University of Oxford
Novak Druce Centre for Professional Service Firms
Saïd Business School

THE CYCLE OF POWER:
ALIGNING INDIVIDUAL AND ORGANIZATIONAL POWER TO ACHIEVE PSF TRANSFORMATION

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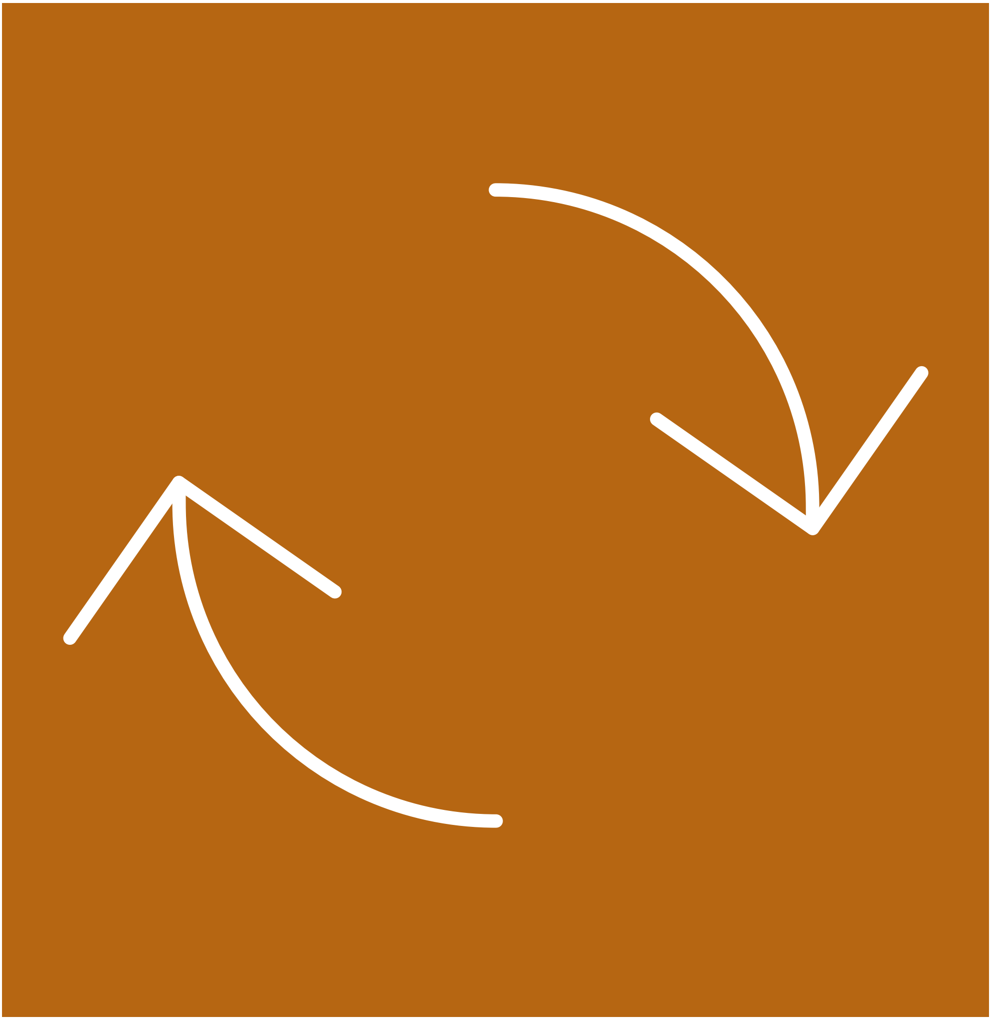

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‘WE SIGNED UP TO A STRATEGY WHICH WAS CLEVERLY CRAFTED TO AVOID OFFENDING ANYONE BUT WE HAD NO PROPER SENSE OF WHAT THE FIRM STOOD FOR.’

