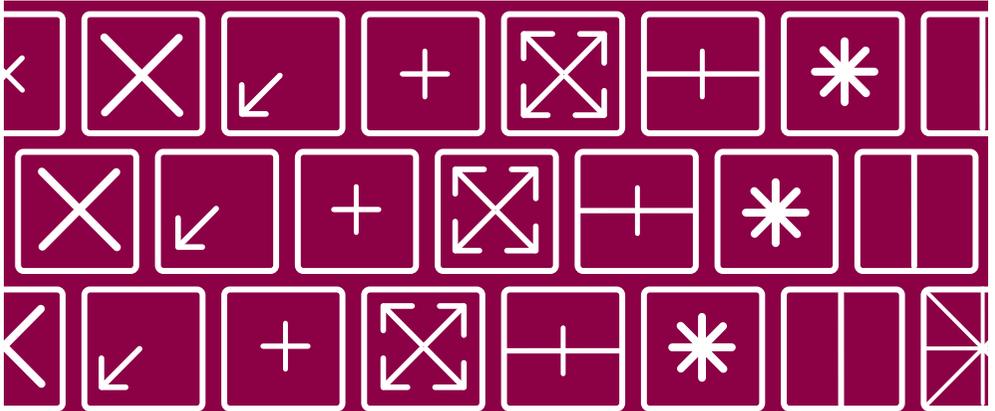




THE CHALLENGES OF LEADERSHIP IN GLOBALIZING PROFESSIONAL SERVICE FIRMS

NOVAK DRUCE CENTRE INSIGHTS

No. 5



CONTENTS

- 01 LEADING PSFs IN AN AGE OF GLOBALIZATION
- 02 WHY LEADERSHIP IN PSFs IS DIFFERENT
- 02 GLOBALIZATION – THE GREAT GAMECHANGER
- 03 THE EVOLUTION OF LEADERSHIP ROLES IN ONE GLOBALIZING CONSULTANCY
- 06 LEADERSHIP UNDER PRESSURE
- 07 PRACTICAL IMPLICATIONS

‘WE HAD TO BECOME MORE BUSINESS-LIKE, MORE FINANCIALLY AWARE, MORE EFFICIENT – AND THAT WAS ACTUALLY QUITE HARD TO DO IN THE FIRST FEW YEARS, BECAUSE THOSE WHO WERE RUNNING THE FIRM CAME FROM A PREVIOUS AGE WHEN THAT WAS NOT IMPORTANT’

(Director in a globalizing engineering consultancy)

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Based on the chapter, ‘Leading Change in the New Professional Service Firm: Characterizing Strategic Leadership in a Global Context’ by Evelyn Fenton and Andrew Pettigrew, published in Royston Greenwood and Roy Suddaby (eds.), *Professional Service Firms*, Research in the Sociology of Organizations Vol. 24, Amsterdam: Elsevier JAI Press, 2006.

LEADING PROFESSIONAL SERVICE FIRMS IN AN AGE OF GLOBALIZATION

Professional service firms (PSFs) are different – different in the sorts of services they offer and different also in their structures, employees, organizational culture and management. Accordingly, leadership in PSFs is also different. It requires unique experience, skills and knowledge and presents unique challenges. Over the years, the leaders of PSFs developed distinctive leadership practices, roles and identities that fitted the professional identity of these firms and their unique form of governance – the partnership.

However, these traditional leadership roles have come under pressure in the current age of globalization. As large PSFs become more global, their leaders are required to coordinate and control much greater complexity and dynamism. They must grapple with new tasks and duties, quite different from the ones they performed in the past. A key question is therefore: as a growing number of PSFs adopt a global strategy, what are the implications for the roles and identities of their leaders?

THE LEADERS OF GLOBALIZING PROFESSIONAL SERVICE FIRMS MUST GRAPPLE WITH MUCH GREATER COMPLEXITY AND DYNAMISM

WHY LEADERSHIP IN PSFS IS DIFFERENT: LIVING WITH CHRONIC AMBIGUITY

Several features of PSFs make the task of leading such firms especially challenging compared with the leadership of other, non-professional firms. First, the primary assets of PSFs are knowledge and the people who are its repositories and articulators. Consequently, leadership – which has to do with people, their direction, and the maximization of their intellectual and social capital – acquires special significance in these firms. Second, PSFs are typically partnerships, in which senior professionals ('partners') own and manage the firm and lead client engagements. This means that the management of PSFs involves less formal power, coercion and instruction than in many other firms. Instead, there is far more emphasis on shared decision-making, voluntarism and consultation. PSF leaders must adjust their leadership style to this unique form of governance.

