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A **Presenter** Symposium Proposal for the 2017 Academy of Management Annual Meeting

## A DIALOGUE ON GOVERNANCE IN PROFESSIONAL SERVICE FIRMS SETTING A NEW RESEARCH AGENDA

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Presenters & quick overview:

<p><b>Intro to the symposium:</b> Frans Bévort &amp; Søren H. Jensen (5 min)</p> <p><b>Intro to presentations:</b> Flemming Poulfelt (5 min)</p> <p><b>1. Towards a collaborative PSF-research frame-work</b> Frans Bévort (10 min)</p> <p><b>2. Power, Politics and Professionals: the Leadership Constellation</b> Laura Empson (10 min)</p> <p><b>3. Exporting Governance Regimes across Borders: the Case of the One-Firm model In Italy</b> Daniel Muzio (10 min)</p>	<p><b>4. Taxonomies of Professional Service Firms and their Implication for Cross-Profession Research</b> Andrew Von Nordenflycht (10 min)</p> <p><b>5. The extant literature on PSF governance</b> Søren H. Jensen (10 min)</p> <p><b>6. Structural, Cultural Forces that Shape the Governance of PSFs</b> Huseyin Leblebici (10)</p> <p><b>Discussant:</b> Bob Hinings (10 min)</p> <p><b>Q&amp;A:</b> Presenters &amp; Attendees (10 min)</p>
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## INTRODUCTION AND MOTIVATION FOR THE SYMPOSIUM

Governance and management of Professional Service Firms (PSFs)<sup>1</sup> have generated a still greater interest from the public as PSFs have become a still more vital part of the global economy and less flatteringly, the part the firms have played in the great scandals in relation to the global financial crises and elsewhere. To give a measure of the relative impact of the sector: in 2014 the largest accounting firms, the “Big 4”, had a turnover of US\$120.3 Billion, growing from \$75 in 2003 before the global financial crises. The firms employed 756.000 people of which 580.000 were professionals (Big4.com, 2015)<sup>2</sup>. The total value of the professional services sector globally in 2014 was \$2,160 billion. Given that World Domestic Product was approximately \$78 trillion in 2014, the market makes up about 2.0% of the global economy (Businesswire, 2016)<sup>3</sup>.

Apart from this, the PSFs have attracted a lasting and growing interest from management scholars because they are managed in a way that departs radically from traditional organizations (e.g. Greenwood, Brown and Hinings, 1990; Cooper, Hinings, Greenwood and Brown, 1996; Brock, 2006; Bévort & Poufelt, 2015). The recent Oxford Handbook of Professional Service Firms bears testament to the continuing vibrant interest in the study of PSFs (Empson, Muzio, Broshak & Hinings, 2015). Among many others, the chapters on Governance (Leblebici and Sherer, 2015) and

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<sup>1</sup> PSFs are a common label for organizations which deliver services to clients based on professional knowledge and skill, i.e. law firms, accounting firms, architectural firms, but in principle all specialized advisories. They are often organized as “partnerships” which means that they are owned by (a number of) the senior professionals in the companies.

<sup>2</sup> <http://www.big4.com/wp-content/uploads/2015/01/The-2014-Big-Four-Firms-Performance-Analysis-Big4.com-Jan-2015.pdf>

<sup>3</sup> <http://www.businesswire.com/news/home/20160202006388/en/2.1-Billion-Global-Professional-Services-Market-Briefing>

on the Homogeneity and Heterogeneity of PSFs (Nordenflycht, Malhotra & Morris, 2015) are of interest for the purpose of the present symposium.

Research on professional service firms (PSFs) has been rapidly developing over the last almost thirty years, especially emphasizing both PSFs' distinctiveness and their current challenges. Some of the reasons for this are that the professional service industry has been growing fast and in average more than many other industries, and thus play an increasingly important role in our society and economy as well as the fact that research prior to this development has been limited.

Since the early Alberta studies of the professional partnership and PSFs (Greenwood et al., 1990; Cooper et al., 1996; Hinings, Greenwood, Cooper, 1999) there has been a growing number of studies of the management and governance of PSF has developed (e.g. Brock, 2006; Malhotra, Morris and Hinings, 2006; Faulconbridge and Muzio and, 2009; Empson, Cleaver & Allen, 2013).

Among the issues being put in focus is 'governance' and this theme has long been central in the literature on professional service firms. With respect to practice, governance in PSFs has been designed, configured and managed in different ways. The reason for the increased focus on governance in PSF's stems from some of the key characteristics of professional service firms and especially the professionals engaged in the firms. As such many professionals have an expectation of building their own business or being partner in a firm. At the same time many professionals have a resistance to managerial control (Nordenflycht, 2010). A key question is therefore how to develop governance structures taking care of the business and at the same time not restricting the professional entrepreneurship and drive. At the same time governance also keeps the entrepreneurialism and the organization as such accountable. Furthermore most professional service firms also work with issues closely related to governance in their clients' organizations.

