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Analyzing and comparing Professional Service Firms over services, time and space

Proposition of a foundation framework

Paper submitted to EGOS 2010

Sub-theme 3: Professional service organizations and knowledge-intensive work

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Abstract:

Research on professional service firms (PSFs) has been quickly developing over the last twenty years, especially emphasizing both PSFs' distinctiveness and their current challenges. Recent efforts by PSFs scholars have focused on the issue of understanding differences between PSFs regarding ongoing tensions (eg. tension between Partnership and Corporation) or to organizational differentiation over geographical boundaries and professional activities. Although these contributions shed light on different factors of heterogeneity between PSFs, there is still a lack of an integrated and actionable framework which would help analyzing PSFs changes, heterogeneity and distinctiveness over services, time and space.

We propose a foundation framework which interconnects two dimensions, namely « governance » (composed of two sub-dimensions « objects » and « means ») and « operations » (composed of « resources » and « coordination »). This framework provides with dimensions to analyze changes in and differentiation between PSFs. It is then completed by the interactions with different dimensions of the environment which may explain changes and differentiation inside and between PSFs, namely regulation, clients, competitors and the socio-technical environment.

Such a framework offers several contributions by representing comprehensively the organizational dimensions of a PSF and their coherence, by relating issues which are often considered separately and by arguing that organizational patterns are not simply deterministic but also depend on professionals' initiatives.

1. The issue of understanding PSFs variety and changes

Professional Services Firms (PSFs) have been the focus of a growing interest from management researchers for more than twenty years. Next to the analyses in the sociology of professions, research has developed lying on specific characteristics and issues of the PSFs: their organizational distinctiveness compared to bureaucratic forms of organization in industrial sectors (Greenwood, Hinings, & Brown, 1990; Waters, 1989), their growing importance in Western economies (e.g. Greenwood, Suddaby, & Megan, 2006; Lowendahl, 2005), and at the same time the challenges faced by PSFs (Powell, Brock, & Hinings, 1999; Stumpf, Doh, & Clark, 2002) and their organizational changes such as the introduction of knowledge management tools (Brivot, 2007; Morris, 2001) or the tensions around the partnership structure (Empson & Chapman, 2006; Greenwood & Empson, 2003).

If the different analyses have offered substantial contributions to the understanding of PSFs' organizations, several scholars have recently criticized the fact that the category Professional Service Firm is usually not well defined or encompass heterogeneous situations and phenomena. Consequently numerous works tend to over-generalize their results regarding the professions and the geographical areas covered (Malhotra & Morris, 2009; Malhotra, Morris, & Hinings, 2006; Pinnington & Morris, 2002, 2003; von Nordenflycht, 2010). Recent contributions have proposed frameworks and analyses in order to make sense of homogeneity and heterogeneity between different professions (see especially Malhotra & Morris, 2009; von Nordenflycht, 2010) or within a single profession (Wasserman, 2008).

This paper deals with similar concerns but extends the research scope to **explaining heterogeneity and variation between PSFs'organizations both over time through organizational changes, geographically by taking into account environment variables, and within a similar profession.**

To do so we propose a new approach regarding the locus of the analysis and the logics of the framework. First, the locus of our approach is the individual PSF rather than PSFs as a unified category of professional services (such as law, accounting or engineering design). We also consider PSF in relation to a specific environment, considering that the one without the other does not enable to make sense of specific configurations. Second, we argue that rather than providing with a dominant form of organization which does not comprehend all PSFs (even in a single profession) and is historically situated, it may be relevant to offer a foundation reasoning on the basic analytical dimensions which allow to describe PSFs and

their environment, and to differentiate between them. Such an approach doesn't directly describe what is the organization, but considers dimensions of organizational design at stake in each PSF and their respective relations. The dominant form of organization is therefore not considered as « natural », but relates to an environment and to an historical emergence and unfoldment, eventually subject of transformation and change. Such a rationale may be of importance in current research trend on PSFs since most of the latter are subject to deep changes of their organizational and management features.

The paper unfolds as follows: in the next section, we pay attention to existing approaches and assess their contributions and limitations. We draw on this review to examine the interest of a new approach to PSFs differentiation. In the two following sections, we first propose a foundation definition of what is a PSF organization and offer a framework to describe interactions between PSF and their environment. Two illustrations of the interest of such a framework are exposed with the examples of the Cravath system's birth and the transformation of the organization of a mid-size PSF. In the last section, we conclude and offer research perspectives in line with the proposed framework.

2. Explaining the variety and the changes of PSFs' organizations: proposition of a different perspective

PSFs have been recognized as a problematic category¹ regarding the professional services that could be included (Greenwood et al., 2006; Lowendahl, 2005; Malhotra & Morris, 2009; Malhotra et al., 2006; von Nordenflycht, 2010). There has been a first tendency to extend the category beyond regulated professional services (e.g. management consulting) due to supposed similar organizational features and challenges. As a consequence, the differentiation against the "Knowledge Intensive Firm" category has become quite ambiguous (Alvesson, 2004). Additionally most research on PSFs have focused on the cases of large accounting firms or of large law firms (e.g. Cooper, Hinings, Greenwood, & Brown, 1996; Greenwood et al., 1990). There has been a following tendency to over-generalize results, which were drawn from the study of one PSF or PSFs from one single profession to all PSFs within a profession or over other professions. A dominant model, also drawn from large North-American PSFs have been used as a kind of "natural" organizational form for organizing professionals, at the

¹ For a synthesis on the genealogy of the notion of PSF, see von Nordenflycht, 2010, pp. 157-159.

risk of being criticizing like the "functionalist" theory in the sociology of professions was (Abbott, 1988): the absence of historicity leading to the naturalization of a category.

As a consequence, the value of the results has been blurred and questioned. It has paved the way for a research agenda on the notion of PSF and, more dramatically, for developing theoretical frameworks which make sense of differences and variations between PSFs.

First analytical efforts in distinguishing between different types of PSFs date back to more than ten years ago. They first focused on explaining the links between the strategy, the market, the resources and the structure and management of the PSF (Brock, Powell, & Hinings, 1999; Lowendahl, 2005; Lowendahl, Revang, & Fosstenlokken, 2001). A special attention has been dedicated to the nature of the knowledge base as a distinctive feature to understand differences between different PSFs' organizations (Morris & Empson, 1998; Wasserman, 2008). Another focus has been directed towards environmental factors, either market or institutional factors, which may explain PSFs recent evolutions (Malhotra et al., 2006).