Partner in a newly merged law firm

Based on the article ‘Individual and Organizational Power in the Transformation of Professional Service Firms’ by Thomas B. Lawrence, Namrata Malhotra and Tim Morris in The Journal of Management Studies, 49 (1), January 2012, pp 102-143

INTRODUCTION:
POWER – THE PIVOT OF CHANGE

Over the past two decades many professional service firms have adopted a new organizational model, transforming themselves from traditional partnerships into professionally managed businesses. Although the new model has achieved some acceptance, the evidence is that it has not been uniformly adopted and that efforts to achieve this kind of change have had only mixed success.

Achieving radical transformation in organizations has been understood since the 1960s to be an inescapably political process, invariably involving the deliberate exercise of power. On this basis we explored the role of power, asking why some attempts to transform professional service firms into professionally managed businesses have resulted in more complete and successful transformations than others.

RADICAL TRANSFORMATION IS INESCAPABLY POLITICAL

POWER IS AN ANIMAL WITH MANY FACES

Power is a complex concept with many definitions and connotations. It has been described in terms of physical control or the 'soft coercion' aimed at controlling commitment or the 'productive resistance' involved in political contests. Other definitions include that between 'power to' and 'power over'. The former sees power as facilitative – allowing one to do something one otherwise would not be able to do, such as the power to vote, for instance, or the power to access information. The latter views power as a form of advantage – a restrictive mechanism by which one actor controls the potential actions of another, such as the power of a boss over a subordinate or a parent over a child. A further and very important definition, which distinguishes power it from its sources in psychological or other conditions, concerns the ways in which individuals and collective actors are affected *organizationally* by other actors, social systems or technologies.

In exploring the role of power in radical change in professional service firms we distinguished between two basic ways in which power operates – individual and organizational. Individual power involves discrete strategic acts by self-interested actors. Organizational power is the power that works through ongoing routine practices in order to benefit particular groups – without those groups necessarily having to establish or consciously maintain those practices. The key point is that these two forms of power play important *interdependent* roles in radical change.

How individual and organizational power support, or fail to support, one other has largely been overlooked. Although previous work has identified their relationship as a cyclical process, one in which these two forms of power move change forward sequentially, what is not well understood are the specific mechanisms that interconnect them. The cyclical model provides a useful perspective on radical change but leaves many important issues unexplored. Most critically, it leaves unanswered the question of what are the mechanisms through which the two forms of power mutually support each other and effectively drive an organization through the process of radical change.

THERE ARE TWO BASIC WAYS IN WHICH POWER OPERATES – INDIVIDUAL AND ORGANIZATIONAL

TWO KEY QUESTIONS

The context of our research was the legal industry in the UK between 1990 and 2003. This period was ushered in by critical economic and regulatory changes, including a wave of privatizations and a restructuring of UK industry. The late 1980s saw the rise of financial services and a corresponding decline in manufacturing, facilitated by the liberalization of capital markets and also statutory changes such as the Financial Services Act. At the same time there were important changes occurring in the financial markets such as the 'Big Bang' which involved the liberalization of stock trading and the emergence of computer-based trading. These developments not only increased demand for legal services but also prompted institutional and market changes in the late 1980s, including significant consolidation and increased competition in the legal industry. These shifts in turn put pressure on law firms to become more efficient and provided the impetus for firms to change from traditional professional partnerships to professionally managed businesses.

We looked at three law firms that experienced this kind of organizational change. The first, '*Alpha-Omega*', was the product of a merger in the latter half of the 1990s between two London firms. By 2003 it had 140 partners and 500 professional staff mainly located in London. The second firm, '*Litigator*', had been founded in the late nineteenth century and by 2003 had 110 equity partners and 550 professional staff. The third firm, '*Corporate*', another long-standing London firm founded over one hundred years ago, had 160 partners and 600 professional staff by 2003.

Two key questions were the focus of our research:

1. **How do patterns of organizational power provide the scope for individual power to intervene and set in motion radical change?**

2. **How can such exercises of individual power in turn generate the organizational power that institutionalizes transformational change?**

We cannot be certain whether our findings on the dynamics of power apply to all other sectors and countries but they will undoubtedly be relevant to other professional bureaucracies such as universities and hospitals, and more generally what are called 'pluralistic organizations', where power is dispersed and shared.

