiencing in their day-to-day work. A marketing scene resembles much what ethnomethodologists would call a "social order", i.e. the mode in which social reality is organised, classified, categorised, and made sense of (Atkinson, 1988; Boden, 1990; Garfinkel, 1967). All activities require a scene upon which they can be performed, a scene that directs the flow of activities, makes them comprehensible, in effect, renders them actionable. Marketing work is consequently contingent upon a marketing scene that offers, to borrow from Goffman, an answer to the marketers' wonder "what is it that is going on here" (Goffman, 1974, p. 8). The marketing scene thus defines the situation (cf. Shibutani, 1962) in which the marketing "professional" is to produce his or her services. It depicts some problems as important while others are disqualified as obsolete, some solutions appropriate whereas others unsuitable. In short: The existence and being of "the marketer" presupposes the presence of a marketing scene upon which he or she can act.

One aspect of such a marketing scene, and the one I intend to discuss in this chapter, is professionalism or, if you like, professional legitimacy, which can be crucial for the marketer's self conception as well as – which has been argued for above – for his or her efforts to market the marketing services. I will in this section explore and illustrate how a sort of professional legitimacy is pursued discursively, by way of employing various discursive resources, different *marketing scene repertoires*, the drawing upon which enables as well as constrains the interaction during the course of the meeting.

Stemming etymologically from Latin's *repertorium* ("inventory", "list"), the term "repertoire" connotes a list or a supply of resources, devices, and skills that are accessible for usage in various practices, such as e.g. theatre, opera, sports, different professions, or language use in general (Potter, 1996; Potter & Wetherell, 1987). A repertoire is thus not necessarily compelling per se, but rather a part of an offered set of resources that can or cannot be utilised for different purposes. On the other hand, the size of the supply, which is to say, the breadth of the repertoires, together with socio-cultural circumstances, regulates the "free" consumption of resources.

More specifically, *marketing scene* repertoires are to be understood as different ideal type (cleansed) modes of framing, different ways of conceptualising, different options of talking and writing about marketing work (cf. Potter & Wetherell, 1987). First, marketing scene repertoires *frame* marketing work in different ways as they carve out and focus upon specific aspects of the work while obscuring others. Second, the repertoires *conceptualise* marketing work in various ways in that they attire the aspects of marketing work in different "concepts", in different nomenclatures. Third, the repertoires are more or less specific ways to *talk and write* about the work of marketing; they constitute, as aforementioned, the discursive resources by means of which marketing work is made talkable and writeable as well as listenable and readable.

In the interpretations brought to the fore in what follows, of the meeting between B&B and DigitalTV, three marketing scene repertoires will be discussed: the repertoire of control and pro-activity, the repertoire of responsivity, and the repertoire of science.

The *repertoire of control and pro-activity* stresses the managerial and controlling aspects of marketing work. Represented in and distributed by mainstream management and marketing textbooks (e.g. Baker, 1985; Kotler, 2000) and undergraduate curricula in management studies, it is a repertoire where the invisible hand of the market displays its visible, intervening finger, where the wilderness of the market, the consumers, the buying and consumption behaviour, and so forth, are to be tamed. The control and pro-activity repertoire puts forward, as the basic task for marketing workers, the *controlling* of the significant environment, be it the consumers' needs, demands or buying behaviours. Inherent in the repertoire of control and pro-activity is a conception of a hierarchical relation between the controller and the controlled. Being able to control, to manage, to handle a certain object, implies an asymmetry between the controller and the controlled concerning the controlling ability. When one controls an object or a situation, the inverted situation, i.e. one being controlled by this object or situation, is excluded as a possibility – at least in the controlling act.

Somewhat antithetically to the repertoire of control and pro-activity, *the repertoire of responsivity* offers a depiction of marketer as being doomed to dearth of any profound control over the consumers and the market. Being relatively untameable, demanding attention and obedience, the consumers have a significant impact on the outcome of the various endeavours of the marketing professionals. The most pro-active managerial and control aspects of marketing management are hence effaced and replaced by a more expectant attitude towards the consumers. *Re*-sponse and *re*-action to the external wilderness "out there", among the consumers, are hence called for in this repertoire. Coming in a variety of flavours and labels ("market orientation", "marketing orientation", "marketing driven", "customer orientation"), this repertoire of responsivity also appears as a pervasive motif, alongside of the repertoire of control and pro-activity, within the contemporary corpus of mainstream marketing theory and textbooks, often truncated in the costume of what Turner and Spencer (1997) have called the "gospel" of the market orientation: the "marketing concept" (see also Brownley & Saren, 1992; Kohli & Jaworski, 1990). In the words of Kotler:

> The marketing concept holds that the key to achieving its organisational goals consists of the company being more effective than its competitors in creating, delivering, and communicating customer value to its chosen target markets. (Kotler, 2000, p. 19)

In what I have labelled *the science repertoire*, the analytical and hard (natural) scientific aspects of marketing work are stressed. Knowledge is brought forward as the foundation of the rational and potentially profitable marketing process. Not surprisingly, the science repertoire appears too as a central theme in the body of mainstream marketing management literature. In order to manage the marketing efforts, Kotler (2000) suggests, marketing research, collection, analysis, and reporting of relevant market data ought to be conducted by the market-oriented company. Firmly rooted in a modernist notion of representation (cf. Rosenau, 1992, Chapter 6), the science repertoire involves a correspondence theory of truth, according to which a statement, to put it simply, is true if and only if it mirrors a state of affairs in the world. By means of well-designed scientific methods of analysis, a true representation, a mirror of reality, is striven for in the marketing repertoire of science. The world, according to the science repertoire, is built upon the laws of causality and determinism. By means of scientifically designed methods of investigation, the marketer scientist tries to capture the inner mechanisms of cause and effect underlying what at face value may appear to us as chaos. In the world of science, nothing happens by mere chance.

To conclude, all of the marketing scene repertoires can be said to be located on a "higher", collective (professional, cultural, generational, etc.) level that transcends the concrete micro situation. They thus represent an institutionalised (i.e. recurrent and habitualised) and shared source to draw from in specific discursive events, and they furthermore function as the link between the micro-anchored language use and macro-located institutions. Such a link is – as I will return to in the subsequent section – consequential for the professional legitimacy of marketing work (see also Fairclough, 1995). Borrowing the words of Edley (2001, p. 198), the marketing scene repertoires are ''like the prefigured steps that can be flexibly and creatively strung together in the improvisation of a dance''. Now: what can be said about the B&B-DigitalTV-dance and its role in the construction of professional legitimacy?

In order to sharpen the focus, I will let the discussion run through two delimited themes. First, I will discuss constructions that in various fashions deal with the *direction of marketing actions*. By ''direction'' I allude here to the presumed causal relationship between consumer behaviour and marketing intervention. At its most basic, this theme is a pondering upon the question: does consumption arise as a consequence of marketing pro-action or marketing re-action? In other words: is marketing a cause for or a response to consumers' thoughts and deeds? Second, constructions of the *nature of marketing knowledge* will be explored, i.e. constructs that in some way say something about what *kind* of knowledge is the knowledge relevant for marketing practitioners.

The Direction of Marketing Actions

The direction of marketing actions is a construction that appears to assume two forms in the interaction between B&B and DigitalTV. On the one hand, drawing upon the marketing scene repertoire of responsivity, a reactive version of this construct is brought to the fore by Anders. On the other, a more forward directed and interventionist view emerges, stemming from the repertoire of control and pro-activity. Let me discuss some examples (the numbers in parentheses refer to the meeting in the precious section).

The reaction theme is in action when Anders presents the finding of ''six types of consumers'' (5). The terms employed in PowerPpoint picture and in Anders' comments (''find'', ''identify'', ''are'') contribute to the construction of a realist ontological stance. Simplified, this stance depicts the *search* for marketing relevant knowledge as the pursuit for knowledge about what is ''really'' the case outside, in reality. The marketing task is moreover moulded in terms of detecting general patterns and regularities, which is also strongly emphasised by Karin. The marketing enterprise is consequently constructed as basically an observing and reacting activity that lets "reality" defining what is to be done. The consumers together with their "essential" driving forces are according to this view situated outside culture and technological structure, and even more importantly: outside the marketing influence. What remains to marketers to do is hence but to observe and to react.

Also assumed (by Anders) is the existence of something that can be labelled "real" customer values (10, 11). "If you have a real customer value, then you can charge the consumer for it", Anders makes clear to his potential client (10). One interpretation of this sequence is that "real" customer values here refers to a conception of more or less essential, interior product features that give rise to an experience of value among the consumers. The gist or morale, as it were, of this way of talking would then be something like: "without a good product, no marketing in the world can save you". Hence, this mode of talking constructs marketing as a relatively impotent and marginal set of practices when it comes to *creating* a high customer value. Without a good product, so it seems to be presumed here, no success is likely. The pro-active aspect of marketing actions is hence concealed in this mode of speaking. It is proposed that "customer value determines the behaviour", and that the determining powers are located outside the sphere of marketing control. The reality, the *real* customer value, constitutes the brute constraints with which marketers must comply.

One juncture at which the reactivity view is somewhat blurred is when Anders presents a quotation from *Business Week* (4). Everybody in the meeting room laughs when Anders has read the quotation, which seems to reinforce the natural and unquestionable character of the marketing sin of neglecting the consumers' demands in the fulfilment of the marketing task. Intriguingly enough though, when the laughter settles down, Anders adds that "But of course, the customer doesn't always knows what it wants". This remark creates some degrees of freedom for marketing professionals in that it removes the most immediate tension between pro-active and reactive marketing work. The subtle demarcation line between marketing manipulation and marketing education, I argue, becomes here even finer.

More violent constructions of pro-active marketing appear at the meeting though. At one point (7) Anders makes use of the metaphor "shooting", which, besides alluding to hunting associations, portrays marketing work as an inside–outside directed, pro-active enterprise. Shooting is an activity undertaken by an agent *towards* his or her environment; it is an utmost extrovert activity. However, there is an inherent tension in this sequence that is worthy of note. Describing marketing activity in the terms of "shooting" (hunting consumers) at the same time as "serving" may seem *prima facie* like nothing but the usage of innocent terms, hastily thrown out in the air by Anders. However, I think it is fruitful to regard them as a telling case of how two marketing scene repertoires, *control and pro-activity* and *responsivity*, are mixed and fused together in the same turn of interaction.

A more unswerving use of the repertoire of control and pro-activity can be seen in Mary, when she expresses her wonder as to whether or not it is possible to "lower technical barriers", in order to "flatten" the diffusion curve that has been previously discussed (7). What is interesting here is the usage of the active verb form. The barriers are thus not described (that is: through the question) as something that is lowered, the diffusion curve not as something that suddenly flattens out, only for the marketers to observe and react to. Instead it is the marketing managerial yearning to become an agent – not only audience – of the happenings that is stressed. Anders' response makes this slot even more interesting since in this he does not refute, but merely reduces the potential controllability alluded to by Mary ("No, not flattening, but increasing the pace"). Yet, in so doing, he subscribes to a more pro-active view of marketing work.

Let me now turn to constructions of the nature of marketing knowledge.

The Nature of Marketing Knowledge

As for the constructions of the character of relevant knowledge for marketing practitioners, a dominant tendency at the meeting is that of Anders canvassing his knowledge as scientific and to some extent esoteric. My fieldwork at B&B suggested that the "scientification", as it were, of the knowledge offered by the consultancy firm to their clients seemed to be a salient theme in the firm's everyday work life. The marketing scene repertoire of *science* was frequently employed in the various attempts to account for and legitimise the services offered by B&B. More to this, when B&B started its business, the two founders, Mr. Krönenberg and Mr. Behrenstam, had been involved as lecturers on marketing and consumer behaviour theory at the local business school, the school from which Anders had been recruited. Let me illustrate how Anders puts the marketing scene repertoire of science into (inter)action at the meeting with his potential clients.

The focus of the meeting is, which has been pointed at before, the study undertaken by B&B and the business school. The content of this study, the very knowledge that DigitalTV seems interested in, is constructed in a very certain mode that highlights its "scientific" qualities.

The "academic" character of the study conducted is stressed by Anders in his presentation. It is a rather ambitious research design that is presented (3). "1,400 phone interviews" can offer a scientific legitimacy by virtue of a realist ontology combined with an empiricist assumption stating that the more cases the closer to truth one gets. This construct is further underscored in the frequent use of hard, descriptive data such as numbers, percentages and in the use of formulations such as "we have identified six types of consumers in Sweden" (5). "Identify" as well as the references to the act of categorisation ("types"), together with the constructs mentioned above are all parts and parcel of a marketing scene repertoire of science wherein "true" representation of reality is hailed.

Furthermore, using terms such as "analyse", and, even more so, words such as "calculate" and "probabilities" (8), a structured, causal and law bounded field of consumer behaviour is presumed. This assumption contributes to the construction of the objective and "scientific" status of the marketing knowledge B&B provides. This picture is further reinforced when Anders presents a triangular model on the whiteboard (8), a model suggesting that there is – at least with respect to consumers – a calculable causal link between demographic characteristics, attitudes, values and behaviour. It is in other words, a highly mechanistic worldview that brought to the fore here. More to this, the frequent usage at the meeting of diagrams, graphs and numbers reinforces the scientific flavour of consumer and marketing knowledge. The world is thereby rendered less complex, less chaotic and unpredictable – and maybe a bit more controllable.

It is noteworthy, however, that a Mr. Bean movie enters the discussion in the midst of this scientification, as it were, of the nature of marketing knowledge (5, 11). For some reason, this fictional figure appears to offer a meeting point, a common ground, for mutual understanding between the consultant and his clients to be. A cultural creation sooner than a scientific observation, the Mr. Bean-theme *could* diminish, even erode, the consultant's project of constructing the "scientific" aspect of his professional legitimacy, but this is not my understanding of the interaction that takes place. No protests are voiced; no sarcastic glances are exchanged. The clients allow him to proceed with his presentation, and what seems to happen is rather that Anders' credibility is somewhat fortified *by means of* the references to Mr. Bean. One interpretation is that the popular fiction of Mr. Bean constitutes an invitation, from Anders to his clients, into the world of his consumer expertise. In this sense, the cultural artifact of Mr. Beam fuels – albeit but for a brief moment – the obscure character (cf. Power, 1997) of marketing knowledge with flesh-and-blood recognition and familiarity, rooted in a shared cultural experience.

Anders thus seems to undertake a balance act, indeed a performance act, between talking about and mystifying Internet consumer behaviour, hence rendering his knowledge desirable. That is to say, in order to secure a revisit to DigitalTV, Anders endeavours to offer but a brief glimpse of the study, not revealing too much, leaving some of the information for later meetings, meetings for which the client, presumably, will be billed. Anders continuously emphasises that consumers are not to be regarded as a homogeneous category, but as individual and unique beings (e.g. 3, 5, 6, 10) whose uniqueness must be taken into account when a market plan is designed. These frequent allusions, as to the heterogeneity of the consumers, can be seen as contributions to the constructing of Anders' own product, i.e. marketing expertise and knowledge, as somewhat esoteric and mystical, as something that DigitalTV must import. At the outset of the meeting (2), Anders for instance promises to "help" DigitalTV "somewhat on the way there", which is to say, only a part of the way, hence not all the way. Doing so, he indicates that any definite and specific answers will not be given there and then, but the tailor made consultancy is a future thing (that consequently will cost). The presentation of all the numbers and percentage distributions contributes to this; all these rather general study results indicate that there is more where it came from but that this information will be provided only insofar as a specified (for DigitalTV) project is embarked upon. Anders furthermore, as responses to Karin's assiduous and repeated attempts to draw some concrete results out of him, alludes to the great complexity of consumers and their behaviour (e.g. 10), and that several patterns, not just one, clear-cut one, have been found in the study (4). During the entire meeting Anders continues to reveal only general insights on technological products and Internet consumption, frequently stressing his lack of knowledge and the insecurity regarding DigitalTV's specific case.

Presenting itself now, is the question of how this drawing upon marketing scene repertoires contributes to the construction of professional legitimacy. The next section is dedicated to this query.

MARKETING SCENE REPERTOIRES AND PROFESSIONALISM: NAVIGATING IN A NARRATIVE ARCHIPELAGO

The interaction at the meeting dealt with in this chapter is by no means an isolated event or an event wherein Anders, the consultant, is left free to play out his agency. Acknowledging what Giddens (1984) refers to as "the duality of structure", i.e. structure understood as both a medium and a result of (inter)action, structure cannot be observed outside of human agency settings; human agency can be exerted only in and in relation to structure. Correspondingly, social structure is thus present only in and through agents' *doings* (Zimmerman & Boden, 1991).

The employment of different marketing scene repertoires at the meeting should be seen as constrained in various degrees by the resources at hand. The resources at hand are in turn a manifestation of the socio-culturally contingent horizon of possible utterances, the institutional order as it were. What went on at the meeting, that is to say the activation of a variety of marketing scene repertoires, can be seen as in part a reflection (*and* in its consequences a reproduction) of a fragmented socio-cultural milieu, an environment within the boundaries of which marketing work finds itself operating.

