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Internationalization of Professional Service Firms: Drivers, Forms and Outcomes

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Abstract

This chapter examines the internationalization of professional service firms (PSFs), outlining its drivers, varying forms and organizational implications. We argue that conventional internationalization theory does not apply straightforwardly to PSFs. We identify three key sources of PSF distinctiveness – governance, clients and knowledge – and show how these generate not only differences between PSFs and other types of organizations but also heterogeneity amongst PSFs themselves. Based on this, we identify four different forms of PSF internationalization – network, project, federal and transnational – and note that scholarly interest has mostly focused on the last two of these. We also highlight change towards the transnational model as an underlying theme in PSF research. We find little convincing evidence that this model has been successfully implemented and argue that, in general, PSFs are better understood as federal structures controlled by a few powerful offices than as transnational enterprises. We conclude with suggestions for future research.

Keywords: Internationalization, International Organization, Multinationals, Professional Services

Introduction

In the last three decades, many professional service firms have evolved into transnational businesses with an impressive global reach. For example, in 2014, each of the ‘Big Four’ accountancies – Deloitte & Touche, Ernst & Young, KPMG and PriceWaterhouseCoopers – was present in more than 150 countries. Similarly, Accenture, Wipro and Capgemini, three leading providers of consulting, technology and outsourcing services, served clients in more than 120, 61 and 44 countries, respectively. Even smaller, elite firms such as Linklaters and Allen & Overy in the legal sector or Bain & Company and McKinsey & Company in the management consulting industry currently employ thousands in offices dotted all around the world. Few companies in non-service sectors can boast the same geographical spread and, indeed, since the 1990s manufacturing multinationals have been focused on downsizing and outsourcing their operations rather than on expanding their international footprint.

The purpose of this paper is to present an overview of the extant literature on why professional service firms (hereafter, PSFs) have internationalized and how they have organized themselves in this process. By comparison with firms in other sectors of the economy, PSFs have received little scholarly attention with regards to issues of international expansion and organization. The chapter therefore draws on multiple disciplinary domains, including accounting, economic geography, international business and organization studies, to review, synthesize and critique what is known about the drivers, forms and organizational implications of PSF internationalization.

The chapter proceeds as follows. The first section reviews general theories of internationalization and examines how they have been applied to PSFs. It argues that these theories, which are based predominantly on research into manufacturing companies, need

further refinement in order to take into account the distinctive nature of PSFs. Based on this discussion, four main forms of PSF internationalization are identified – network, project, federal and transnational. The second section examines the organizational implications of PSF internationalization. We highlight change towards the transnational model as an underlying theme in PSF research and show that, despite much rhetoric, there little evidence that PSFs have successfully implemented this model in practice. We argue that, in general, these organizations are better understood as federal structures controlled by a few powerful national offices than as transnational enterprises. The final section suggests some avenues for future research.

Internationalization Theory and Professional Service Firms

Internationalization theory

The field of international business studies has developed a number of related approaches to understanding internationalization. Beginning with the analysis of the circumstances under which firms decide to set up overseas operations rather than export or franchise, authors such as Buckley and Casson (1976) identified the central importance of transaction costs in the internalization of production. Dunning's (1977, 1988) 'eclectic paradigm' elaborated on this by identifying the relationship between ownership, location and internalization (the OLI framework). According to this framework, firms establish foreign operations because:

- They have 'ownership' advantages against firms in the host society – i.e. they have developed knowledge, skills, processes and procedures that make them capable of producing goods and services more competitively than local companies;
- They require complementary assets from other countries which have 'locational' advantages (L);

- The cost of internationalizing through exports, licensing or some kind of non-equity cooperative venture is too high or too risky and, therefore, they prefer to ‘internalize’ overseas activities (I).

From this, Dunning distinguished between four main types of multinational firm activity:

- **Market seeking:** accessing new markets for the firm’s products and services;
- **Resource seeking:** ensuring access to key material resources such as oil and minerals;
- **Efficiency seeking:** reducing the costs of factors of production and maximizing economies of scale and scope by the concentration of production at appropriate locations capable of serving regional and global markets;
- **Strategic asset seeking:** searching for capital, skilled labour and ancillary services of a global quality.

Building on this work, international business scholars have also shed light on the risks involved in the internationalization process. The first risk is that associated with what has been termed ‘the liability of foreignness’ (Zaheer 1995), i.e. the various disadvantages arising from not understanding the culture and regulations of the host context; not having the right local connections and networks; and not being known and trusted by local consumers who generally prefer home-based companies. The second and related risk is that proprietary knowledge will leak from the firm through local supply networks and local labour markets, thus diluting initial advantages. The third risk is both reputational and financial in that failure in overseas markets may lead to a broader loss of confidence in the firm and its management. The fourth risk is that of failing to adequately balance responsiveness to national markets on the one hand and global integration and centralized innovation on the other hand. The latter

two capabilities represent a key source of competitive advantage because they lead to global efficiency through economies of scale and scope that increase the competitiveness of the firm locally. However, consumer expectations, local regulations and the nature of competition in the local market can lead the firm to modify its model (its ownership advantages) so much that it can no longer achieve any scale and scope advantages.

