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Researching Professional Service Firms: An Introduction and Overview

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Empson, L., Muzio, D. Broschak, J., & Hinings, B. (2015). "Researching Professional Service Firms: An Introduction and Overview", In *The Oxford Handbook of Professional Service Firms.*, 1-24.

Abstract

We begin by examining the significance of professional service firms (PSFs) in terms of their scale and influence from an economic and societal perspective, and the insights they offer for academic theory. We examine how PSFs have remained "in the shadows", in terms of their visibility within the economy and within scholarly research, and how and why that situation is changing. We discuss "what *exactly* is a professional service firm" and highlight four defining characteristics relating to: customisation, knowledge, governance, and identity, which frame our definition. After presenting an overview of each of the 20 chapters in the Handbook, we conclude by proposing various key themes for future research and by developing an integrative framework for the analysis of PSFs.

Key words: Professional services firms, Professional service organizations, Professions, Professionals, Professionalism.

Significance of PSFs to economics, society and scholarship

Over the past three decades the professional service firm (PSF) sector has emerged as one of the most rapidly growing, profitable, and significant sectors of the global economy. In 2013 the accountancy, management consulting, legal, and architectural sectors alone generated revenues of US\$ 1.6 trillion and employed 14 million people (IBISWorld 2014a, 2014b; 2014c; MarketLine 2014). If sectors such as engineering services and advertising are included the figure rises to US\$ 2.5 trillion and 18 million respectively (IBISWorld 2014d, 2014e. This is comparable in terms of revenues to the global commercial banking sector. Current reliable aggregated data for the professional services sector is not available on a global basis but in the UK this sector employs almost 12% of the workforce, accounts for 8% of output, and represents half of the trade surplus in services (HM Treasury 2009).

On an individual basis, the largest PSFs are now global giants, on a par with far more famous publically quoted corporations. For example, PricewaterhouseCoopers (PwC), one of the Big 4 accountancy firms, currently employs almost 200,000 people in almost 160 countries. By these measures it is significantly more global than McDonald's. With a 2014 gross revenue of US \$34 billion, PwC is also larger than Fortune 500 companies such as 3M and Time Warner. Similarly, management consultancy firm, Accenture, which is itself a Fortune 500 company, has a similar market capitalization to both of these firms. By contrast, individual firms in the legal, engineering and architectural sector are far smaller than the Big 4 accountancy or global management consultancy firms, but they too are growing rapidly in terms of size, complexity and global reach.

The significance of PSFs to the global economy extends far beyond their scale. As Sharma states (1997: 758), without PSFs “business as we know it would come to a grinding halt”. This is because PSFs play an important role in developing human capital, creating innovative business services, reshaping government institutions, establishing and interpreting the rules of financial markets, and setting legal, accounting and other professional standards. Furthermore, the high salaries they offer mean that they are able to attract a large proportion of the best qualified graduates. Indeed PSFs such as PwC, McKinsey, and consulting engineers Arup tend to dominate preferred graduate employers lists (www.top100graduateemployers.com). As such PSFs, and the professions more generally, are linked through their recruitment and promotion practices to patterns of social stratification, but also potentially to social mobility (Ashley and Empson 2013; Panel on Fair Access to the Professions 2009; Sommerlad et al. 2010).

PSFs have historically acted as vehicles for the diffusion of new and often radical business practices and structures. Examples include the ‘M’ form of business promoted by consulting firm McKinsey (Kipping 1999), the poison pill defence developed by law firm Wachtell, Lipton (Starbuck 1993), and the business risk audit associated in particular with KPMG (Robson et al. 2007). More controversially, the influence of PSFs is also captured by their involvement in a string of high profile corporate malpractice cases (Coffee 2006; Gabionetta et al. 2013; 2014). These have highlighted the extent to which in recent years the PSF’s traditional assurance role has become compromised as many have sought to become more directly involved in shaping and implementing their clients’ strategies.

Importantly the influence of PSFs is not limited to the business world but stretches into broader social arenas. They are, for instance, among the top ten “corporate” donors to US presidential and congressional campaigns (Thornbury and Roberts 2008), whilst an extensive literature documents their role as vectors for the globalization and financialization of the economy (Arnold 2005; Suddaby et al 2007; Faulconbridge and Muzio 2012). More specifically, they have taken the lead in the reform of public services (MacDonald 2013), the administration of justice (Dezalay and Garth 1998), the structure of professional qualifications (Suddaby et al. 2007) and the operation of insolvency regimes (Halliday 2009). As such it is difficult to disagree with Scott’s comment that professions, and within them PSFs, ‘have assumed leading roles in the creation and tending of institutions. They are the preeminent institutional agents of our time’ (Scott 2008: 219; see also Muzio et al. 2013).

Beyond their significance as an empirical setting, PSFs are worth studying because of their theoretical significance and the insights they may generate into the contemporary challenges facing organizations within the knowledge economy. Traditional management models, which are often derived from the empirical setting of manufacturing firms, offer only limited insight into the complex interpersonal and organizational dynamics that operate within PSFs (Maister 1993; Teece 2003). Conversely, by understanding the peculiarities of PSFs and their management, scholars may in turn develop a deeper level of insight into more conventional organizations, or organizations which are attempting to move away from conventional management models to accommodate more knowledge-based forms of working. This approach, looking at PSFs for the insights they can offer into

organizations more generally, is consistent with recent calls by Greenwood et al. (2014) to reintroduce comparative organizational analysis into our study of organizations and institutions.