It is my suggestion that this surrounding terrain is to be understood as the *narrative archipelago* wherein marketing practitioners have to navigate. A structure that regulates and restrains the micro interaction that takes place at the meeting, the notion of "narrative archipelago" is an effort to take into account the fairly complex milieu of opinions and public debates concerning the various practices of marketing. Marketing and its social good is for instance questioned and criticised by various groups in society (e.g. Adbusters and Attac). By contrast, other commentators hail marketing as the core function of market-oriented business conduct (Drucker, 1954; Kotler, 2000).

Narratives, as I use the term here, refers to the dominant voices or representations of society prevailing in the various instances of the public debate. Narratives thus transcend the most local practices, situations and events; they make up fairly abstract streams of conceptions that for some reason have attained an institutional (enduring) and reified (objective) status among the members in the collective, be it a state, an organisation and/or a culture. Resembling the "grand narratives" that Lyotard (1984) discusses (the dialectics of Spirit, the hermeneutics of meaning, emancipation, etc.), the narratives are to be conceived of as overriding representations of society that exist "out there", but do so, in my sense of the term, without any (easily identifiable) author, back to whom they can be traced. In the rather blunt terminology of "levels", the narratives are situated above both the marketing scene repertoires and specific marketing meetings.[3]

As for the term *archipelago*, this is in my view an apt metaphor for the ambiguous socio-cultural environment wherein a great deal of practices are performed, marketing practices being no exception. An archipelago consists of an array of islands that render the shipper's everyday life a hazardous exercise in navigation. So as to avoid running aground, sharp attention as well as careful map reading and subtle manoeuvring are needed. The archipelagoean situation is hence actively managed and solved by the navigator. Thus, the actor enjoys agency but does so only within the maze of the archipelago. At the same time the formation of islands is reproduced as these islands can be said to exist meaningfully only insofar as they are related to, i.e. avoided or stranded upon. The archipelago metaphor illuminates the bounded agency, or the "possibility of a variation" in Butler's (1990, p. 145) words, of the navigator as well as the reproductive nature of navigation. A second aspect of an archipelago is that it does not only represent risks of running aground, but also offers a set of potential rescues from danger, some possibilities to take shelter and avoid capsizing in the unpredictable and ambiguous sea.

More to this, the archipelago of narratives can also be said to involve a struggle for dominance, a struggle for hegemony if you like, between the different narratives (cf. Boje, 1999). I take it that marketing work is enmeshed within a struggle between narratives, in the tension of different "voices" in society, all of which demanding attention and response. One interpretation of what went on at the meeting is that this struggle is solved or at least handled in and through discourse. In so doing, a sort of locally produced, symbolic professionalism is gained. Being professionally competent, or rather, producing a professional image, hence calls for adherence to all of the surrounding voices that expect attention.

I will in what follows offer a relatively freely canvassed and somewhat speculative outline of the narrative archipelago that can be said to form the socio-cultural milieu wherein Western marketing practice (and consequently B&B and Anders) is destined to navigate. It can indeed be little more than a suggested sketch, and I harbour no illusions whatsoever to provide an exhaustive depiction of the institutional order of marketing practice. Nonetheless, I would consider my study incomplete and severely handicapped if I abstained from bringing forward at least a speculative outline of what the narrative archipelago investing marketing's professional legitimacy may look like.

As we saw above, the meeting was to a large extent the consultant Anders' one-man show, him trying to convince the four DigitalTV delegates about their general need for B&B services. The situation at the meeting resembled very much a lecture wherein the expert teacher educates his or her novices. In the previous section I set out to illuminate how the marketing consultant brought into action as rhetorical resources the marketing scene repertoires of science, of control and pro-activity and of responsivity. In terms of archipelagoean navigation, this usage of a seemingly fragmented set of repertoires can be interpreted as the consultant's attempts to portray himself as a professionally competent provider of marketing services, that is, as the construction of marketing professionalism by means of adhering to what I will refer to as the narratives of instrumental reason, of neo-liberalism, and of consumer protection.

The Narrative of Instrumental Reason

The narrative of instrumental reason, to begin with, is a main motif of the great Enlightenment narrative, the latter delivering the promise of emancipation from premodern religious tradition, superstition and mysticism, hailing reason and man's and woman's conquering, and taming of the wilderness of nature (cf. Adorno & Horkheimer, 1944; Held, 1980, Chapter 5). In accordance with the narrative of instrumental reason, science and knowledge are the primordial means serving the purposes of control and manipulation of the world; not only of extra-human nature such as ecological and ethological realms, but also, as pointed out by Adorno and Horkheimer (1944) as well as by Marcuse (1964), of *human* nature through the use of various more or less sophisticated socio-technologies, e.g. psychology and marketing. If we listen to the narrative of instrumental reason, human beings, their needs, dreams and wishes, become objects to dominate, to manipulate, to control; they become instruments useful for achieving other goals, e.g. organisational goals such as revenues or market shares. Themes stemming from the narrative of instrumental reason are salient in the corpus of ideas that may be labelled *managerialism*. "Managerialism" refers to a system of ideas that hails management and managers as the paramount cure for a wide range of social and organisational problems (Grey, 1996), and comprises typical modernist doctrines such as a strong emphasis on control, measurement, calculability, rational decision making, and risk reduction. More to this, the manager is portrayed as the hero of corporate life and the agent upon which the destiny and survival of the company hinges (see e.g. Learmonth, 1997). Furthermore, managerialism fuses the assertion that it is possible to manage the world with the assumption that it is *desirable* to do so (Corvellec, 1996).

In the construction of pro-active marketing and in employment of the marketing scene repertoire of control and pro-activity, there resides an acknowledgement and response to this narrative of instrumental reason. This is also the case for the consultant's "scientification" of marketing knowledge. The repertoire of control and pro-activity as well as that of science thus function as mediating links between the micro-anchored interaction and the grand narrative of instrumental reason. It is within these very links – this is the thrust of my argument – that the potential for an institutionally secured professionalism can be found.[4]

The Narrative of Neo-liberalism

Another island within the narrative archipelago facing marketing practitioners is that of neo-liberalism. Neo-liberalism is the representation of society that, according to Fairclough (2000) and Bourdieu (1998) among others, has gained a strong position in left as well as right political movements today, also by political leaders normally looked upon as social democrats such as Schroeder, Blair, and Jospin (Grass & Bourdieu, 2002, p. 66), and figures as an essential element in the new, global order. Manifested in this dominating public discussion of "the new order of economy", the neo-liberal utopia is frequently naturalised and presented as an inescapable destiny of Europe (Bourdieu, 1998). The neo-liberal narrative advocates a strong belief in the free market forces, and the idea that the demands of the consumers are the engine driving the production. The hailed *lasse faire* doctrine is thus a paramount theme in the neo-liberal conception of the market and its relation to the state. As many obstacles to free monetary flow as possible must be removed in order to achieve highest efficiency and wealth; governmental interventions should accordingly be abolished. Whereas liberalism conceived of capitalism and free markets as the only *thinkable* way of organising a modern society, the narrative of neo-liberalism presents market freedom as the only *salvation* from poverty and oppression, and as a route towards democracy. The narrative of neo-liberalism tells the tale of the sovereign and judging consumer who decides who is to remain on the market and who is to go in the incessant evolution of competition in which only the fittest survives. The producers assume in this narrative the role of the servants, feeding the hungry market whenever it calls. If left alone, the laws of supply and demand, executed by the consumers, will exterminate unfit producers.

My interpretation of the activity at the DigitalTV meeting is that, in Anders drawing upon the repertoire of responsivity and in him constructing the direction of marketing activities as reactive in character and passive in temperament, the narrative of neo-liberalism was responded to. According to the latter, producers (including the practice of marketing), to a large extent play a responding role in the drama of market economy. Adhering to this voice can contribute to the construction of a symbolic professional competence, as it is an indication of the marketer's ideological awareness of the marketer's position in the market system.

The Narrative of Consumer Protection

As the label suggests, the narrative of consumer protection tells quite a different story than that of neo-liberalism. It speaks to us about a victimised consumer, oppressed by the productive forces in contemporary consumer culture, about the need to survey the wild market and keep the rights of the consumers under careful observation. Consumer sovereignty is hence not here an absolute axiom, but sooner an ideal picture the realisation of which has to be looked after and fought for. The narrative of consumer protection can be seen as a part of the burgeoning new radical movement in Western world, which seems to have emerged as an anti-thesis to the narrative of neo-liberalism. A challenger on the arena of hegemonic struggle, this wave of new radicalism involves a harsh critique of global capitalism as well as a critical voice that questions the social and existential desirability of consumption and consumer culture. Lately, In Europe as well as in the USA, the consumer critical voices have escalated in both strength and frequency in public media (Holt, 2002). The anti-consumption organisation Adbusters has for instance initiated recurrent campaigns such as "Buy Nothing Day", the 29th of November and the anti-MacDonald's campaign "Bring the Clown Down".

Interestingly enough, also the narrative of consumer protection finds its mediating link in Anders' employment of the marketing scene repertoire of responsivity. On the one hand, as discussed above, the responsivity theme can be seen as the marketer's adherence to the neo-liberal conception of market/consumer sovereignty, in accordance to which the production is (ought to be) nothing but a reply to the calls from the market. On the other, which are of importance here, the constructions of the direction of marketing activities stemming from the responsivity repertoire can be seen as an attempt to deal with, or relate to, the uprising narrative of consumer protection. Being a professional marketer, I argue, involves not only a displayed awareness of a neo-liberal world order but also an acknowledgement and incorporation of the uprising criticism of marketing.

SUMMARY AND CONTRIBUTIONS

In this chapter I have essayed to explore and illustrate how the professional project of marketing consultancy work can be observed in local and micro-anchored everyday marketing work, in a first meeting between a marketing consultant and his potential client. Furthermore, mine has been the ambition to relate this micro construction of "professionalism" to the wider socio-cultural, or institutional, order, which I have been referring to as the narrative archipelago of marketing. I have suggested that in adhering and responding to this choir of dominant voices in society, a symbolic sort of professionalism is continuously constructed and reproduced in everyday work. The contribution hoped for is threefold.

First, I wish to contribute to the understanding of the everyday pursuit of professional legitimacy among pseudo-professional occupations, that is, those occupations performing in the grey-zone between "traditional" professions, such as medicine, architecture, psychology, and non-professions. Lacking formal credentials and jurisdictions, occupations such as marketing consultancy may be forced to engage in a more symbolic/discursive accomplishment of professional legitimacy. This is part of what I have attempted to shed some light upon in this chapter.

There is however reason not to exclude more traditional professions, such as the aforementioned, from studies of this kind of symbolic/discursive professionalisation work. The second part of the contribution hoped for in this chapter is thus to provide some more general impetus for close-up studies of everyday work, that takes seriously, both the role of discourse and social construction of professional legitimacy (cf. Witz, 1992), *and* the unique and specific institutional logics – in my words: narrative archipelagos – wherein different professions navigate.

Third, and relatedly, in terms of method my hope is that this study can function as an inspiring example of how everyday mundane conversations, studied in situ, can provide potentially interesting qualitative empirical material for research of professional work. I moreover hope that this study can bring with it some input to a discussion of how both agency and structure can be acknowledged in studies of social life. This is indeed far from an unproblematic issue, and the import of constraining macro structures into a micro situation inevitably calls for sensitive interpretations and a fair amount of speculations (i.e. interpretations without any substantial empirical support *within* the very data).

NOTES

1. Web-Books and Netshirts were two Swedish Internet corporations with enormously high expectations that did not succeed as expected during the 1990s.

2. AIDA is a marketing communication model, developed in the 1920s (Strong, 1925, *The Psychology of Selling* referred to in Kotler, 2000, p. 555), depicting four steps in the sales process: attracting attention, gaining interest, creating desire, and evoking action (e.g. Peter & Olsen, 1992).

3. I have opted for the term "narratives" because it represents the great master tales of our time, distributed by major socialisation agents such as education, media and the political apparatus, narrating to us what society is and should be, and how we as citizens are to relate to this society. "Narratives" is the attempt of mine to find a proper label for a phenomenon that is distinct from, on the one hand, "Discourse" and, on the other, "ideology". To me the narratives residing in the narrative archipelago are too loose and diffuse, both in terms of boundaries and interlocutors, in order to qualify as a "Discourse". They are also to my mind too *textual* and outspoken to be sorted under the notion of "ideology". Thus: "narrative".

4. See Witz (1992), operating with the notion of "discursive strategies", for a similar view.

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SOCIAL STRUCTURE, EMPLOYEE MOBILITY, AND THE CIRCULATION OF CLIENT TIES

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ABSTRACT

We explore factors that influence the circulation of client–service firm relationships between firms in the same market for professional services. Circulation refers to the dissolution of a client–service firm market tie and the formation of a new tie involving the same client but a new professional service firm. Building on research in social embeddedness and the structure of markets, we argue that the circulation of client–service firm relationships is affected by three social signals: the mobility of exchange managers between professional service firms, the size and market strategy of professional service firms, and the similarity of new service firms to clients' previous exchange partners. Using data on advertising agency–client market ties, we find that client ties are more likely to circulate to large agencies, agencies with many market ties, and to agencies that are similar to a client's previous advertising agency. The circulation of client ties is also more likely when new agencies hire exchange managers from a client's previous agency. This effect is stronger when exchange managers circulate to agencies of equal or higher status as their previous employer. We discuss the implications of our findings for social embeddedness research and for the study of professional service firms.

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INTRODUCTION

There are numerous studies showing that economic relationships between firms are embedded in the social relations of individuals and organizations (Granovetter, 1985). In fact, one of the primary contributions of economic sociology has been demonstrating how social relations shape economic exchange and influence the structure of markets (Fligstein, 2001). Relations between competitors can confer status (Podolny, 1993), provide access to resources (Burt, 1983), communicate market information (Ingram & Roberts, 2000), and promote the formation of trust (Gulati & Gargiulo, 1999), which in turn affect the formation and performance of cooperative exchange relationships (Li & Rowley, 2002). Social relations between buyers and sellers produce trust and normative commitments (Levinthal & Fichman, 1988; Uzzi, 1996), reduce uncertainty about exchange behaviors (Macaulay, 1963), and facilitate the transfer of fine-grained information (Uzzi, 1997), all of which improve the coordination and performance of buyer–seller relationships (Cook & Emerson, 1978; Uzzi, 1996).

Not only has social embeddedness research made important contributions to our understanding of markets and exchange relationships (Fligstein, 2001; White, 2002), but it has also advanced our knowledge of professional service firms. A relatively extensive body of research has detailed the market behaviors and organizational dynamics of firms in a variety of professional service industries including auditing (Levinthal & Fichman, 1988; Seabright, Levinthal, & Fichman, 1992), accounting (Greenwood, Li, Prakash, & Deephouse, 2005), investment banking (Li & Rowley, 2002; Podolny, 1993; Uzzi, 1999), law (Uzzi & Lancaster, 2004), and advertising (Baker, Faulkner, & Fisher, 1998; Broschak, 2004). Yet important issues remain largely unaddressed.

One issue, as Fligstein (2001) observed, is that much of the economic sociology literature focuses on the stability of markets and exchange relations and generally excludes their dynamics. Markets tend to have stable social structures because buyers and sellers choose to engage in repeated interactions. Individuals and firms prefer dealing with partners they know, or have dealt with in the past, because trust, knowledge, and normative commitments grow over time (Granovetter, 1985) and because buyers face great uncertainty searching for information about potential new sellers (Geertz, 1978). Thus, empirical research has shown that ongoing buyer–seller relationships tend to become stronger and more likely to persist over time (Levinthal & Fichman, 1988), and firms tend to form exchange relationships with partners they have worked with previously (Gulati &

Gargiulo, 1999; Li & Rowley, 2002) even when the experience gained from working together was in a different market setting (Jensen, 2003).

Yet, as Swedberg (1994) noted, markets are dynamic expressly because buyers and sellers periodically make decisions to dissolve existing exchange relationships and form new ones. Buyers must also search for new exchange partners when sellers exit markets, either through outright failure due to intense competition or acquisition by competitors. Professional service firms are particularly susceptible to these dynamics. Studies of auditing and advertising have shown that the dissolution of client–service firm relationships occurs quite frequently,[1] and that industry consolidation due to mergers (Greenwood, Hinings, & Brown, 1994) and the failure of professional service firms (Broschak, 2004) is relatively common. Thus, relationships with clients are dynamic, often passing from one professional service firm to another, a phenomenon we term the circulation of client ties. Little research has focused on the factors surrounding these circulation events despite their essential role in the dynamics of markets (Baker et al., 1998).

A second issue with social embeddedness research is the tendency for researchers to use firms as the level of analysis and overlook the role of individuals in exchange relationships (Dacin, Ventresca, & Beal, 1999, p. 336). Individuals' human and social capital is the micro-foundation for embedded economic action. Yet most researchers use measures of firms' network ties or overall network position to assess social embeddedness (Gulati & Gargiulo, 1999) and simply infer the contributions of individual actors. Recently a small body of research has begun to shed light on how the contributions of individuals work in concert with their firms' characteristics to create and sustain exchange relationships.