International business scholars have shown that risk is mitigated in two main ways. One approach involves making strategic choices about the appropriate form of entry into foreign markets. Entry modes range from exports, licensing and franchising – all of which imply limited involvement in the foreign context – to various forms of foreign direct investment (FDI), including joint ventures, mergers and acquisitions and new start-ups. Each of these modes of entry generate specific sorts of risks and is driven by calculations of risks and returns given the specific circumstances of the firm and its market (Buckley and Casson 1985). The second way in which risk is mitigated is central in what is generally referred to as the Uppsala Internationalization Process Model (see Forsgren 2002). In this model, firms minimize risk by extending into culturally similar countries first and then gradually expanding more widely as the firm learns how to deal with more culturally distant and complex environments. In addition, Bartlett and Ghoshal (1989) suggest that firms are increasingly implementing what the authors describe as the ‘transnational solution’, i.e. a new organizational form designed to achieve local responsiveness, global integration and worldwide learning, simultaneously.

Adapting internationalization theory to PSFs

Is the body of theory described above applicable to PSFs? Early discussions of this question focused on the argument that PSFs, and service firms more generally, have distinctive

characteristics which impact on how they expand across nations and organize themselves as international firms. Campbell and Verbeke (1994: 95), for instance, draw on the well-known list of characteristics that differentiate services from manufacturing – ‘intangibility’; ‘inseparability of production and consumption’; ‘heterogeneity’; ‘variability’; and ‘regulation’ – to argue that, given these characteristics, the international expansion and organization of service firms exhibit distinctive patterns. Based on research into various service sectors, including finance (Citicorp Banking and American Express) and consulting (McKinsey, Towers Perrin, Arthur Andersen and Ernst & Young), they for example explain that since services are intangible and generally difficult to separate from their consumption, global scale economies (and by implication global integration requirements) are “far less important” (Campbell and Verbeke 1994: 97) for service firms than they are for manufacturing ones (see also Buckley et al 1992). In their view, what matters most to service organizations is the ability to “tailor offerings to suit local market preferences and culture” (Campbell and Verbeke 1994: 97), i.e. local responsiveness, together with the capacity to learn from, and transfer such knowledge across, the firm’s various national units (i.e. economies of scope through centralized innovation).

In this respect, it is very difficult to export services, and other forms of internationalization such as licensing or franchising, whilst offering ways of being close to the customer, are risky because services are ‘intangible’ – the provider-consumer interaction is key and, if this was to be under the control of a third party licensee or franchisee, the original firm would clearly lose an element of control and be open to reputational loss in the home base or other parts of the world. In these circumstances, it might seem that internationalization through FDI is the obvious route for PSFs but, again because of the close consumer connection that is required, firms are likely to rely heavily on localization, on adaptation to the local environment, thereby

reducing the potential for global economies of scale and scope. Further, the liability of foreignness is likely to be strong in services given their intangibility and inseparability, and hence consumers are more likely to trust suppliers with a local reputation, thereby placing further local-responsiveness pressures on firms.

Campbell and Verbeke (1994) argue that these problems can be overcome in part by building a global brand and in part by developing network capabilities in the host environment (i.e. trust linkages with local firms and institutions). The authors highlight a key issue in the analysis of international service firms: because of their particular need to be locally responsive, these organizations find it difficult to achieve economies of scale and scope, raising the question as to whether PSFs can ever be more than federations of relatively independent national entities. What they ignore, however, is that PSFs deal with not only local clients but also *multinational* ones who often require transnational, not just national, services; as a result, they are required to not only be locally responsive but also globally integrated, a theme that we return to below. Further, PSFs have other distinctive characteristics which Campbell and Verbeke (1994) and other international business scholars did not take into account but which also impact on processes of internationalization, as we explain next.

PSF heterogeneity and its impact on internationalization

The initial discussion of internationalization in the service industry highlighted not only differences between service and manufacturing companies but also ‘heterogeneity’ among service firms themselves or rather differences in the nature of services provided by these organizations. Campbell and Verbeke (1994: 97), for example, noted that “services have the potential for considerable variation in their performance or delivery due to the labor intensity

of most services production. Because services are people-centered, the marked differences between individuals result in an equivalent heterogeneity in service production.” In recent years, this theme of ‘heterogeneity’ and its impact on PSF internationalization has received increasing attention (e.g. Brock 2012; Hitt et al 2006; Morgan and Quack 2005b; Malhotra and Hinings 2010; Malhotra and Morris 2009). In contrast to earlier writings such as those by Campbell and Verbeke, however, recent contributions emphasize the significance of three other sources of heterogeneity as influencing the internationalization of PSFs: client requirements, mode of governance and forms of knowledge.