OUR FINDINGS WILL BE DIRECTLY RELEVANT TO OTHER PLURALISTIC ORGANIZATIONS

POWER IN ACTION: THREE CASES

ALPHA-OMEGA

The merger between *Alpha* and *Omega* brought in its wake attempts to consolidate the newly merged firm and make it operate more efficiently in pursuit of a new combined strategy. Fresh governance structures were developed, and a new Central Management Team introduced a set of new support systems in finance, human resource management and marketing. Overall, though, the impact of these innovations was limited. Partners resisted what they saw as efforts to standardize and lessen their control of client relationships, including pricing and the allocation of work. The individual practices generally viewed the new systems as guidelines rather than operating procedures.

The upshot was that the firm under-performed financially, and several high profile partners defected to competitor firms, some taking their teams with them, effectively stripping *Alpha-Omega* of expertise in their respective areas. In response, the Central Management Team refocused strategically on two major practice groups: corporate mergers and acquisitions and banking. *Alpha-Omega* also changed its governance structure, adding another partner to the Central Management Team to be responsible for executing the agreed strategy. The Partnership Council's role became more supervisory and less involved in day-to-day decisions, and practice group managers were henceforth appointed by the Management Team rather than elected by partners. New organizational systems were also developed in finance and human resources (HR).

Many members, however, resisted these changes. Practices fought against the imposition of standardized financial controls, and partners opposed controls on client selection and pricing, seeing these changes as bureaucratic and contrary to the firm's fundamental values. They also strongly resisted the HR changes on the grounds that they, as partners, were the best judges of associates' performance and promotion prospects. As a result, the implementation of change was protracted and only partial.

LITIGATOR

In the early 1990s *Litigator* saw its profits fall due to a combination of recession and slack financial controls. This crisis led to the election of a new Senior Partner, who took immediate control of the management of the firm – both the central administrative structure of the firm – the Executive Committee – and its representative body of partners – the Partnership Council. He also encouraged the systematization of management information and the expansion of support services in HR, marketing, IT and finance.

Over the following three years he shifted the firm from its principal fee-earning corporate practice, developing a litigation practice as a counter-weight during economic downturns. Within three years the latter had become the largest practice in the firm. At the same time he closely monitored partners' debt collection and pricing practices, never ducking the need to confront under-performing partners and using his personal influence to challenge them to change and in some cases to encourage to leave the firm.

A second phase began when he retired. A successor from the Corporate Department took over who

PARTNERS FOUGHT AGAINST WHAT THEY SAW AS EFFORTS TO STANDARDIZE AND LESSEN THEIR CONTROL OF CLIENT RELATIONSHIPS favoured a more 'corporate' style of management. Although there were no constitutional changes to the governance model, the workings of the Executive Committee became more formal and less driven by the Senior Partner's agenda. He refocused the firm on corporate, litigation and banking practices. International expansion through alliances also became a priority. He also placed increased emphasis on strategic planning and performance management. Consultants were brought in to advise on a re-organization that refashioned the practices as corporate-style divisions. There was also an attempt to separate the roles of the Executive Committee and the individual divisions. Participants, however, concluded that these innovations only proved partially successful.

CORPORATE

Corporate had begun to transform itself round in the late 1980s in the face of changes in the regulatory and commercial environment, when liberalization of capital markets created greater demand for legal services in the corporate finance area, particularly mergers and acquisitions. The firm shifted its strategic focus to these two areas and other practices were reduced to a supporting role.

This move also triggered changes in service delivery. Practices adopted team management approaches for large and complex transactions. Support functions like HR and marketing – renamed 'business services' – came under a Chief Operating Officer. Competency models, aligned with the economic model of the firm, were put in place to develop legal staff and identify their promotion prospects. The firm also added a knowledge management system, based on an intranet and extensive codification of their legal knowledge. This not only generated efficiencies but allowed the firm to devise new internet-based services.