For instance, Rosenkopf and her colleagues studied cooperative technical organizations (CTO), finding that joint firm participation in CTOs positively affected the subsequent formation of alliances (Rosenkopf, Metiu, & George, 2001). However, they also found that this effect was amplified when firms' front-line managers had sustained participation in CTOs on behalf of their organizations, indicating that both interpersonal and inter-firm ties influence the formation of exchange relationships. Broschak (2004), in a study of advertising agency–client market ties, showed that the exit and promotion of exchange managers, the professionals who actively contribute to and manage exchange relationships, weakened market ties. The loss of managers' human and social capital threatened firms' social relations and increased the risk of market tie dissolution even after accounting for the characteristics of firms. Additional studies that incorporate both individuals and organizations into embeddedness research are necessary if we are ever to distinguish between embeddedness embodied in firm- versus individual-level investments (Fichman & Levinthal, 1991; Seabright et al., 1992).[2]

In this study we address these issues by examining the circulation of client ties between seller firms in the same market for professional services. Our research question is this: when buyer–seller relations end and buyer firms shift their business from one seller to another, what seller firm do buyers choose? Two objectives underlie our study. First, we seek to extend social embeddedness research by focusing on both individual- and organizational-level factors that might influence a client's selection of professional service firms following the dissolution of existing client–service firm ties. We draw on two sets of arguments. One argument is that exchange relationships between firms become embedded not only in the networks of firms but also in the skills, abilities, and relationships of individuals (Broschak, 2004; Seabright et al., 1992). If indeed people matter to relationships between firms as the social embeddedness perspective suggests (Granovetter, 1985), then client ties may become embedded in individuals' relationships irrespective of organizational boundaries (Fichman & Goodman, 1996), and dissolved client ties may be reconstituted when exchange managers move across firms (Palmer, 1983). We also draw on literature that suggests that the circulation of client ties may be constrained by the market positions of professional service firms and influenced by firms' social status (Podolny, 1994). High social status may afford some professional service firms enhanced opportunities for attracting clients. At the same time, the inertia associated with previous exchange relationship decisions may restrict clients' future choices (Li & Rowley, 2002).

The second objective of our study is to contribute to our understanding of markets for professional services. The selection of professional service firms is an important decision for clients. Yet it is a task that is filled with uncertainty. Ascertaining the performance and capabilities of professional service firms is difficult for clients because information asymmetries prevent clients from obtaining complete information on potential sellers. Professional service firms similarly face the challenge of effectively communicating their capabilities to prospective clients (Greenwood et al., 2005). In this environment of high uncertainty, what influences the formation of new client–service firm relationships is unclear yet critical for the viability of professional service firms. With this study we seek to identify the social signals that enhance the ability of professional service firms to attract clients from competitors.

In the next section we briefly discuss some of the characteristics of professional service firms as they relate to social embeddedness processes and the circulation of client ties. We then present our theoretical arguments and hypotheses, describe our research setting and data, and present our results. We conclude by discussing the implications of our findings both for social embeddedness research and for the study of professional service firms, and offer suggestions for extending this line of research.

PROFESSIONAL SERVICE FIRMS

Professional service firms are organizations whose primary agents are individuals with prolonged specialized training in an abstract body of knowledge and whose output is intangible and impossible to hold in inventory (Mills & Margulies, 1980; Sharma, 1997). Several characteristics of these firms suggest why social signals might play a prominent role in the dynamics of client–service firm relationships. First, professionals have expertise that generally is outside the technical knowledge of their clients. Second, the work-related behaviors of professionals are difficult for clients to observe and equally difficult to evaluate. Third, the output of professional service firms is co-produced through the coordinated efforts of the service and client firms (Bowen & Jones, 1986; Larsson & Bowen, 1989; Sharma, 1997). Co-production implies that the output is tailored for each client and that the service firm and client interact for the delivery of the service to occur (Mills & Marguiles, 1980).

There are two facts that are immediately evident from these characteristics. The first is that professional service firms depend on client–service firm relationships for survival. Professional services are intangible and cannot be inventoried for later use. Services can only be produced in conjunction with clients, thus the ability to establish and maintain client–service firm relationships, or replace clients that are lost due to relationship dissolution, is critical to the viability of professional service firms.

A second fact is that the critical assets of professional service firms are embodied primarily in human assets rather than in a production process (Coff, 1997; Sharma, 1997). Professionals who work with clients are "exchange managers" (Broschak, 2004). They make investments in relationship-specific human and social capital, such as relationship-specific skills, technical knowledge about clients, and interpersonal relationships, that are necessary to meet the demands of clients. The success and continuity of client–service firm relationships depends on these exchange managers (Broschak, 2004; Mills & Marguiles, 1980; Seabright et al., 1992). However, human assets, unlike physical assets, are only partially under a professional service firm's control (Coff, 1997). Professionals' career opportunities are more likely to lie in occupational rather than internal labor markets (Althauser & Kalleberg, 1981). Thus, professional service firms face a constant threat of losing their strategically valuable assets to rival firms, with potentially devastating consequences for the organization (Bills, 1987) and relationships with clients (Broschak, 2004).

While all professional service firms share these characteristics it's important to note that there are differences across professional services in the forces that influence the dynamics of client–service firm relationships. One difference is in rules governing the necessity and exclusivity of exchange relationships (Baker et al., 1998). For instance, in the case of auditing in the U.S., the Securities Act of 1933 legally mandates that corporate clients acquire an audit for its financial statements from an independent CPA firm and restricts corporations from using more than one auditor at a time (Han, 1994). In contrast, markets for advertising have no formal rules requiring the need for client–agency relationships or to set limits on the allowable number of concurrent relationships (Baker et al., 1998). For instance, in a study of 150 advertisers Broschak (2000) reported that in 1986, 48% of firms maintained a sole-source relationship with one advertising agency, but on average advertisers retained relationships with more than three advertising agencies, and 10% of advertisers maintained relationships with eight or more advertising agencies. By 1998, 15% of the advertisers in the sample had abandoned the use of outside advertising agencies altogether. Thus, in some markets for professional services, buyers have considerably more options for choosing exchange partners than in others.

Professional service organizations also differ in the type of service that is provided to clients. For instance, Mills and Margulies (1980, pp. 260–261) distinguish between three types of service organizations. Auditing and investment banking conform to "maintenance-interactive" services, where relationships between service firms and clients are "cosmetic, continuous interactions", the technical expertise of professional service firms is applied to solving discrete problems of which the client is fully aware, and the client is able to evaluate the services. Advertising, engineering, and management consulting appear to be examples of "task-interactive" services, where the technical expertise of professional service firms is applied to devising varied techniques for approaching problem-solving, interactions between the client and service firm are more complex, and clients often find it difficult to evaluate the service. Finally, law and medicine are examples of "personal-interactive" services, where clients may be unaware of or imprecise both about what serves their best interests and how to go about finding a solution. Clients rely quite heavily on their professional service firms because each task and each client–service firm interaction may require novel solutions or complex decisions by professionals. As a result, professional service providers tend to have considerable power over the exchange and professionals tend to develop greater identification and attachment to their clients. Depending on the type of professional service, the level of uncertainty a client faces selecting and evaluating professional service firms, and the extent to which interpersonal relations play a significant role, are likely to vary.

THE CIRCULATION OF CLIENT TIES

Despite their critical importance to the survival of professional service firms, the persistence of client–service firm relationships is not completely under a service firm's control. In general, professional service firms prefer maintaining relationships with clients, but market relationships are often asymmetrical (Baker et al., 1998) with clients tending to be more open to ending client–service firm relationships as their resource needs change (Seabright et al., 1992), over dissatisfaction with service firm performance (Doyle, Corstjens, & Michell, 1980), or due to changes in management (Broschak, 2004). Client–service firm relationships are also constantly pushed and pulled on by both stabilizing and disruptive social forces (Baker et al., 1998). For instance, competition among service firms for a client's business tends to disrupt market ties while relationships involving clients or service firms with high market status, or long-duration relationships, tend to be more stable (Baker et al., 1998; Seabright et al., 1992).

Our focus is on what happens when client–service firm relationships end. Generally, clients have three alternatives. One option in markets where polygamous client–service firm relationships are allowed, is for clients to consolidate the work among their remaining professional service firms. A second option is for clients to leave markets altogether and instead internalize the roles formerly assigned to the professional service firm. Substituting hierarchy for market relationships (Powell, 1990; Williamson, 1975), where it is allowed by market rules, can be accomplished by redistributing tasks among current employees or by creating separate but proprietary organizations solely responsible for handling a client's business, such as the creation of house advertising agencies, which are established solely to handle all or part of the company's own advertising needs (Dunn, Barban, Krugman, & Reid, 1990).

The circulation of client ties is a third option; clients form new client–service firm relationships in the wake of dissolving existing relationships.

The circulation of client ties is substantively important because the movement of client ties between rival professional service firms reshapes the structure of markets (Fligstein, 2001). Yet clients face formidable challenges selecting professional service firms because of the scarcity of information on prospective exchange partners.

Trying to assess and compare professional service firms for the purposes of selecting a new exchange partner is difficult (Greenwood et al., 2005). The output of professional service firms is intangible and the work-related behaviors of professionals are difficult to directly observe, meaning there is often little data available for clients to use in evaluating the output or processes of professional service firms. Thus, clients face high uncertainty discerning differences in the performance or capabilities of rival firms. Considerable uncertainty also surrounds inferring the quality of new client–professional service firm relationships. Compared to ongoing exchange relationships, new relationships lack the trust, familiarity, relationship-specific expertise, and operating routines that develop over the course of exchange (Fichman & Levinthal, 1991). Instead, new relationships initially survive owing to a honeymoon effect where goodwill sustains relationships until trust and joint operating routines can be developed.

Because of the high level of uncertainty surrounding the choice of new client–service firm relationships, we argue that social signals are likely to play an important role in explaining the circulation of client ties. Clients use social signals to infer the performance and capabilities of prospective professional service firms. While many social signals can be used by clients, we focus on three: the migration of exchange managers between professional service firms, the absolute market position of new professional service firms, and the relative market positions of a client's previous and new professional service firms. Below, we develop hypotheses about the role of each of these social signals in the circulation of client ties.

THEORETICAL DEVELOPMENT AND HYPOTHESES

There are quite a few studies that have suggested that exchange relationships between firms become embedded in the relationships of managers and that managerial mobility in turn is related to the circulation of client–service firm relationships. Wholey (1985), for instance, argued that the inter-organizational mobility of lawyers was due in part to recruitment by rival law firms in an effort to acquire new expertise and clients. He presented anecdotal evidence that lawyer–client relationships often remained with lawyers who move from a previous to a new employer. Similarly, Phillips' (2002) study of Silicon Valley law firms, argued that lawyers who leave existing firms to found new firms often transport important routines, firm-specific skills, and valuable social capital, such as knowledge of customers and potential clients. The resources that lawyers appropriate bolster the life chances of new ventures in their formative years, often to the detriment of their previous employers. Bills (1987, p. 212) also reported that "the engineering consulting industry was characterized by very personal and informal relationships between members of firms and their external clientele. An employee changing firms is often able to take his or her business along."

These studies share the commonly held belief that when employees, particularly professionals (Coff, 1997; Sharma, 1997), exit one firm to found or enter another, they carry with them human and social capital, including access to existing and potential clients. Broschak (2004) described how exchange managers develop skills, acquire technical knowledge, and forge personal relationships over the course of working with clients (see also Seabright et al., 1992). Though some of these skills are general and can be used in any client–service firm relationship, many are relationship-specific, such as learning how to conduct business with particular exchange partners, establishing effective communication channels and techniques, and developing formal or informal policies and procedures that tacitly boost the transactional efficiency of exchange (Uzzi, 1996).

The development of relationship-specific skills improves the efficiency of exchange relationships by enhancing the ability of exchange partners to communicate and understand each other. The two parties learn to communicate effectively developing an understanding about the information that is important to exchange (Uzzi, 1997). Exchange managers in professional service firms learn to anticipate their clients' needs and requests (Sharma, 1997). Over time this produces trust and understandings that problems and disagreements between exchange partners will be resolved outside the formal details of contractual arrangements (Macaulay, 1963; Uzzi, 1996).

Technical knowledge provides professionals with an in-depth understanding of their client's business. The acquisition of technical knowledge comes from a prior history of learning, problem solving, and research into a client's markets. Understanding the client's procedures and functions can produce economic efficiencies or help professional service firms anticipate costly problems for their clients. For instance, Uzzi (1997) described how in the New York City apparel industry, contractors who cut and sewed fabrics for dress manufacturers could help their manufacturing customers avoid waste once they developed an understanding of the interrelationships between the fabrics, dyes, and patterns that clients used. Wells Lawrence (2002) described how an advertising agency's ability to produce successful campaigns for clients often required conducting hands-on tours of the clients' shops and facilities, studying the behaviors and physical facilities of competitors, performing in-depth market research of end consumers, and at times redefining the markets and competition to their clients. In-depth technical knowledge is not only valuable to the current client–service firm relationship but is also difficult for other professional service firms to invest in or replicate without having any expectation of acquiring the client's business.

Finally, personal relationships between client and service firm exchange managers provide the foundation for trusting that service firms will work on behalf of the client's best interests, create norms about the appropriate ways of working together and resolving disputes, and yield informal obligations that the two parties will continue working together (Levinthal & Fichman, 1988; Luo, 2001; Uzzi, 1997). The existence of personal relationships often assures clients of their service firms' intentions and creates a mechanism for governing exchanges (Uzzi, 1999), reducing the client's costs of monitoring their exchange partner (Granovetter, 1985). Personal relationships reduce client's uncertainty about professional service firms' behaviors, particularly since the behaviors and their outcomes are difficult to monitor or evaluate (Mills & Margulies, 1980; Sharma, 1997).

Relationship-specific skills, technical knowledge, and personal relationships are valuable because they help improve the performance of transactions and sustain ongoing client–service firm relationships (Broschak, 2004; Seabright et al., 1992). However, these investments by individuals are relationship-specific, and lose much of their value outside of particular client–service firm relationships (Williamson, 1975). When relationships end, and client ties circulate to new professional service firms, the value of professionals' relationship-specific skills, knowledge, and personal relationships decreases to their current employer, while simultaneously increasing in value to rivals who have or may hope to gain the former client's business. Clients, too, may value the skills and experience of individuals with whom they have previous working experience (Granovetter, 1985) and may give preference to new exchange partners based on their ability to recruit these exchange managers. Thus, competitors have incentives to hire away professionals who have previous experience working for a particular client. In fact, competitors may attempt to lure away these strategic human assets, in the hope of gaining access to new clients in the future.

The migration of individuals between professional service firms is a strong social signal available to clients to reduce uncertainty over a potential exchange partner's performance and capabilities. Relationship-specific investments individuals make in an exchange relationship cannot be completely captured by a previous employer but instead are largely transferable to the new professional service firm, and thus available to clients. In turn, professional service firms may hire individuals from a client's previous exchange partner to signal to clients a commitment to their business and create the foundation of individual-level socially embedded relationship (Seabright et al., 1992). For these reasons, we hypothesize:

> **Hypothesis 1.** The migration of managers between professional service firms is positively related to the circulation of client ties.

Managerial mobility is one factor that, according to anecdotal evidence, is likely to shape market dynamics. But the circulation of client ties is also likely to favor some professional service firms over others. It is logical that some professional service firms will have a built-in social advantage in their propensity and ability to seek and attract clients from rivals. Similarly, when existing relationships end, clients in search of new exchange partners will likely have a greater tendency to circulate toward some professional service firms over others. We argue that the circulation of client ties is more likely to flow toward professional service firms whose market positions signal high market status because high-status firms tend to be the most visible, capable, and desirable exchange partners (Podolny, 1993).

We focus on two market characteristics that are likely related to a professional service firm's ability to benefit from the circulation of client ties. One characteristic is organizational size. We expect clients to be attracted to larger professional service firms because large organizations tend to have greater stores of resources (Pfeffer & Salancik, 1978). Service firms with large stores of resources are likely to be well-equipped to attend to the needs of new exchange relationships. Large professional service firms are more likely to have the resources to furnish a wide range of services and invest in the capability of serving clients' needs in depth. Large size also affords professional service firms with the ability to invest in formal mechanisms for managing client relationships and with slack resources in the form of additional professionals and account managers to provide multiple points of contact to serve clients. All in all, clients are likely to have lower uncertainty about the capabilities of larger professional service firms.

Size is also an important signal of the competence of professional service firms. Size is a proxy for status as an exchange partner and is often used by clients as an indicator of the underlying quality of a professional service firm's output (Podolny, 1993) due to the difficulty evaluating intangible outputs. Larger professional service firms tend to have more positive reputations than small firms since large size tends to result from prior successful performance. As a result, clients are likely to be attracted to large professional service firms since strong reputations partly reduce uncertainty over the expected performance of the client–service firm relationship (Greenwood et al., 2005) and partly because large firms are often perceived as being more attractive exchange partners than small organizations regardless of their actual performance.

A second characteristic likely to be related to the circulation of client ties is the number of other client relationships managed by professional service firms. The size of a professional service firm's client portfolio is often a reflection of a firm's strategy for managing market relationships. Market strategies often range from a relational strategy, where firms tend to favor close, longer term relations, to a transactional market strategy, where firms become more adept at efficient exchange relations and develop a more general understanding of their exchange partners' needs (Baker, 1990).