Clients

PSFs provide services across nations for a variety of different clients. In an increasingly globalized world, many companies are engaged in international business and even if they have no foreign subsidiaries, there may be occasions when they need services in other countries, e.g. legal services to sort out contract disputes. They therefore look to professional service providers to resolve their international problems. PSFs generally respond to such demand by forming networks between firms in different countries (see below). Many clients, on the other hand, are multinational in scope and these often require integrated cross-national services. Therefore, PSFs dealing with such clients have to develop international structures able to cope with the task of transnational service provision. However, there appears to be great variability in this. As Malhotra and Morris (2009) point out, part of the variability relates to the nature of the task and the degree of face-to-face interaction in the process. In contexts such as law and advertising, for instance, the multinational client defines the problem and then the firm resolves it off-site and with its own people and practices; interaction with the client is therefore limited to senior partners or account managers. This reduces the pressure for the firm to have multiple overseas offices beyond its key market places and to

concentrate its key expertise in law or in creative processes of advertising in particular centers where such expertise is abundant and well-developed. In auditing where multinational companies may require regular and standard services across the globe and where auditors have to be present within the client firm, the pressure is to have offices located in as many countries as possible. Where tasks are more likely to be one-off and to involve intensive relationships with the client as well as with other firms involved in the project (e.g. in large engineering and architectural schemes), then this requires highly experienced and valued experts drawing on abstract skills which are used to produce in consultation with the client certain customized outputs. Malhotra and Hinings (2010) argue that such PSFs internationalize frequently for specific client projects but their permanent centers of expertise are concentrated in a limited number of countries where agglomerations of skills, educational institutions and major clients exist. The degree of physical presence across different international sites reflects the needs of the client and the project task. The result may be temporary locations embedded with other consultants sub-contracted onto the contract for a fixed duration. Malhotra and Hinings discuss the transition from this sort of one-off, temporally limited entry to a foreign market (what they describe as a 'bounded commitment path') to the establishment of a more permanent presence. They point out that permanent entry does not bind PSFs in the same way as it does with manufacturing firms. Unlike manufacturing firms, which invest in plants overseas and would take huge losses on withdrawing quickly, PSFs' key assets are predominantly based in people who can if necessary be moved relatively quickly in and out of countries and with little loss of value.

Governance

Historically, PSFs have been characterized by the partnership form, as opposed to the corporate form which is found in most sectors of the economy. The evolution of this mode of

governance amongst PSFs has been subject to extended research and debate (see e.g. Brock 2006; Greenwood and Empson 2003; Greenwood et al 1990). The partnership model was widespread before the advent in the mid to late 19th century of the joint stock corporate form which separated ownership from control and allowed limited liability. This corporate model enabled the firm to access capital for investment purposes and insured that owners could separate their personal wealth from their investment in any particular enterprise. PSFs, on the other hand, tended not to go in this direction and to remain partnership structures. This was in part due to regulatory requirements (e.g. in law) which saw potential conflicts of interest arising if commercial considerations driven by shareholders were to supersede professional ethics and principles of best advice. PSFs have also been essentially defined by their senior members and the partnership form has been a way of binding such members (and those who wished to become such members) into the firm. In this form, the firm is basically the agglomeration of its partners, who pursue their own clients and interests subject only to review by their peers, and it is characterized by very little professional, bureaucratic management. As PSFs grew in size and scale, tensions in the partnership model arose, leading to the emergence of what researchers described as the 'Managed Professional Bureaucracy' (MPB) (e.g. Cooper et al 1996). This new PSF form is still based on a partnership mode of governance but also relies on a stronger managerial hand together with more rule-bound procedures. Since the 1990s, with regulatory structures relaxing and firms growing in size and scale, new organizational forms such as limited liability partnerships has also emerged and some PSFs have moved towards the limited liability stock ownership model.

The result of such changes is a wide variety of different international governance structures in the professional services sector. Nevertheless, an enduring common denominator is that the PSF is highly dependent on the knowledge, networks and expertise of its members and this

has three effects on internationalization. Firstly, professionals continue to expect a degree of autonomy in the way in which they interact with clients. Therefore, integrative efforts aimed at providing standardized and consistent cross-national services can under certain circumstances meet resistance from key personnel inside PSFs and because those key personnel are essential to the firm, they cannot simply be removed in the way resisters might be elsewhere. The result is therefore that PSFs have to balance efforts to achieve global integration against the necessity to maintain not only local responsiveness but also *professional autonomy*. Secondly, the need for professional autonomy also leads to the necessity for those managing the firm to consult with professionals, particularly in partnership structures (whether these are MPB or LLP or any other version) but also in PLC structures where the loss of ‘star’ employees is detrimental to corporate success. This means that internationalization may be a more *negotiated* process in PSFs than in other types of organizations. Thirdly, the rules on partnerships and the path-dependent effects of the particular histories of individual PSFs means that creating international governance structures linking together firms in different countries can become highly complex in comparison to manufacturing firms.