The new strategy also spurred changes in governance and systems. While the original goal had been to achieve greater efficiency in the face of capacity constraints, the partners found themselves in the process developing a new openness to ideas from other industries. The Managing Partner was re-titled 'the Chief Executive', and partners routinely referred to 'the management' when discussing the firm's executive functions.

By strengthening commitment to managerial control, rationalization and productivity, the firm achieved high profitability. Encouraged by this, the Executive Committee and the Partnership continued to extend its twin practice strategy and strengthened the firm's executive function – in the process, incidentally, adopting the techniques and language of many of its own corporate clients.

THE MANAGING PARTNER BECAME KNOWN AS THE 'CHIEF EXECUTIVE'

THE CIRCLE OF POWER: AN INTEGRATED MODEL OF CHANGE

From these case studies we draw two conclusions about how organizational power should support exercises of individual power in order to bring about radical change. The first concerns the centralization of authority. The firms we studied were all examples of pluralistic organizations – ones in which influence is often distributed across a wide range of actors, and where centralized authority is often relatively weak. In these kinds of organizations the centralization of authority disrupts traditional rules and assumptions about governance and authority. We argue therefore that radical change is facilitated by shifts in patterns of authority that disrupt traditional rules and assumptions about what constitutes good governance.

Our second conclusion concerns the *legitimization* of that centralized authority. Centralization represents a major shift, making its legitimization critical. The legitimization of shifts to centralized authority in *Litigator* and *Corporate* was only accomplished by grounding them firmly in the existing cultural foundations of those firms.

The legitimization of centralized authority in both cases also involved direct appeals to individual partners and practices focused on their vested interests rather than the good of the firm as a whole. While it could be argued that all attempts to change organizations are sold to stakeholders in terms of their own interests, this usually refers to the interplay of backstage politics rather than the explicit processes of legitimization. The explicit legitimization of change in organizations, on the contrary, tends to appeal to lofty organizational ambitions and right-minded corporate agendas. However in the pluralistic environment of professional service firms, legitimization needs to accept the nature of these firms as collections of individual partners and practices. Organizational power in professional service firms is rooted in a view that reinforces members' identities as allied but independent professionals. Centralized authority, therefore, represents a significant break from tradition and requires a form of explicit legitimization that appeals to individual professionals.

A key way by which individual power can be converted into organizational power involves the skilful use of language and symbols to frame and legitimate change. Persuasive language, especially from the lips of the sponsors of change, can, as in *Corporate*, stimulate a cultural shift that facilitates the acceptance of organizational changes. This shift was discernible in the more complete separation of professional and managerial roles in *Corporate* compared to *Alpha-Omega*. In *Litigator*, repeated interventions in the functioning of systems by the change sponsors without this did not allow organizational power to take root in any lasting way.

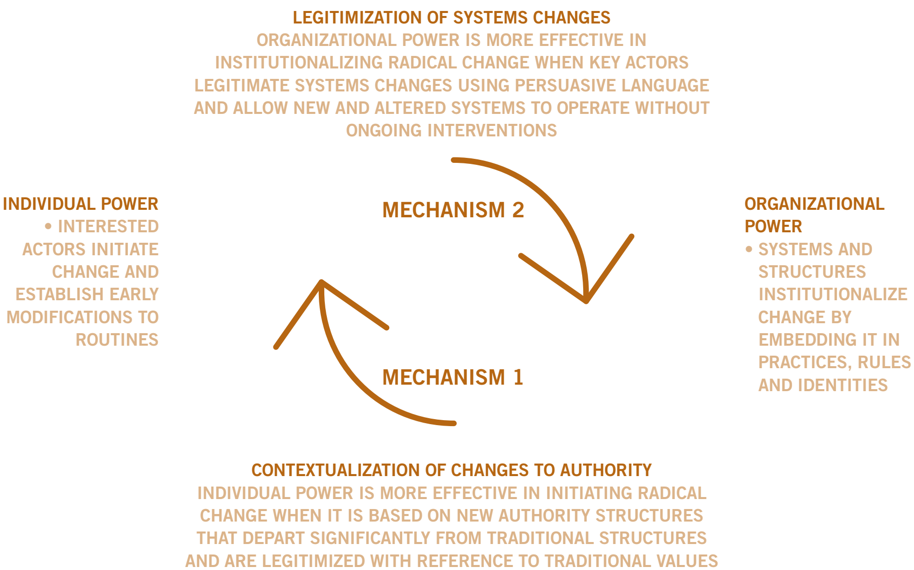
RADICAL CHANGE IS FACILITATED BY SHIFTS THAT DISRUPT TRADITIONAL RULES AND ASSUMPTIONS