While clients tend to prefer building long-term relationships (Levinthal & Fichman, 1988), professional service firms with many exchange partners are likely to have greater experience attracting new customers. Further, maintaining large numbers of exchange relationships makes service firms more visible, appearing to be in demand by many clients. The visibility that comes from having many clients, like reputation, reduces uncertainty over the firms' capabilities and its desirability as an exchange partner. Taking these arguments about size and market ties together, we hypothesize:

Hypothesis 2a. Professional service firm size is positively related to the circulation of client ties.

Hypothesis 2b. The number of market ties maintained by professional service firms is positively related to the circulation of client ties.

While we have argued that managerial mobility and market position independently affect the circulation of client ties, it is possible that the two effects interact. Clients may be likely to reconstitute ties with professional service firms who hire exchange managers with previous experience working with the client (Palmer, 1983), because this allows them to leverage the expertise, technical knowledge, and interpersonal relationships in which exchange managers already invested. However, the strength of migration as a social signal may depend on the migration destination of exchange managers. For instance, if exchange managers move from a high-status to lower-status firm, or a firm with a poorer reputation, the benefits of working with known exchange managers may be mitigated by the uncertainty of working with a lower-status professional service firm. Individual-level investments may be muted by the uncertain capabilities and performance of the new professional service firm. In contrast, when exchange managers migrate to firms of equal or higher status, the effects of mobility and the effects of status may be complimentary.

Note that our argument does not pertain to the special case of exchange managers exiting an existing professional service firm to start a brand new venture. Phillips (2002) noted that lawyers who spin-off from their previous employers and immediately found new professional service firms often leave with access to existing and potential clients, some of whom may become clients of the new firm. Anecdotal evidence of this and other professional service industries (see, for example, Wells Lawrence, 2002) suggests that this occurs quite regularly, and serves to reinforce arguments about the strong effects of individual-level social embeddedness. Our arguments here are restricted to the migration of professionals between incumbent professional service firms in which differences in the status and reputation of firms are likely to be more salient to clients. Thus we hypothesize:

Hypothesis 3. The relationship between the migration of managers and the circulation of client ties will be stronger when managers migrate to professional service firms of equal or higher status.

While the market characteristics of professional service firms are likely to signal their potential as destinations for new client relationships, the structure of markets, and the past decisions of clients, may constrain the circulation of client ties. Podolny (1993) argued that a status hierarchy exists among producers in any given market. Status signals the underlying quality of a firm's service and firms maintain their status through the network of buyer–supplier relations that they maintain. Status is important to both clients and professional service firms because it translates into the ability to command higher premiums from end consumers (Benjamin & Podolny, 1999). Thus, both clients and service firms tend to act to preserve their market status by carefully choosing exchange partners.

When an existing client tie dissolves then, clients are likely to seek to replace their professional service firm with one of equal status. Further, evaluating the capabilities of potential professional service firms is a difficult and highly uncertain task because of trouble acquiring accurate and dependable information about new exchange partners. Choosing new service firms who have market status similar to their previous service firms is one way for clients to minimize this uncertainty.

Clients are also likely to choose service firms who follow market strategies similar to their previous exchange partners. Market strategies signal the type of behaviors that clients can expect from their new professional service firms. New relationships take time to develop trust, operating routines, and the normative agreements that are necessary for effectively working together (Levinthal & Fichman, 1988). To minimize some of this uncertainty in the early stages of a new relationship, clients are likely to choose exchange partners who follow strategies similar to their previous service firms. Together these arguments suggest the following hypothesis:

Hypothesis 4a. The circulation of client ties is more likely to occur between professional service firms that are similarly sized.

Hypothesis 4b. The circulation of client ties is more likely to occur between professional service firms with similar numbers of market ties.

THE CONTEXT OF ADVERTISING

We test these hypotheses using data on market ties between advertising agencies in the greater New York City area and their clients. As is typical of a task-interactive professional service, advertising is a complex process and involves concentrated and extensive interaction between advertising agency professionals and client managers (Mills & Margulies, 1980). Unlike other types of professional services where the solution to a client's problems may be easily understood, advertisers generally know the outcome they want to achieve (e.g., increased product sales) but generally lack specific knowledge about the techniques to use to achieve it. Clients provide advertising agencies with routine information about the products or services to be advertised and then must defer to the expertise of advertising agency professionals who develop novel solutions based on market research, tailored to the unique problems of clients. Thus, clients have limited ability to evaluate and compare the performance of advertising agencies. Clients are further hampered by a general inability to link advertising expenditures to changes in sales.

Because advertising is a complex professional service, in most advertising agencies professionals have highly differentiated functional roles (Ibarra, 1992) in order to provide high levels of technical service to clients (Fichman & Goodman, 1996). Typically, agency responsibilities are divided into several distinct areas. *Account Services* manages client accounts, gathers information from clients, coordinates advertising campaigns, develops relationships with clients, and represents the agency to the client and the client to the rest of the account team. *Public Relations* and *Other Boundary Spanners* perform boundary spanning functions that are not necessarily day-to-day interactions with clients, including public relations, sales promotions, and new business development. *Creative* departments conceive and develop advertising concepts and plans. *Research and Account Planning* tests concepts on target audiences, analyzes data, and devises advertising strategies. *Production* departments transform advertising concepts into tangible products, while *Media* departments place advertisements in media outlets such as newspapers, television, magazines, and radio (Jones, 1999). The differentiated functional structure of advertising agencies creates many possible points of contact between clients and agencies through which social embeddedness can occur. In most agencies, however, account services managers are the primary mechanism for coordinating client–agency relationships (Broschak, 2004).

A unique feature of the advertising context is that the success of agencies tends to be highly dependent on clients' decisions (Jones, 1999). Advertising is an important strategic and tactical tool for clients and the choice of advertising agencies and the working relationship between client and agency managers can have important implications for the clients' financial performance. As a result, clients determine the level of expenditures to be used for advertising services (Jones, 1999) and retain the power to dissolve relationships at any time. Unlike other professional services, advertising agency relationships are typically open-ended and are not formed for any specified period of time. It is not unusual for clients to terminate relationships on relatively short notice. One of the informal rules of exchange in the advertising industry is a 90-day notice of the client's intent to terminate relationships (Baker et al., 1998).

Advertising provides an attractive setting for testing relationships about client tie dynamics for two reasons. First, advertising is a critical and strategic service in which the key assets are embodied in human and social capital rather than in physical capital (Becker, 1975; Coleman, 1988; Sharma, 1997) and the work-related behaviors of advertising professionals are difficult for clients to observe and evaluate. Thus, relationship-specific skills, technical knowledge, and personal relationships play a particularly important role in both producing advertising and in establishing client–agency relationships (Mills & Margulies, 1980).

Second, the advertising industry operates as an occupational internal labor market (Althauser & Kalleberg, 1981), particularly for firms located in a limited geographic area such as New York City. Career ladders in advertising agencies tend to be relatively short, and advertising professionals are more likely to move up a hierarchy of firms rather than up their employer's hierarchy of jobs. As a result, manager mobility is a frequent event in this industry. Further, ties between advertisers and advertising agencies are relatively fragile, creating conditions that are amenable to the circulation of client ties. In a related study of market tie dynamics in the New York City advertising market, Broschak (2004) reported that nearly one-quarter of all client–agency market ties dissolved.

DATA

Data on client-advertising agency relationships was obtained for the period 1986–1998 from *The Standard Directory of Advertising Agencies* (hereafter, the "Agency Red Book"). The Agency Red Book is the most comprehensive source of information on advertising agencies in the United States. It includes data on all firms that are the agencies of record for at least one national or multi-state account spending $200,000 or more on media per year, and provides organizational and financial data, lists the rosters of clients with which agencies have market ties, and identifies the full names and job titles of all key personnel.

We randomly sampled 153 advertising agencies with headquarters in the greater New York City area, selected from the 1986 Agency Red Book. We chose the New York City advertising market because it has the highest geographic concentration of advertising agencies in the United States including an overrepresentation of large advertising agencies. The greater New York City area also provides a large enough labor market to assure the frequent mobility of employees. Our sample included only agencies that appeared in the directory for at least three consecutive years beginning in 1986 to avoid selecting agencies in the year that they fail; agency failure artificially inflates the number of market tie dissolutions and employee mobility events due to the fact that firms lose all exchange partners and employees in the year of the failure event. We also excluded house agencies from our sample because, being proprietary organizations established by clients solely to handle all or part of the client's own advertising needs (Dunn et al., 1990), client ties with house agencies are not subject to the same market forces as those with independent advertising agencies.

Like many professional service markets, mortality rates for advertising agencies are high. To avoid survivor bias, we purposely sampled agencies to insure that the final sample was composed both of agencies that survived the entire observation period as well as agencies that failed prior to 1998. Our sample included 79 surviving advertising agencies and 74 firms that failed prior to 1998. For each agency we coded the names of every client firm, the names and job titles of every employee, and the characteristics of each firm annually over the entire observation period or until the agency failed. We used these yearly observations to create a history of client–agency tie formations and dissolutions, and employee entries and exits.

DEPENDENT VARIABLE

Our dependent variable is the circulation of client ties. We defined client tie circulation as the dissolution of a tie between a client and an agency (A_i) in year t and the formation of a new tie involving that same client but with a different agency (A_j) in the sample in any year $t+n$, where $n \geqslant 0$. To determine instances of circulation we first coded the dissolution of market ties for agencies as occurring in calendar year t when the name of a client firm appeared in year t but did not appear in year $t+1$. We then coded the formation of new market ties for agencies as occurring in calendar year t when the name of a client firm appeared in year t but did not appear in year $t-1$. Circulation of client ties occurred when we observed the name of a client firm involved in tie dissolution events in year t and tie formation events in that or any subsequent year.

In theory, all client ties are at risk of circulating between every pair of $A_i - A_j$ agencies in the sample. Thus, each one of the 153 agencies in our sample is at risk of sending client ties to and receiving client ties from the other 152 agencies at each point in our observation period. To simplify our analyses, we aggregated yearly observations of circulation events between every pair of agencies, producing a 153×153 matrix where the off-diagonal cells are coded 1 if a client tie circulates from A_i to A_j and 0 otherwise. Our analysis then is of the likelihood that an agency (A_j) will receive a client tie from another agency (A_i) in the sample at some point during the 13-year observation period. Fig. 1 graphically depicts the number of client ties that circulate between agencies with the data plotted by the year that the client tie first dissolves.

INDEPENDENT VARIABLES

Our independent variables are exchange manager migration, the receiving agency's size and number of market ties, and differences in the size and number of market ties of sending and receiving agencies. We defined

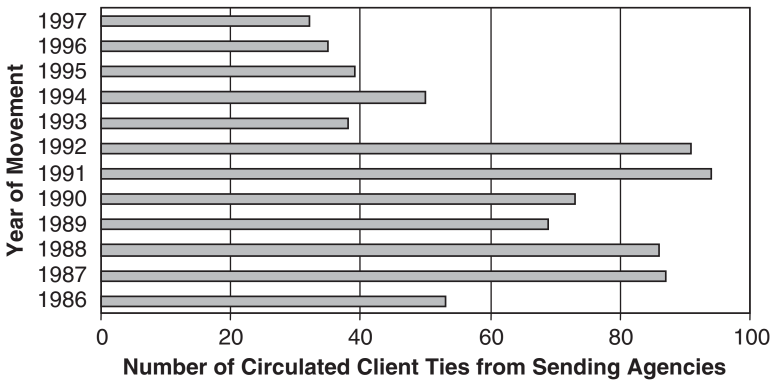

Fig. 1. Circulation of Client Ties between Agencies.

exchange manager migration as the inter-organizational mobility of advertising professionals between two agencies in the sample. To capture migration events we followed a procedure similar to the one used to observe client tie circulation. We first coded the exit of exchange managers from an agency as occurring in calendar year t when the name of a manager appeared in year t but did not appear in year $t+1$. We next coded the hiring of exchange managers as occurring in calendar year t when the name of a manager appeared in year t but did not appear in year $t-1$. We then matched first and last names and job titles of exiting and newly hired exchange managers to determine when someone exited one agency in year t and was hired into a different agency in that or any subsequent year. We coded exchange manager migration as a dichotomous variable coded 1 if exchange managers who previously worked in one agency (A_i) later worked in another agency (A_j). Fig. 2 graphically depicts the number of exchange managers that migrate between agencies, plotted by the year that managers exited their previous employers.

We measured agency size as the annual gross billings for advertising agencies and used a log transformation of size because the variable is highly skewed. Because agency size varies annually, we calculated the mean value of agency size by summing each agency's size for every year they appeared in the observation period and then averaging over time. The number of market ties was determined from the Agency Red Books as the number of clients listed by agencies each year. Again, to accommodate the fact that the number of clients changes over time, we calculated the mean number of clients per agency by summing the number of clients each agency worked

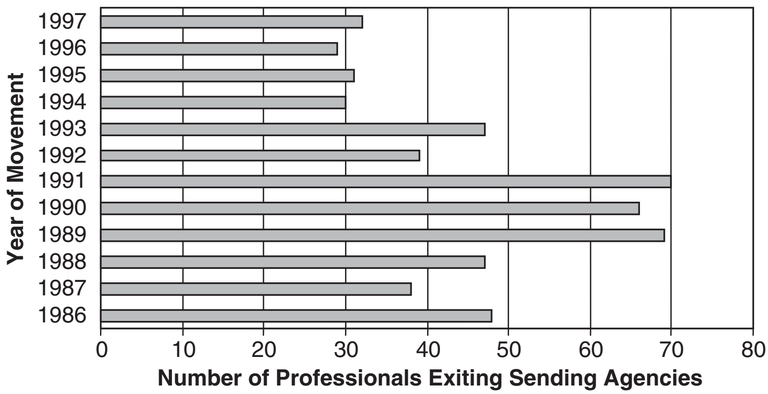

Fig. 2. Migration of Exchange Managers between Agencies.

with each year and taking the average of that value. To assess the interaction between exchange manager migration and firm status in Hypothesis 3, we created a dichotomous variable coded 1 if a receiving agency was of the same size as or larger than the sending agency, and 0 otherwise. We then created an interaction between this variable and the exchange manager migration variable. To assess similarities between the sending and receiving agencies for Hypothesis 4, we used the absolute value of the differences between the average size and average number of ties of each pair of agencies.

CONTROL VARIABLES

We controlled for several characteristics of clients and agencies that may affect the circulation of client ties. We created a dichotomous variable coded 1 if a sending or receiving agency was headquartered in New York City proper and 0 if located in the New York City suburbs or in other nearby cities. This accounts for differences in prestige as a result of being a New York City ad agency and for local labor market differences. We controlled for the founding year of sending and receiving agencies since agency age may be related to status or to the propensity to acquire new clients or new exchange managers. We also controlled for whether sending and receiving agencies operated multiple offices as a measure of firm scope. It is possible that multi-location agencies are perceived as being better able to serve the needs of clients than single location agencies, or as being more desirable employers because they offer more employment opportunities than single site firms.

We used a dichotomous indicator to control for whether sending or receiving agencies failed before the end of the observation period as a proxy for firm performance. We reasoned that poor performing agencies were less likely to receive circulating ties but may be more likely to send ties to other agencies.

In addition to the occurrence of employee migration, we controlled for the number of employees that migrated between firms since the strength of individual-level social capital may be stronger when greater numbers of employees migrate between firms. Finally, we controlled for whether receiving agencies acquired any of the other agencies in our sample. Acquisition is one tactic for acquiring other firms' human capital or client relationships and thus should be positively related to the circulation of market ties.

MODEL SPECIFICATION AND ESTIMATION

We constructed a model to estimate the likelihood of an agency receiving circulated client ties at any time over the 13-year observation period. We aggregated our yearly data for each agency producing a dataset in which there is one observation for each pair of sending and receiving agencies. We then tested our hypotheses by estimating logistic regression models on the resulting cross-sectional data. The general form of our model was as follows:

$$\log\left[P_j/(1-P_j)\right] = \alpha + \beta_1 \mathrm{A}(j) + \beta_2 \mathrm{A}(i) + \beta_3 \mathrm{A}(j-i) + \varepsilon \qquad (1)$$

where P_j represents the probability that an agency (A_j) receives a client tie from a sending agency (A_i), A(j) is a vector of independent and control variables measuring characteristics of the receiving agency, A(i) a vector of independent and control variables measuring the characteristics of the sending agency, and A($j-i$) a vector of independent variables measuring the differences between the sending and receiving agencies. We used the generalized estimating equations (GEE) method available in the SAS GENMOD procedure (SAS Institute, 1997) to estimate models and adjusted for the non-independence of observations (Diggle, Liang, & Zeger, 1994) by modeling the covariance structure within each receiving agency, treating between subject observations as independent (Liang & Zeger, 1986).

RESULTS

We observed a total of 4,805 client–agency relationships that dissolved over our 13-year observation period while 4,260 new relationships were formed.

Of the relationship dissolutions we observed, 728 client ties (15.2%) circulated between agencies in our sample representing 356 circulation events (multiple client ties could circulate between a pair of agencies). Of the 153 agencies in our sample, 108 different agencies were involved in sending clients to another agency and 96 different agencies received clients from other agencies. For exchange manager mobility, we recorded a total of 4,197 manager exit events and 3,900 manager entry events. Of those who exited their employers, 537 managers (12.8%) migrated from one agency in our sample to another representing 236 different mobility events. A total of 73 different agencies originated mobility events and 77 different agencies received exchange managers from another firm in our sample.