Knowledge

The third differentiating feature of PSFs (compared to manufacturing firms) concerns the nature of their knowledge. This has a number of dimensions. Malhotra and Morris (2009) distinguish between normative knowledge, technical knowledge and syncretic knowledge. Normative knowledge is knowledge associated with the norms and values of a particular community. The most obvious example here is law, a form of knowledge that is deeply embedded in national contexts, especially national legal systems. Malhotra and Morris contrast normative knowledge to technical knowledge, which in their view is likely to be the

same everywhere; so for example, engineering expertise is based on standardized and universal principles that are as applicable in one country as any other. They argue that other professional services such as auditing combine normative and technical aspects and this they label as syncretic. It follows that PSFs based on normative knowledge have to make substantial accommodations in order to internationalize and manage activities across different normative orders. By comparison, PSFs with a universal knowledge base do not face this sort of problem. PSFs with a syncretic mix of normative and technical knowledge have to negotiate the potential tensions.

It is important to note that other authors have pointed out that PSFs are major actors shaping the knowledge context in which they exist and are not just passive takers of the environment. For example, the 'Big Four' accounting firms, which Malhotra and Morris describe as 'syncretic', have been major participants in enforcing universal standards of corporate reporting through US-GAAP and International Accounting Standards (Botzem and Quack 2009; also Halliday and Carruthers 2009 on the development of global bankruptcy rules and their implementation in Asia). Thus, they have reshaped the normative environment of particular countries in order to ensure that they can offer a universal knowledge base. Similarly, law firms from the US and the UK in particular have been instrumental in setting law from their home jurisdictions as the law of choice for major commercial and corporate transactions around the world. PSFs, therefore, have engaged strongly in a process of market making and building international and transnational standards that reflect their own specific forms of knowledge (Morgan 2009). Another example is management consulting where the largest firms, originating mainly in the US and the UK, have exercised a huge influence on the development of firm strategy and structure across the world either directly through their role in advising large companies from different contexts or indirectly through their

connections with institutionalized forms of business knowledge within dominant international business schools and their accreditation procedures (see Khurana 2010).

Forms of PSF internationalization

The research discussed above shows that initial efforts to analyse the internationalization of PSFs were insufficiently sensitive both to the distinctive nature of such firms and to the degree of heterogeneity that exists among them. It also reveals how such heterogeneity gives rise to varying forms of PSF internationalization, including:

The project form

As described by Malhotra and Hinings (2010), this form of internationalization tends to emerge where the PSF has a limited number of large value clients with specific requirements that are spatially fixed. Thus, firms of architects tend to be located within distinctive national contexts, often drawing their reputation and expertise from the specific historical experience of their home base. However, this market has become increasingly international, with architects now being invited to design and build in many part of the world. In order to do this, they form project teams (often with other PSFs such as consulting engineers) that are located on site for a period of time. The home firm has to have the capability to develop such project teams by drawing together for a limited period of time individuals who can be trusted to have the skills and expertise to support the home office and maintain its reputation with clients on an on-going basis. The temporary nature of this arrangement means that the international structure of the firm fluctuates according to the timetable of projects and engagements to which it is committed. The home office remains central in all key decisions.

The network form

Networks consist of independent firms in different national contexts that link together in order to provide international services to their clients. Networks are likely to exist where the incentive to internationalize through FDI is limited (compared to potential risks); firms want to present themselves as internationally connected in order to serve clients with occasional, not continuous needs for services involving overseas contexts. Clients are therefore generally small and medium sized enterprises rather than large multinationals. Similarly, the tasks required are specific and limited in nature, rarely involving more than a bilateral relationship inside the network. This model is common amongst medium sized law and accounting firms (see e.g. Morgan and Quack 2006b). Such networks are mainly based on referrals between firms in different contexts where their clients require a specific service outside their home base. Referral systems are, however, almost invariably unequal in that some members of the network gain more business than others and this creates a certain tension and conflict in managing the network. Firms that believe they are providing others with more business than they are receiving may be reluctant to stay in the network without further incentives.

Networks, therefore, vary on a number of dimensions:

- Degree of exclusivity: who can join the network and who controls entry?
- Degree of intensity of interaction between firms: is it simply client referrals across national boundaries or do firms join together for other purposes, e.g. developing common standards, etc.?
- Degree of formalization of the network (rules and procedures, membership fees, sanctioning and disciplining) or informality (best friends' alliances based on long standing personal connections).

The federal form

This refers to firms that may initially have operated as networks but have now become more coordinated through the establishment of a single brand identity and an international structure responsible for providing organizational support to the constituent parts and a degree of central management. The federal form also reflects the strength of the partnership structure and provides a way of marrying the high level of local autonomy that accompanies such a structure with a degree of global integration through the gradual development of global coordination mechanisms. The ‘Big Four’ accounting firms evolved in this way (see e.g. Cooper et al 2000) and so have consulting firms such as McKinsey and Towers Perrin (see e.g. Campbell and Verbeke, 1994). International advertising firms as constructed over the last 30 years offer a different version of this model where the identity of individual agencies (driven sometimes by individual charismatic creative talents) is retained within the structure of a financially coordinated firm such as Martin Sorrell’s WPP. In the federal form, the constituent entities retain a considerable amount of independence in the running of their own business and the management of their own clients even where these clients are multinational in scope. Clients are basically ‘owned’ by the local office which may choose to negotiate with other parts of the firm to provide support and services in different locations – but does not have to do so and may indeed manage a multinational client’s project in another country without involving the office that is actually located in that country (see e.g. Boussebaa et al 2012). Federal PSFs rely on consensual decision-making but, in practice, the largest national offices are likely to be particularly influential over decisions relating to the management of the firm and its transnational client projects and, when threatened by such management, will probably seek to resist it. However, when services are strongly standardized and commoditized, as with auditing, the degree of interconnection between the constituent parts may be stronger and the role of the international structure more important.