For instance, because PSFs typically generate intangible experiential services in the form of knowledge-rich, time sensitive advice that is tailored to a specific client's needs (Brivot 2011; Morris and Empson 1998; Von Nordenflycht 2010), this implies a much higher degree of 'relational embeddedness' and context sensitivity compared to many other kinds of business activities, limiting the scope for traditional strategies of standardization and commoditization. Furthermore, because people and client relationships are the main assets of the PSF, dependence on these highly mobile and highly portable assets creates significant complexities in terms of how PSFs approach their client relationship and human resource management activities. For instance, power in PSFs tends to be highly dispersed between autonomous professionals who retain significant amounts of discretion over how their work is organized; accordingly, in these organizational settings management tends to be more consensual (Empson 2007) and mindful of individual preferences and local sensitivities (Faulconbridge and Muzio 2008). Indeed, well-trodden clichés like "herding cats" or "losing one's capital every night down an elevator" capture very graphically some of this distinctiveness and its related managerial and organizational challenges.

These challenges are of course not exclusive to PSFs but they are best exemplified in this context. Accordingly, this is an area where PSFs may be leading the way in the development of new organizational forms and managerial practices and where

their study may offer particular insights in the realities of the contemporary knowledge based economy.

PSFS coming out of the shadows

Despite their empirical significance and theoretical distinctiveness, for many years PSFs remained very much in the shadows of organizational research. This is evidenced by the considerable difficulty in gaining up-to-date information about the scale of the sector. A majority of PSFs are privately owned and accordingly are not legally required to disclose financial information, whilst national governments and supranational bodies do not gather consolidated data on this sector and only limited information is available at a disaggregated level. Perhaps because these firms disclose very little financial information and prefer to operate close to their clients and out of the public eye, they attract relatively little coverage in the mainstream business press.

Generally speaking management scholars have also been slow to recognise the scale and significance of the PSF sector; PSF scholarship represents a still small, though rapidly developing, niche in the field of management research. As one illustrative example, the UK's new Research Council Funding outputs database suggests 21 possible sectors in which research may have been conducted, but only one which relates to PSFs ("Financial services and management consulting"). UK scholars engaged in researching sectors such as accountancy and the law, in which the UK is a global leader, are required to file their returns to the research funding council database under the category of "Other".

Yet the last few years have marked the coming of age of PSF scholarship. A bibliometric searchⁱ limited to the Scopus business, management and accounting database reveals that there are now almost 300 peer review articles explicitly referring to PSFs (this does not include the substantial number of articles referring to firms in specific professional sectors rather than PSFs more generally). Importantly, the number of new entries is growing exponentially, from a couple of examples in the early 1990s, to more than 40 publications per annum in recent years. For the first two decades, the number of PSF publications tended to “spike” around a series of special issues but now there is regular stream of new scholarship in leading management journals such as the *Academy of Management Journal*, *Organization Science*, *Journal of Management Studies*, *Organization Studies*, and *Human Relations*. The recent launch by Oxford University Press of a specialist journal, the *Journal of Professions and Organizations*, further signals the growing maturity of this field. Against this backdrop, this Handbook seeks to make a timely and important contribution by bringing together and critically reflecting on the complex array of literature that has been published in recent decades on the topic of PSFs. But what exactly do we mean when we talk about PSFs?

What *Exactly* is a Professional Service Firm?

One reason it is so difficult to gain accurate aggregate data about the PSF sector is that there is very little agreement among researchers about what exactly is a PSF. Indeed von Nordenflycht (2010) shows that scholars have applied the term to organizations operating in more than 30 distinct knowledge-based sectors. This lack of clarity parallels similar longstanding debates in the sociology of the professions on

the definition of professions and professionalism (Abbott, 1988; Anderson-Gough et al. 1999; Evetts 2006; Freidson 1994; Krause 1996; Kritzer 1999; Macdonald 1995).

In its narrowest sense, a PSF could simply be an organization where the majority of income-generating staff are members of an established profession, i.e., von Nordenflycht's (2010) classic or regulated PSF. This definition would encompass accounting and law firms, engineering consulting firms and architects practices, but would also encompass medical practices which are not normally classified as PSFs. The definition of PSFs could be expanded to include a wide range of knowledge-intensive activities and aspirant professions, such as management consulting, executive search, and advertising, as the *Journal of Professions and Organizations* suggests (Brock et al. 2014). Using this approach, investment banks should be classified as PSFs, though typically they are not. Why are some types of firms unambiguously classified as PSFs whilst the professional status of other apparently similar ones is unclear?

It is not particularly helpful to organizational scholarship to establish narrow definitions, which exclude firms which potentially have important insights to offer in terms of comparative analysis (Greenwood et al. 2014). Equally, highly inclusive definitions undermine the credibility of the study of PSFs by making it difficult to justify the distinctiveness of the phenomenon we seek to study. We need to establish some clear boundary conditions by defining a set of characteristics which clearly identify the organizational phenomenon we are investigating whilst enabling us to distinguish between the different kinds of PSFs which may possess these characteristics to varying degrees. To avoid succumbing to crude generalisations we

need a definition which allows for heterogeneity among the firms (von Nordenflycht et al., this volume) as well as for the hybridised nature of many professional organizations (Kirkpatrick and Noordegraaf, this volume).

The definition needs to encompass a small high street legal or accounting practice, and a magic circle or “Big 4” firm. And looking inside a “Big 4” firm, the ultimate multidisciplinary PSF, the definition needs to encompass the highly regulated audit function (where an auditor’s first duty is to uphold the public interest) with the management consulting function (where a consultant’s first duty is to his or her client). What do these various firms and distinctive parts of multidisciplinary PSFs have in common which distinguishes them from many other kinds of knowledge-intensive organizations?

In seeking to establish a definition of a PSF, it is important to recognise that it is unwise to attempt to defend phenomenologically derived boundary conditions in the rapidly changing environment in which PSFs operate. The boundaries need to be as flexible as the firms themselves, yet conceptually credible. As Zardkoohi et al. (2011) argue, the problem of defining PSFs is that changes in the context can render the definition irrelevant over time.