But so far, such works might have suffered from a blur in the description of organizational features (too general, not actionable, e.g.: "autonomy", "collective resources"), or from considering isolate analytical dimensions without taking into account a comprehensive picture of PSFs² (the links between concrete work and governance practices, the reciprocal interactions between organizational features and environment).

Recent efforts, considering the specific issue of over-generalization of the results, have directly tackled this analytical challenge. To better position our specific perspective, we here develop the rationale of two recent articles on the topic of PSFs heterogeneity and differences.

Malhotra and Morris (2009) ascertain that over-generalization has led to the non-explication of differentiation between the professional services considered. They call for a come back to the content of work in order to explain organizational forms. Drawing on the sociology of professions, they argue that 3 dimensions allow to make distinctions between work practices and have consequences on organizations, namely the *nature of knowledge*, the *existence or not of a jurisdictional control* and the *nature of the client relations*. They then stem from

² We acknowledge contributions of these major works for the study of PSFs, but we consider their limits as to pretend to be candidates for a comprehensive analytical framework to study PSFs in all their dimensions and their heterogeneity.

these 3 variables propositions on PSFs' organizational structures. According to the authors, this helps to understand differences in organizational forms between different professions, namely law, audit and engineering services in the article. Nevertheless, the authors recognize in the conclusion that explaining intra-profession differences between PSFs, while not in the scope of their research, needs further theorizing (p918).

Von Nordenflycht (2010) starts with the statement that, next to the over-generalization tendency, the origins of the distinctive organizational characteristics of PSFs are not well explained. This tends to blur and make contestable some assertions on the functional aspects of partnership for instance. To deal with these difficulties, von Nordenflycht proposes not to consider PSFs in a unique category but to distinguish between them according to degrees of "PSFness". Three distinctive characteristics – namely Knowledge intensity, Low-capital intensity and Professionalized workforce – are considered and point out managerial challenges or opportunities and eventually types of organizational responses. This provides a taxonomy of PSF, respectively "Technology developers", "Neo-PSFs", "Professional Campuses" and "Classic (or Regulated) PSFs". Such a framework is then tested to reinterpret past research with alternative conclusions.

While recognizing significant contributions of these works, in shedding light on the role of various factors on the organizational structure and on the functioning of PSFs, we argue that several important limitations can still be raised against these approaches.

- a. First, despite we agree with the fact that contingencies and institutional constraints have direct effects on organizational forms, **we contest the determinism** which is associated with such approaches. We argue that PSFs have, next to these constraints, relative capabilities of self-determination, unless any competitive advantage is unthinkable on professional services' markets. For instance, the birth of the Cravath system at the very beginning of the 20th century in the United States is a form of organizational rationalization which offered a competitive advantage to the Cravath firm and fostered its growth compared to 'classical' functioning of small-scale partnership (Galanter & Palay, 1992; Hobson, 1986; Swaine, 1946, 1948). Recent works have also contributed to demonstrate the role which can be played by single PSFs in framing their markets through innovation (Gallouj, 2002; Zack, 1999) or in influencing at the professional regulation level (Cooper & Robson, 2006).

- b. Second, determinism prevents us from **integrating exceptions** into a category of PSF: some PSFs can sometimes have original answers to external environment or design organizational features with specific values and purpose which differ from the dominant model. How to consider them in a deterministic approach? For example, Galanter and Palay (1992) expose different corporate and organizational choices to answer to environment's evolutions. In the same vein of critique, most research has so far focused on large PSFs in each professional service and has not paid enough attention to the numerous **mid-size or "boutique" PSFs** which exist and face different management issues (Brock et al., 1999; Wasserman, 2008). We consequently acknowledge the limits of would-be general theories of PSFs.
- c. Third, the rationale of most research articles has been to differentiate between PSFs and other firms or within PSFs by considering the direct effect of one factor on the organizational form of a PSF: nature of the knowledge base, kind of services, professional regulation, ownership structure, leverage of expertise, diversification, etc (e.g. Greenwood & Empson, 2003; Greenwood, Li, Prakash, & Deephouse, 2005; Greenwood, Suddaby, & Hinings, 2002; Morris, 2001; Morris & Empson, 1998; Morris & Pinnington, 1998; Suddaby & Greenwood, 2001). But **considering the role of one factor independently of the others has tended to bypass other factors which can be related to each other** (Richter & Schröder, 2008). Rather than isolating one factor of performance or of organizational design, explaining PSFs' organizational distinctiveness might be better tackled by considering the inter-influences and the coherence³ of the overall organizational structure and functioning, in interaction with different institutional and market features (Chreim, Williams, & Hinings, 2007; Cooper et al., 1996).

In our opinion, **such critiques and limitations would be difficult to overcome, unless we consider with a different perspective the fundamental issue of analyzing and comparing PSFs over services, time and space.**

Our proposed approach is then noticeably different from previous research. Taking into account current contributions and the underlined limitations above, **we propose to consider a**

³ We here do not associate coherence to optimization. It means that relative inconsistencies might exist in an organizational pattern, but only to some extent in order to be competitive in a given context. This argument is close to the logics of "archetype" developed by Greenwood and other researchers from the University of Alberta (Cooper et al., 1996; Greenwood et al., 1990), even if not relying on the notion of "interpretive scheme".

foundation approach to PSFs, understood as the description of the basic analytical dimensions to consider in order to describe and understand PSFs' variety and change over services (regulated or not), over geographical boundaries (with their local characteristics or not), and over time (applying to changes in PSFs). But this will be possible with first of all an analytical framework which offers a fully-fledged representation of PSFs' organizations at an individual organizational level. Our rationale also integrates the links which exist between operational aspects of delivering professional services and governance aspects, in order to provide a comprehensive representation of a PSF.