To better represent the nature of tie circulation and exchange manager mobility in this sample, Figs. 3 and 4 are network graphs of all client tie circulation events and exchange manager migration, respectively, between sending and receiving agencies. For clarity, we have grouped agencies by size. Small agencies (46) are more than one standard deviation below the mean size of all agencies in the sample and are grouped at the bottom of the graph. Medium-sized agencies (71) are within one standard deviation of the mean and are grouped to the right of the graph. Large agencies (36) are more than one standard deviation above the mean and are grouped to the left of the graph. In each figure, only the agencies that send or receive ties or

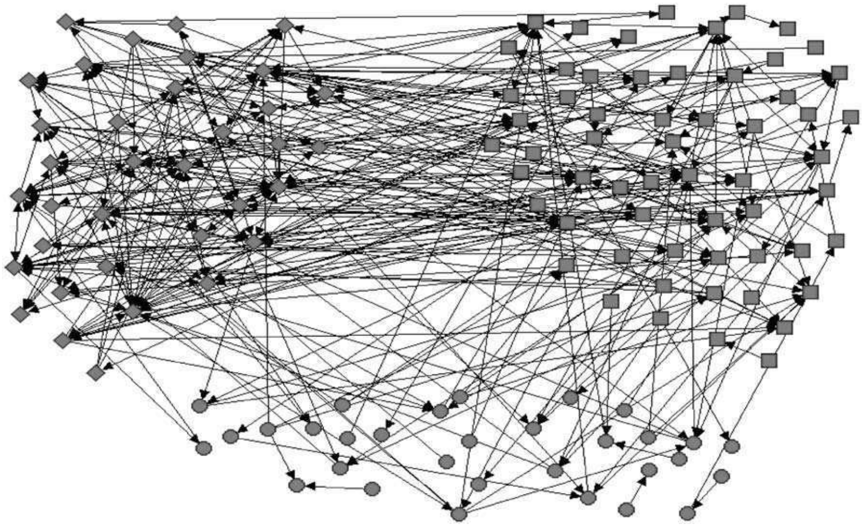

Fig. 3. Network Graph of the Circulation of Client Ties.

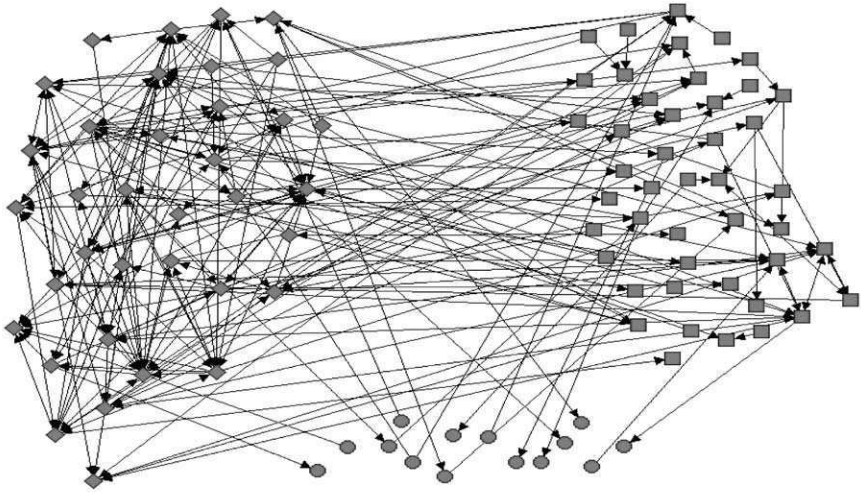

Fig. 4. Network Graph of Inter-Agency Exchange Manager Mobility.

managers are included. Note that the majority of circulation and migration events occur between large agencies and between large and medium-sized agencies. In particular, few small agencies are involved in sending or receiving exchange managers. This is not surprising given that segmentation often occurs in occupational labor markets (Smith, 1983) and that larger firms are better able to provide mobility opportunities. However, these graphs also illustrate that the circulation and migration phenomena we observed are not merely occurring between a small subset of the largest agencies.

Table 1 displays the descriptive statistics and bivariate correlations for the variables on advertising agencies, employee migration, and market tie circulation. Table 2 displays results of logistic regression models of the likelihood of agencies receiving clients from another agency in the sample. Several of the control variables are significant. As we expected, agencies that failed prior to the end of the observation period were less likely to receive ties while agencies that acquired another agency were more likely to receive clients from the acquired firm. Surprisingly, younger agencies were more likely to receive clients than older agencies. Of the sending agencies, larger, younger, multi-location firms and firms with many clients were more likely to send clients to another agency in the sample.

There is strong support for Hypothesis 1. Agencies were more likely to receive ties from another agency when they also received exchange managers from that same agency. Thus, the circulation of client ties is positively

Table 1. Descriptive Statistics and Correlations: Agency Data.

Variable	N	Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
1 Receive client ties from Agency$_j$ (1 = yes)	23256	0.02	0.12																			
2 Receive employees from Agency$_j$ (1 = yes)	23256	0.01	0.10	0.11*																		
3 Receive multiple employees from Agency$_j$	23256	0.00	0.04	0.11*	0.43*																	
4 Agency$_i$ size (avg. log of billings)	23256	17.15	1.59	0.10	0.11*	0.06*																
5 Agency$_i$ avg. number of client ties	23256	20.56	17.21	0.06*	0.03*	0.01	0.21*															
6 Absolute value size, Agency$_i$–Agency$_j$	23256	1.73	1.45	0.01	−0.01	−0.01	0.37*	0.13*														
7 Absolute value number of ties, Agency$_i$–Agency$_j$	23256	14.96	19.30	0.06*	0.03*	−0.00	0.12*	0.59*	0.14*													
8 Agency$_i$ higher-status firm (1 = yes)	23256	0.50	0.50	−0.01*	−0.01	−0.02*	0.54*	0.09*	−0.00	−0.00												
9 Agency$_i$ New York City firm (1 = yes)	23256	0.75	0.42	0.02*	0.02*	0.02*	0.27*	−0.05*	0.10*	−0.00	0.15*											
10 Agency$_i$ fails during observation period (1 = yes)	23256	0.48	0.50	−0.07*	−0.05*	−0.02*	−0.24*	−0.13*	−0.13	−0.04*	−0.12*	−0.01										
11 Agency$_i$ founding year	23256	1963	20.99	−0.06*	−0.06*	−0.05*	−0.46*	−0.43*	−0.27*	−0.24*	−0.18*	−0.08*	0.21*									
12 Agency$_i$ is multi-location firm (1 = yes)	23256	0.45	0.50	0.07*	0.06*	0.03*	0.51*	0.19*	0.17*	0.10*	0.29*	0.14	−0.19*	−0.25*								
13 Agency$_i$ acquired Agency$_j$ (1 = yes)	23256	0.00	0.01	0.04*	0.09*	0.11*	0.00	0.00	−0.00	−0.00	−0.00	−0.00	−0.01	−0.00	−0.01							
14 Agency$_j$ size (avg. log billings)	23256	17.15	1.59	0.10*	0.12*	0.07*	−0.01	−0.00	0.37*	0.12*	−0.54*	−0.00	0.00	0.00	−0.00	−0.00						
15 Agency$_j$ average number of client ties	23256	20.56	17.21	0.08*	0.03*	0.01	−0.00	−0.01	0.13*	0.59	−0.09	0.00	0.00	0.00	−0.00	−0.01	0.21*					
16 Agency$_j$ New York City (1 = yes)	23256	0.75	0.42	0.02*	0.03*	0.02*	−0.00	0.00	0.10*	−0.00*	−0.15*	−0.01	0.00	0.00	−0.00	0.01	0.27*	−0.05*				
17 Agency$_j$ fails during observation period (1 = yes)	23256	0.48	0.50	−0.03*	−0.02	−0.02*	0.00	0.00	−0.13*	−0.04*	0.12*	0.00	−0.01	−0.00	0.00	0.01	−0.24*	−0.13*	−0.01			
18 Agency$_j$ founding year	23256	1963	20.99	−0.06	−0.07	−0.05*	0.00	0.00	−0.27*	−0.24*	0.18*	0.00	−0.00	−0.00	0.01	0.00	−0.46*	−0.43*	−0.08*	0.21*		
19 Agency$_j$ is multi-location firm (1 = yes)	23256	0.29	0.40	0.08*	0.08*	0.05*	−0.00	−0.00	0.25*	0.18*	−0.31*	−0.00	0.00	0.00	−0.01	−0.01	0.60*	0.34*	0.20*	−0.12*	−0.44*	
20 Absolute value age, Agency$_i$–Agency$_j$	23256	19.97	22.10	0.06*	0.05*	0.02*	0.30*	0.25*	0.39*	0.32*	−0.00*	0.09*	−0.14*	−0.55*	0.17	−0.00	0.30*	0.25*	0.09*	−0.14*	−0.55*	0.26*

*$p < 0.5$, two-tailed test.

Table 2. Logistic Regression Models of Likelihood of Agency_i Receiving Client Ties from Agency_j.

Independent Variables	Model (1)	Model (2)
Receiving Agency_i Variables		
Receive employees from Agency_j (1 = yes)	0.79***	0.37
	(0.26)	(0.43)
Receive multiple employees (1 = yes)	0.25	0.35
	(0.47)	(0.47)
Higher-status receiving firm (1 = yes)		−0.39**
		(0.19)
Higher-status firm X receive employees		0.88**
		(0.39)
New York City agency (1 = yes)	0.03	0.04
	(0.20)	(0.20)
Fails during observation period (1 = yes)	−1.02****	−1.02****
	(0.20)	(0.20)
Year founded	0.01**	0.01**
	(0.00)	(0.00)
Multi-location agency (1 = yes)	0.35*	0.38**
	(0.18)	(0.18)
Average log (billings)	0.29****	0.34****
	(0.05)	(0.06)
Average number of client ties	0.02****	0.02****
	(0.01)	(0.01)
Acquired sending agency (1 = yes)	4.10***	4.01***
	(1.38)	(1.20)
Sending Agency_j Variables		
New York City agency (1 = yes)	−0.08	−0.09
	(0.17)	(0.17)
Fails during observation period (1 = yes)	−0.07	−0.08
	(0.12)	(0.13)
Year founded	0.01**	0.01**
	(0.00)	(0.00)
Multi-location agency (1 = yes)	0.42**	0.42**
	(0.18)	(0.18)
Average log (billings)	0.35****	0.29****
	(0.05)	(0.05)
Average number of client ties	0.03****	0.03****
	(0.00)	(0.00)
Agency_{i-j} Difference Variables		
Absolute value of age difference	0.00	0.00
	(0.00)	(0.00)
Absolute value of log (billings) difference	−0.25****	−0.24****
	(0.04)	(0.04)

Table 2. (*Continued*)

Independent Variables	Model (1)	Model (2)
Absolute value of number of ties difference	−0.02****	−0.02****
	(0.00)	(0.00)
Intercept	−42.61****	−42.17****
	(10.39)	(10.54)
Quasi log likelihood	−1534.5****	−1531.2****
d.f.	22	24

Note: Values are unstandardized regression coefficients. Standard errors are shown in parentheses. There were 23,256 agency–agency observations and 356 tie mobility events.
*$p<0.10$
**$p<0.05$
***$p<0.01$
****$p<0.001$ Significance levels are two-tailed.

related to the migration of exchange managers. Unfortunately, our analysis does not allow determining the causality between exchange manager migration and client tie circulation.

Hypotheses 2a and 2b are also supported. Large agencies and agencies with larger numbers of clients were more likely to receive clients from other agencies. This is consistent with our argument that these characteristics are strong signals of the status, reputation, and capabilities of agencies and are a powerful force in the circulation of client ties. Hypothesis 3 predicted that exchange manager mobility would be stronger when managers migrated to firms of equal or higher status to their previous employer. To test this hypothesis we created an interaction variable between exchange manager mobility and a dichotomous variable indicating that the receiving agency was of equal or greater size than the sending agency. In Model 2 of Table 2, this variable is positive and significant effect, providing support for Hypothesis 3.

Finally, we also found strong support for Hypotheses 4a and 4b. The greater the size difference between the sending and the receiving agencies, and the greater the difference in the number of clients maintained by the sending and receiving firms, the less likely circulation was to occur. Thus, circulation of client ties is more likely to occur between agencies that occupy similar status positions in markets and that pursue similar market strategies.

To test the sensitivity of our results to our decision to model the occurrence, rather than the number, of circulation events, we re-estimated our models substituting the number of circulation events between pairs of agencies and estimated Poisson regression models. The results of those analyses (available on request from the first author) were identical to the results reported here, providing further empirical support for our arguments. The migration of exchange managers between two agencies is related to both the likelihood of client tie circulation and the number of client ties that are circulated.

DISCUSSION

Choosing among sellers, particularly sellers of an intangible good like professional services, is a difficult and uncertain task for buyers. Information about a service firm's quality and capabilities is scarce and often inefficiently communicated to clients, while a service firm's performance is often ambiguous or nearly impossible to discern. A good deal of previous research has pointed to socially embedded relationships, repeated transactions with the same seller, as the solution for organizations facing these uncertain environments. The trust and first-hand experience that are central to social embeddedness relieve much of the uncertainty and mitigate any opportunistic behaviors by sellers. Yet there are often circumstances in dynamic markets where reliance on past exchange partners is impossible. The circulation of client ties, where the dissolution of client–service firm relationships is followed by the establishment of a new client–service firm relationship, is a prime example. We posited that in situations like these, clients are likely to turn to social signals as indicators of the underlying trustworthiness and quality of exchange partners. Our analysis of client–advertising agency market ties provides strong support for our arguments.

We find that broken client ties are more likely to be reconstituted with other agencies in the same market for advertising services that hire exchange managers from the client's previous advertising agency. The migration of exchange managers between professional service firms is a strong signal of trust and quality. As Granovetter (1985) argued, economic exchange, such as client–agency relationships, become rooted in the social relations and relationship-specific investments of individual exchange managers. However, what was not addressed was whether these personal relations transcended the boundaries of the firms who employed them. We find that dissolved market ties circulate to places where exchange managers also move (Broschak, 2004); exchange relationships between firms become embedded in relationships with individuals irrespective of organizational boundaries. This suggests that a key to understanding the underlying structure and dynamics of product or service markets is attending to the opportunities for mobility that exist in related labor markets (White, 2002).

We also find that the characteristics of professional service firms are strong predictors of the circulation of client ties. Large firms benefit more from client tie circulation because size signals professional service firm capabilities, quality, status, and reputation. Professional service firms with a large client base benefit more from client tie circulation because the number of clients signals desirability as an exchange partner. We also find that the circulation of client ties tends to follow particular paths across markets; broken ties are reconstituted with agencies that have a similar market status and strategy to clients' previous professional service firms. This is strong evidence that market behaviors cannot be explained by competition among producers alone, but that markets are shaped and changed by the social signals of professional service firms and the social structure of markets.

Interestingly, we find that the effects of migration depend on the destination of exchange managers. Client ties are more likely to be reconstituted when professional service firm exchange managers migrate to firms of an equal or higher status. This suggests that exchange manager mobility and agency characteristics offset one another in clients' decisions about the desirability of particular exchange partners. Perhaps the uncertainty surrounding clients forming relationships with lower-status firms offsets any advantages to individual-level embeddedness. Future research should seek to understand the conditions under which social signals and social embeddedness might act as alternative or mutually reinforcing signals of professional service firm quality. Further investigation of the interaction of market structure with labor market mobility may unveil a complex process whereby market ties are affected by mobility, but only under certain market conditions.

In some respects our findings are not completely surprising. We noted that anecdotal data as well as conventional wisdom, suggest that exchange manager mobility causes the circulation of client ties. This is particularly true in the domain of professional services, where guarding against the turnover of professionals is a critical concern (Coff, 1997), and where it is assumed that losing the human and social capital of professionals, which is only partially under the firm's control, heightens the risk of clients defecting to other firms. Thus, in one sense our results confirm pre-conceived ideas of how markets change with exchange manager mobility. However, to our knowledge ours is the first empirical test of this proposition.

Our study is not without limitations. There are a host of questions that we were unable to address in this study that have implications for understanding market dynamics and social embeddedness. One limitation is that our data precluded us from observing whether exchange manager mobility led or lagged the circulation of client ties. Understanding whether exchange manager migration precedes the circulation of clients or results from it is important to understanding the micro-processes underlying social embeddedness. If client ties follow exchange manager migration to new agencies, then this suggests that personal relations are a strong force in instigating the dynamics of economic exchange between market participants. However, if exchange managers move between agencies following the circulation of clients then there is another force of attraction at work directing clients between agencies. In this case, the value of exchange managers to client–agency relationships may reside in the efficiencies and knowledge they bring owing to their skills and technical know-how.

Another limitation of this study is that we are unable to identify the characteristics of the exchange managers who moved between agencies. Functional responsibilities of advertising agency exchange managers are highly specialized. And as Broschak (2004) demonstrated, the effects of advertising agencies' exchange managers exiting on the dissolution of their employers' market ties varied with their job functions; the exit of account service managers harmed client–agency relationships while the exit of creative managers preserved them. Clearly accounting for the functional role that exchange managers play in exchange relationships will be critical to understanding their effects on tie circulation and how the effects of migration may vary across individuals. Similarly, future research might investigate how the effects of exchange manager migration vary with their tenure since we might expect that the effects of migration are stronger for managers with greater relationship-specific experience.