For the purposes of this Handbook, we define a PSF according to four key characteristics (see Figure 1.1). We recognise that many organizations will possess *some* of these characteristics. We argue that a PSF will possess *all* of them, to varying degrees. By accepting that a PSF must possess all four characteristics but can do so to varying degrees we recognise the heterogeneity that exists within the

sector whilst drawing some conceptually defensible boundaries around the phenomenon under investigation. This makes it possible to conduct more structured comparative analysis within the sector as well as between other sectors.

These defining characteristics reflect the areas of research which have attracted the most sustained attention from PSF scholars over the years. They are consistent with previous definitions by, for example Lowendahl (1997), Morris and Empson (1998) and Greenwood et al. (1990). They reflect von Nordenflycht's (2010) defining characteristics (knowledge intensity, low capital intensity, and professionalised workforce) but extend and refine his definition by bringing the themes of customisation, governance, and identity to the fore.

INSERT FIGURE 1.1

1. Primary activity: Application of specialist knowledge to creation of customised solutions to clients' problems

The concept of customisation is central to the definition of a PSF (see Empson 2008). From this, as will be demonstrated, flow the three additional defining characteristics relating to knowledge, governance, and identity. This criterion excludes firms primarily engaged in financial services activities which are dependent on substantial capital reserves (e.g., investment banking or private equity funds) as a PSF is above all a knowledge-intensive and not a capital-intensive operation. This criterion also excludes generic knowledge-intensive firms, such as software, biotech, or "big pharma" companies, which sell packaged products. According to this criterion, a "claims farm" law firm specialising in personal injury law suits (employing

large numbers of para-legals engaging in highly routinised processural work) will also be at the outer boundaries of the PSF definition, because its primary activity is not sufficiently customised. What distinguishes PSFs from these kinds of firms is the bespoke nature of professional work which requires an intensive interaction between professionals and their clients.

But this definition alone does not explain why hospitals and large engineering companies are typically not considered PSFs but rather as examples of the broader category of professional service organization (Scott 1965; Larson 1977). We need to refine this further, with reference to other defining characteristics of PSFs.

2. Knowledge: Core assets are specialist knowledge of professionals and in-the depth knowledge of clients

The concept of knowledge (including expertise and “know-how”) has been extensively researched in the PSF field but from a relatively narrow base. The focus has tended to be on the professionally accredited knowledge of the established professions and on whether firms employing other forms of technical knowledge can reasonably lay claim to being professional (Abel 1988; Macdonald 1995; Freidson 1994). Other strands of research have focussed on the acquisition of knowledge at the individual level and the codification and sharing of knowledge at the firm level (Morris and Empson 1998; Empson 2001). But as important, and typically neglected within the PSF literature, is the in-depth knowledge that individuals and firms develop about their clients over time, enabling them to apply their specialist technical expertise appropriately (Fincham 1999; Handley et al. 2006). In its fullest examples

this leads to the co-production of knowledge whereby professionals pursue ‘shared learning’ with their clients (Fincham 2006; See also Faulconbridge, this volume)

3. Governance: Extensive individual autonomy and contingent managerial authority, where core producers own or control core assets.

Experienced professionals require, or at least expect, extensive levels of individual autonomy, legitimated by the requirement for professionals to preserve the right to make choices about how best to apply their specialist technical knowledge to the delivery of customized professional services (Freidson 1994; 2001; Empson 2007; Faulconbridge and Muzio 2008). As Derber (1982) states in these settings professionals will enjoy high levels of both teleological (control over ends) and technical (control over means) autonomy. This extensive emphasis on individual autonomy is associated with relatively low levels of managerial authority and intervention. This is particularly so in partnerships, the prevailing form of governance within the traditional professions (Greenwood and Empson 2003) but is also common in corporate professional service firms which mimic the characteristics of the partnership form of governance (Empson and Chapman 2006; Von Nordenflycht 2014; See also Leblebici and Sheerer, this volume). This feature helps to explain why large engineering companies and hospitals, for example, are typically not considered PSFs as they are typically part of a larger corporate or public sector organization, employing a wide array of workers, and subject to more conventional bureaucratized forms of organising (i.e., they are autonomous rather than heteronomous professional organizations; Scott 1965; Larson 1977). The relatively small number of publicly quoted PSFs are interesting aberrations yet these firms are

typically still substantially owned and operated by the professionals who work within them. This emphasises the essentially dynamic nature of the concept of the PSF.

4. Identity: Core producers recognise each other as professionals and are recognised as such by clients and competitors

Since professionals may be only loosely bound together through their formal governance arrangements, they rely upon a shared understanding of the concept of professionalism to provide an ethical-based framework to guide their actions (Anderson-Gough et al. 1999; Evetts 2006; Grey 1998; Muzio et al. 2011; See also Alvesson et al., this volume). For PSFs within the established professions, this professional identity may have been acquired through years of education and professional training and is embodied in formal qualifications. Other kinds of PSFs rely instead upon internal socialisation into professional norms of behaviour. In all contexts, the firm itself is emerging as an increasingly important site where “professional identities are mediated, formed and transformed” (Cooper and Robson 2006: 416). In this context, professional identity is increasingly redefined from a matter of qualifications to a matter of displaying the appropriate attitudes and dispositions such as commitment, commercial acumen and customer focus (Anderson-Gough et al. 1999). Above all, members of a PSF recognise each other as professionals and are perceived as such by their clients and competitors. Many knowledge-workers may consider themselves to be professionals and recognise each other as such. But only if their employing organizations possess all of the other defining characteristics can they be said to work for a PSF in the fullest sense that we are deploying here.