Such a complete picture is needed since, for instance, the 'classical' model of oligarchic partnership (known as the 'Cravath model') offers a strong coherence between the collegial form of governance between partners and the hierarchical division of work at the operational level. This was based on a more or less explicit notion of expertise superiority of the partners, at least in the Cravath firm of the first half of the 20th century (Swaine, 1948). Such an organizational conception has been challenged in several law firms, due to the apparition of 'Experts' who were essential for the quality of services but not excellent at commercial tasks (Galanter & Palay, 1992; Nelson & Trubek, 1992). Law PSFs have had to design specific answers (non-equity partners, experts positions...). Representing such micro-changes is necessary to grasp convergent trends and divergences which can exist between PSFs. It should help to depart from descriptions which may oversimplify actual PSFs' functioning around the terms of autonomy (who is autonomous and what kind of autonomy?) or collegiality (on which topics and how do professionals govern collegially?). These descriptions may themselves have been drawn from professionals' discourses and organizational forms rather than actual functioning through observations and interactions.

To cope with this issue, our approach is not to develop a general theory of internal or external factors that lead to organizational features, but **to propose a foundation framework of PSF's organizations and environments**. It means that the purpose of the framework is not to directly describe an existing organizational feature of a PSF (such as a collegial governance), but to provide with dimensions of description independantly of any conjonctural or geographical underlying variable⁴. It can be expected from such a rationale to overcome current difficulties in describing PSFs differences inside a professional service, to allow a

⁴ Anglo-saxon environments and oligarchic partnerships are often considered as "natural" or common to PSFs in research.

better understanding of micro and macro changes in a given PSF, and to compare between PSFs from different professional services. It also takes into account that understanding PSFs "from within" is still a research topic in development, even if recent works contributed to such an issue (Suddaby, Greenwood, & Wilderom, 2008)⁵.

In the following, we first propose foundation dimensions to describe and grasp organizational logics of PSFs, and then consider the dimensions of environment which are in interaction with PSFs and might influence their organizational functioning and change.

3. A foundation approach of PSFs' organizations

Whereas the classical representation of the professional organization relates distinctive governance features to ways of organizing the concrete delivery of professional services (e.g. Scott, 1982), there has been a tendency to loosely couple considerations on governance aspects, such as ownership structure, and the organization of the operating processes. This is particularly evident when considering contemporary works on changes in PSFs, where research has focused on one issue, such as the introduction of knowledge management tools or specialization effects, without paying close attention to side effects which may happen elsewhere (either at the operational level or at the governance level).

Drawing on research originally developed under the label "Professional Organization" (Greenwood et al., 1990; Mintzberg, 1989), we argue that two dimensions of a PSF's organization have to be associated to offer a whole picture:

- A level that we label "**Operations**": it represents how professionals practice concretely and cooperate to deliver services to their clients. Traditional professional organizations are described with large autonomy granted to professionals after a long phase of training and apprenticeship (Mintzberg, 1989). However, this hides the fact that the operational dimension of PSFs is often organized according to a hierarchical line with a division of work (Lazega, 2001). Another decisive variable is the nature of the knowledge base and the way a PSF decides to handle it: experience accumulation and communication of experience, codification, methods, etc (Morris & Empson, 1998; Werr & Stjernberg, 2003; Zack, 1999). *There is no uniformity but at the same*

⁵ See the special issue of the Journal of Organizational Behavior on this topic (2008, issue 29).

time no systematic framework that could represent and make sense of these differences.

- A level that we label "**Governance**": it represents the way of governing the organization. Usually, it is described as collegial in *partnerships* and consists traditionally in clients assignments, pay system elaboration and management, and promotions in the 'up-or-out' system (Maister, 1993). But *this does not include non-partnership firms (or those which have converted to public ownership), or make sense of PSFs which do not practice the 'up-or-out' system (Morris & Pinnington, 1998), and the variety of recent trends in governance changes remain underframed to understand equivocal evolutions (Empson & Chapman, 2006).*

Consequently we may lack of appropriate variables to represent appropriately how does a PSF work. Representing the organizational design of PSF, the different levels and their interactions in a non-predetermined manner requires to **re-examine what is the content of "Governance" and "Operations" for a PSF.**

The "**Operations**" level may have been a bit overlooked over PSF analyses (Teece, 2003). For example, operational or strategic autonomies of senior professionals (Baylin, 1985) are already both a way to consider the organization of expert knowledge accumulation and dissemination in the PSF and a way to pre-organize the delivery of professional services to clients. We then argue that "**Operations**" would gain descriptive capacities if it were considered as the articulation of "**resources**", usable by a PSF (including their organization, such as specialization, knowledge management...) and "**coordination**" in the front-office⁶, i.e. the way professionals concretely coordinate and work together lying on their personal or on collective-organizational resources (Lowendahl, 2005). For example, it means that the very classical independant professional has only his own knowledge and means of investigation as resources, and is entirely autonomous to deal with his clients' issues. A contrasted example would be a contemporary "Big Four"-type PSF with a large organization of back-office, including knowledge management tools and roles for knowledge codification, associated with a division of work which includes basic tasks to the most juniors, supervised by more senior profiles, with the eventual possibility to require specific expertise according to the needs of the client. In this case, it is interesting to distinguish between the organization of the resources

⁶ This distinction is directly drawn from works on organizational design from Jean-Claude Sardas and Philippe Lefebvre (Sardas & Lefebvre, 2007)

and of the coordination to deliver the professional service: it may help for instance to consider all the intricacies of the evolutions that some PSFs have sought, such as early specialization (Malhotra et al., 2006) or the introduction of knowledge management tools (Brivot, 2007; Morris, 2001), by emphasizing the consequences or the articulation between the sought evolution of one sub-dimension and its consequences, more or less intended.

The "**Governance**" level, according to us, is directly connected to the logics of "Operations".

There is a co-determination between the organization of "Operations" and the issues at stake at the governance level. To illustrate this argument, consider what happened when two independent professionals, for instance two physicians partner together. In the most traditional way, they won't practice together. But they will have at least to govern together the way they share the rent, the secretary wage or the duty service hours. It is a governance structure, even if very simple. In this sense "Governance" is the management of the "Common good", i.e. what belongs to the firm in itself and involves the professionals as a collective group. This leads to distinguish between the "**objects**" of governance, which contains the issues to deal collectively with, and the ways they are governed, namely what we will the "**means**" of governance. In the most traditional way the latter can be collegial meetings, but more generally there is also a managing partner.