There are two other avenues that future researchers might pursue to better understand the circulation of client–service firm ties. One avenue is whether individual-level embeddedness is ultimately beneficial for the performance of circulated client firms. Social embeddedness arguments hold that the reduced relationship monitoring and coordination costs that are associated with embedded relationships (Uzzi, 1996) and the experience that comes from working together (Eccles, 1981) provide strong incentives for clients to follow the mobility of exchange managers. But whether or not new client–agency relationships staffed with known exchange managers perform as well as, or better than, previous client ties, is untested. The effectiveness of client–agency relationships is a product of the contributions of both individual- and firm-level relationship-specific investments. It is possible that the benefits of working with familiar exchange managers may be mitigated in new organizational settings where new exchange partners' investments in relationship-specific assets have not been secured, or when the lag between circulation and manager migration is very large.

A second avenue for future research is investigating whether the effects of client tie circulation observed here generalize to other professional services. We noted that advertising is a task-interactive professional service, one where there are moderate levels of interaction between client and agency, where the client's goals can be clearly defined, but where the task remains ambiguous (Mills & Margulies, 1980) making it difficult for clients to evaluate the performance of advertising agencies. It is not surprising to find that social signals and social embeddedness play important roles in the selection of new advertising agencies. One might speculate, however, that these factors play less of a role in the selection of maintenance-interactive services, such as auditing and investment banking where service firm performance is more easily evaluated and personal interactions less critical, and play a bigger role in selecting personal-interactive services such as law or medicine. Further, advertising agencies tend to be more functionally differentiated than other types of professional service firms, providing many points of contact between agencies and clients, particularly in larger agencies. It remains to be seen whether the mobility of exchange managers and the use of social signals play as strong a role in professional services where there are fewer exchange managers interacting with clients.

Our study sheds light on how markets for professional services are shaped and how social signals influence the circulation of ties. The migration of exchange managers between firms, the market status and strategy of firms, and the reproducibility of market structure are all used by clients to make decisions about forming relationships with new professional service firms. Our study also raises questions about social embeddedness research. Market ties are embedded in the networks of both firms' and individuals' social relationships (Granovetter, 1985). But the power of individuals' social relations persists even when individuals change employers. Thus, professionals and their employers may compete for clients when employment relationships end. Understanding when this tension between organizations and individuals is likely to occur is an important step in developing a full understanding of social embeddedness and market dynamics.

NOTES

1. Twenty five percent of major US corporations switched auditors between 1973 and 1986 (Levinthal & Fichman, 1988) and two-thirds of the 100 largest US firms severed relationships with advertising agencies between 1981 and 1987 (Baker & Faulkner, 1991). Further, Broschak (2004) found that among samples of New York

City advertising agencies and advertisers approximately 20% of all agency–client ties dissolved between 1986 and 1998.

2. Subramani and Venkatraman (2003) make a similar distinction between firm- and individual-level intangible assets in buyer–supplier relationships.

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THE INTERNATIONALISATION OF PROFESSIONAL SERVICE FIRMS: GLOBAL CONVERGENCE, NATIONAL PATH-DEPENDENCY OR CROSS-BORDER HYBRIDISATION?

Glenn Morgan and Sigrid Quack

ABSTRACT

In this paper, we analyse how the national variety in professional organisation is affected by the current period of globalisation by reference to key features of the business law firm in the US, the UK and Germany. Our argument is that changes in law firms from these different countries are indeed intertwined with each other through a gradual process of legal globalisation but that they are not necessarily converging on a dominant US model. Rather we find evidence that new hybrid types of firms are arising in Europe out of a re-combination of elements of different national models.

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INTRODUCTION

Historically, the category of 'profession' was socially constructed within different national settings, primarily as a form of occupational solidarity and closure endorsed and supported by the state. This meant that although categories such as 'lawyers', 'accountants' and 'doctors' were common across different national contexts, in practice, the way in which they were organised, the systems of knowledge on which they were based and the rights and duties that were granted to them by the state varied significantly. This was particularly the case for the legal profession whose centrality to the governance of public and private life meant that in terms of organisation, structure and knowledge, distinctive national characteristics were deeply embedded. In recent decades, however, the practice of law has been changing in ways which complicate the link between national context and the organisation of the legal profession. This chapter, in particular, investigates the impact of globalisation on the organisation of business law firms.

Since the 1970s, corporate and institutional clients of law firms have increasingly become multinational and their demand for legal advice has changed to reflect this. Often, they search for advice not just about one jurisdiction but about many and expect this advice to be integrated and delivered in a consistent way across national boundaries. At the same time, legal regimes are themselves multiplying and evolving at different levels (not just national but also regional, e.g. the development of EU law and global, e.g. the WTO) and across both public and private arenas. As part of these changes, a significant number of law firms have internationalised themselves in a variety of ways – through creating formal and informal network relationships with firms in different countries, by setting up offices in other countries, by merging and acquiring firms in other countries.

These developments provide fertile territory for debates on how processes of change within law firms are affected by national institutional contexts. A substantial body of literature suggests that large American law firms have come to rule the market for global business law and international commercial arbitration (Dezalay, 1995; Dezalay & Garth, 1996, 2002; Shapiro, 1993). As a consequence, the dominant US organisational model of the mega-law firm that is characterised by the combination of large-scale, high specialisation and rationalised management techniques (Galanter, 1983; Galanter & Palay, 1991) is expected to spread around the world. The sources of this development are seen in functional pressures arising from economic, political and legal globalisation, such as the standardisation of international clients' requirements, the homogenisation of legal standards in key areas such as capital markets and the role of transnational institutions such as the WTO in establishing common rules that often follow or lean on American law and legal style (Keleman & Sibbitt, 2004). This trend might be reinforced by normative and cognitive isomorphism (Wiegand, 1991, 1996) as law firms from other countries search for legitimacy and reputation for their international operations. Assimilation (through merger or acquisition) into law firms that are perceived as globally leading players or the emulation of this model in their own mode of working may thus be perceived as promising strategies to achieve international recognition.

Others are more sceptical about the convergence of international law firms on the American model. Their arguments find support in the comparative literature on professions and varieties of capitalism. Whereas the former demonstrates that professionals within different national contexts have been historically highly adept at sustaining and protecting their own position (e.g. Halliday & Karpick, 1997; Thorstendahl & Burrage, 1991), the latter emphasises systemic qualities of particular models of capitalism that emerge from a historical process of co-evolution between economic actors, institutions and professional groups (Hall & Soskice, 2001; Morgan, Whitley, & Moen, 2005; Whitley, 2003, 2005). From this perspective, the distinctive nature of law firms from different countries and their role in the legal process is seen as continuously shaped by their interaction with a specific institutional context, i.e. the legal, economic and political system and the ways in which they foster or limit the contractualisation of economic relations and the judicialisation of politics. Changes in law and legal style which occur as a result of globalisation are regarded as path-dependent on the institutional context rather than converging towards one single model (Kagan, 1997; Teubner, 2001; Vogel, 1996), and law firms from other countries might as well draw on the institutional resources of their specific institutional background in order to expand their international reach rather than just adapting to the dominant US model.

In order to investigate these arguments, the chapter proceeds in the following way. First, we re-examine the theoretical concepts highlighting national differences between the legal professions. We illustrate the national variety in professional organisation by reference to key features of the business law firm in the US, the UK and Germany in the period up to the 1980s. In the second section, we consider the impact of the current globalisation period on the organisation of law firms. We examine how law firms from the US, the UK and Germany have internationalised and whether this process is leading to a dominance of the US model of the global law firm. Our argument is that changes in law firms from these different countries are indeed intertwined with each other through a gradual process of legal globalisation but that they are not necessarily converging on a single model. Rather we find evidence that new hybrid types of firms are arising in Europe out of a re-combination of elements of different national models. We conclude that further research on the internationalisation of law firms will benefit from a closer inspection of the interaction between path-dependent processes within societies and path-diverting influences from cross-border transfer and emulation.

NATIONAL DIFFERENCES IN THE ORGANISATION OF THE LEGAL PROFESSION

In the comparative analysis of professions, there are two forms of analysis. The first, more straightforward argument, demonstrates that the manner in which characteristics of professionalism, such as licensing, exclusion, certification and organisation, are constructed is dependent on the nature of the relationship established between the state and the profession (Johnson, 1972; Thorstendahl & Burrage, 1991). The more dependent the profession is on the state for its existence, rights and privileges, the less able it is to engage in activities to extend its sphere of influence. In effect, the nature of professional power is a reflection of the way in which the state relates to social groups within it; is the predominant mode of state engagement towards structuring and shaping social groups or is the state itself an outcome of the actions of social groups and not dependent or 'superior' to it? The latter reflects the development of professions in Anglo-Saxon countries while the former resembles more continental European models of professional formation.

The second form of analysis in the professions literature considers the knowledge that is constructed within the sphere of the professional and how conflicts over the control of this knowledge between occupational groups are central to understanding the boundaries that are drawn between particular professions (Abbott, 1988). This second perspective is particularly fruitful in relation to law and the legal profession where the interrelationship between knowledge arenas and professional practices varies in significant ways across national borders both within law itself, e.g. in the difference between solicitors and barristers in the UK system and between legal professions and others, e.g. accountants and the battle between lawyers and accountants over the area of tax law (Dezalay, 1993; Dezalay & Sugarman, 1995).

The literature on varieties of capitalisms and national business systems provides a broader understanding of the ways in which the development of the legal profession, and business law firms in particular, have been part of more complex relations between the state, economy and society. One key distinction between the so-called liberal and non-liberal economies (Streeck & Yamamura, 2001) is the degree to which economic coordination is achieved through market or non-market institutions. Whereas the former show a tendency towards a contractualisation of economic relations and conflict resolution by litigation, the latter are characterised by the prominence of alternative forms of hierarchical and organisational coordination and conflict resolution, e.g. through state intervention (e.g. in countries like France or Japan) or interest associations (e.g. in Germany or Austria) (Casper, 2001; van Waarden, 2001). The fragmented and arm's-length business environment (Whitley, 1999) in liberal market economies, such as the US and the UK, has fostered the development of privately provided intermediary services that helped to solve problems of uncertainty in funding, contracting and compliance. In these countries, service intermediaries played from an early stage of industrialisation a prominent role in bridging information gaps and fragmented societal spheres typical to the liberal model of capitalism. In countries with non-liberal forms of capitalism other social actors, such as the state and intermediary associations, played a more central role in economic coordination while service intermediaries remained less significant. Though all non-liberal market economies have experienced a considerable degree of liberalisation since the 1980s, these differences – in the argument of the varieties of capitalism literature – are still likely to be reflected in the demand for legal services and the role that law firms play as intermediaries in various countries.

The comparative literature on professions and models of capitalism, thus, highlights that an activity such as 'law', the professional actors and the knowledge and skills associated with it are constructed very differently across different societies. Applying these discussions to the English and German examples, the following key differences can be highlighted.[1]

In England, the formation of the legal profession preceded and in many ways shaped the formation of the modern state. The rise of Parliament and the legislature in the 17th century cemented the independent position and the self-regulation of the legal profession. At the same time, English Common Law with its emphasis on case law and the use of interpretation and precedent provided a fruitful basis for lawyers to extend the scope of forms of legal regulation and decision-making (Osiel, 1990). Legal entrepreneurialism became an essential element of the English legal profession. Rather than restrict its own activities or allow the state to do so, the English legal profession sought to extend its own mandate and jurisdictions in order to generate new and additional business, often undertaking professional and brokering tasks at the same time within the context of largely self-regulated professions (Osiel, 1990). This was particularly the case among lawyers involved in business law and related fields, as illustrated by their role in the establishment of joint-stock companies and the development of new financial instruments (such as bonds and later mutual funds in the 1930s).

After World War II, a small number of City-based law firms became integrally involved in facilitating the construction of financial products and aiding in their legal constitution. Although this may have led to jurisdictional disputes, particularly with merchant banks (less so with accountants who were generally low status in this particular corner of the English class system), in the main, the symbiotic relationship between the City and these firms worked highly effectively in providing a legal environment in which financial institutions could experiment and develop new products. As a consequence, City Law firms grew continuously in size. The crucial moment for the 'break through' of City firms into the league of the world's largest law firms came during the mid-1980s when a series of political and institutional changes occurred in the UK that opened up huge new areas of business for corporate lawyers (Flood, 1989, 1996). These included the Big Bang deregulation of the Stock Exchange, the Financial Services Act, the privatisation of state enterprises, the transformation of building societies assets from mutual to private ownership and a pension reform giving rise to increased private investment (for the international dimension of these developments see below).

The entrepreneurialism of the London City law firms did not extend to the same extent to provincial law firms but it nevertheless gave a distinct direction to the further development of large British law firms. The financial rewards for law firms from linking up with the financial institutions of the City of London were high. In terms of commercial law, this created a pyramid effect with the City lawyers at the top linked into the city markets and other provincial law partnerships beneath linked into their own local elite. Thus, most of the profession could benefit from this linkage though some benefited more than others. This became reflected in the leadership and politics of the professional bodies in England and Wales. Though overall characterised by the aim to maintain traditional professional values, and especially concerned to maintain a clear separating boundary towards the accounting and tax advisory professions, the English legal profession nevertheless proved flexible in adapting to changes in the political and economic environment (Abel, 2003). Faced with a growing demand for more complex legal services, the limit of maximum 20 partners in law firms was removed in 1967 giving way to the consequent growth of the London City firms and mergers with and between country law firms. Since 2001, law firms in the UK are also allowed to choose other corporate forms than the traditional partnership and can now be limited liability partnerships (Freeman, 2001).

The development of the legal profession in Germany represents an interesting contrast. During the 19th century, German states spearheaded by Prussia and Bavaria sought successfully to bring lawyers under state control (Siegrist, 1996). The Prussian model of a closed and state-regulated legal bar in which lawyers as well as judges had the status of civil servants became formative for the further development of the legal profession in the unified Germany. Even after the establishment of an independent and self-governing German bar association in 1878, the professional prototype of the lawyer continued to be modelled on the civil servant. This was intensified by the development of civil law regulations concerning trade and economy, such as the German Civil Code of 1896 that provided comprehensive legal codification. The German Empire built on the Prussian authoritarian state tradition regarding law as an unquestioned order to which citizens had to comply (Rueschemeyer, 1997). The professional and legal system in the German Empire, thus, offered fewer opportunities for lawyers to develop entrepreneurial qualities than in the British context.

This was reinforced by the direction that the development of German 'coordinated' capitalism took during the following decades. The establishment of strong business associations and semi-public organisations with a prominent role in interest intermediation (Streeck, 1992), the rise of large business concerns and the cartelisation of many industries (Kocka & Siegrist, 1979) and the influential role of large private banks in a bank-based financial system meant that non-market and non-contractual forms of economic coordination were more developed than in Britain or the US. Furthermore, tight regulation of the financial system, following the 1930s crisis, constrained legal innovation in financial products (Vitols, 2001) that was vital for the expansion of London City firms. In consequence, there was less demand for market-based legal advice, all the more as large German corporation and banks established in-house legal departments that internalised a considerable part of legal work (Kolvenbach, 1979).

This does not mean that business law firms did not flourish in Germany, but they remained smaller in size than their counterparts in Britain or the US. Indeed, German business lawyers played an active role in the development of joint-stock firms in the 19th century. They brought companies together to form cartels and organised mergers between corporations in the early 20th century (Kronstein, 1967) as well as striking deals with the private large banks. But their entrepreneurialism remained limited and evolved more as a joint undertaking with company and bank solicitors and lawyers working in public administration (Morgan & Quack, 2005a). Key decisions were taken by industrial and banking elites in the arenas of corporate governance. Lawyers tended to implement rather than shape these decisions in fundamental ways. 'Transactional lawyering' (dealing with the details of contract and business law) as opposed to litigation, advocacy and court-related work in general was of second-order significance in the German system. As a reflection of their smaller size, German law firms like their British counterparts were managed in informal ways by their senior partners who also played a key role in socialising and monitoring younger lawyers. Profit sharing between partners had a strong seniority component.

The majority of the German legal profession maintained a strong social and cultural distance from the needs and interests of industry and commerce (Siegrist, 1996) that was reflected in the status-group-orientated approach, a critical attitude towards the expansion of law firms in scale and scope, and towards professional standards that focused on the single-practitioner (Blankenburg & Schultz, 1988; McClelland, 1991). Legal education reflected this with a predominant emphasis on constitutional and administrative law and little on areas like contract drafting or tax law. Osiel (1990, pp. 2052–2053) summarises that the dominant view of law in the German case saw it as:

> … purely analytical, intellectual construct, a sealed system of logically interconnected propositions impermeable to the economic pressures of the business world … Whatever new opportunities for work and wealth the evolving social needs of the time presented to lawyers were thereby lost.