Overview of Handbook

As the study of PSFs progresses into maturity the Handbook seeks to provide an opportunity for consolidation, extension, and differentiation.

Consolidation

The proliferation of academic studies on PSFs in recent years has created a substantial but somewhat fragmented body of literature. The chapters in the Handbook review and consolidate the relevant literature that stems from a range of disciplinary backgrounds, and looks beyond studies of PSFs to include a broader theoretical grounding in the relevant topics. Each chapter of the Handbook synthesizes what has been learnt to date from a wide range of scholarly sources and defines future research directions.

Extension

A major challenge in putting together the Handbook has been the unevenness of scholarship in this area. Certain topics have been very extensively researched (for example, identity and knowledge management). For these chapters the authors have focused on synthesising and critiquing the literature to provide a single point of reference as a starting point for scholars new to this field. Other topics (for example, leadership or innovation) are much less developed; in this context, authors have reached outside the PSF context, to extend scholarship in this area by identifying, “importing”, and adapting relevant ideas from other empirical and disciplinary contexts which speak directly to issues of particular relevance to PSFs. In so doing

these authors have helped to lay the foundations for future scholarship in these areas.

Differentiation

Studies of firms in specific PSF sectors suffer from a tendency to claim generalizability across PSFs as a whole, without sufficient regard for the peculiarities of specific occupational or national contexts. The chapters in this Handbook are designed to explicitly take this specificity on board by drawing on illustrations from multiple professions and geographical settings. As such, they reflect on differences and similarities across professional sectors, markets, and national contexts, helping to distinguish findings which are more generally applicable from those which are highly sector-specific.

The Handbook sets out with the intention of integrating scholarship on PSFs across multiple levels of analysis. But the chapters of an Oxford Handbook need to be divided up into sections and, since PSF research has traditionally been contained within fairly distinct levels of analysis, the chapters of the Handbook fall very naturally into three distinct sections: the professions, the firms, and the professionals that work within them.

Part I focuses on *Professional Service Firms in Context*. It begins with a chapter by Roy Suddaby and Daniel Muzio, Chapter 2, exploring *Theoretical Perspectives* on the professions. They present an overview of the development of sociology-based theories of professional occupations and argue that the study of PSFs is following a

similar trajectory to earlier research on professional occupations, moving away from concerns with structure and function to questions of power and privilege and, increasingly, onto issues of process and practice. They argue that it is time for an institutional/ecological approach to studying professions, which analyses professions as one type of institution struggling for survival in an ecology of other, related, institutional forms. In other words, they emphasise that future research on PSFs needs to pay heed to the significance of the dynamic nature of interactions between multiple stakeholders within this sector, not just between multiple levels of analysis at the individual, firm, professional and regulatory level, but also between competitors and among PSFs, their clients, and the broader set of stakeholders upon whom they exert influence.

Chapter 3, by Sigrid Quack and Elke Schuessler, focuses on one specific aspect of PSF ecology, the dynamics of *Regulation* in a national and international context. They examine how the changing roles and relationships between PSFs, clients and the state have challenged traditional forms of professional regulation. Quack and Schuessler argue that the tendency for scholars to focus on self-regulation fails to do justice to the complex regulatory dynamics emerging at and across (sub-)national, regional and global levels. Focusing on regulatory changes in the accounting and legal professions they show that, while competition, free trade, and quasi-market governance have expanded into the previously protected realms of professional organization and work, various state actors are reasserting their regulatory capacity within new and increasingly complex ecologies of actors.

Chapter 4, by Mehdi Boussebaa and Glenn Morgan, picks up on the theme of regulation in the context of their analysis of the drivers, forms and outcomes of *Internationalisation* in a PSF context. They argue that conventional internationalization theory does not apply straightforwardly to PSFs and identify three key sources of PSF distinctiveness — governance, clients, and knowledge. They show how these generate not only differences between PSFs and other types of organizations but also heterogeneity amongst PSFs themselves. They identify four different forms of PSF internationalization — network, project, federal, and transnational and emphasise the relative dearth of research on the first two forms. In spite of the scholarly interest in the transnational form, they find little convincing evidence that it has been successfully implemented in practice and argue that, in general, PSFs are better understood as federal structures controlled by a few powerful offices than as transnational enterprises. Once again the need to develop a more subtle and nuanced understanding of the densely interwoven power dynamics within as well as between PSFs is highlighted as an important theme for future research.

Chapter 5, by Ian Kirkpatrick and Mirko Noordegraaf, on *Organisations and Occupations*, poses a challenge to deep rooted assumptions about the mutually exclusive nature of professions and organisations, and develops the concept of hybrid professionalism in PSFs. It argues that while different traditions of research, from the sociology of professions and theories of professional organisation, have emphasised conflict, they have also highlighted the inter-dependency and co-evolution between professional occupations and organisations. Kirkpatrick and Noordegraaf argue that, in recent years, professionalism itself has become

increasingly hybridised, due not only to the encroaching demands of organisations on professionals, but also to the way professionals themselves have sought to organise them-selves so to ensure continued growth, legitimacy and sustainability.

One of the themes underlying research on professional/occupational conflict is the theme of professional ethics. This arises from two main concerns: the fact that professionals working within corporate bureaucracies will experience a conflict with their professional norms, and that professionals working within increasingly “corporate” PSFs may be similarly compromised. These issues are addressed directly in Chapter 6, by Ronit Dinovitzer, Hugh Gunz, and Sally Gunz, who examine the origins, applications and developments of scholarly understandings of *Professional Ethics*. In this context they examine issues such as: how ethical codes are adopted by professional bodies for complex and sometimes self-serving reasons, how professional independence is used to justify professionals’ autonomy from organizational constraints, and the contested role of professional gatekeepers. Dinovitzer et al highlight some of the ethical pressures experienced by professionals and discuss the strategies they use to cope with or adapt to these circumstances. They emphasise the power of the client to exert pressure on the professional in order to get the result they want (so-called “client capture”) and consider the challenges this presents for the study of ethics in PSFs.