This is particularly the case for IT, management consulting, lawyers, architects and accountants. Finally, governance of PSFs is related to the ethos, which is inherent in professional work and to which governance and compliance to legislation and ethical guidelines play a critical role. In this way the public scandals, as for instance Enron/Andersen, raise questions concerning the way governance in PSFs has developed in terms of the public obligations and legitimacy of PSFs.

Previous studies have presented dichotomized models of organizational archetypes and legal form: Professional partnership versus managed professional business, adhocracy versus professional bureaucracy, partnership versus corporation, and private versus public corporation (Empson 2010). While this does provide insight into the workings of PSFs it is also a limiting view since the governance structures are seen from a static perspective. However, other studies have also merged illustrating the variety of governance thinking in a PSF context (See for instance: Imrie & Street, 2009; Maritz, Pretorius, & Plant, 2011, Harlacher & Reihhnen, 2014; Lel & Miller, 2015; Low, Gao, Shang & Mohdari, 2016; Lu & Yan, 2016).

Governance is an ambiguous term encompassing organizational structures, establishing rules and policies for how organizations should be managed and led as the oversight of such rules and policies. In addition to the overarching term of governance, there is strategic governance, corporate governance, collaborative governance and compliance. All concepts are developed to lend it more precision. Ansell & Gash (2007) note that the term “Governance” while both useful and important for understanding the working of governments and organizations is also somewhat problematic owing to the difficulties in establishing a consistent definition.

In addition its broadness underlines its importance. In today’s complex society looking into the forms and rules that guide collective decision-making makes a lot of sense. Particularly for PSFs

who are complex organizations themselves due to the nature and qualities of their service offerings and the configuration of professionals, often collectively owned and managed and who often help other organizations on questions of governance. Harlacher & Reihlen (2014) note that governance can be seen as an overarching term that relates both to control and ownership of organizations (PSFs). Yet, while sharing many similarities across professions such as law, consulting, accounting, architecture, engineering, advertising and bio-tech (Jensen & Poulfelt, 2017; Nordenflycht, 2010) the way PSFs are being governed varies significantly (Harlacher & Reihlen, 2014). In addition there has not been written much about governance in a PSF context in a particularly coherent manner. Rather we see a variety of approaches with little or no connection between the contributions. Consequently both researchers and practitioners are missing out on important issues and the discourse in this field is too scattered to gain momentum.

#### ADDRESSING THE ISSUES IN THE EXTANT RESEARCH ON PROFESSIONAL SERVICE FIRM GOVERNANCE

While the extant research of PSF governance has brought about much needed attention to the field there are several problems and lacuna in the extant body of research. The symposium aims to explore the possibilities to overcome these shortcomings and take the first steps to develop a more comprehensive research approach and agenda.

We see at least four broad groups of issues in the extant body of research, which the symposium is planned to address (although not excluding others):

##### *1. Heterogeneity unaccounted for*

A first set of issues have to do with taxonomic issues as Andrew von Nordenflycht (2010) effectively address. PSFs are very different and only few studies reflect this. This means that we learn about governance in a piecemeal way, i.e. in accounting firms or law firms.

We tend to discuss PSF as if there is homogeneous group of organizations we can study in a straightforward way. The fact is, as Nordenflycht points out, that PSFs are fairly heterogeneous. He classifies the PSFs as “Classic PSFs”, “Professional Campuses”, “Neo-PSFs” and “Technology developers” (ibid, p. 165), but shows that research in a number of leading journals overwhelmingly have studied the Classical PSFs (2010, p. 156), i.e. Law firms, Accountancy firms, with Management consulting (Neo-PSFs) as a strong runner up. The discussion of the variation in management and governance is developed further in Nordenflycht (et al., 2015). However, **Multi-disciplinary studies** are still very rare.

### *2. Superficiality or lack of richness*

Another problem is grounded in the challenges of studying the inner workings of PSF-management (Suddaby, Greenwood & Wilderom, 2008), despite the fact that many PSF-studies are case-studies, and much is written about management and partnership at a strategic level, we seldom learn much about their **HRM-practices or other interaction level management practices**.

As Suddaby, Greenwood & Wilderom (2008) state in the introduction to a special issue on PSF research:

“...in our view (...) there is a considerable gap in our knowledge and understanding of the *internal* workings of contemporary professional service firms. We actually know relatively little about human resource and related practices within these firms...” (Suddaby et al., 2008, p: 990).

### *3. Idiosyncrasy, low N-studies*

Thirdly, a very large part of the PSF studies is made of single or small group case studies, which of course is creating the opportunity for close-up studies and insights. However, it makes it difficult to get an overview of the relevance and precision of analyses and theories about PSFs within disciplines as well as between disciplines and create bases for theory building by making

**comparisons across the field.** Thus it raises issues of generalizability. Is this something to strive for? Is it possible to obtain? What are the barriers?

#### *4. Parochialism, mono-cultural studies*

Finally most studies are also situated in one (or a few) countries despite the fact that many of the major PSFs are among the most globalized companies in existence. If we want to have a credible understanding of PSF governance, we need to follow the management practices **across borders, regions and continents** exactly because many PSFs today have a global presence. This would allow us to identify which part of the variation in governance stem from the local national/regional practices and what is in the end inherent elements of PSF's organizational form.