Third, and no less important, PSFs are characterized by unusually high levels of ambiguity and uncertainty. This is related to the intangible nature of their products and services: since PSFs offer services that are often difficult to measure and to assess, much depends on elusive, ambiguous processes such as reputation management and impression management. These elusive processes influence status and promotion within PSFs, on the one hand, and their relationship with clients and other stakeholders, on the other hand. PSF leaders must learn to operate, therefore, in a state of chronic ambiguity.

WHILE PSF LEADERS ALWAYS OPERATE UNDER CONDITIONS OF CHRONIC AMBIGUITY, THE RADICAL ORGANIZATIONAL CHANGE BROUGHT ABOUT BY GLOBALIZATION EXACERBATES THIS AMBIGUITY

GLOBALIZATION – THE GREAT GAMECHANGER

Globalization has greatly transformed the structures and strategies of large PSFs. PSFs that adopt a global strategy must develop new organizational designs for enhancing coordination and control across countries, industries and lines of service. They have to find new ways for standardizing the quality of service provided by their many dispersed units, while simultaneously maintaining a customer focus. Furthermore, they need to develop new forms of organizing, managing and leading professionals.

All these developments accentuate the demands on PSF leaders. If in the past they were required to demonstrate superior professional skills in their respective fields – be it law, accounting, engineering or some other professional specialization – today they are expected to demonstrate managerial and business skills as well. Globalization therefore threatens to unravel and transform their professional identity. Moreover, it poses new and often contradictory demands that PSF leaders must live up to, thus creating what scientists call 'role conflict' and 'role ambiguity'.

While PSF leaders always operate under conditions of chronic ambiguity, the radical organizational change brought about by globalization exacerbates this ambiguity. This results in 'acute' ambiguity, which might have negative effects and produce resistance to change among PSF leaders. At the same time, it may also serve as a lever for positive change and may open up new opportunities for PSFs, their members and their leaders.

THE EVOLUTION OF LEADERSHIP ROLES IN ONE GLOBALIZING CONSULTANCY

To understand better the transformation of leadership roles in PSFs undergoing globalization, we studied one successful engineering consultancy that had adopted a vigorous global strategy. The consultancy, Enginco (a pseudonym), was founded in the 1950s and grew steadily throughout the next forty years. In the 1980s it experienced significant international growth, but it was only in the 1990s that it embarked on an extensive global strategy that was internally dubbed 'Reformation'. In 2000 the consultancy launched a new strategy, 'One Enginco', which marked a new phase in its globalization process. Today the firm has more than 90 offices in nearly 40 countries.

We conducted in-depth interviews with senior members of the firm and collected documentary data at different points in time. We found that leadership roles in the consultancy were closely tied to the strategic changes in the firm and evolved in three phases:

THE PRE-1990 PERIOD, WHICH WAS CHARACTERIZED BY A 'FOUNDER LEADERSHIP STYLE'

THE 'REFORMATION' PHASE IN THE 1990S, IN WHICH LEADERSHIP STYLES RESPONDED TO THE VIGOROUS GLOBAL STRATEGY

THE 'ONE FIRM' PHASE IN THE 2000S, WHICH WAS MARKED BY INCREASED INVESTMENT IN LEADERSHIP TRAINING COUPLED WITH PERSISTENT PROBLEMS AND CHALLENGES

PHASE 1: THE FOUNDER ERA

In the first phase leadership was very much conditioned by an organizational culture that cherished professional expertise, creativity and innovation. Leaders were expected to demonstrate technical skills, engineering creativity and an ability to win prestigious contracts, and their promotion depended to a considerable extent on their technical excellence. The charismatic founder of the firm and the team that surrounded him were seen as extraordinary individuals, whose brilliance lay in their engineering talent no less than in their organizational and networking skills. The leadership style in the firm was informal and chaotic, and there was no internal leadership training. Furthermore, leadership decisions were shared by the firms' Directors, each of whom had an equal voice. In this respect, leadership in the consultancy was a relatively collective endeavor.

PHASE 2: 'REFORMATION'

The second phase saw the firm undergoing major structural changes and rapid growth as part of its new global strategy. The firm shifted from a loose federal structure to a divisional structure, and an executive policy board took over the strategic decision-making, replacing the consensus-based decision making of the past. These radical transformations resulted in changes – both subtle and gross – to leadership roles and identities. The engineering skills of the firm's leaders needed to be supplemented with greater managerial, financial and strategic skill sets. At the top level the need

'THE CHAIRMAN NOW, SAY, WOULD BE NO COMPARISON TO THE CHAIRMAN OF 20 YEARS AGO, WHO WOULD BE MORE PERSONAL, MAGICAL TOUCH, BLACK MAGIC. WHEREAS NOW IT WOULD BE MORE CORPORATE'

(BOARD MEMBER)

was felt for greater and faster strategic thinking, while at middle levels leaders were called on to be more accountable and take on new roles in managing networks.