Chapter 7, by Andrew von Nordenflycht, Namrata Malhotra and Timothy Morris, rounds off the section on PSFs in context by examining the sources of *Homogeneity and Heterogeneity* within PSFs. Research on PSFs has tended to emphasise similarities in how firms are organized and managed but this assumption has been

challenged recently as scholars have drawn attention to organizational differences. Von Nordenflycht et al synthesize insights from the sociology of professions literature, economics and organization theory to highlight key sources of homogeneity and heterogeneity and propose an overarching framework to better inform future empirical research on PSFs.

Part 1, *Professional Service Firms in Context*, emphasises the complex power dynamics within which PSFs are embedded and the competing claims of stakeholders with which they must contend. By contrast Part II, *Professional Service Firms: Management and Organization*, looks inside the PSF in considerable depth, and in the process examines power dynamics within these firms.

Chapter 8, by Laura Empson and Ann Langley, starts at the “top” of the PSF by examining *Leadership*. They emphasise that PSFs present distinctive leadership challenges, given professionals’ traditional expectation of autonomy from organizational constraints, and highlight the dearth of research on PSF leadership. Empson and Langley develop a framework for understanding leadership in PSFs, examining the foci, resources, and mechanisms of leadership, and the multiple manifestations of influence within these contexts. They argue that leadership in PSFs is manifested explicitly through professional expertise, discretely through political interaction, and implicitly through personal embodiment. They suggest that these resources are rarely combined in single individuals, which gives rise to the prevalence of collective forms of leadership, supported by embedded mechanisms of social control within PSFs.

Because PSFs are often collectively owned by senior professionals working within the firm leadership cannot be properly understood without reference to issues of governance. Yet, while PSF leadership has received very little scholarly attention, the topic of governance has been extensively researched. In Chapter 9, Huseyin Leblebici and Peter Sherer review this literature on *Governance*. They begin by presenting four foundational theoretical perspectives on governance in PSFs: the agency, the partnership/partnership ethos, the stakeholder, and the trustee perspective. They emphasise that, while these perspectives reflect well-established structural and cultural views on PSF governance, they leave unanswered several critical issues. Leblebici and Sherer suggest that future scholarship will be advanced by adopting a legal normative view of governance, defined as the legal and non-legal rules, norms, conventions, standards, and managerial practices that facilitate coordination and conflict resolution amongst the critical constituencies of PSF. In so doing, they identify a critical but unexplored issue in the study of governance: the definitions of rights and obligations among critical constituencies and how this plays into conflict resolution mechanisms.

Central to the challenge of leadership and governance in PSFs is the question of who determines a firm's strategy and how professionals are "aligned" to enable that strategy to be achieved. The theme of *Strategy and Strategic Alignment* is examined by John Mawdsley and Deepak Somaya in Chapter 10. They review the literature on the strategic management of PSFs which in turn underpins their competitive advantage and long run performance. They focus on human capital as a critical resource for PSFs and explore different ways in which firm value is created by attracting, developing, configuring and leveraging human capital. Further, they argue

it is critical that a PSF's human capital must be aligned with and harnessed to its objectives, which raises issues in relation to the motivation of professionals, the sharing of economic rents with (and among) them, and the overall governance of the firm. They go on to explain the corporate strategy decisions (such as service and geographic diversification) that PSFs must make, and discuss the value-creating role of client relationships — a topic explored in considerable depth in Chapter 16.

A central aspect of any PSF's strategy is the choice about whether to innovate or whether to focus on alternative means of differentiation. In the face of increasing competition and rapid technological change, service innovation is of increasing importance to PSFs. Despite these developments, there has been little discussion of innovation in the PSF literature. The emphasis has been on change and knowledge management with little recognition as to how these relate to innovation. In Chapter 11, Michael Barrett and Bob Hinings draw upon the innovation literature more generally to examine the relevant insights into the development and use of new practices by professionals. They outline an agenda for future research around a practice perspective for exploring service innovation in PSFs.

Closely associated with the practice of Innovation is that of *Entrepreneurship*, a theme explored by Markus Reihlen and Andreas Werr in Chapter 12. Like Barratt and Hinings they emphasise the relative dearth of research on entrepreneurship in this context. They attribute this to scholars' assumption that there is an inherent contradiction between entrepreneurship and professionalism, as much contemporary theorising has emphasised institutionalised isomorphism and inertia in professional fields. Reihlen and Werr adopt a broad perspective on entrepreneurship, focusing on

new venture management and renewal in PSFs as well as embracing aspects such as learning, innovation, and institutional change. They examine the existing literature from three levels of analysis — the entrepreneurial team, the entrepreneurial firm, and the organizational field within which the creation and exploitation of entrepreneurial opportunities takes place.

In Chapter 13 William Harvey and Vincent-Wayne Mitchell focus on another area which has received very little scholarly attention, *Marketing and Reputation* in PSFs. They explore a series of problems inherent with applying traditional marketing principles and practices to PSFs and examine how PSFs seek to attract and retain clients through reputation building. They emphasise how a PSF's reputation is important to their clients as well as the firms themselves. They identify how to define and measure reputation and develop a conceptual model which highlights the antecedents and consequences of reputation in a PSF context.