### THE SYMPOSIUM

The symposium sets out to start a dialogue among researchers of governance and management of PSFs about how a new research agenda can be realized and how it is possible device research designs and methods which can support this agenda. How can we create PSF-research programs and research collaborations which address the need for:

- More multi-disciplinary studies
- More studies of interaction level management and HRM-practices
- Better comparisons across the field
- More studies across countries

The invited panelists are all prominent contributors to the PSF-literature and -research and their presentations will highlight specific areas within the aim of the symposium.



## PAPERS AND PRESENTATIONS

In paper 1, **Frans Bévort, Flemming Poulfelt and Søren Henning Jensen** make an outline of how a collaborative multi-disciplinary, standardized, quantitative and qualitative global research platform could be designed and organized. The idea is to make a research “franchise” which can be the core of a research-network of PSF-researchers who develop a survey tool which can monitor PSF-governance across organizations, disciplines, nations in a way that makes productive comparisons possible. To assure the quality and development of the survey instrument, but also in order to gather rich supplementary data, a qualitative research-work is proposed as well.

In paper 2, **Laura Empson** presents a study which in many ways shows the way in terms of transcending as well the “low N” issue, the lack of multi-disciplinary studies as being a thoroughly multinational study. The paper and presentation is based on the book *Leading Professionals: Power, Politics, and Prima Donnas* and is based on more than 500 interviews, conducted in 16 countries representing management consulting, accounting and legal professional firms. The organizations include partnerships, privately held and publicly quoted corporations.

In paper 3, **Daniel Muzio**, present a study which show how a specific “governance regime” is exported from UK to Italy, as a template for the globally integrated law firm. This contemplates a single profit pool, a globally integrated lock-step structure for partner remuneration, integrated promotion and career progression pathways, centralized decision making and high levels of standardization. This departs significantly from governance regimes in other jurisdictions such as the USA or Italy. The study exemplifies a qualitative approach to studying PSF-governance across countries.

In paper 4, **Andrew Von Nordenflycht** discusses the role of *taxonomy* in PSF research and the importance of getting an operational delimitation of the concept. He proposes a taxonomy for PSFs. The taxonomy should help the field include a wider range of industries in empirical research. An ambiguous definition likely led researchers to focus on a narrow set of professions that were “safely” considered PSFs. By providing explicit criteria to identify different types of PSFs, the framework should allow researchers to be more confident in studying a wider range of services.

In paper 5, **Huseyin Leblebici** discusses PSF governance from yet another perspective. Recently, the core of governance research in PSF has been shifting from a focus on dichotomized models of organizational archetypes imbedded within the legal structure to a broader focus that, among other things, takes into account the evolution of governance mechanisms within firms. The objective of the paper is to focus on these new trends, specifically the influence of the professions both in terms of their institutional expectations and their unique knowledge structures and the nature of their client relations.

In paper 6, **Søren Henning Jensen and Flemming Poufelt** seek to create a new platform for studying PSF-governance base on a consolidation of the extant literature. A key concern in the paper is how to develop governance structures taking care of the business and at the time not restricting the professional entrepreneurship and drive. Professional service firms must therefore find governance means of controlling and coordinating activities, which allow entrepreneurialism. Based on a literature review the purpose of the paper is to present the identified patterns in the literature and the potential implications for PSF governance in practice.

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# 1. TOWARDS A COLLABORATIVE PSF-RESEARCH FRAMEWORK – A PSF-GOVERNANCE RESEARCH “FRANCHISE”

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The basic idea behind the research program presented in this paper is to facilitate research into PSF-governance which makes it possible to compare similarities as well as differences within disciplines, across disciplines, globally and with the high granularity of field-studies.

We have seen in the introduction to the proposal that previous research that research into PSF governance has been lacking in a number of ways. A fundamental problem is the issue raised by Nordenflycht (2010), that it has not always been clear what researchers mean by the PSF-concept. Many studies refer to a very inclusive definition of PSFs and then often ends up discussing PSFs

**TABLE 1**  
Cited Examples of Professional Service Firms

Industry	Count (Out of 30)
Accounting	26
Law	26
Management consulting	25
IT consulting/design	8
HR consulting	4
Technology consulting	1
Engineering consulting/design	16
Advertising	15
Architecture	13
Investment banking	11
Marketing/public relations	7
Physician practices/medicine	5
Real estate agencies	5
Insurance brokerage	4
Software development	4
Actuarial services	3
Executive recruiting	3
Media production (film, TV, music)	3
Research firms/R&D labs	3
Education/teaching	2
Financial advising	2
Investment management (hedge funds, VC, mutual funds)	2
Talent agencies	2
Universities	2
Fashion design	1
Graphic design	1
Hospitals	1
Professional sports	1
Project management	1
Quantity surveying	1
Risk management services	1
Social work agencies	1

based on their insights into what Nordenflycht call Classic PSFs; law firms, accounting firms and architecture are accounting for 69 of 205 PSF-studies distributed on 30 different types of PSFs of all the cited studies in this review of major academic journals which publish PSF-studies (by Nordenflycht, 2010, p.156).