In this new context, the firms' leaders experienced considerable confusion and ambiguity. Their roles became increasingly conflicted and fragmented, as they struggled to reconcile the new managerial ethos with their old professional values and identities. Middle managers were especially burdened by role conflict and contradictory demands, and the absence of clearly defined role models or formal management training aggravated their distress. And yet interestingly, many of them expressed the belief that management and leadership, unlike engineering, are common-sense practices that cannot and should not be formally taught.

Another important implication of the structural changes was the increasing separation of strategic leadership roles from operational leadership roles. Formerly engineers had had a great deal of freedom to problem-solve, get new clients, grow their staff and take risks. Now, risk-taking was subject to greater scrutiny and strategic decisions were taken by a smaller number of people at the very top of the firm.

And yet, the fifty-year traditions of the firm proved resistant to change. Although significant changes to leadership were instigated, these

were not without challenges from some leaders within the firm who resented the new corporate and managerial ideals. Throughout the 1990s, professional values and ethos retained their influence in the firm, alongside the new managerial ethos.

PHASE 3: 'ONE ENGINCO'

In the third phase, during the 2000s, the firm engaged in mergers and acquisitions and advanced in its global integration. Concomitantly, there was growing awareness of the need to re-think and re-define leadership roles within the firm. New appraisal and promotion policies were instigated, a new leadership program was established, and managers were given coaching sessions and business school tuition. This phase also saw the continued separation of top, strategic leadership roles from operational ones.

While the commercial focus and managerial ethos continued to gain influence, professional values and culture were still cherished as vital to the continuing success of the firm. Professional ability was still considered an important requirement for leaders, and technical demands continued to be fused with managerial demands. Consequently, role ambiguity persisted despite the efforts to alleviate it.

'AND THEN YOU HAVE GOT THE PEOPLE WHO ARE AT THE TOP OF THE COMPANY, THE TOP SORT OF 200... WHO ARE CONSTANTLY STRIVING TO BE LEADERS BECAUSE THEY KNOW THAT IS PERHAPS WHAT THEY SHOULD BE, BUT THEY DON'T KNOW WHAT A GOOD LEADER LOOKS LIKE, AND THEY DON'T KNOW WHAT SORTS OF THINGS THEY SHOULD BE DOING'

(HR DIRECTOR)

TABLE 1: THE EVOLUTION OF LEADERSHIP IN THE CONSULTANCY

	'FOUNDER' ERA	'REFORMATION' ERA	'ONE FIRM' ERA
Strategy and environment	Organic growth, opportunist market entry	Rapid growth and early stages of global strategy	Well-developed global strategy, international mergers
	Simple and predictable organizational environment	Complex, unpredictable environment, greater competitiveness	Even greater environmental complexity and competitiveness
Organizational structure	Network structure of autonomous groups and offices	Shift to a divisional structure with cross cutting networks overlaying groups	Further consolidation of new divisional structure at the international level
Organizational culture	Ethos of professionalism, technical (engineering) excellence and innovation	Managerial notions begin to percolate, professional values retained	Managerial ethos more established, alongside professional ethos
Leadership processes	Informal, chaotic leadership processes	Initial attempts toward formalization	New global policy defining leaders' roles and promotion
	No formal promotion policies and internal leadership training	Policy board created to separate strategic from operational leadership	Leadership training, coaching and university tuition
	Consensus-based decision making		Increasing distance between strategic (global) leaders and local (groups and operational) leaders
Leadership roles and identities	Leaders distinguished by technical (engineering) excellence, innovativeness, networking skills, winning contracts	Engineering skills still important, but increasingly also managerial and financial skills	Leadership roles require both managerial and professional skills
	Charismatic founders seen as 'visionaries' exercising 'black magic'	A more 'corporate' leadership identity replaces the charismatic one Emergence of 'acute' leadership ambiguity	'Acute' ambiguity persists

LEADERSHIP UNDER PRESSURE: WHEN PRACTICE LAGS PROCESS

The Enginco case study indicates that globalization processes might create considerable difficulties for PSF leaders. They are required to adopt a new managerial ethos alongside the old professional values, to demonstrate managerial and financial skills alongside the old technical ones, and to develop new leadership roles and practices. These demands produce acute role ambiguity and confusion, which are especially severe for middle managers. Consequently, not only junior employees in PSFs but also their leaders might express resistance to change. In our study, several managers expressed substantial resentment toward the new managerial ethos brought about by globalization, arguing that it undermines inspiration and creativity.