A focus on marketing and reputation management leads on to another relatively neglected area of PSF research: *Client Relationships*, which is examined by Joe Broschak in Chapter 14. Broschak proposes that client relationships tend to be assumed rather than studied and focuses on three key themes in reviewing the relevant academic research. First is the different ways that PSFs/client relationships have been characterized and how this shapes researchers' attention; what aspects of client relationships researchers attend to and the assumptions researchers make about how client relationships should be studied and managed. A second theme is the life cycle of client relationships, specifically research that addresses either the formation, maintenance, and dissolution of

client relationships and the factors that drive the dynamics of client relationships. Third is research that has identified how client relationships affect PSFs through the co-production of professional services, particularly in the areas of PSF strategy, structure, learning, and human resource practices.

Whilst client relationships have always been fundamental to the success of a PSF, another set of external relationships have become increasingly important in recent years: the providers of *Outsourcing and Offshoring* services. This is the focus of Chapter 15 by Mari Sako. Once again, this important phenomenon in the PSF sector has received relatively limited scholarly attention. Sako therefore turns to the broader management and economic theories to shed light on this phenomenon. She examines trends towards the disaggregation and standardization of professional work, and to digital technology, as pre-requisites for outsourcing and offshoring. She explores the implications of trends in outsourcing and offshoring in terms of the ecology of professions, with particular emphasis on how non-professionals may enter in competition with professionals, and on their disruptive effect on professional jurisdictions.

Part III of the Handbook, *Professional Service Firms: Individuals and Interactions*, focuses on a series of issues with direct and immediate impact on individual professionals, the nature of their work lives, and their working relationships. In Chapter 16 Laurie Cohen examines *Careers* in PSFs. She argues that PSFs embody elements of three ideal types of career form: bureaucratic, professional and entrepreneurial, and that these sometimes work in parallel and sometimes in competition with each other. She considers how these

are institutionalized through particular career practices and highlights the importance of the client in professional career-making. Cohen then examines career enactment: the ways in which individuals engage with professional, bureaucratic, and entrepreneurial practices on a daily basis and over time. Central to her analysis is a focus on the tension between the professional career as a vehicle for the exercise of personal agency, and as a disciplinary mechanism of management control.

Cohen's chapter highlights the extent to which established notions of professional careers are being challenged by rapid changes in the professional context. Heidi Gardner's chapter on *Teamwork and Collaboration*, Chapter 17, highlights a similarly disruptive change to established norms. The nature of teamwork in PSFs is evolving from highly structured project teams to more fluid, open-ended, peer-to-peer collaboration, often between powerful, high-autonomy partners. Gardner emphasises that this shift is especially challenging because senior-level collaboration requires peers from different practice groups or offices with different sub-cultures to negotiate task allocation, credit recognition, and decision-making norms, which can be difficult and politically charged. Increased partner-level collaboration is further complicated by other trends in the PSF arena such as specialization, heightened professional mobility, and increased competition. Gardner goes on to identify ways that some of these recent developments within PSFs challenge our understanding of traditional forms of teamwork.

As previously discussed, *Identity* has long been recognised as a core theme within the PSF literature and one which has significant implications for the nature of

professional work and for relationships between individual professionals and the firms that employ them. In Chapter 17, Mats Alvesson, Dan Kärreman and Kate Sullivan synthesize and extend this extensive literature to examine the relationship between individual and organizational identity in PSFs and the significant but tenuous nature of elite identity in this context. They identify four identity-related issues in PSFs: autonomy/conformity tensions, the client conundrum, ambiguity saturation, and intangibility. They explore alternative modes of identity control in PSFs (positive image, homogenization of the work force, and anxiety-regulation) and examine contemporary challenges to elite professional identities as well as the increasing critique of concepts of professionalism in this context.

Central to a knowledge worker's identity is, inevitably, the form and content of their knowledge. In Chapter 18 James Faulconbridge focuses on the central issues of *Knowledge and Learning*. He synthesizes key research in this area along three distinct themes: the organizational form, management and governance of PSFs; the varying roles and effects of knowledge networking; and jurisdictional knowledge and contested claims about exclusive rights over a market. Whilst acknowledging the extent to which knowledge and learning represent well-trodden paths within the scholarly literature, Faulconbridge emphasizes that the ambiguous and heterogeneous nature of knowledge ensures that these topics remain contested domains which merit considerable further scholarship.

Knowledge of course does not reside solely in the systems and structures of a PSF but is a product of the diverse backgrounds and experiences of its professional workforce. In theory at least a more diverse workforce will be associated with more

innovative practices, as well as bringing other associated benefits. Why then, after so much attention from both scholars and PSF leaders, are the senior ranks of most PSFs still dominated by white, heterosexual, middle class males? In Chapter 20, *Diversity and Inclusion*, Hilary Sommerlad and Louise Ashley examine this question in depth. A widely held belief is that meritocracy is a defining characteristic of the professions. Yet extensive research and statistical surveys have highlighted the myth of merit within PSFs. Sommerlad and Ashley examine how patterns of exclusion and inclusion have been theorized over the past four decades and explore the associated evolution of policy and practice within PSFs.

In the final chapter, Juani Swart, Nina Hansen and Nicholas Kinnie address a core set of issues underlying all the chapters in this section. They consider how *Human Resource Management* practices are used to manage human capital (knowledge and skills) and social capital (relationships inside and outside the PSF) to generate superior performance in PSFs. They outline two models of HRM practices which are used to manage human and social capital and examine how these relate to innovation.

Future research directions

Handbooks are repositories of the past and present of a discipline so are well placed to comment on its future. Each of the Handbook chapters identifies directions for future research which are specific to its own topic. In the concluding section of this introductory chapter we address five broader, overarching themes that merit future research in the field of PSFs.