As the table suggests, there are precious little systematic knowledge of a long range of PSF-disciplines. The same is the case with the lack of comprehensive comparative studies across the single disciplines, even though there are more studies available. There is a growing literature

on the globalization of typically particular PSFs (see Empson and Muzio in this proposal) or

smaller groups – as the Big 4, but there is still a need for more comparable data. These research issues seem to call for some kind of standardization and collection of a quantitative empirical data set. However, we do not think that this is sufficient to get a proper understanding of PSF-governance. We suggest that it is not possible study PSF-governance if we leave out field studies which includes case-studies and interview-studies and even ethnographic type studies. This is necessary in order to get past the rationalizations which are common-place in PSFs in the sense that they profess to enact specific management practices which are either not enacted, or radically transformed in the process (Bévort & Poulfelt, 2015).

How can we then create PSF-research programs and research collaborations which address the need for:

- More multi-disciplinary studies
- Better comparisons across the specific disciplines
- More studies across countries
- More studies of interaction level management and HRM-practices

The first challenge will be to decide on common PSF governance research-themes which will be relevant to study across all or most PSFs. The next will be to design a robust methodological framework which can “travel” across disciplines and countries. And finally this has to be organized in a multi-national research-network.

## RESEARCH THEMES

Nordenflycht (2010) finds consensus in the literature of three distinctive characteristics of PSF:

- Knowledge intensity
- Low capital intensity
- Professionalized workforce

All of these have consequences for the understanding of governance: The knowledge intensity creates difficulties for as well clients and partners to monitor the amount as well as the quality the work performed by the professionals employed, leading to the high level of autonomy of operatives and “cat herding” issues. The low capital intensity means that the capital is primarily human, and that owners are often found among the professionals themselves. The professionalized work force is in many way the cornerstone in the PSF-governance system; a high reliance on trust and ethical norms and standards which is policed by the professionals themselves. Therefore these three elements are a good starting point to define a set research of research themes:

- The character of the professional tasks and work: How standardized – taylor-made is the work done? How knowledge intensive is it?
- Ownership: What role does the ownership play in the governance? If a partnership what is the leverage between owner and non-owners?
- Professional profile: Composition of workforce in terms of professions, level of training, generalists – specialists, relative power of the existing professional groups etc.
- Human capital, leadership and organizational issues: How is the quality of professional workforce maintained and developed, how are leadership and management developed?

Of course the specific themes will have to be decided by the project research-group before the concrete operationalization can be made.

## RESEARCH METHODOLOGY

In order to create a comparative data-set to study PSF-governance, a central tool will be a survey instrument which can be applied across countries and translated where necessary. The survey-tool should be focusing on management and governance behaviors, roles and structures rather than more opinion-based interpretive questions. The aim is to get an over-view of practice which makes sense across the disciplinary, organizational, and national differences within PSFs.

Here inspiration from research networks as the Cranet-HRM research network ([www.cranet.org](http://www.cranet.org)) can be useful. This HRM-survey has surveyed HRM-practices in a range of countries since 1989 (Brewster, Mayrhofer, & Reichel, 2011; Brewster, Hegewisch, & Lockhart, 1991). It not a simple task to manage such a multinational survey tool and keep the system consistent and the data sufficiently pure. Therefore the survey set-up should be as simple as possible, with a core of critically important elements, which can then be amended for local purposes.

In addition to the survey instrument, we think it will be possible to create format for qualitative studies as well. Of course this may seem as odds with some of the core assumptions in qualitative research methodology. However we think it is possible to create a set of core research questions, and number of criteria for the data collection which makes it possible to compare the results across the case-studies, interview-studies and ethnographies. Preferably these studies would be undertaken by or in cooperation with the team who administers the survey.

The ambition should be to create a longitudinal format that has the aim of mapping the development of PSF-governance, which will also create the need for a constant development of the tools while keeping the core set of parameters constant.

## RESEARCH ORGANIZATION

The project is based on the assumption that it is possible to connect a number of interested PSF-researchers who want to do the survey-work in their own country. The project should be scaleable in the sense that a small group of partners could start the project and then attract new partners at a later instant long the iterations of the survey. The Cranet-survey has more than 40 partners all over the world today.



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## 2. POWER, POLITICS, AND PROFESSIONALS: THE LEADERSHIP CONSTELLATION

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Governance in all organizations is concerned with three central questions. First, who controls the actions of the firm (i.e. power)? Second, for what purpose and for whose benefit does the firm act (i.e. benefit)? Third, who is held accountable for the consequences of these actions (i.e. accountability)? Professional service firms have provided scholars with a particularly fruitful context for studying the interactions of power, benefit, and accountability, because of the distinctive governance structure which they have typically adopted (Greenwood et al, 1990; Greenwood and Empson, 2003). With the professional partnership, ownership is confined to an elite group of professionals within the firm and these partners share unlimited personal liability for the actions of their colleagues (Empson, 2007). Power, benefit, and accountability are thus widely shared across the partnership as a whole.