The Enginco case also indicates that acute ambiguity is created by a fateful gap between the processes of globalization, on the one hand, and leadership practices, roles and identities

on the other hand. Enginco's global strategy brought with it major structural changes, as well as changes in authority hierarchies, status hierarchies and decision making processes. Nevertheless, the practices, roles and identities of the consultancy's leaders were much slower to change, as they were embedded in a deeply rooted professional culture. Group leaders serving in middle-management roles, in particular, clung to the traditional leadership practices and to anti-managerial sentiments. Enginco attempted to close the gap between process and practice by means of leadership programs and more formalized leadership roles and careers. Nevertheless, leadership practices proved rather resistant to change and the gap persisted.

'AND SUCCESSIVELY THE FIRM CHANGES, ITS INSPIRATION MOVES AWAY, AND MORE CORPORATE THINGS COME IN AND GRADUALLY NOW IT IS A CORPORATE BUSINESS, TOTALLY CORPORATE NOW. WITH PEOPLE IN POWER I WOULD SAY WHO HAVE LEARNT TO MANIPULATE THE BUREAUCRACIES VERY WELL AND THEREFORE IT IS TRULY CORPORATE.'

(DIRECTOR)

PRACTICAL IMPLICATIONS

LEADERS OF GLOBALIZING PSFS NEED ACTIVELY TO RETHINK THEIR ROLES

PSFs adopting a global strategy should be fully aware of the potential implications for leadership roles and identities. Leadership roles and career structures may need to be re-defined, and new leadership programs should be introduced to help managers cope with role ambiguity and adapt to the new imperatives of globalization. Furthermore, it may be necessary to differentiate operational leadership roles, which highlight primarily professional skills, from strategic ones, which require primarily managerial skills. This can be difficult, since the traditional partnership form of PSFs favored a fusion between strategic and operational leadership, as well as consensus-based decision making. It can be doubly difficult where strategic thinking is not part of leaders' repertoire of skills. Nevertheless, globalizing PSFs must somehow re-think the nature and requirements of leadership roles in the age of globalization.

PROCESS MUST BECOME PRACTICE FOR CHANGE TO STICK

Globalizing PSFs undergo substantial structural changes, as well as dramatic transformations in their decision making processes. Nevertheless, leaders' day-to-day practices, roles and identities tend to lag behind these higher-level transformations and are much more resistant to change. For the global strategy to succeed, care should be taken to transform leadership practices as well, and thus avoid a gap between old leadership styles and new organizational processes.

ALONGSIDE TRANSFORMATION, CONTINUITY ALSO COUNTS

It is important that globalizing PSFs maintain elements of continuity alongside the high levels of organizational change. In particular, it is important to align organizational change with the existing culture of professionalism. This continuity is necessary since professional excellence and a professional ethos are still vital for PSF success. Furthermore, maintaining some continuity with the past may prevent unnecessary confusion, distress and resistance among the firm's leaders.

IT IS IMPORTANT TO ALIGN ORGANIZATIONAL CHANGE WITH THE EXISTING CULTURE OF PROFESSIONALISM

PRACTICAL IMPLICATIONS continued

PERSONAL INFLUENCE IS CRUCIAL

PSFs that embark on a global strategy enter a period of high change, where leaders themselves are required to re-shape their identities. Under these circumstances, top leaders must be personally involved in promoting the global strategy. There is need for powerful, inspirational leadership in support of change, as well as positive role models. In particular, the top management team needs to construct a coherent vision, so that it can convince mid-level managers that the new processes indeed add value to the firm.

CAREFUL ORCHESTRATION AND TIMING IS NEEDED

Implementing a global strategy is a complex task, which requires careful orchestration and timing. It is important to recognize that strategic changes advance ahead of day-to-day practices, and to pay close attention to both. It is also necessary to maintain a reasonable, moderate pace of change. Moving too swiftly can upset the balance, leading to an overly bureaucratic and less innovative firm. But, by the same token, moving too slowly could stymie change, undermining global integration and competitiveness. It is only through a careful balancing act that success may be achieved.

MOVING TOO SWIFTLY CAN UPSET THE BALANCE, LEADING TO AN OVERLY BUREAUCRATIC AND LESS INNOVATIVE FIRM. BUT, BY THE SAME TOKEN, MOVING TOO SLOWLY COULD UNDERMINE GLOBAL INTEGRATION AND COMPETITIVENESS

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