Understanding a phenomenon in flux

The concept of the PSF and the field within which it operates is undergoing rapid and in some cases dramatic change. For example, recent legislation relating to PSFs is introducing new ownership structures and facilitating the development of managerial hierarchies (see Leblebici and Sherer, this volume; Empson and Langley, this volume); technological change and deregulation are driving the outsourcing and offshoring of core processes and functions (Sako, this volume); globalization is leading to novel forms of transnational jurisdictions and practice (Boussebaa and Morgan, this volume; Quack and Schuessler, this volume); new life-style tendencies and workforce diversity are leading to an increasing demand for salaried employment and 'atypical' employment contracts (Cohen, this volume; Sommerlad and Ashley, this volume); recent scandals are eroding public confidence and undermining traditional self-regulatory arrangements (Dinovitzer et al., this volume), and developments in the economy are calling into question the sustainability of once dominant business models and fostering new approaches to the organization and delivery of professional expertise (see Faulconbridge, this volume; Barrett and Hinings, this volume).

It is important to understand how these and other developments in once stable organizational forms affect relationships between different stakeholders. For instance, could the rise of external investors as key stakeholders destabilize traditional governance regimes (see Leblebici and Sherer, this volume), generate new 'capture' dynamics or compromise existing fiduciary duties (see Dinovitzer et al., this volume). Similarly, could the development of new practices and modes of organizing change internal dynamics within PSFs and usher increasing

standardization, routinization and more directive forms of leadership (see Faulconbridge, this volume, Reihlen and Werr, this volume; and Empson and Langley, this volume)? All of these organizational developments in their different ways will have real impacts for the management and performance of PSFs, the experiences of their clients, and the working lives and careers of the people who work within them. But they also raise important theoretical implications for the very concept of the PSF itself. There is much more to learn about PSFs as the firms themselves are evolving faster than scholarship in the field.

Broadening the focus of enquiry

We have emphasised the need for a definition of PSFs which covers a wider and more differentiated terrain. Existing research, and therefore this Handbook, has historically tended to focus on a limited set of the broader potential population. Some concepts and topics easily transcend this varied terrain; for example strategy, client relationships, human resource practices are all essential elements of PSFs regardless of their size, profession, or national region (see Mawdsley and Somaya, this volume; Broschak, this volume, and Swart et al., this volume) . Yet most of what we know derives from studies of large firms, usually in law or accountancy and overwhelmingly in western if not Anglo-Saxon contexts. It remains an open question as to the extent to which the management and application of PSF practices and client relationships transcends markets, cultures, and national boundaries. Conversely too little is known about whether distinct forms of PSFs are emerging in developing economies or about the characteristics of PSFs in new occupational contexts. This diversity needs to be more fully accounted for. In addition more

attention should be placed on the 'life-cycle' and stages of growth (see Reihlen and Werr, this volume; Empson and Langley, this volume; Leblebici and Sherer, this volume) as they move from charismatic founders to national and eventually global partnerships.

Extending methods utilised

There is considerable scope for expanding the range of research methods deployed for studying PSFs. The majority of existing research on PSFs consists of semi-structured interviews, sometimes integrated with archival sources. To date quantitative studies of PSFs have been relatively limited, raising further questions about the generalizability of much of the "received wisdom" within this field of research. In addition, network studies could also prove particularly fruitful as a means of understanding the complex web of relationships within which professionals and PSFs must operate. Furthermore the limited number of ethnographic studies to date have pointed to their potential in generating important insights into issues such as political relationships within PSFs and the unfolding of long term change processes. This method holds particular promise in terms of bringing back in the lived experiences and everyday practices of people with PSFs which have been often neglected in existing research. Such a focus is particularly important as it is individuals within these firms that have to balance and enact the requirements of competing pressures. Indeed more sensitivity to actual tasks and activities is an important requirement for further work in the area.

Examining working practices

Whilst the training and accreditation processes within the professions are associated with a substantial body of theory about the technical aspects of professional work (see Faulconbridge, this volume), relatively little has been written about the actual practice of professional work as it is enacted by individuals within firms. Notable exceptions include studies of accountants (Anderson-Gough et al. 2000, 2001); consultants (Whittington 2008); and lawyers (Smets 2012). However, these focus on very specialized aspects of professional work. As yet organizational scholars know relatively little about what professionals actually do to deliver client service. For example, what are the precise mechanisms by which professionals work with their clients to define the “problem”? How do they identify the appropriate areas of professional expertise to address the problem? How do they co-create knowledge with their clients, and how they adapt and use that knowledge with their new clients?

Analysing power dynamics

To the extent that PSF research has addressed power explicitly it has focused almost exclusively on power at an institutional level; the process by which the professions have negotiated, defended and sustained their positions of privilege (see Suddaby and Muzio, this volume). At the organizational or individual levels of analysis, power is mostly treated as an implicit construct. It is taken as axiomatic that partners have greater positional power than associates in PSFs or that large PSFs have greater market power and influence than small PSFs. But the implications and dynamic nature of these power relationships remains unexamined. For instance, an individual professional’s power may originate from sources other than structural position, such as relationships with prominent clients. This suggests that issues such

as the profitability and prestige associated with particular client assignments may affect an individual professional's ability to accumulate and utilize power and their relationship with the leadership of their firm (see Empson and Langley, this volume) but this issue has not been examined in any detail within the PSF literature. In addition focusing on the changing balance of power between clients and PSFs (see Broschak, this volume) may help researchers understand how the increasing pressures placed on individual professionals to act in the "best interests" of clients may result in ethical or legal dilemmas (see Dinovitzer et al, this volume). The power relationships between PSFs and their regulators will continue to demand particular scholarly attention as these relationships are challenged and renegotiated over time.