This leads us to two conclusions:

- **Radical change is more likely to be successful when the individual power of organizational actors is rooted in patterns of authority that depart significantly from traditional patterns but is legitimized through appeals to the traditional values underpinning prevailing patterns of organizational power in the firm.**
- **Radical change is more likely to be successful when the new and altered systems that lie at the root of organizational power are legitimated by key actors using language skillfully to create a supportive framework for their adoption in the day-to-day working of the firm.**

Previous research has identified a recursive relationship between individual and organizational power in achieving radical change but has not traced the exact linking mechanisms. Their relationship is in fact both *synergetic* and cyclical, as illustrated in the following diagram:

FIGURE 1: THE POWER CIRCLE: THE RECURSIVE RELATIONSHIP BETWEEN INDIVIDUAL AND ORGANIZATIONAL FORMS OF POWER



THE SKILFUL USE OF LANGUAGE AND SYMBOLS IS A KEY WAY TO FRAME AND LEGITIMIZE CHANGE

THE PRACTICAL IMPLICATIONS

Understanding the role of power is immensely important for people embarking on major organizational change. Managers attempting to guide their organizations through radical transformations must recognize the essentially *political* nature of the process – from the early strategic decisions that set a firm's direction to the rolling out of systems and processes to embed the changes. Every step is inextricably tied to a form of power, and failing to utilize those forms of power appropriately – because the need is not recognized or through a mistaken belief that good ideas will carry the day – will result in failure.

More specifically, our study shows how managers must utilize *both* individual and organizational forms of power effectively when attempting organizational transformation. Managers have to think about power more broadly than they may be accustomed. Too often they assume that power is centred on individual actors. Instead, power should also be thought of in organizational terms, working continuously through technologies, practices and systems rather than one-off, individual initiatives.

A powerful way to initiate transformational change is to introduce an immediate and explicit U-turn with respect to the way authority is structured within an organization (for instance, by decentralizing a centralized organization or vice-versa) but one legitimized by appeals to traditional organizational values. This combination works by unfreezing the entrenched political alliances that might otherwise block change without alienating the rank-and-file organizational members who ultimately need to support the transformation. By linking authority changes to values, managers can both mobilize support among organizational members and defuse opposition coming from concerns that the changes will betray the organization's fundamental values.

Institutionalizing transformation demands that change be embedded in the day-to-day routines of organizational members, while avoiding the danger of over-focusing on systems, whether in finance, HR or information. Its success depends just as much on personal evangelists who can champion the value of change and create the broad acceptance needed to cement the intended change. In the case of the most successful transformations we studied, the sponsors of new systems framed them skillfully in language which helped give rise to new ways of thinking about how the firm worked and should be managed. Conversely, however, the efficacy of these systems will also depend on such sponsors eventually stepping back and letting them work without interference.

Managers wanting to effect transformational change need therefore to understand clearly not only the distinctive roles of both individual and organizational forms of power but the critical mechanisms that interconnect them and underpin their effectiveness. A grasp of the interaction between these two types of power is essential if change is to be managed effectively.

MANAGERS NEED TO THINK ABOUT POWER MORE BROADLY THAN THEY ARE USED TO

The Insights series aims to provide accessible summaries of recent research by members and associates of the Novak Druce Centre for Professional Service Firms at the Saïd Business School, University of Oxford. Each Insight focuses on a particular issue in the management of professional service firms and offers a fresh, up-to-date reading of this issue.

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