While the partnership form of governance may resolve conventional principal-agent problems in terms of governance, it creates its own distinctive issues with regard to leadership. The peculiar challenges of leading professionals derive from two interrelated organizational characteristics stemming from the partnership form of governance: extensive autonomy and contingent authority (Empson and Langley, 2015).

In theory at least, professionals' demand for autonomy is justified by their requirement to preserve the right to make choices about how to apply their specialist technical expertise to the delivery of customized services to their clients. It is perpetuated by the fact that the core-value-creating resources of a professional organization—technical knowledge, client relationships, and reputation—are often proprietary to specific professionals (REF).

This emphasis on extensive autonomy coexists in constant dynamic tension with contingent authority. A leader of professionals may only lead by their consent. Authority is collegial and fragile and deemed to rest with the professional peer group rather than the individual (Adler et al. 2008). Even if professionals do not actively resist, they may do so passively by simply ignoring the pronouncements of their leaders (Hinings et al, 1991). Contingent authority is particularly problematic in partnerships because in a partnership senior executives are elected by their peers to formal positions of leadership and can be deposed if they fail to retain the support of their fellow partners (Empson, 2012).

In spite of their distinctiveness, professional organizations have received very little attention from leadership scholars, perhaps because leadership is so difficult to study when it is not possible to draw clear distinctions between leaders and followers (DeRue and Ashford, 2010). Fortunately, a developing and important area of leadership research has the potential to provide valuable insights.

In recent years there has been growing interest among leadership scholars in what has variously been termed collective, distributed, or shared leadership. These somewhat different approaches have been brought together under the umbrella term of 'plural leadership' (Denis et al, 2012). A plural approach to leadership questions traditional assumptions that leadership is top-down, hierarchical, and equivalent to formal supervisory roles. It represents a reaction against individualized and heroic conceptualizations of leadership developed in traditional bureaucratic contexts.

In a professional context, traditional hierarchies are replaced by more ambiguous and negotiated relationships amongst professional peers. Clan control, i.e., behavior controlled through common values, traditions, and commitment to the organization (Ouchi, 1980) is the norm and power rests

with professionals in the operating core (Mintzberg, 1983). All senior professionals, who have attracted their own following of junior colleagues and senior clients, are leaders in the sense that they have the capacity to exert considerable influence and informal power within their organizations. While there may be several hundred ‘leaders’ in a large professional organization, no one individual is the leader (Empson, forthcoming).

Because formal authority in professional organizations is contingent, senior leaders therefore, need to be acutely aware of the implicit power dynamics amongst their colleagues. They need to be able skilfully to navigate the covert political processes that permeate their organization, and to work out how to strike the appropriate balance between challenging and propitiating their powerful professional peers.

This presentation summarises the conceptual foundations and key findings of my forthcoming book, *Leading Professionals: Power, Politics, and Prima Donnas*, to be published by Oxford University Press and launched at AOM in August this year. The empirical foundations of the book are over 500 interviews I have conducted with senior professionals in 16 countries, representing 15 firms in the management consulting, accounting, and legal sectors. The organizations include partnerships, privately held and publicly quoted corporations. The smallest earns \$4million in fees and has fewer than thirty staff. The largest generates tens of billions of dollars and employs hundreds of thousands of staff. I have emphasized the generalizability of my findings, rather than focus on the vagaries of specific professions and professional organizations, to ensure my analysis is relevant to leaders and scholars across a range of professional sectors.

The presentation outlines the concept of the leadership constellation. Conventional organization charts, which express formal hierarchical power structures, are of only limited use in the context of

professional organizations. Organograms may describe the formal governance structure but do not express who actually has power or say anything about how leadership actually happens. I have therefore developed the concept of the leadership constellation to express a professional organization's informal power dynamics.

The leadership constellation is, by definition, a plural conceptualization of leadership. It expresses the informal power structure that overlaps with, and sits alongside, the formal authority structure. The individuals who comprise the leadership constellation do not form a leadership team in any explicit sense because the constellation as a whole has no formally defined boundaries or overt identity within the organization. The hierarchy within the constellation is opaque to outsiders, as roles and relationships are negotiated among insiders on an ad hoc basis. Individuals within the organization may see themselves as leaders because they have important-sounding titles relating to the key governance structures such as the Board or Executive Committee, but may have no significant position in the leadership constellation because they are not recognized or accepted as leaders by their colleagues. Similarly, individuals may be part of the leadership constellation without having a formal title, or without appearing particularly prominently on an organogram.

The presentation outlines the implications of this approach to studying leadership and governance in professional organizations and concludes by identifying important areas for future research into the intersection of leadership and governance in professional organizations.