This distinction paves the way for disentangling two descriptive issues of PSFs' governance:

- it becomes possible to consider different "means" of governance associated with similar "objects" of governance, such as the choice of certain organizations to have more or less large participation of members (beyond the legal obligation of a partnership for example) (Galanter & Palay, 1991, p127s);
- in a period of transformation of PSFs, it enables to consider the evolution, the appearance and the dynamics of governance objects and the resulting pressure on the adaptation of the governance means. For example, while the traditional "objects" of governance have mainly been recruitments, assignments, remunerations and promotions (Maister, 1993), strategy (clients and knowledge) more recently appeared as a collective issue for numerous PSFs (Cooper et al., 1996; Pinnington & Morris, 2003). Over the last decade, PSFs have thus organized scientific committees to help them managing their client and their knowledge strategy.

To summarize our PSF internal foundation framework, it is composed of 2 main dimensions, namely "Operations" and "Governance", each of them being described as the articulation of "Resources" with "Coordination (modes)" for the first, and "Objects" with "Means (of governance)" for the second. This analytical apparatus shall be useful to consider more thoroughly the organizing of PSFs, trying to avoid over-generalization by a refined descriptive apparatus, in order to make sense of variations and differentiation over time, between services and countries.

To better represent changes which may happen in PSFs over time or in different PSFs, we propose to use the notion of "regime": in our case, it means a characterized organizational process at the governance or at the operations level. A regime of operations or a regime of governance represents a specific functioning represented by the description and the articulation of each sub-dimension (see figure 1. below and the illustrations).

We also argue that both operations and governance levels are intertwined and have reciprocal influences. It is so recognized that PSFs' organizations have shown coherence and reciprocal determination between both levels, even if this does not mean that they are always the most efficient way of organizing (von Nordenflycht, 2010), due to for instance to legal restrictions in organizational arrangements. The logics of organizational fit should not be overlooked in PSFs, at least before a close examination of its relevance for such organizations.

But such a framework would remain empty and could not claim offering possibilities of explaining changes and differences if it were not connected to any environmental variable. The latter play a major role on the forms and functions of the PSFs, as contingent and institutional theories have enlighten (Malhotra et al., 2006).

4. PSFs relating to their environment: framing and overflowing interactions

Drawing on previous works in sociology of professions and management of PSFs, it is possible to define the influential dimensions of PSFs' environment on their organizational features and the services they deliver.

Four elements are considered as directly "framing" the activities and the organization of PSF:

- **Regulation**: rather than considering this dimension in connection to the issue of defining the "pure" professional character or not of the considered occupation, we here consider it

under the large effects that regulation can have on professional services and PSFs' organizations. It is composed of all **laws** which impact PSFs but also their clients. For example, the Glass-Seagall Act in the USA in 1933 structured directly the bank markets and its players. But laws first directed to clients can regularly have repercussions on the need for professional services: it is especially the case in legal services (Gallouj, 1994, 2002). **Professional associations** play as well a role in framing PSFs, mainly in regulated professions due to coercive effects, be it on allowed legal forms of corporations, individual professional responsibilities or regarding the knowledge dynamics (Abbott, 1988; Greenwood et al., 2002).

- **Clients:** Contrary to traditional considerations in the sociology of professions, the evolution of clients' demands is decisive to the dynamics of innovation and change in professional services (Johnson, 1972). For example, the birth of the Cravath system and the creation of law firms would not have been so prevalent without the creation of "Big Businesses" with new and permanent needs for advices (Hobson, 1986). Clients' needs (explicit or "suggested" by professionals) often drive innovations in PSFs (Gallouj, 2002; Gardner, Morris, & Anand, 2007).
- **Competitors:** The evolution of a firm should also be considered as decisive in framing the evolution of PSFs' organizations. Next to possible effects of isomorphism (DiMaggio & Powell, 1983), organizing might also be an important competitive advantage (Gardner et al., 2007; Hanlon, 2004; Hobson, 1986). As a consequence, an evolution in a competitor's organization contributes to frame a PSF's own organization.
- **Societal and technological environment:** Evolutions in technologies and knowledge in the largest society contribute to frame PSFs, both their services and their organizational features. For instance, the emergence of computers in audit has completely transformed the content of work from the 1950s for the first mover which was Arthur Andersen (Matthews, 2006). Another recent example is the Internet as it has opened renewed possibilities of cooperation over physical boundaries (even if it has not revolutionized so much as first myths considered in the late nineties).

These different dimensions **frame** the knowledge dynamics in the delivery of professional services and the organizational forms and functions of PSFs. But such a one-way representation shall overlook that PSFs innovations, through new services and knowledge expertise, contribute to "**overflow**" existing framing of the markets and to redefine consequently the market of a given professional service (Callon, 1998). This can be new

services' offer or new processes of service delivery (Gallouj, 2002). In a more "power" perspective, it has been argued several times that the largest PSFs play a decisive role in the management of professional associations and consequently have capabilities to influence the framing (Cooper & Robson, 2006; Johnson, 1972; Suddaby, Cooper, & Greenwood, 2007).