Developing an integrative perspective

The space constraints and review processes of journal articles have inevitably led scholars of PSFs to focus on a relatively narrow phenomenon, the PSF itself. Yet such a narrow focus marginalizes or even neglects the complex power dynamics with which PSFs must contend. Managerialist studies of PSFs (most notably Maister 1993) have argued that PSFs are distinctive because of their need to compete effectively in two markets simultaneously: the market for clients and the market for professional staff (i.e., that both are equally important and entirely interconnected). Yet as Broschak (this volume) has demonstrated, we know quite a bit about the interaction between PSFs and individual professionals, we still know relatively little about the interaction between these firms and their clients. Similarly, perhaps because of the sociology based literatures' grounding in the professionalisation project thesis (with its implicit reification of the firms into a professional field and with its the assumption of cooperation amongst PSFs to achieve this end) very little

attention has been paid to competition that occurs between PSFs in the same sectors and the different ways in which individual PSFs may interact with their professional regulators.

INSERT FIGURE 1.2

We argue, therefore, that researchers should adopt an integrative framework (see Figure 1.2) for analysing PSFs, one which focuses on the dynamic interplay between the PSF and the contending, and sometimes conflicting, demands presented by the profession, professionals, clients and competitors. This approach recognises that PSFs are enmeshed in a complex web of relationships and subject to competing power dynamics, all of which have a significant impact on their organizational practices. PSFs simultaneously maintain employer-employee relationships with the individual professionals, market relationships with their clients and competitors, and are subject to the jurisdiction of professional or regulatory bodies that influence and limit their structure and practices. Of course, all organizations are subject to pressures from clients and competitors but PSFs are distinctive in terms of the extent to which they are also vulnerable to the actions of their professional staff and professional regulators. And it is not only the PSFs themselves that are exposed to the forces from these multiple relationships; all the actors are influenced by relationships with the other entities. Professionals, for example, are employees of particular PSFs, members of their profession and/or professional associations, and define their identity in relation to their competitor and client firms (see Alvesson et al., this volume).

By neglecting to integrate the individual, organizational, and institutional level of analysis, by ignoring or making assumptions about both the client dynamics and competitor dynamics, researchers in this field too often present a partial or even distorted perspective of the phenomenon which they are investigating. Research which is predicated on the reification of PSFs itself will inevitably neglect the fundamental role played by the individuals who enact their professional lives within them, and the clients, competitors and professional regulators who shape the context within which these firms must operate.

As the field of PSF research has developed over the past few decades, we have learnt a great deal of significance to organizational scholarship. The scale and significance of these firms, the influence they have on the lives of their staff, their clients, and society as a whole, and the speed with which they develop and disseminate new organizational practices ensure that we have a great deal more to learn.

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Figure 1.1: Defining characteristics of a Professional Service Firm

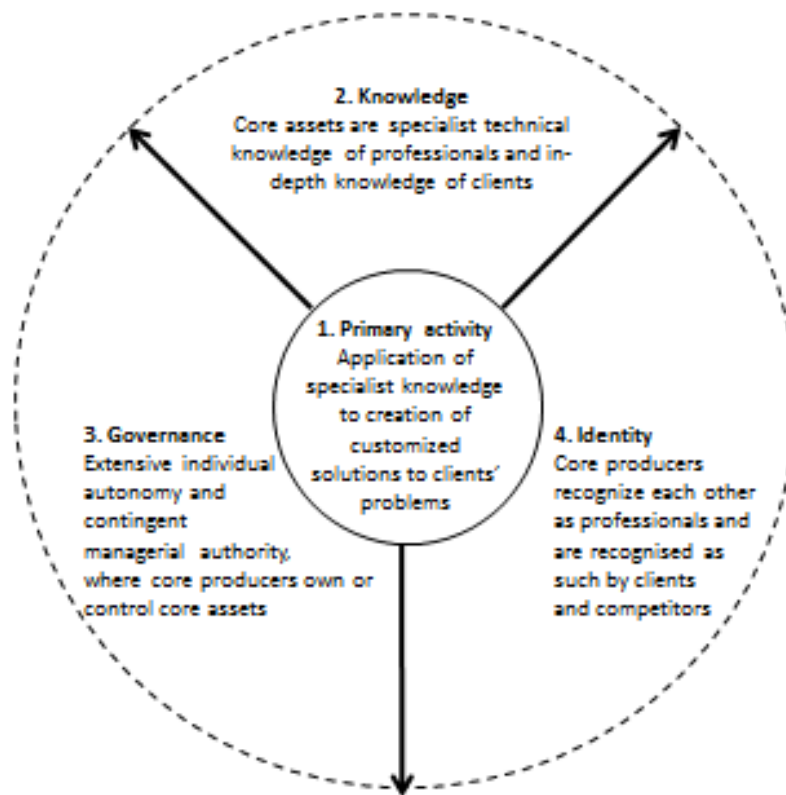
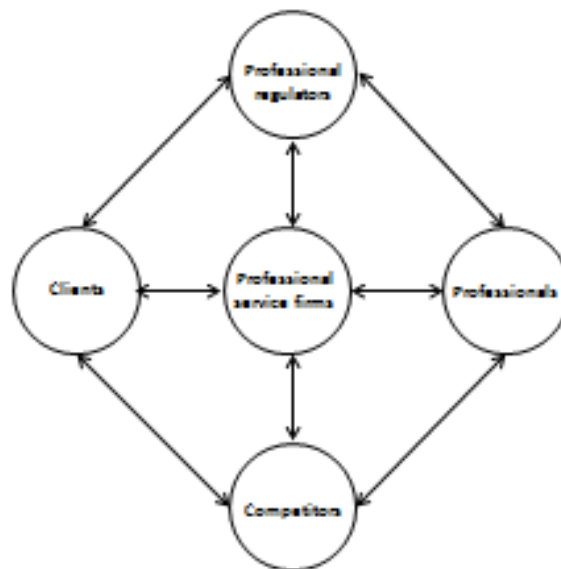


Figure 1.2: Integrative framework for analysing Professional Service Firms



ⁱ We would like to thank Luca Sabini for his help in conducting this analysis