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### **3. EXPORTING GOVERNANCE REGIME ACROSS BORDERS: THE CASE OF THE ONE-FIRM MODEL IN ITALY**

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Governance which has been defined as ‘the management of the relationships between a firm’s management and its critical transacting constituents’ is one of the key issues confronting professional services firms as it affects the distribution of ownership, profits, liabilities as well as decision making powers with firms (Leblebici and Sherer, 2015: 190). Furthermore, how governance is resolved will have significant implications for the structure and culture of a firm. Whilst for years governance was relatively simple as it was limited to the traditional partnership (Lazega, 2001) more recently PSFs are faced by increasing complexity as partnerships as stretched in size and geographical reach (Brock, et al 1999) and alternative ownership solutions such as the limited liability partnership, outside ownership or even flotation are available in at least some jurisdictions (Empson and Greenwood, 2003; Empson and Chapman, 2006). Furthermore, there is great variation in governance regimes between occupations (law versus accountancy), countries and even firms. This implies that governance is a key consideration when firms merge especially when they do so internationally.

Drawing on research in the legal profession (Muzio and Faulconbridge, 2013; Faulconbridge and Muzio, 2016) this paper looks at a particular governance regime: the One-firm model as developed by leading English law firms as the template for the globally integrated law firm. This contemplates a single profit pool, a globally integrated lock-step structure for partner remuneration, integrated promotion and career progression pathways, centralised decision making and high levels of standardization. This departs significantly from governance regimes in other jurisdictions such as the USA or Italy which contemplate much more individualistic, informal and

collegial arrangements. As such transferring governance regimes across jurisdictions whilst essential for building an integrated practice is challenging especially when there are significant differences between the jurisdictions in question. This paper, using an institutionalist framework, documents the attempts by English firms to export their One-firm governance regime to a jurisdiction such as Italy characterised by very different governance arrangements. As such these firms were met by significant challenges ultimately resulting in failure. Conversely, American firms which deployed much looser governance regimes which were more in line with Italian norms and traditions fared a lot better. As such this paper identifies governance as a strategic factor that has to be managed as firms internationalise and in particular illustrates the challenges of integrating inconsistent governance regimes.

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#### **4. THE STRUCTURAL, CULTURAL AND NORMATIVE FORCES THAT SHAPE THE GOVERNANCE OF PROFESSIONAL SERVICE FIRMS**

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Much of the scholarly interest in the governance of professional service firms has focused on the internal workings of partnerships where the professionals themselves are owners of the firms. The key issues governing the leadership and governance structure of these firms have concentrated on the questions of allocating equity, compensation practices, the procedures for making and communicating policy as well as operational decisions involving management (initiation and implementation) and control (ratification and monitoring). Thus, the fundamental conceptual approach was to address the agency problems faced by these organizations (Fama & Jensen, 1983b).

Such a focus is not unexpected because the traditional corporate governance literature has been built on the conventional economic efficiency concerns that are the byproducts of corporate legal form. In the traditional corporate form, managers are hired as agents of the residual claimants (shareholders) to run the business and to make important strategic choices that affect the future viability of the business. The agency problems created by the legal arrangement, where the separation of ownership and control occurs, have been investigated extensively. Within this framework, governance mechanisms to solve the agency problems have fallen primarily into three categories: (1) establishment of an independent board of directors that oversees the activities of top management); (2) the presence of a large block of shareholders who take an active interest in the activities of top management; and (3) a market for corporate control that serves to discipline managers for poor performance.

Recent trends in corporate governance research, however, challenge the economic efficiency perspective of the conventional wisdom and focus on the necessary institutional conditions that make the public corporations work. Both the Law and Economics literature (Fligstein & Choo, 2005; Kogut & Spicer, 2002) and the sociological literature coming from the neo-institutional tradition (Davis, 2005) argue that the traditional economic efficiency considerations are not sufficient to explain the governance structures within public corporations. As argued by Leblebici and Sherer (2015), this is especially true in the case of professional service firms.

Professional service firms that are organized as professional partnerships in terms of their legal arrangements, however, have traditionally been considered to be different to be included in these debates. Like other legal forms, such as closed corporations or proprietorships, the residual claims of the professional partnerships are usually restricted to critical decision making partners where a partner's share in net cash flows is negotiated periodically and is constrained by the period of service (Fama & Jensen, 1983a). In that sense, the traditional corporate governance mechanisms are either absent or irrelevant in the case of professional services firm. The early research on PSF governance, thus, has focused on identifying these differences in terms of the legal forms of ownership (Empson & Chapman, 2006; Greenwood, Deephouse, & Li, 2007; Greenwood & Empson, 2003; Greenwood, Hinings, & Brown, 1990; Tolbert & Stern, 1991).

Recently, the core of governance research in PSF has been shifting from a focus on dichotomized models of organizational archetypes imbedded within the legal structure to a broader focus that takes into account the evolution of governance mechanisms within firms (Empson, 2010) as well as the historical evolution of specific professions that shape the ways the professionals work together (Adler, Seok-Woo, & Charles, 2008).

The objective of my presentation is to focus on these new trends, specifically the influence of the professions both in terms of their institutional expectations and their unique knowledge structures (Muzio & Kirkpatrick, 2011; von Nordenflycht, 2010) and the nature of their client relations (Greenwood, Li, Prakash, & Deephouse, 2005). Both of these emerging issues (professions and clients) shape the nature of governance in PSFs. In my presentation I will specifically argue that most of the mechanisms of governance ranging from succession, the scope and nature of the professional service firm, partnership structures, and the functions of the managing boards are directly tied to professional expectations and clients' expectations. These two external forces shape and determine the effectiveness of governance within PSFs.