The transnational form

This refers to those PSFs that seek to develop the three capabilities outlined in Bartlett and Ghoshal's (1989) 'transnational solution' – local responsiveness, global integration and worldwide learning – but in keeping with the particular demands of the professional services context. Transnational PSFs are run from a strong central office that is actively engaged in determining firm-wide practices and policies and in implementing global coordination mechanisms. Clients are 'owned' by the firm, not the constituent parts, as are key assets. Key assets include a strong brand that aims to reassure clients of a high level of service, a universal HR policy in terms of recruitment, career pathways, and performance management methods, and a global knowledge management system embedded in practices and processes that are formalized in various ways and uniformly taught to new recruits around the world. In this way, the transnational firm aims to be more than the sum of its constituent parts. It is likely to be high on overheads and coordination costs and this is reflected in its pricing systems and its clientele which generally consists of *Fortune* Global 500 companies. Consulting firms such as Accenture and McKinsey often portray themselves as transnationals (see e.g. Ghoshal and Bartlett, 1997; Paik and Choi, 2005) and, as we discuss next, a number of studies suggest that international PSFs in general are moving, or seeking to move, towards this model.

Organizational Implications

Federal and transnational models

The core question for the rest of this chapter that follows from the above discussion concerns the specific organizational implications of the internationalization of PSFs. By 'organizational implications', we refer to not only the formal structures, systems and practices that firms put in place to coordinate work across nations but also the actual experience of such coordination

mechanisms among professionals. Given that the existing PSF literature is very largely focused on what we have termed the ‘federal’ and ‘transnational’ forms of internationalization, we concentrate on the organizational implications of these two models.

Here, it is worth elaborating on the advantages and disadvantages of these models. The federal form offers a ‘local responsiveness’ advantage in that it enables the firm to respond to specific local circumstances in terms of the expertise required, the cultural context of the client and the wider institutional context in which the client is located. In organizational terms, it functions as a loosely coupled structure that resolves governance issues by maintaining a relative autonomy for partners and national partnerships. When required, transnational coordination is primarily achieved through non-hierarchical means such as lateral integrating systems (e.g. committees based on consensual negotiations particularly with the largest and most powerful national offices) and a degree of normative control (through e.g. some shared training and inter-office networking). The federal form also provides an international brand identity that can be useful in winning clients at the local level and in recruiting top talent from across the world.

However, by virtue of being loosely coupled, the federal form is unable to achieve high levels of what may be termed ‘global resource integration’, i.e. collaboration between, and coordination of, professionals based in different national units. It is characterized by relatively weak central control, weakly developed systems for the development of shared understandings, procedures and processes, and an organizational structure in which careers are mainly developed within national units and national labor markets. The federal form is thus not well suited to serving the needs of multinationals given that the projects for which these companies need professional assistance often span national borders, involving multiple

client subsidiaries in different countries. Such projects call for PSFs able mobilize professionals in different geographies, to assemble global service teams and, hence, to facilitate high levels of transnational collaboration. Cross-national projects also call for shared and consistent work methods and quality standards so as to ensure the service provided to the client is ‘seamless’ (Rose and Hinings, 1999), a capability that is in many ways antithetical to the federal form (cf. Ferner et al 1995). This is a major problem for the largest PSFs given that many of the companies that they serve or seek to serve are *Fortune* Global 500 corporations, the projects of which are often multinational in scope (Boussebaa 2015).

Adopting the transnational form appears to offer a solution to this problem given that it enables a greater degree of central control and more strongly developed global coordination mechanisms. The transnational form also appears to offer another advantage over the federal firm: it helps in facilitating what may be labelled ‘global resource transfer’, i.e. the flow of professionals and their knowledge across geographic divides. This is important because international PSFs are subject to competitive pressures and, hence, required to operate efficiently and, importantly, to continually innovate and implement best practices as a way of staying ahead of rivals (Aharoni 1996; Løwendahl 2000a). As Løwendahl (2000b: 152-153) explains, “in professional service firms, the competitive advantage, if achieved, results from the ability of the firm to continuously tap into the knowledge developed in all relevant centers of the world [... The firm] may even gain competitive advantage from being located in a place where the market is not profitable at all, if the learning from these projects adds more value to other markets than what is lost locally.” This learning process enables the firm to evolve new products and innovate in ways that can lead to new and profitable service offerings. And key to achieving this lies in the firm’s ability to develop and implement global knowledge management and employee mobility systems (Beaverstock 2004; Boussebaa 2009;

Boussebaa et al. 2014b); something which the transnational form is, theoretically, more capable of achieving than the federal model.