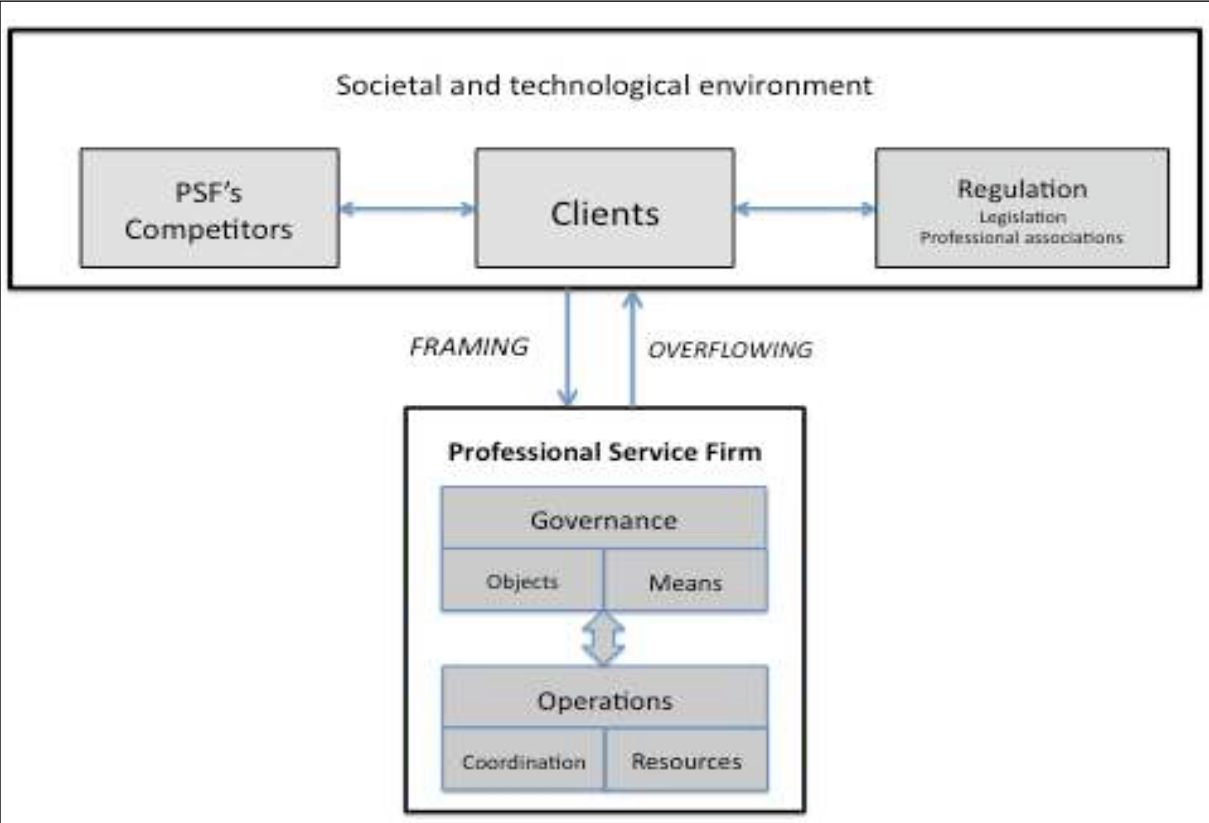


Figure 1. A foundation framework for PSFs' organizations and environments over services, time and space

It is then possible to offer a foundation framework of both internal organizational features of any PSF and of their environment, taking into account the dynamics of the interactions between them, namely framing and overflowing. Such a proposal constitutes a step-forward to disentangle a literature which has been so far dominated by studies on large anglo-saxon PSFs in law and audit⁷.

⁷ Von Nordenflycht (2010) states the dominance of studies on law and audit but does not treat systematically the issue of change and the geographic boundaries.

It offers an integrated framework which may be used for analyses of transformations, managerial challenges and crises, differences (where do they originate from?).

One of its analytical contributions may lie in the way it helps "denaturalizing" PSFs organizations, in considering them as an object of construction and transformation. It should also fosters caution in comparison over countries. The apparent convergence of PSFs organizational models is subject to diverse local histories: for example, the large law firm or big audit firms were an American feature until the 1960s, before effects of internationalization through their clients expansion (Collasse & Pavé, 2005; Karpik, 1995).

Consequently the proposed framework might help developing cautious analyses (retrospective and contemporary) and comparisons between PSFs over services, time and space.

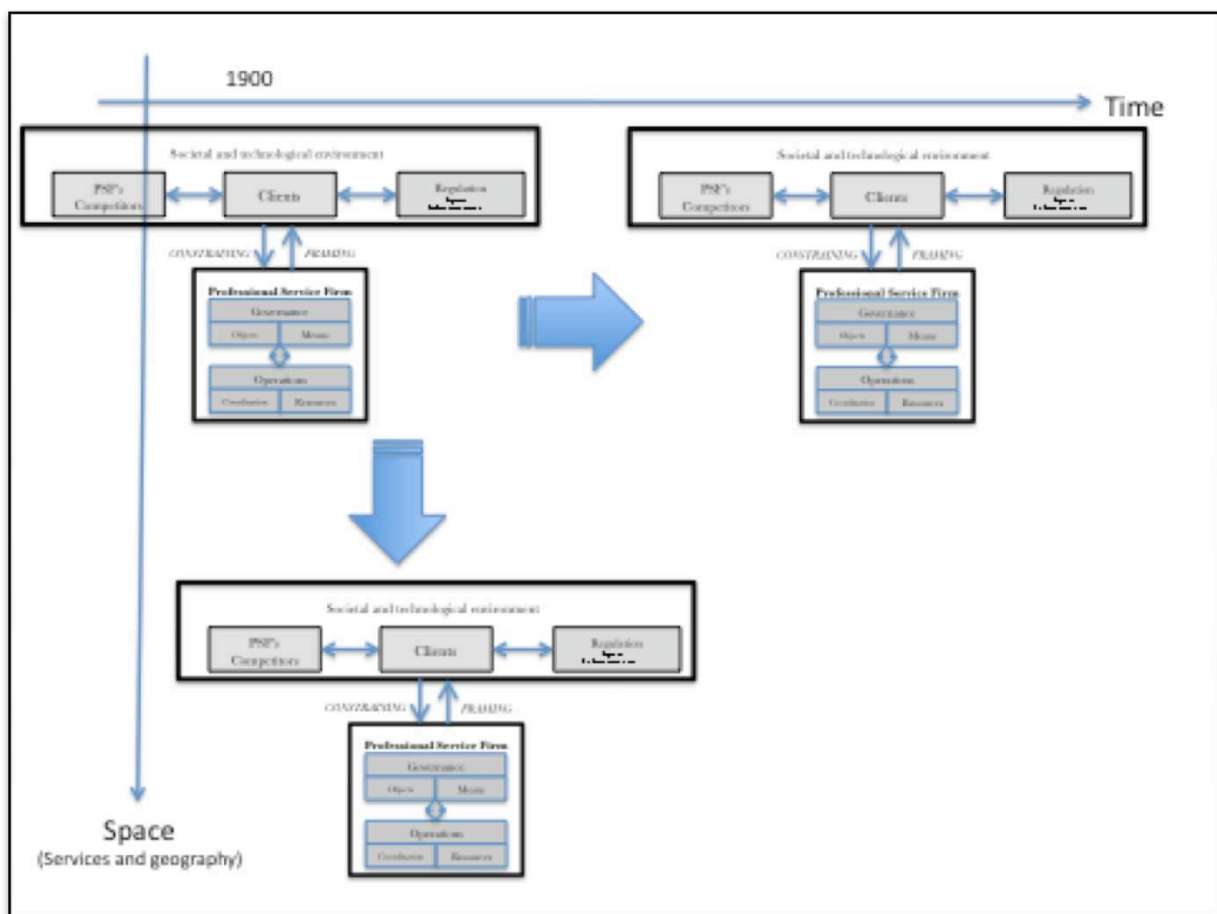


Figure 2. Comparing over services, time and space through the axiomatic framework

5. Illustrations

To demonstrate the way the framework can be operated and might be a useful tool to make sense with care of variations, differentiations and convergences among PSFs, we illustrate it with two cases of PSF. The first one is an historical and emblematic reference for PSF, namely the birth of the Cravath system in the Cravath law firm. The second one is a contemporary case, not belonging to the mainstream professional services, but we will show how changes which happened in the organization of a French self-managing mid-size PSF can be fully considered by adopting our perspective and might contribute to fully understand PSFs dynamics. In each case, we consider specific contributions compared to traditional assumptions or analyses of PSFs.