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## 5. TAXONOMIES OF PROFESSIONAL SERVICE FIRMS AND THEIR IMPLICATIONS FOR CROSS-PROFESSION RESEARCH

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A common question that faces students of professional services firms is a definitional one: what *is* a professional service firm? More specifically, what characteristics make them distinct from other types of organizations? Ambiguity about the distinctive characteristics of PSFs fosters a frequent empirical approach of conducting research on one professional service and then generalizing results to all professional services (von Nordenflycht 2010, et al 2015). Yet scholars are increasingly recognizing that there are important sources of heterogeneity across professional services that may lead to significant differences in how firms are governed (Malhotra & Morris 2009, von Nordenflycht et al 2015). This raises the concern that patterns or outcomes observed in one professional service may stem from characteristics that are idiosyncratic to that service, and thus may not apply to the broader universe of professional services.

In response to this definitional challenge, I have proposed a taxonomy of professional service firms. The most recent incarnation (von Nordenflycht et al 2015) proposes eight characteristics that define the sources of homogeneity and heterogeneity across PSFs. We propose two principal sources of homogeneity across all PSFs: knowledge intensity and customization. We then identify two characteristics of professions—jurisdiction and ideology—which are distinctive to PSFs, but nonetheless whose strength varies across the broad set of PSFs. In other words, greater strength of these characteristics makes an organization “more” of a PSF. Third, we identify four additional sources of heterogeneity across PSFs which are (1) unrelated to the basic definition of the term, but (2) likely to influence the forms and processes of governance: the nature of knowledge (normative

vs. technical); the degree of client capture; the degree of face-to-face client interaction; and capital intensity.

This taxonomy can facilitate cross-profession research in three ways. First, by explicitly identifying the characteristics that distinguish PSFs, the taxonomy should help the field include a wider range of industries in empirical research. An ambiguous definition likely led researchers to focus on a narrow set of professions that were “safely” considered PSFs. By providing explicit criteria to identify different types of PSFs, the framework should allow researchers to be more confident in studying a wider range of services. For instance, the taxonomy legitimates the study of a range of knowledge intensive firms that do not meet the professionalized workforce criterion. In fact, the framework suggests extending PSF research to fields where skill is based more on *artistic* talent than on knowledge, such as performing arts organizations and media production. Here, too, skilled employees have high bargaining power and are often presumed to exhibit strong preferences for autonomy (Caves, 2000).

Second, by focusing on specific characteristics—rather than on industries per se—the taxonomy can suggest “overlooked” industry sub-segments as valuable sources of comparative research. For instance, studies of accounting firms often focus on the Big 4 or on firms that do audit work more broadly—i.e., CPA-based firms. However, there are other large firms that sell accounting services (such as tax and forensic accounting) but do not provide audit services, and as such, they are subject to the same strong professional jurisdiction that CPAs are. These firms may therefore be governed differently than CPA firms. But they are seldom mentioned much less studied. Yet they might offer the opportunity for comparative analysis across a dimension of the taxonomy. In consulting, there are some large consulting firms that also offer IT outsourcing services. This

business is much more capital intensive. Therefore these less-frequently-studied firms could provide a good comparative analysis of the effect of capital intensity on PSF governance.

Third, the taxonomy can help researchers be efficient about sample selection in cross-profession research, which can pose significant data collection challenges. One of the primary challenges of studying PSFs is that many of them are privately-held (closely-held) rather than publicly traded. This restricts researchers' ability to collect substantial financial (and other) data on a large number of firms easily. To identify populations of firms and to measure key outcomes, researchers often need to turn to industry-specific sources: trade journals, industry yearbooks, etc. These sources often then pose the challenge of matching names of companies (and professionals) across years and sources—names which have been entered manually, and therefore frequently change and/or are mistyped. *Comparative* empirical work across *multiple* professional services then magnifies this research-intensive work, as it requires not only collecting such sources for several industries but also finding commensurate measures across the industries' disparate sources.

In the face of these potentially expensive data collection-and-cleaning processes, researchers would do well to specify sample variation that will capture the necessary dimensions of variation and measures that are amenable to measurement and comparison across those samples. In other words, theoretically-informed, carefully-crafted research samples will likely earn the greatest return on the data work involved in cross-profession comparisons—rather than “explorations” in search of empirical patterns and theoretical explanations at the same time. By theorizing important sources of variation, the taxonomy can help researchers design efficient—i.e., “sparse” or minimalist--cross-profession comparative research: from the selection of industries to compare to the identification of key dependent variables and potential measurements.

For all three reasons, a taxonomy of professional service firms can facilitate more cross-industry, cross-profession research. This research, in turn, can help us understand which governance features of PSFs are idiosyncratic to particular industries, which are shared more broadly, and why.