The growing complexity of legal issues and growing demand for private legal advice raised repeatedly controversial debates within the German Chamber of Attorneys, particularly in the 1920/1930s and in the 1960/1970s, about the degree to which lawyers should become engaged in commercial activities and whether the operation of large law firms was consistent with the ethics of a liberal profession (Passarge, 2003; Siegrist, 1996). The existing rules of self-regulation were criticised by business law firms in various local Chambers of Attorneys as limiting innovation and being dominated by the interest of solo practitioners (Rogowski, 1994, 1995) but there was no majority to achieve a fundamental change. The practice of lawyers remained restricted to the locality in which they were registered at a court. Though cooperation between lawyers (and lawyers and accountants) was possible and took place in the legal form of civil law association (*Gesellschaft bürgerlichen Rechts, GbR*), the size of these firms remained limited by the 'location principle'. Few German law firms had more than 10 partners in the early 1980s, long after restrictions on partnership size had been removed in England. This situation changed fundamentally in the late 1980s. Following a decision of the Federal Court of Justice in 1987 that declared the existing code of professional rules for lawyers as invalid, a number of reforms have taken place that liberalised the practice of law firms significantly. The admission of supra-local law firms has led to the establishment of national law firms through mergers between law firms from different regions. Whereas none of the largest corporate law firms had employed more than 50 lawyers (including partners and associates) in 1989, many of them doubled in size during the following three years, the largest one reaching the number of 112 lawyers in 1992 (Rogowski, 1995, p. 124). Since the late 1990s, law firms can choose to operate as limited liability partnerships (*Partnerschaft*) and limited liability firms (*GmbH*), and in 2000 the first incorporated law firm was admitted (AG) (Girotto, 2002).

It is interesting to compare both of these models to that of the US. While the US shared certain characteristics with the UK, e.g. the Common Law system and a liberal market economy, the nature of its economic and political development from early on placed its legal profession on a distinctive trajectory. Abel (1988) argues that 19th century Americans were already more likely to use law and litigation to maintain a sense of moral order than their counterparts in England and Western Europe. This was related to the more pluralistic and transient nature of the American society, considerable mistrust of citizens in any concentration of government power and their strong rights-orientation. In the context of an eventually evolving weak and fragmented American state, lawyers and judges represented – to use Alexis de Tocqueville's expression – the 'aristocracy' of pre-revolutionary America. Tocqueville also provided one of the earliest descriptions of what much later would be labelled the judicialisation of politics (Shapiro & Stone Sweet, 2002) when he wrote that 'scarcely any political question arises in the United States that is not resolved, sooner or later, into a judicial question' (de Tocqueville, 1945[1835], p. 290).

Within this context, the economic development of the United States at the turn from the 19th to the 20th century laid the ground for the triumphal procession of private practitioners and their influential role in the development of the American legal profession. The transformation of American capitalism from a small producer society into a world of large industrial corporations and big business was largely facilitated by lawyers. Perrow

(2002) even depicted lawyers in this period as the 'the shock troops of capitalism'. American business lawyers developed an unparalleled scope of professional activity, both inside and outside the courtroom. The anti-trust legislation that attempted to combat the misuse of economic power, for example, gave responsibility for judgements to the courts and thereby opened the floor for spectacular 'legal wars' between industrial giants each represented in the courts by an army of lawyers (Roy, 1997). At the same time, lawyers expanded their activities from legal advice into adjacent fields, such as the intermediation of financial and corporate deals. Overall, their focus shifted from representation at the courts to negotiations in the boardroom and to contract work in their offices. According to Galanter and Palay (1991, p. 1) American lawyers started to 'do more things for more clients and in more settings (not only the courts) than do their counterparts elsewhere' (see also Osiel, 1990). The growth of big business in the 'gilded age' of American capitalism, thus, was stimulated by the emergence of the big law firm.

The crucial thing about the growing size of law firms was that it enabled specialisation. It was Paul Cravath who in the first decade of the 20th century established a new organisation of the law firm by employing highly qualified associates from law schools on an understanding that they might progress to partnership after having worked as associates for extended periods. Under the up or out system, only a small number each year would succeed yet all the associates would work long hours in an effort to win the tournament. This employment system quickly spread across American law firms and allowed them to achieve growth in size and specialisation. The number of law firms with more than four lawyers increased significantly in the first two decades of the 20th century. In the early 1940s, it was not unusual for the largest American law firms to employ 40 or 50 lawyers – though most of them were still operating only in one city or region. According to Galanter and Palay (1991, p. 14) 'the large law firm – and with it the organization of law practice around the "promotion to partnership" pattern – became the industry standard'.

From the 1970s onwards, however, the large American law firm underwent significant changes that transformed it into the 'mega-law firm' (Galanter, 1983; Galanter & Palay, 1991). The size and geographical scope of law firms increased from the 1980s onwards, partly through inter-state mergers and the establishment of offices outside of the US, to an extent that formalised management methods were introduced to govern their activities. The promotion-to-partnership principle became diluted as various layers of permanent salaried personnel without any prospect of partnership were established that required a continuous input of large numbers of large cases. Lateral hiring of lawyers became increasingly common (Lancaster & Uzzi, 2004; Sherer & Lee, 2002). Competition for promotion within the law firm increased and performance-related reward systems for partners undermined traditional forms of solidarity. American mega-law firms, in short, became increasingly driven by commercial considerations of how to increase turnover and profitability through high partner-to-associate (leverage) ratios, maximising the rain-making capacities of their partners and having the legal work done by numerous associates and employees. This raised questions relating to the ownership and liability of partners in law firms, as reflected by the introduction of non-equity partners by a number of law firms and the admission of limited liability partnerships and other forms of incorporation for law firms by various US states in the 1990s (Hallweger, 2000).

The emergence of the mega-law firm resulted in a 'conjunction between the growth imperative inherent in the big firm's organisational form and a set of changes in the business and legal environment' (Galanter & Palay, 1991, p. 76). Among the latter, the merger and acquisition waves of the 1980s (Stearns & Allan, 1996) and the increasing financialisation of corporate governance in the US (O'Sullivan, 2000) deserve mentioning. Another important factor was the growth in litigation, with a significant number of cases involving increasingly complex issues and higher stakes than in earlier periods. Robert Kagan coined the term 'adversarial legalism' to describe the dramatic increase in judicialisation and litigation that the US experienced since the 1970s. Adversarial legalism is characterised by two key features: Formal legal contestation, e.g. competing interests and disputants readily invoking legal rights, duties and procedural requirements, and litigant activism, e.g. a style of legal contestation dominated by disputing parties or interests, acting primarily through lawyers (Kagan, 2003, p. 9). Kagan argues that the emergence of adversarial legalism relates to the inability of powerful actors, most obviously the state but also social groups such as the civil rights movement, trade unions and employers' associations, to impose their goals on others, in other words where 'authority is fragmented and in which hierarchical control is relatively weak' (*ibid*). The US federal system with multiple jurisdictional levels coupled with a market system that sustains diversity of forms of economic organisation is crucial to this adversarial legalism. Within this environment of adversarial legalism, mega-law firms with their abilities to search in the interest of the client systematically for precedents, to gather evidence on a large scale and to develop aggressive arguments, prospered and grew to a previously unforeseeable extent while also expanding their reach to foreign markets (Dezalay & Garth, 1996, 2001).

In conclusion, it can be argued that the development of law as a field of practice, of lawyers as a profession and of law firms as the organisational form of lawyering during most of the 19th and 20th century, have been influenced by (and in turn strongly influential on) the particular form of capitalism that evolved within particular national institutional settings. In consequence, law firms from these three countries developed different degrees of entrepreneurialism and varied considerably in terms of size and governance.

THE IMPACT OF GLOBALISATION ON LAW AND LAW FIRMS IN DIFFERENT NATIONAL CONTEXTS

The globalisation of economic relations in the last three decades has changed the environment for business law firms in three main ways – the nature of their clients, the nature of client demand and the nature of the law they deal with. Before turning to the issue of how law firms from different forms of capitalism have adapted (and contributed) to these processes, we briefly describe these changes.

In terms of the nature of clients, law firms have over the last decades come to deal with a growing number of multinational corporations, transnational business organisations and international institutions from increasingly diversified backgrounds. In particular, the national origin of multinational corporations has diversified as firms from outside the US and Britain have internationalised. Moreover, the activities of multinational clients of law firms are stretching across a growing number of different jurisdictional settings, as reflected for example by the growth of foreign investment of multinational corporations in Eastern Europe and China since the 1990s. Contemporary multinational clients will therefore usually require more complex legal advice than their precursors in the early post war period or clients which are just based in one jurisdiction – though it is not clear whether this advice needs to be organised as the 'one-stop' legal shopping service that the largest global law firms regard as so central to their competitive advantage.

In the past, subsidiaries of multinational corporations often turned to professional services firms from their home countries for advice and the latter eagerly followed their domestic corporate clients abroad (Dunning, 1989; Rose & Hinings, 1999). Law firms, in particular, used to advise their multinational customers overseas based on the law of their home jurisdiction, as exemplified by the early foreign offices of American and British law firms. In the contemporary period, the demand for such an 'export' of specific national types of law is particularly high in those areas of business law that are effected by the 'de-terriorialisation' of American and British business law (see below). In parallel, however, demand for more complex forms of cross-border and transnational legal services has grown as the national origin of multinational clients and the destinations of their economic activities have multiplied. In previous publications (Morgan & Quack, 2005a, b), we have proposed the following typology of legal services to encompass this variety:

- *Cross-border referral business.* This is essentially bi-lateral business that emerges from the internationalisation of trade with a client in one jurisdiction requiring advice in order to undertake some legal process in another country. It may include advice on debt recovery, contract enforcement, on incorporation procedures, on regulatory barriers to goods and services, etc. What is new about this field is that in the contemporary period of globalisation more and more small- and medium-sized enterprises require such services in support of their effort to be internationalised (Gessner & Budak, 1998).
- *Doing law simultaneously and in a coordinated way in multiple jurisdictions.* Competition law represents a field of law that often requires the provision of coordinated and standardised services across a number of countries, for example when mergers and acquisitions between multinational companies needs to be filed with and approved by multiple national competition authorities. To deal with such cases, law firms need to centrally coordinate the work done in different local offices but this can be achieved without intensive exchanges of information and expertise across the law firm as a whole. The preparation of simultaneous international public offerings (IPOs) at several stock exchanges in different countries is another field of law that operates along this pattern.
- *Arbitraging legal systems.* Multinational clients also require their lawyers to be able to judge and compare the impact of different regulatory frameworks on their operations. Given a multi-jurisdictional world in which there is an element of 'choice' of law, of incorporation, of taxation, it is crucial to economic actors that there are experts capable of helping them to strategise to maximise the advantages that can be gained from this (Picciotto, 1996). This is a highly complex process and requires the ability to create intensive communication, exchange of knowledge and mutual understanding between legal experts familiar with the legal rules of different national jurisdictions.

- *Building new systems of public and private law at the transnational level.* Law and institution building is a continual process at the international level (Djelic & Quack, 2003; Djelic & Sahlin-Andersson, 2006). Multinational clients require their law firms to be active in this process not just through acting for them in specific cases but through their participation in the processes of institution building itself. International law firms gain reputation (and through this the ability to charge premium fees) by their ability to interact with powerful lawmakers. This is reflected at all sorts of levels. In formal terms, it is demonstrated by the law firm's ability to respond to consultative exercises launched by various governments or international bodies on matters of corporate law (Morgan & Quack, 2006). In informal terms, it is reflected in the CVs of the lawyers present in these firms, e.g. their education in top institutions, their experience in government or politics and their role in prestigious international bodies.

The increasing complexity of the legal advice that multinational clients require from law firms is also related to the multi-layered nature of legal jurisdictions that is characteristic of the contemporary period of globalisation (Whitley, 2003; Zangl & Zürn, 2004). Two major trends can be observed. First, business law has increasingly become 'de-territorialised'. Contract law, in particular, does no longer automatically emerge from the physical place in which the contract is signed. In many circumstances, companies can and will exercise a 'choice of law', i.e. they will agree that the law under which the contract is executed is US law even though the contract refers to business being undertaken in China. Clauses for commercial arbitration follow a similar logic (Lehmkuhl, 2003). There is agreement in the literature that this 'de-terrorialisation' contains strong elements of an Americanisation, or Anglo-Saxonisation, of business law, particularly in the fields of contract and financial law. American, and to a lesser extent British, legal norms have been diffused to other national contexts and are increasingly used to fill the legal void at the global level (Dezalay & Garth, 1996, 2002; Keleman & Sibbitt, 2004; Levi-Faur, 2005; Shapiro, 1993).

The second important trend that contributes to the multi-layered nature of law is that supranational and international institutions, such as the European Union and the WTO, have gained in influence as legislators and adjudicators. Slaughter (2004, p. 15) describes this in terms of 'not only the devolution of state power upward to supranational institutions and downward to regional or local governments but also sideways to a fast-growing array of non-state actors, both civic and corporate'. The state remains indeed at the heart of many of the coordinating mechanisms across borders but its legal rules and judicative powers are now overlaid and networked with such non-state actors at a European or an international level. While there is considerable agreement in the literature that the legal uncertainty and ambiguity inherent in multi-layered systems in the absence of a world state has led to a judicialisation of politics (Shapiro, 1996; Stone Sweet, 1999; Zangl & Zürn, 2004) and private commercial arbitration (Dezalay & Garth, 1996), there is no consensus on whether this will give rise to a spread of the American legal style of adversarial legalism. Keleman and Sibbith (2004) argue that adversarial legalism has been carried deeply into the European Union by American law firms, Kagan (1997) himself is much more sceptical of the diffusion of American legal style as compared to American legal norms and has argued that the institutional and socio-cultural context in European countries is not supportive of adversarial legalism (see also Levi-Faur, 2005).

INTERNATIONALISATION, PATH DEPENDENCIES AND HYBRIDISATION OF THE GLOBAL LAW FIRM

In this section, we look at how US, UK and German law firms from their different starting points within distinctive models of capitalism have participated in these changes. We consider this in the following steps. First, we examine US law firms and the way in which their mega-law model has evolved in the context of globalisation. Second, we examine how UK law firms, while drawing lessons from the US model, in fact, developed their own distinctive pattern of internationalisation and organisation. Finally, we analyse how institutional changes in Germany enabled the late development of big law firms that subsequently choose quite different strategies of internationalisation and forms of organisation.

The internationalisation of US law firms reflects the interaction with processes of de-territorialisation of law described above. The development of US law practice towards the mega-law firm model provided them with advantages of scale and specialisation that made extending their reach overseas relatively straightforward in simple internationalisation terms. From the 1960s onwards, a number of US law firms were establishing a presence in London and a small number of other European capitals, primarily in order to service their US-based multinationals. They were leveraging their Wall Street-based knowledge in a new environment that was relatively open (i.e. London) and where the type of law being practised was not too far away from their home base. The numbers of US law firms with offices in London increased in the 1980s as these firms widened the target of their internationalisation from serving their long-standing US multinational clients to venturing abroad on their own (Spar, 1997), targeting both the financial market transactions in London and the emerging privatisation and merger and acquisition business in Europe. Spar (1997, p. 12) states that 'as of 1989, the 250 largest [US] firms had established 180 overseas offices up from 124 in 1985. By 1991, that number hit 252'. Reinforcing this, in their 2000 survey of US law firms with branches in London in the late 1990s, Cullen-Mandikos and MacPherson (2002, p. 495) report that 55.3% of them arrived before 1990 and the average age of the London subsidiaries was 18.5 years. Reflecting these developments, US outwards foreign direct investment (FDI) stock in legal services grew 30 times from $27 million in 1988 to $918 million in 2002 with FDI outflows increasing from $6 million to a peak of $297 million in 1999 (UNCTAD, 2004, p. 99). Keleman and Sibbitt (2004) state that 'between 1985 and 1999 the number of offices of American law firms in Western Europe more than doubled, from forty-three to ninety-nine. The total number of lawyers employed by American firms in Western Europe increased nearly six-fold in the same period, from 394 to 2,236'.

These facts, however, give only a partial picture of the globalisation of law firms. First, a comparison with the internationalisation of law firms from other countries shows that UK law firms are significantly more international in terms of the number of countries in which they have offices than international law firms originating from the US (see Table 1). The only

Table 1. Top 10 law firms in the world by gross revenue in 2002–2003.

Rank	Name	Home Location	Number of Partners/ Lawyers	Number of Countries
1	Clifford Chance	UK	580/2600	24
2	Skadden Arps	US	314/1366	14
3	Freshfields	UK	277/1327	20
4	Linklaters	UK	229/1036	22
5	Baker & McKenzie	US	621/3141	38
6	Allen & Overy	UK	265/1285	20
7	Jones Day	US	416/1319	13
8	Latham & Watkins	US	322/984	10
9	Sidley, Austin, Brown & Wood	US	412/886	8
10	Mayer, Brown	US	317/827	9

Source: For gross revenue, see *American Lawyer* (November, 2003); for number of partners, lawyers and countries, see UNCTAD (2004, p. 326).

exception is the US-based law firm Baker & McKenzie which is generally treated as distinctive from all other US law firms in that it is organised more as a federation of relatively independent offices (almost franchises which buy the international name of Baker & McKenzie).