Birth of the Cravath system: dramatic change in the needs of clients and its incentives to organizing PSFs

The choice of this historical case-study has been directed by the will to fully "denaturalize" the Cravath system in order to consider the way it historically appeared and then unfolded as the first major organizational invention over PSF history. It is also an occasion to challenge some taken-for-granted assumptions on the functioning of PSFs on the whole, and more particularly of that kind of "classical" professional partnership: the autonomy of professionals, the opposition between professionalism and commercialism, the collegial governance, or the dominant role of regulation in framing the professional services.

Another reason for this choice is the available material on this case: there has been an "official" history written by a partner of the Cravath firm, going back from the 1820s until the 1940s (Swaine, 1946, 1948). Social studies of law in the United States have also provided valuable analyses of the context of the "organizational revolution" at the end of the nineteenth century and its consequences on the practice of law (Galanter & Palay, 1991; Hobson, 1986; Tolbert & Barley, 1991).

What was before the Cravath system?

The history of law partnerships dates back at least at the beginning of the 19th century. But at that time, the environment, the society and the nature of law practice did not spur on organizational rationality.

Until the 1860s-1870s, law practice was essentially litigation with pleadings in front of a judge. It was more or less craftship. Regulation was rather limited, due to the tradition of Common Law and of the weakness of the Federal State at that time. The clients were individual entrepreneurs or wealthy families. Issues of securities (to fund canals and trains) and patent regulation progressively developed from the 1830-1840s.

Most of the professionals were actually gentlemen from the "good" families. They were practising part-time, usually being engaged in political activities next to practice. The partnerships were "loose" federations, with recurrent moves from law practice out to business or political activities. Next to partners, usually between 2 and 5, two kinds of "para-professionals" were working. The first one were clerks, since a large part of the work consisted in writing patents or other acts, or preparing the pleadings. Additionally, "would-be" lawyers served as kinds of interns, working for free. They belonged to wealthy families and this was considered as a life development. Some of them could after open their own office. There was no policy of retaining the best elements.

As a consequence, the objects of governance were very limited to sharing offices and sometimes clients, enabling to transfer work loads from one to another for example. Informality seemed to be the main rule. Regarding the Operations dimension, this was simple with a partner having his own assistants and clerks to work with him. The limited technicality did not require formal organization of the resources.

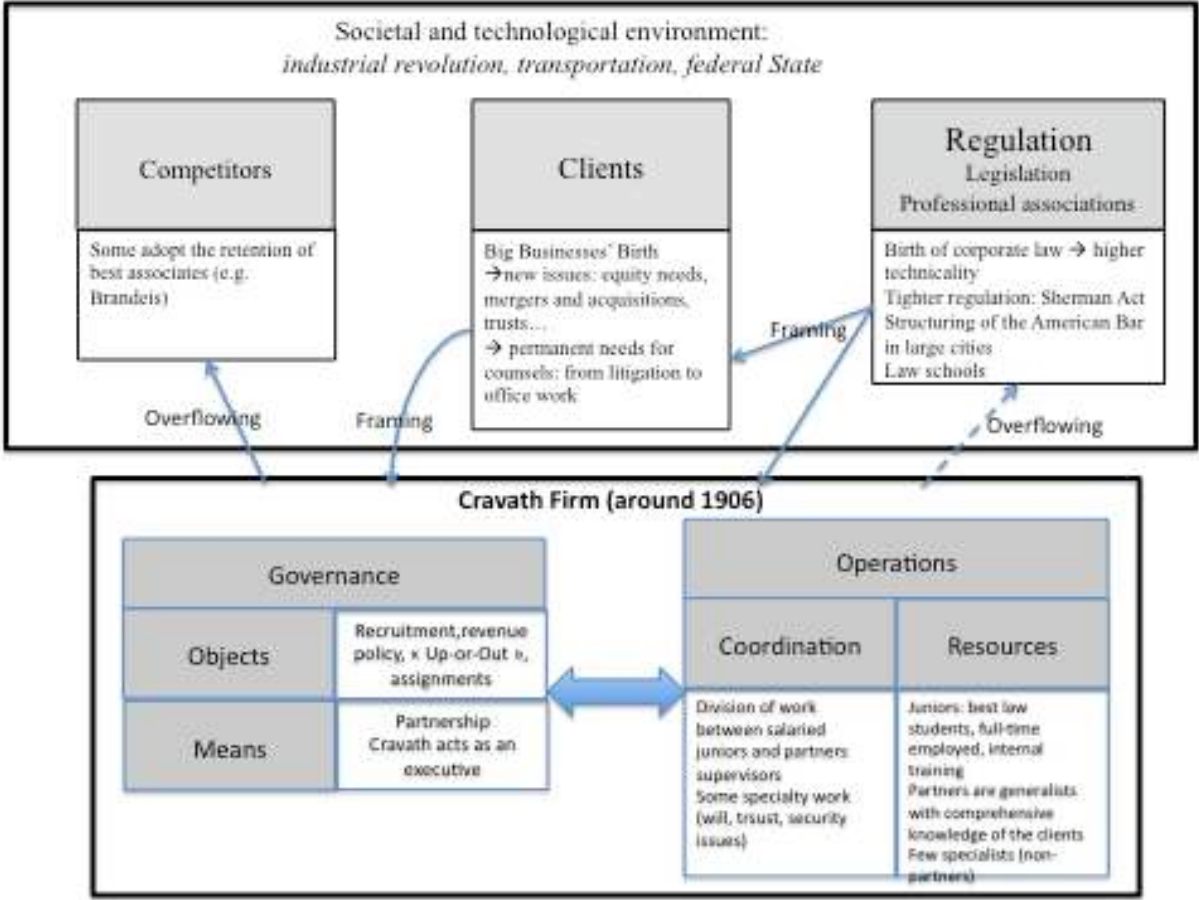
What spurred the birth of the Cravath system? A comprehensive view