That being said, the transnational model builds in high coordination costs associated with developing and enforcing universal standards, methods and processes across different geographic units. It also challenges the relative autonomy of national offices and their partners. In effect, it necessitates the development of a corporate structure that can meld together different national units by evolving a 'one firm' strategy and structure (Maister, 1985), a process that is particularly difficult when the firm continues to operate as a federation of national partnerships (Ferner et al 1995; Muzio and Faulconbridge 2013). Transnational PSFs are therefore likely to emerge either in contexts and sectors where the partnership form is weak or where it can be replaced through a mix of financial incentives by a structure of limited liability and shareholder control. Once this is established, resistance by powerful partners, though still significant, does not have a specially privileged channel for expression and is therefore weakened.

In the extant literature, it is clear that many firms are experiencing a tension between these two models, and their structures, systems and practices tend to oscillate depending on a variety of internal and external pressures – see e.g. the discussions in studies of accounting (Aharoni 1996; Ferner et al 1995; Rose and Hinings 1999) consulting (Boussebaa 2009; Boussebaa et al 2012; Fenton and Pettigrew 2000; Jones 2005) and law (Faulconbridge 2008; Segal-Horn and Dean 2009; Muzio and Faulconbridge 2013). At the same time, most large international PSFs subscribe to the transnational model and, in particular, claim to have established appropriate mechanisms to achieve greater degrees of resource integration and resource transfer (see e.g. Angel 2007; Brown et al 1996; Greenwood et al 2010; Rose and

Hinings 1999). But how exactly is this achieved in practice? And are there any differences in the ways in which different types of firms go about the problem? Below, we provide an overview of what is known on these questions.

Structures, systems and practices

A review of the extant literature reveals that relatively little research is available on how PSFs achieve resource integration and transfer in practice (cf. Aharoni 1993, 1996; Baden-Fuller 1993; Boussebaa 2009; Morgan and Quack 2005b) and even less about sector effects on such processes (cf. Malhotra and Morris 2009). Much of the existing research tends to focus on *formal* structures, systems and practices, and typically relies on the accounts of partners as a source of evidence (see e.g. Cooper et al 2000; Rose and Hinings 1999). For instance, scholars report on how firms have created new regional areas (e.g. America, Asia, Europe, etc.) to coordinate work at this intermediary level and introduced new roles with transnational responsibilities (e.g. global practice leader) to facilitate and manage work across geographies. The firms' international headquarters are also said to have acquired increasing responsibility and authority over time in terms of defining and implementing shared professional standards, work methodologies, training programs and reward systems. In addition, PSFs are reported to have developed various mechanisms to facilitate global resource transfer, including centers of excellence (Moore and Birkinshaw 1998), knowledge management systems (Ambos and Schlegelmilch 2009) and new, flexible expatriation methods (Beaverstock 2004).

The literature also shows that PSFs have developed more sophisticated ways of assembling global teams of professionals in order to respond more effectively to multinational clients' demand for integrated cross-national services (Rose and Hinings 1999). The ability to assemble such teams is said to have become a major source of competitive advantage for

PSFs. As the ex-Managing Director of the law firm *Linklaters* explains that “competitive advantage for a global law firm lies in its ability to put together teams across practices and across offices to manage global client relationships and to undertake complex transactions more effectively than can be achieved by independent firms working alone or together” (Angel 2007: 202; see also Smets et al 2012). In this context, global client service partners are said to have been given more authority as a way of better mobilizing and coordinating firm-wide resources (Barrett et al 2005: 10; Rose and Hinings, 1999: 58).

Furthermore, PSFs are said to be putting significant efforts into the management of their corporate cultures in ways that emphasize the importance of transnational collaboration and resource sharing (see e.g. Greenwood et al 2010). Such efforts are supported by various international mobility systems, training programs and networking events aimed at exposing employees to “new ways of working, different cultures, different ways of thinking” (Jones 2005: 187) and, ultimately, nurturing professionals that able to work across national divides. New reward and recognition systems are also said to have been implemented to further stress the importance of, and incentivize, collaboration and sharing. It has even been suggested that some international PSFs have become “single integrated global partnerships with hundreds of partners sharing a single profit pool [...] across practices and offices” (Angel 2007: 201; see also Segal-Horn and Dean 2009).