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## **6. GOVERNANCE AND PROFESSIONAL SERVICE FIRMS – DEVELOPING A PLATFORM FOR UNDERSTANDING**

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Research on professional service firms (PSFs) has been rapidly developing over the last twenty years, especially emphasizing both PSFs' distinctiveness and their current challenges. Some of the main reasons for this are that many professional service industries have been growing fast as well as the fact that research prior to this development has been limited, partly due to the difficulties in gaining access to empirical data in partnership owned firms.

Among the issues being put in focus is 'governance' as this theme has long been central in the literature on professional service firms. With respect to practice it has been designed, configured and managed in different ways.

The reason for the increased focus on governance in PSF's stems from some of the key characteristics of professional service firms and especially the professionals engaged in the firms. As such many professionals have an expectation of building their own business or being partner in a firm. At the same time many professionals have a resistance to managerial control (Raelin, 1985). A key question is therefore how to develop governance structures taking care of the business and at the time not restricting the professional entrepreneurship and drive. Professional service firms must therefore find governance means of controlling and coordinating activities, which allow entrepreneurialism. Furthermore the literature indicates that the partnership might not be the most efficient governance form.

Previous studies have presented dichotomized models of organizational archetypes and legal form: Professional partnership versus managed professional business, adhocracy versus professional

bureaucracy, partnership versus corporation and private versus public corporation (Empson, 2010). While this does provide insight into the workings of PSFs it is also a limiting view since the governance structures are seen from a static perspective. Indeed Empson (2010) urges research to adopt a more nuanced view on governance and governance structures as they unfold in PSFs. This has to some extent been taken up by, other studies illustrating the variety of governance thinking in a PSF context (Imrie & Street, 2009, Maritz; Pretorius & Plant, 2011, Harlacher & Reihlen, 2014, Lel & Miller, 2015, Low, Gao, Mohdari, Mohammad, 2016, Lu & Yan, 2016). Most of these studies focus on one of the PSF sub-disciplines.

Yet, while sharing many similarities across sub-industries such as law, consulting, accounting, architecture, engineering, advertising and bio-tech (Nordenflycht, 2010) the way PSFs are being governed varies significantly (Harlacher & Reihlen, 2014). In addition the authors claim that there has not been written much about governance in a PSF context in a particularly coherent manner. Rather we see some spread out approaches with little or no connection between the contributions.

Thus it seems obvious that governance plays a substantial role in relation to PSFs. It is also clear that the field is fairly fragmented and lacks focus. This is probably not surprising since governance as earlier emphasized is in itself a broad topic. However, it also means that it is unclear which role or roles of governance is best suited to further the understanding of PSFs and how these types of firms can further develop their business. Do any of the strands of research overlap? Is there a progression of topics over time?

Based on a literature review the purpose of our presentation and paper will be to present identified patterns in the literature as well as what could be potential implications for PSF governance in practice.

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## SYMPOSIUM RELEVANCE FOR POTENTIAL DIVISION SPONSORS

Human Resource Management in professional service firms is an under researched area which promises new insights into PSF-governance as well as insights into the basic assumptions inherent in HRM practice (Bévort & Poulfelt, 2015). HRM-practices as they are commonly known from other kinds of organizations do not fit easily into the way PSFs are led and organized. For these reasons we think the symposium offer the **HR Division** members interesting research insights and opportunities.

The large PSFs are among the most international organizations in existence. It is a fundamental property of the governance of these companies that they have to handle global cross-border governance and the related complex issues of liability and compliance. Furthermore, the study of a form of governance in multiple national settings even regarding companies which are not currently international is interesting from an international business perspective. In this way we think the study of PSF-governance can inform many debates and research programs of interest for the **International Business Division** members.

The study of PSF-firms is at the heart of the interests of the Management Consulting Division as most advisories and consulting firms are organized as PSFs. It is possible to argue that the PSF-governance is THE primary governance format for consulting businesses. We think it follows from this, that the theme of the symposium should be central to the interests of the **Management Consulting Division** members.

### Note:

Bévort, F., & Poulfelt, F. (2015). Human resource management in professional service firms: Too good to be true? Transcending conflicting institutional logics. *German Journal of Human Resource Management Research (Zeitschrift für Personalforschung)*, 29 (Special issue on HRM in Professional Service Firms), 102-130.

### SESSION FORMAT

The symposium is structured around the 6 presented papers outlined above. The session will start with a brief overview of the main themes and rationale by Frans Bévort and Søren Henning Jensen (5 minutes) and a short introduction to the presentations by Flemming Poulfelt (5 minutes). This will be followed by a 10-minute presentation of each paper (including immediate questions and comments from the audience). Papers presented will develop alternative approaches to the study of PSF governance, draw from the presenters' empirical research and conceptual work in order to propose directions for the new research agenda. After the presentations the organizers will open up the symposium by inviting presenters and attendees to engage in an open discussion about issues that will arise and potential avenues for further exploration (10 minutes). This symposium should not only attract PSF- and HRM-researchers but also other management scholars. PSF-, HRM and IB-practitioners will also be a possible target group.

### SIGNED STATEMENTS

We have received statements from all intended participants agreeing to participate in the entire symposium, AND stating they are not in violation of the *Three + Three* rule.