Several changes in the law practice environment opened the possibility of the Cravath system (see figure below). First, and decisively, the birth of "Big Businesses" raised new and permanent issues: securities issues, acquisitions, trusts, etc. This also moves the practice from the court to the office, transforming the corporate lawyers in a counselor. The regulation follows this move in order to "frame" the actions of Big Businesses (see for instance the Sherman Act of 1890 on trusts). The corporate law mostly developed at that time, giving higher technicality to law practice. Law schools developed also to train a new kind of lawyer. Last, the Cravath firm, through the person of Paul D. Cravath, formalized practices which seemed to exist in other law partnership at the same time (Brandeis for instance).

At the operational level, resources were in the new regime differentiated between junior lawyers, recruited among the best law graduates. But they were full-time employed and trained in order to develop their competences and loyalty to the firm. Partners were generalist

professionals with a global view of a range of clients' issues. To coordinate, the work was divided between juniors, according to a gradual complexity in their career, and partners who acted as supervisors. Next to them, a few specialists were permanent non-partners (in patent or tax for example) and could work for different clients.

This forced the transformation of the partnership towards an integrated firm, with objects of governance which were largely enriched (recruitment, training, revenue policy, promotion). The partnership was then a manner to retain the best associates. But this does not directly mean that collegiality goes along with it. Actually Paul D. Cravath is described as an "executive", who has for model the industrial organizations (Swaine, 1948:12).



Analytical contributions

The readings of historical works with our analytical lense might offer new perspectives on some "naturalized" categories. The traditional opposition between professionalism and commercialism is already present at that time and even in the 1920s, debates on the law firms

specialized in corporate clients focus on the commercialism rationale of such firms (Hobson, 1986). Collegiality as a dominant feature can also be discussed with the case study. The imported opposition of Max Weber between collegiality and bureaucracy (Waters, 1989) might be re-opened to better describe the variety of organizational features and design choices.

Last, clients appeared as the dominant trigger for change, the regulation following their evolutions. This might call for a closer attention to interactions and intertwined evolutions between clients and regulation, the one or the other could be triggering major changes on a market, without definitive order.

A self-managing PSF on the edge: is a democratic governance compatible with an enhanced differentiation between professionals?

The second illustration deals with a contemporary case-study. While being an extreme case-study of a PSF, due to the nature of its professional services and its self-managing orientation, the granularity of the material and its use through the framework contributes to propose alternative interpretations on PSFs' organizations and rationalizations. The methodology of the case-study is a collaborative research which lasts three years and was led by the author and two colleagues⁸ (Gand, 2008; Gand & Segrestin, 2009).

A democratic functioning in a PSF: is it so odd?

Expertise Firm (EF) is a French PSF which provides economic expertise and consulting services to French and European works' councils. Founded in 1971, the PSF reached 400 members (350 consultants) in 2008. From its foundation, a distinctive feature has been the "self-management" project which is associated with a rejection of hierarchy and a democratic functioning (election of local and corporate managers, collective decisions through votes, etc.). EF is composed of 17 very independent business units in which professionals act autonomously after a period of apprenticeship of ca. 3 years. This autonomy is both a client-relation autonomy and a cognitive autonomy, in which professionals rely on their own resources (personal knowledge and informal networks). Adding that the pay system rests upon a "earn-what-you-bill" principle, the overall organization was consistent as long as governance issues were limited to a few objects

⁸ Philippe Lefebvre and Jean-Claude Sardas

(mainly the fair assignment of clients to consultants, the recruitment and the training through companionship). To this respect, embodying democratic features was also compatible with professional parity and limited needs for collective functioning.

A twofold crisis of "Operations" and "Governance": a coincidence?

One condition for such an organization based on operational autonomy (Baylin, 1985) is that client demands are relatively stable and do not exceed individual cognitive capabilities (Mintzberg, 1989). But, from the mid-1990s, changing client demands (less predictable, more complex, extended knowledge base) in a more competitive environment required a move towards extended and more complex professional services. In order to deliver these services the prevailing 'intellectual craftsmanship' model of producing services based on personal and informal resources needed to evolve. This was engaged progressively and emergently through a progressive informal differentiation in assignments (to specialize a bit consultants) and through the design of back-office structures, dedicated to organizing knowledge dynamics on thematic or sectoral aspects of the services. But these more or less formal evolutions of "Operations" were fiercely debated inside the different business units and at the corporate level. There was a fear of "privatization" by some professionals of clients, but the limits of too narrow specialization were also under debate. On the whole, the legitimacy of such emerging devices were subject to controversies and prevented from moving to the new organizing mode.

At the same period of time, governance entered in crisis. Successive executive committees resigned, the management functions of business units were also subject to accelerated turnover and poorly attractive. Arguments during general assemblies were focusing on an apparent trade-off between the democratic functioning and the needed evolution of the organization. Could democratic governance be compatible with a competitive organizational functioning?