The experience of international PSF organization

Whilst much research has been dedicated to explicating the new mechanisms of global control and coordination that PSFs have developed to become transnational organizations, little scholarly attention has been given to the experience of such changes amongst professionals. As a consequence, the observed move towards the transnational model is not at all clearly

demonstrated. The few studies that have sought to get beneath the skin of international PSFs reveal that the tension between the federal model and the transnational one has not been resolved. For instance, research in the context of some of the largest international management consultancies describes how employees, whilst subscribing to the idea of the transnational firm, experience a major global-local tension in relation to the staffing of client projects (Boussebaa 2009; Boussebaa et al 2012). The research points to the importance of the national unit to employees' career prospects and financial rewards, and how this leads to priority being typically given to domestic projects and employees whatever the needs of other offices. National units operate as semi-autonomous profit centers; managers and partners at this level focus on achieving their own financial objectives and are reluctant to sacrifice these for the sake of the 'one firm' ideal. So, 'star' performers are kept working in their home office and only loaned out to other offices if profits made overseas can be taken back home. Such a problem is further complicated by significant fee rate differentials across offices, which makes it very difficult for smaller offices to 'borrow' consultants from the larger ones without losing much of their profits. The overall result is continual inter-office struggles over staff and revenue allocations that are not consistent with the rhetoric of global resource transfer and transnational organizing more generally. Boussebaa (2015) reinforces this view and also identifies a disjuncture between the rhetoric of 'global' professional standards and the reality of 'local' practice in international consultancies.

Significant global-local tensions have also been identified in major international law firms (Faulconbridge 2008; Muzio and Faulconbridge 2013). Here, scholars have shown how the distinctive regulatory frameworks of different countries produce varying expectations about professional work (from both lawyers and their clients) in terms of how it should be managed, evaluated and rewarded and, as a result, different organizational arrangements in different

countries. Such ‘national varieties of professionalism’ (Faulconbridge and Muzio 2007), in turn, create various cross-national tensions within firms as these seek to implement firm-wide control and coordination systems (e.g. performance management and remuneration models), making collaboration on international projects particularly problematic (Morgan and Quack 2005a). For example, Muzio and Faulconbridge (2013) show how attempts by English law firms operating in Italy to implement the ‘one firm’ model were merely attempts at reproducing home-country practices into Italian offices. This created “conditions of institutional illegitimacy in Italy” (p. 21) and, as a result, led to various problems, including “demergers, lawyer exoduses [and] clashes with local regulators” (ibid.). Such findings reveal the presence of strong national path-dependencies inside law firms and further demonstrates that the tension between federalism and transnationalism in PSFs remains unresolved (see also Morgan and Quack 2006b).

Research such as this suggests that whilst international PSFs may present themselves as ‘transnational’ organizations, the reality is more along the lines of a conflictual federal form. Moreover, it shows – implicitly at least – how such an organizational form tends to operate mostly in the interests of, and is broadly managed by, the most powerful national offices (Boussebaa, 2015), which are generally those based in the UK and the USA and linked to external sources of power and prestige such as the world’s major financial markets. Hanlon’s (1994) study is particularly revealing here. The author shows how the (then) ‘Big Six’ (now ‘Big Four’) accounting firms are largely dominated, led and shaped by offices based in England and the USA. He notes how the ideology and practices of these organizations was developed within such national contexts and how offices based in smaller and peripheral nations such as Ireland, whilst enjoying a degree of autonomy in relation to some business

matters (e.g. partner promotion, client management, use of advertising, etc.), are required to adhere to the international standards laid down by the UK and US groups.

Boussebaa et al (2012, 2014b) describe such processes in terms of a form of ‘neo-imperialism’ in that a few ‘core’ offices based in the most powerful western economies dominate and seek greater control over smaller and ‘peripheral’ offices based in the rest of the world (see also Boussebaa 2009, 2015; Barrett et al 2005; Cooper et al 1998). Here, it is useful to note that the vast majority of the world’s largest accountancies, law firms and management consultancies are headquartered either in the UK, a former colonial power with still much influence in the global political economy, or in the USA, today’s only superpower and what many refer to as an empire (see e.g. Harvey 2003). In this context, Anglo-American offices tend to dominate the rest and, in particular, have a strong influence on processes of resource integration and transfer. For example, Boussebaa et al’s (2014b) study in the context of management consultancies reveals how UK offices portray themselves as sources of knowledge whilst treating peer units based in smaller nations as recipients, and how such a representation serves to naturalize and strengthen exploitative, core-periphery knowledge exchange relations within the organization. Such findings again fly in the face of the idea of the ‘transnational’ firm and reveal how PSFs are not only characterized by an unresolved tension between federalism and transnationalism but also shaped by quasi-imperial power relations.

Conclusions and Future Direction for Research

In this chapter, we examined the internationalization of PSFs and its organizational implications. We began by considering whether conventional theories of internationalization were appropriate for the study of PSFs. We highlighted how initial efforts to explore the

applicability of these theories to PSFs were useful but fell short because they did not take sufficient account of governance issues, of client types and requirements, and of knowledge characteristics. Incorporating these insights, we also identified four main forms of PSF internationalization: project, network, federal and transnational. We thus argued for the need to take into account not only the distinctive nature of PSFs in general but also the heterogeneity that exists amongst PSFs themselves.