Second, US mega-law firms tend to follow the strategy of what has been described as the 'exporting global law firm' (Morgan & Quack, 2006; see also Flood, 1996). This model of the global law firm is characterised by strong central headquarters that establish overseas offices primarily to capture very high-value business in a small number of world city centres or promising emerging markets by practising domestic law abroad. The core competences of lawyers in the overseas offices of large US firms are their knowledge of US law and legal techniques to serve both US clients and also multinational clients from other locations for which US law offers an attractive legal environment. The spread of American style contract law provides US law firms with lucrative business opportunities abroad as does the increase in international commercial arbitration. US law firms have in this way become powerful forces for the spread of American legal norms, techniques and style abroad while skimming the most lucrative legal work in this market (Dezalay & Garth, 1996; Keleman & Sibbitt, 2004).

Generally, the managing partners in the overseas offices of these firms tend to be US partners that remain part of the US firm in terms of reward system and are likely to return to the US after a period of years. In order to access a certain jurisdiction, such firms may acquire local law firms or hire local lawyers directly into their office, confident that their global reputation, the fees which they can charge, the salaries which they can therefore pay and the opportunities which they make available for local lawyers will bring them high-quality local recruits. Ideally these local lawyers should be knowledgeable of US law, e.g. have an American law degree, so that they can mediate between the US model of law and the local and regional legal system. Local recruits will be employed within the revenue-driven, highly specialised and leveraged system typical of the US mega-law firms.

Like their American counterparts, the internationalisation of British law firms followed not just their domestic clients but also the English law tradition. British law firms, however, could build much more on earlier international experiences they had gained under the British Empire and the Commonwealth. The export of the English legal tradition to the colonies and later on to the dominions laid the ground for the establishment of important outposts of the biggest English law firms, such as for example in Singapore and Hong Kong which during the post-war period became major entrepots for European and US trade into Asia. The centrality of London to the international trading system in the 19th and 20th centuries was also influential. As a centre of insurance, shipping, commodity markets and capital markets, London had attracted business from all over the globe. This business had been predominantly conducted according to English law and with the help of the City of London law firms, creating an 'international' environment within a national context.

Since the 1970s, London law firms were able to build on their competences in winning additional business overseas, benefiting from the liberalisation of capital flows, increased trading in currencies and the expansion of derivatives and other sophisticated financial instruments. In short, the international economic and political developments that made London an increasingly attractive destination for the expansion of American law firms gave also essential impulses for the growth and internationalisation of British law firms. In contrast to their American counterparts, however, British law firms were more strongly interested in gaining access to the legal services markets operating under the jurisdiction of the host countries of their foreign offices. Their expansion into lucrative foreign legal markets was spurred by the completion of the European Union and the European Monetary Union as well as the collapse of the Soviet bloc and the opening up of the Chinese economy. Anticipated and real competition with US law firms and the American big five consultancy firms further enforced this path of expansion.

Another particularity of the internationalisation of large British law firms is that it appears to follow a different model from that of their American counterparts. This 'integrative model of the global law firm' can be characterised in terms of two dimensions (Morgan & Quack, 2006). The first dimension refers to a federation of national partnerships as the overall governance structure. This reflects the much greater national variety within global law firms originating from Britain as compared to those emerging from the US context (see Table 1 above). Rewards and careers derive predominantly from performance of the individual within the national partnership. This makes it easy to refer clients across national boundaries and still capture at least for the firm as a whole the value of the advice given. At the same time, this facilitated the expansion of British law firms through acquisitions and mergers with law firms from other countries because national particularities in remuneration of partners could be more easily accepted than in the 'exporting model' of the US law firms. In at least one of the globally leading British law firms, i.e. Freshfields, the leadership of the firm reflects its geographical extension having been described 'as one-third English, one-third German and one-third the rest of the world'. Since its merger with Deringer Bruckhaus, it is said had 'two of almost everything: two senior partners and two heads of every practice group, one English, one German' (*The Lawyer*, 2004).

The second dimension on which the integrated model differs from the exporting model of the law firm relates to the role of practice and working groups within the overall firm. Global law firms claim to provide not just expertise about different national jurisdictions but also a wider knowledge of the transnational context described in the first section of this paper. Global law firms, independently of their country of origin, operate practice groups at an international level that bring together partners from different national context practising the same area of law. Practice groups have their own leaders in particular offices but also their own managing partners on the global level of the firm as a whole. Practice groups are the repositories of this diverse knowledge of institutions and actors. The practice group level of organisation can be reinforced in various ways within the firm, both through formal joined activities and more informal cooperation within the actual working practice. A preliminary investigation of the membership of practice groups in the law firms listed in Table 1 suggests, that while the leadership of many of these groups tends to be dominated by partners from the UK and US, respectively, their overall composition shows a greater geographical and national diversity in the UK law firms as compared to the US firms. It can therefore be expected that partners and junior lawyers in the former are more likely to develop multi-jurisdictional competences from their exchange and cooperation within practice groups than their American counterparts.

At the turn of the millennium, the largest British law firms had caught up with their US American counterparts in terms of the number of partners and lawyers (see Table 1). But it is not yet clear whether and to what extent this has given rise to a convergence of large British law firms on the organisational model of the US mega-law firm model. Though this has been debated since the 1990s, empirical evidence remains scarce. Morris and Pinnington (1998, 1999), investigating organisational changes in the mid-1990s on the basis of a sample of 184 UK solicitor firms, found that larger UK law firms were shifting towards 'managed partnership businesses', i.e. introducing coordinated marketing activities, intensifying quality control and evaluating more systematically their professionals. Like in the US, promotion systems were beginning to allow more frequent lateral hiring of associates. These authors, however, also identified continuity with the traditional British partnership model, particularly in terms of partner control over client relations and the continued operation of seniority-based profit sharing between partners (as opposed to US systems that distribute profits on the basis of individual performance). Flood (1999, p. 155), in his comparison of two corporate law practices in Chicago and London, came to similar results and concluded:

> … patterns of organization in English firms have altered and in many ways become similar to the American model. But the transformation has not been complete, nor is it likely to be so. There is a range of institutional factors that militate against assimilation of the two legal professions.

As described above, German business law firms developed within an economic and institutional context that was quite distinct from that of law firms in the United States and the United Kingdom. The legal market in Germany, though highly profitable in international comparison, offered neither the scale effects of the US market nor the opportunities for international business inherent in the British system. During most of the post-war period, the leading German business law firms conducted the bulk of international services for their corporate clients through referral and best friend relationships with law firms abroad, including Wall Street and London City law firms. These firm networks were often based on personal contacts between partners, and benefited from the fact that from the 1960s onwards young German lawyers aspiring to a career as business lawyer were increasingly likely to take a second law degree abroad, particularly in the US and in Britain. As an analysis of the lawyers employed by the top 10 law firms in 2005 showed, 1 out of 10 lawyers born before 1949 (9.6%) and 2 of 10 lawyers born in the 1950s (19.4%) reported having in addition to their German law qualification, a foreign law degree (Morgan & Quack, 2005a). The competences of lawyers and partners of German business law firms had an international dimension long before their law firms began to consider mergers or formalised network relationships with foreign law firms. Overall, however, they lacked the incentives which the expanding financial markets in the US and in the City of London gave to American and British law firms, particularly since new financial products were positively discouraged in Germany until the late 1980s (Morgan & Quack, 2000). As a result, German law firms had only very limited competences in the area of innovative financial products. Up to 1990, for example, none of them maintained an office in London (Abel, 1994, p. 791).

Rogowski (1995) reports that from the mid-1980s onwards German law firms became particularly active in European law because they wanted to prevent this area of supra-national law from being captured by big British, Dutch and American law firms after the Single European Act of 1986. According to this author, 14 of the top 100 German law firms had opened offices in Brussels by 1992. Others were cooperating with foreign or German law firms in joint offices there. German firms also operated outside of Brussels. Out of the top 100, 26 law firms had up to three foreign offices in foreign countries in 1992 (including locations such as New York, Paris, London, Tokyo, Beijing, Budapest, Prague, Stockholm, Vienna and Warsaw). As the mergers between the largest German law firms unfolded in the 1990s, following the admission of the supra-local partnership, they consolidated and expanded their foreign offices. This rapid growth was facilitated by German unification which in 1990 opened up business opportunities for law firms in the privatisation of Eastern German state enterprises and thus allowed them to establishing a body of knowledge and practice which was transferable to the transformation processes in Central and Eastern European countries. While some German law firms merged with local law firms in these countries, others established their own offices staffed with lawyers qualified in German as well as local law.

The completion of the European Union and the German reunification, in turn, made Germany an attractive entry into the evolving larger European legal market. By 1991, 10 foreign law firms had established a presence in Germany most of them choosing Frankfurt as the country's financial centre as location. The deregulation of its capital markets, privatisations of the state sector, the infant but rapidly expanding market for mergers and acquisitions (M&A) offered lucrative prospects. The German corporate law firm elite, however, was able to fight off the initial challenge of the US and UK firms quite easily in the early 1990s. Both UK and US law firms found entry into the German corporate law market much more difficult than they had expected (Lace, 2001). In order to serve German customers, they needed to invest in knowledge and competences of the local jurisdiction. In practice, this could be obtained only through the recruitment of German lawyers – an undertaking that proved to be a slow and difficult process as lateral hiring was still very unusual even between German law firms at this time, never mind moving into foreign firms. UK and US law firms were further hindered in enlarging their practice by the lack of offices in other cities which were quite important in the context of the decentralised German system. As a result, their activities remained during the first years of their operation confined to a small, but slowly growing market niche of advising German clients on Anglo-Saxon law. As Rogowski (1994, p. 26) states in terms of their overall impact in the early 1990s 'the American and British law firms that have established offices in Frankfurt and in other German cities are not taken seriously by the snobbish German law firms'. The German system of coordinated capitalism where networks of relations between firms, lawyers, state and other institutions was central meant that there was still resistance to overseas lawyers and overseas law, whether from the US or the UK.

This situation has changed dramatically over the last decade. Three major internationalisation strategies can be observed among German law firms: mergers with large UK law firms, intensification of best friend networks, and organic growth. As a consequence, a variety of different models of the global or international law firm are evolving out of which the two former at least are competing with the mega-law model of US firms.

The first, and most pronounced change, was the gradual move of the largest and most established German law firms towards mergers with large Anglo-Saxon law firms. This merger movement gained surprising momentum during the period from 1999 to 2002, transforming the landscape of business law firms in Germany drastically. Whereas independent German firms still dominated the scene in 1998, by 2002 the list of the top 10 law firms in Germany was populated predominantly by German firms that had become part of large British law firms (see Table 2). German lawyers joined the UK firms not on a one-off basis (i.e. through lateral hiring of

Table 2. Top 10 Law Firms in Germany (by turnover) 2002.

Rank	Law Firm	Total Turnover (million €)	National Origins	Equity Partners/ Lawyers	Number of Local/Total Offices[a]
1	Freshfields Bruckhaus Deringer	285	UK-Germany	166/499	6/28
2	Clifford Chance Pünder	151	UK-Germany	57/409	4/30
3	Hengeler Müller	149	Germany	73/203	3/7
4	Linklaters Oppenhoff & Rädler	145	UK-Germany	78/344	4/30
5	CMS Hasche Sigle	125	Germany, UK, Austria NL, Belgium	137/324	9/14[b]
6	Lovells	106	UK-Germany	79/254	5/25
7	Gleiss Lutz	93.8	Germany	63/218	4/7
8	Baker & McKenzie	83	US	41/176	4/61
9	EY Law Luther Menold[c]	82.8	US-Germany	105/280	12/16
10	Nörr Stiefenhofer Lutz	82.5	Germany	54/207	5/10

Sources: Websites and annual reports of law firms, are downloaded from June, 2004; figures on turnover, equity partners and lawyers are based on JUVE Rechtsmarkt (October, 2003).
[a]Figures do not include associated offices.
[b]Offices of German law firm CMS Hasche Sigle.
[c]Figures are based on the period 01.09.2002–30.06.2003, projected to 12 months.

individuals) but through en bloc mergers with an expectation of some continued autonomy in partnership areas. They now constitute one of the most significant national practices within Freshfields, Clifford Chance and Linklaters. Even in Clifford Chance, the law firm with the largest US presence, German partners make up the second largest grouping. The distribution of turnover follows a similar pattern. In Freshfields, turnover in Germany is 23% of the global turnover compared to London being 41% of global turnover. The next largest turnover came from the Paris office (with £70 million, about 9% of global turnover) and the US was only £24 million. Clifford Chance has the most developed US position of the firms reflected in the fact that US turnover contributed around 23% of total (compared to London 41% and Germany 11%) (Morgan & Quack, 2005a).

What these firms seek to do is to combine the capacity to deal in as many key legal jurisdictions as possible with a consistent and coherent quality of service across national boundaries. Such firms have competence in US law, UK law, EU law, German law and various other national legal systems. Their diversity is higher than that displayed in the US law firms. This is reflected in a variety of ways – the diversity of origins of managing partners, practice group managers and international committees more generally, the diversity of the legal experience of new associates and partners, the diversity of roles undertaken by senior partners in international associations.

However, it is also important to note the two other internationalisation paths of German law firms. The German law firms Hengeler Müller (ranked 3rd in terms of turnover in 2002) and Gleiss Lutz (ranked 7th) have continued and intensified their best friend networks with highly prestigious firms in global financial and commercial centres abroad. The former is associated with the London based 'Magic Circle' firm Slaughter & May, Uría & Menéndez in Madrid, Allens Arthur Robinson in Sydney, Mannheimer Swartling in Stockholm, Anderson Mori in Tokyo and Cravath, Swaine & Moore and Davis Polk and Wardwell (both from New York and ranked 2nd and 6th, respectively, in the FT's table of the most profitable law firms in the world measured by profits per equity partner: FT 22/03/04). Gleiss Lutz is linked up with the London law firm Herbert Smith and Stibbe, a Brussels-based firm with offices in Amsterdam and New York. Together they provide service through a combination of own offices in Europe and associated firms in Europe and Asia which constitute a network of 'best friend' and preferred law firms across the globe. Over the last decade, the cooperation of these firms in terms of mutual internship of lawyers, joint project work and practice groups has increased – a development that some commentators see as the precursors of future mergers.

Last, but not the least, there is a third group of German law firms that have decided to stay independent and to extend internationally mainly into Eastern Europe with some limited growth elsewhere. A key element of this is the expertise developed in the privatisation process of Eastern Germany as well as a strategy of following the client, i.e. the German multinationals which are so important in Central and Eastern Europe. Legal opportunities also arise because most of these systems are based on the Civil Law tradition, and legal advisors from Germany and other continental European countries were quite influential in shaping legal reforms during the transformation process. Therefore, some of the principles of the German model of law making can be transferred into this context more easily than can the US or UK tradition of common law. Nörr Stiefenhofer Lutz (10th largest), for example, fits this model as do Haarmann and Hemmelrath (11th largest) and Beiten Burkhardt Goerdeler (14th largest). These firms have additionally opened offices in Asia in order to serve German corporate clients that have invested there. What is also interesting is that these firms are developing their international capacity by employing lawyers with multiple qualifications. This is most clearly seen in relation to their recruitment practices in Germany itself where increasing numbers of lawyers in these firms have LLM qualifications from the US or the UK and have sometimes served in law firms in those societies. Though these firms in terms of size and competences tend to play in a different 'league' of legal transactions and corporate customers than the large global law firms of the 'exporting' or 'integrated' type and the best friend networks discussed above, they nevertheless signify a distinct model of internationalisation that so far seems relatively successful.

Overall, the coexistence of different models of internationalisation between US, UK and German firms suggest that while international law firms are competing in similar markets and to some extent learning or imitating from each other in their strategies and organisational models, there are equally strong historical and institutional path dependencies that shape their development. The outcome of these countervailing pressures may well lead to the co-development of a variety of models of global and international law firms rather than the dominance of one singular type such as the US mega-law firm.

CONCLUSIONS

In this chapter, we have proceeded from a review of theoretical concepts that emphasise national differences between the legal professions to an analysis of the impacts of the current period of globalisation on the organisation of law firms. We have illustrated the national variety and the pressures for international convergence by reference to the development of business law firms in the US, UK and Germany.

The system of US legal practice and law firms was distinctive from that in the UK and Germany. Even though it shared the Common Law basis of the US, the UK did not experience a similar degree and increase of adversarial legalism. The inter-relationship between the state, corporations and the public was very different from that established in the US and this was reflected in lower levels of judicialisation in the sphere of corporate affairs and economic life more generally. Legal practice and law firms in Germany were even further away from the US model. Within the context of a Civil Law system and forms of economic coordination in which interest organisations and the state played a prominent role, contractualisation and judicialisation remained both less pronounced.

Our analysis shows that the development of business law firms in these societies has been indeed closely intertwined with the distinctive evolution of the legal profession as whole and the role of law firms in each country's dominant mode of economic coordination.

Our argument is that changes in law firms from these different countries are indeed intertwined with each other through a gradual process of legal globalisation but that they are not necessarily converging on a single model. Rather we find evidence that new hybrid types of firms are arising in Europe out of a re-combination of elements of different national models. We conclude that further research on the internationalisation of law firms will benefit from a closer inspection of the interaction between path-dependent processes within societies and path-diverting influences from cross-border transfer and emulation.

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NOTES

1. For a more detailed treatment of the historical development see e.g. Abel (2003), Abel and Lewis (1988), Auerbach (1976), Halliday and Karpik (1997), Rueschemeyer (1973), and Siegrist (1996). For a more thorough discussion of the similarities between the British and German cases see Morgan and Quack (2005a).

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