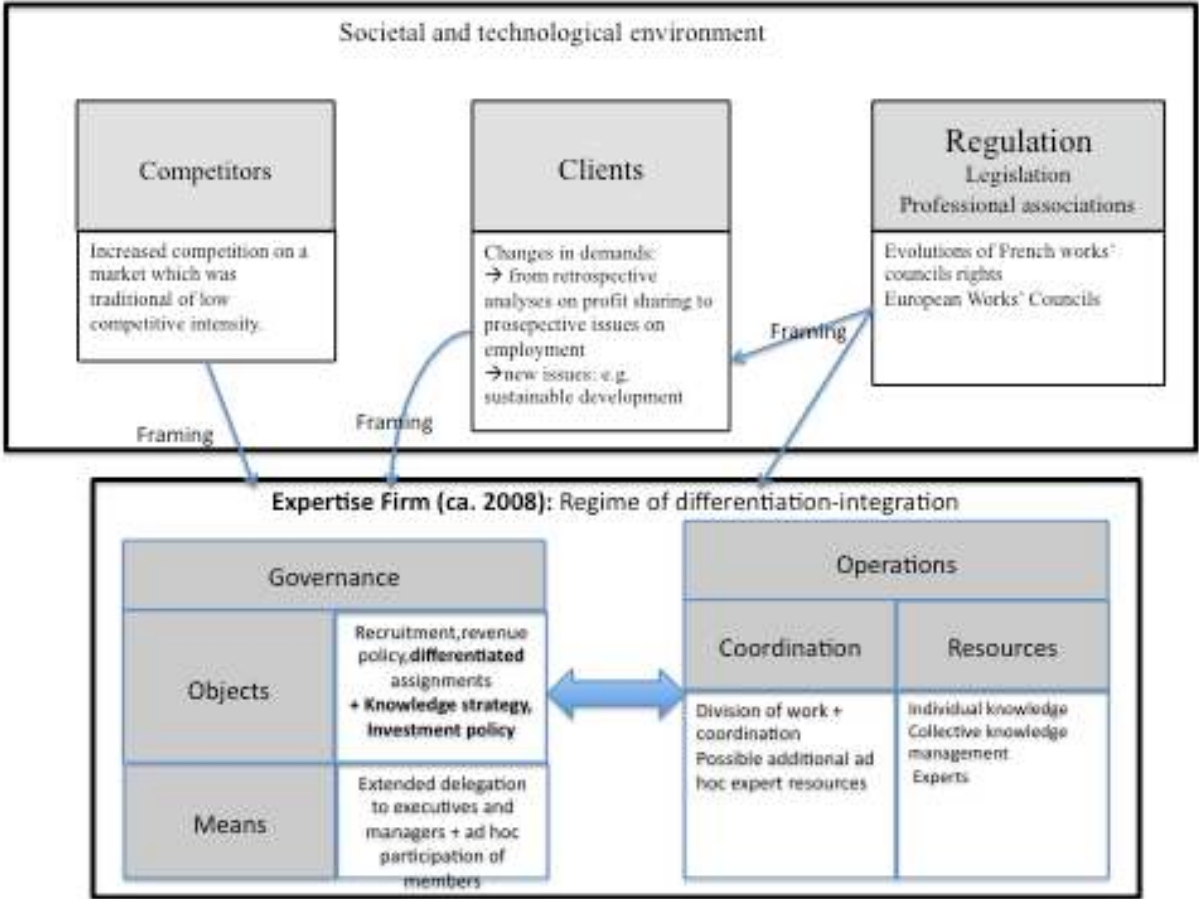
The need for a concurrent evolution of "governance and "operations"

Actually, the twofold origin of the crisis was nothing but a coincidence. The engaged evolutions at the operational level, more or less officially, required an increase in the delegation to management and executive functions. This actually did not prevent from a democratic governance, as long as the conception of "democracy" is not too narrow. Once the targeted operational model was clarified, articulating new kinds of resources with an increase in division of work and coordination, it clarified the requirements on the governance structure. Before interpreting the evolution of governance "means" as a "degeneration" of the

democratic functioning or in a power perspective, it is enlightening to reason first in terms of changing and appearing governance objects.

It helps representing the fact that new "Common goods" have to be managed: for example, differentiating between individual assignments and careers required a new human resources apparatus. Due to the expansion of possible expertises to use and to the development of back-office structures, a knowledge strategy is needed to keep an overall coherence and encourage cross-fertilization. An investment policy also became an object of governance in order to foster and accelerate strategic expertise development (which can generate poor financial results at the beginning).

The conditions for a democratic governance were clarified by the redefinition of the objects of governance. It is then easier to consider governance arrangements which may balance participation and control with the need for effective executive and management functions.



Analytical contribution

The first contribution of the case is to contribute to explaining why democratic firms mainly endure in qualified trades and professional settings. Next to direct peer equality, it associates collegiality with a relatively narrow set of governance objects.

This may be a more general re-interpretation of the debate on the evolution of governance evolutions in PSFs: it has tended to be dichotomize with a frontal opposition between collegiality and bureaucracy (e.g. Cooper et al., 1996). The use of the framework may widen and lead to re-open the debate, considering that the "objects" or issues of collective governance evolve and in themselves require increased management. In the case-study, this goes along with an enhanced collective functioning, integration and solidarity in a sense. While not invalidating interpretations on large PSFs, the framework might help to better specify governance evolutions and their links to operational issues.

6. Conclusion and perspectives

A consensus seems to emerge among researchers on PSFs on the fact that more research needs to be developed on analytical frameworks which take into account PSFs differences and variations over time, space and professional services.

In this paper, we have explored a proposition of analytical foundations in order to describe PSF's and their environment independently from dominant traits which can be observed at a given time, in a specific country or in a sub-category such as "Big Four"-type PSFs.

Our framework offers a fully-fledged picture of PSFs' organizations and rationalizations by articulating issues that are usually considered independently, respectively governance issues (e.g. the future of partnerships) or operational issues (e.g. the introduction of expert roles in the classical law firm). Its purpose is also to improve the capabilities of describing work patterns and organizations *within* PSFs as it is needed today (Suddaby et al., 2008). Addressing such issues may require new research designs and methods, including more longitudinal studies (historical and contemporary) and collaborative research (Hatchuel & David, 2007).

We don't reduce the homogeneity/heterogeneity issue to determinist features but we do recognize that PSFs have to some extent capacities of differentiation, be it for professional or social values or in order to develop a competitive advantage.

Such a proposition is to further develop in order to better define organizational patterns and configurations: it would re-integrate more systematically different contributions of the literature.

Could the framework be relevant to other kinds of firms? The opposition between industrial and professional organizations might be a bit dated (from the 1970s and the 1980s). Competition lying on innovation, blurring frontier between products and services, globalization of production and even of product conception has led to deep transformations of industrial organizations over thirty years. Some of them get attributes close to PSFs resources and work patterns. But the analysis of PSFs often requires to consider on the whole what we have respectively labelled "Operations" and "Governance" aspects. Then works on professional service firms might offer insights and analytical perspectives to re-consider the transformation of most of the industrial firms which employ highly-qualified and creative manpower. In a financialization time, a current period of economic recession and of criticism of the legitimacy of large industrial firms, this might be a first step towards a reconsideration of the involvement of professionals, experts and managers in the governance of firms, on behalf of their responsibility for the operational outcomes and consequences.

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