In terms of organizational implications, we argued that scholarly interest has focused most strongly on the federal and transnational models. We highlighted how the transnational model, which implies high levels of transnational resource integration and transfer as well as a clear guiding strategic center associated with universal standards, methods and processes, forms a core aspect of the identity of the largest international PSFs. However, we pointed out that recent research suggests that the extent to which PSFs have adopted the transnational model has been over-stated and that there in fact remain significant barriers to the implementation of such a model. These barriers reflect the interaction of various countervailing forces, including the national embeddedness of much professional knowledge, the continued influence of the partnership mode of governance, and the fragmented nature of career and reward systems inside the organization. Thus, from some perspectives, international PSFs are less ‘transnational’ and more ‘federal’ in form, with the constitutive entities retaining significant power and autonomy, particularly those based in the world’s largest economies. We also highlighted how some parts of the firm are more powerful than others due to their embeddedness in dominant nations and, in particular, how such embeddedness leads to the (re-)production of quasi-imperial power relations within the firm.

From this analysis, several areas for further research can be suggested. The first area requiring attention is the issue of *heterogeneity*. We have identified some consistent common themes across different professional service settings but it is clear that there is also likely to be considerable variation within the professional services sector and this potentially has significant implications for research on PSF internationalization. One important source of heterogeneity we have discussed is the mode of governance. It is clear that there are now multiple modes of governance ranging from traditional partnerships through to limited liability partnerships and on to other forms of limited liability including that associated with a publicly-listed company structure where ownership is held by external shareholders, not the most powerful professionals in the business (as is the case with the partnership structure). Whilst there has been much discussion on this issue in the PSF field, little attention has been given to its implications for the international organization of the firm. Research is much needed here. For instance, how exactly are the international boards and committees of LLPs or partnerships constituted? Who are the members of these groupings in terms of nationality, expertise, networks, etc. and what powers do they have in relation to global strategy and organization? From a comparative viewpoint, how are the varying forms of central control that are associated with different modes of governance experienced by professionals who generally operate under norms of professional autonomy and consensual decision-making?

The second area concerns the relationship between *clients* and the internationalization processes of the PSF. International expansion creates a host of different business-to-business connections as well as internal organizational issues for large PSFs. It also generates a range of activities linking the firm to individual clients in a variety of countries both through sales and through marketing and advertising efforts. Focusing on the largest global clients, how are they managed across different types of firms? Who owns and controls relationships and

projects with such clients in the different firms and how does this relate to efforts to provide a seamless cross-national service or to distribute the costs and profits of such work within the firm?

A third important area needing research attention is the question of *power*. As we have shown, the international expansion and management of PSFs is neither merely a matter of organizational design nor simply one of conflicting institutional logics; it is also a question of power, especially macro-level power, i.e. relations of domination and subordination arising from the embeddedness of the firm in a hierarchical global political economy. The field of comparative and international management has begun incorporating such power in its analysis of multinationals and their relationships with other actors around the world (see e.g. Boussebaa and Morgan 2014; Boussebaa et al. 2014a; Ferner et al 2012; Frenkel 2008); we believe time has come for PSF studies to follow suit (cf. Boussebaa et al 2012, 2014b).

A related, fourth area for research concerns the implications of the on-going shift of political-economic power away from dominant Western nations and towards the BRIC countries and other 'emerging' nations. There is very little research on how international PSFs (i.e. PSFs from the US, the UK and, to a lesser extent, continental Europe) are expanding into these emerging nations and how this is affecting the balance of power within the organization. Are they establishing conventional core-periphery relations with units based in emerging nations? Or might such units be resisting this process and seeking to re-structure the firm in ways that are more in line with their own interests? Looking at it from a different angle, how might we understand the emergence of new international PSFs headquartered in rising powers (e.g. Wipro in India)? How will these expand into the dominant Western economies and manage

their offices in those contexts? Will they create 'reverse core-periphery relations' within the firm?

Finally, if the study of PSF internationalization is going to be more sensitive to issues of geographic space, it is also useful to highlight the relative absence of history and time from current analyses. In this chapter, we have referred to path-dependent processes arising from national systems of professional regulation and knowledge creation. However, there is very little research that specifically examines the historical development of international PSFs. Yet this is clearly significant in a number of areas, not just to describe but to understand how various forms of internationalization and professional knowledge evolved together. Take, for example, law and the significance of UK law across the world which is in turn relates to its imperial past and the transfer of the English system to cities such as Hong Kong and Singapore which have become crucial in the current period of globalization. Similarly, studies in critical accounting (e.g. Annisette 2000) have pointed out the intimate connection between the development of accounting techniques and the way in which colonial powers tried to map populations in the territories they took over, not least to determine tax liabilities to the imperial overlords. Historical studies of PSF internationalization would be very useful in shedding light on these processes and their role in the construction of present-day international PSFs.

In conclusion, the internationalization of PSFs reveals in clear view many pressing issues of global control and coordination. Initial developments in the field of international business attempted to apply a common framework to both manufacturing and PSFs. This is ultimately unsatisfactory given the distinctive nature of PSFs and indeed the heterogeneity that exists amongst such organizations. A greater focus on varying forms of internationalization and the

driving factors behind these is required as is an appreciation of the tension between the rhetoric of the transnational PSF and the reality of more federally coordinated structures. Investigating these tensions and developments across the heterogeneous professional services sector is important as is the effort to connect this with issues of power within the firm, especially in the context of the changing geography of the global political economy. This is a promising agenda for future research.

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