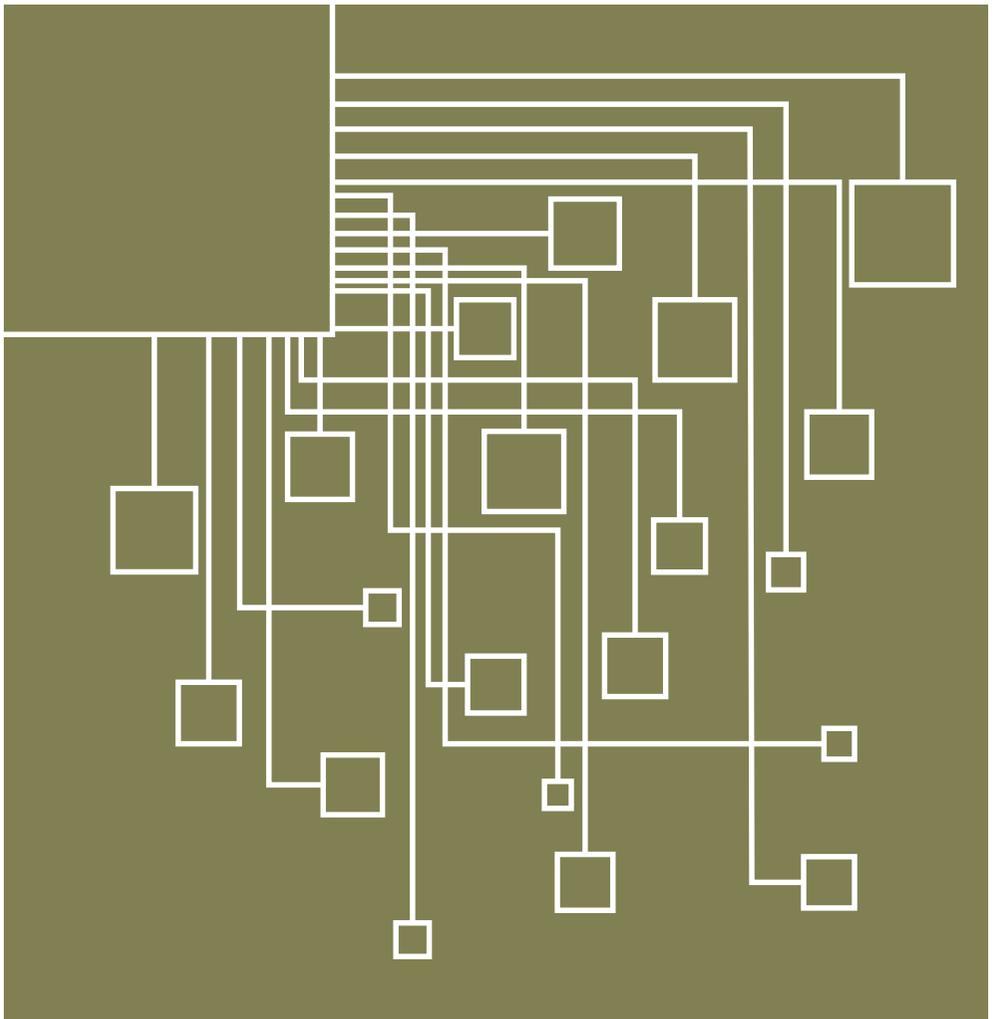




POWER, CONFLICT AND CONTROL IN GLOBAL PROFESSIONAL SERVICE FIRMS

NOVAK DRUCE CENTRE INSIGHTS

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GLOBAL PROFESSIONAL SERVICE FIRMS,
LIKE OTHER MULTINATIONAL CORPORATIONS,
ARE CHARACTERIZED BY A MAJOR DISCONNECT
BETWEEN THE RHETORIC OF THE UNIFIED GLOBAL
NETWORK, AND THE REALITY OF GLOBAL POWER
AND CONTROL.

INTRODUCTION: THE MULTINATIONAL PARADOX

Multinational corporations (MNCs) have attracted a great deal of attention over the last two decades, but our understanding of how they are managed and coordinated remains limited. The dominant view is that MNCs are shedding their centrally controlled organizational structures and restructuring themselves as decentralized but integrated global networks in order to respond effectively to the increasing complexity of the international business environment. Others, however, argue that this view is overstated and that MNCs still remain largely controlled from the centre – in other words that the concept of the global network is more myth than reality.

Given their influence, role and size, global professional service firms (PSFs) – multinational accountancies, law firms and management consultancies – occupy centre stage in the modern world economy. Highly decentralized, with very weak central headquarters, they would seem to conform strongly to the global network model. But how in practice are global PSFs actually managed and coordinated? What issues of control, conflict and power are they actually facing? And how are they overcoming these problems?

PROFESSIONAL SERVICE FIRMS OCCUPY CENTRE STAGE IN THE MODERN WORLD ECONOMY

ARE GLOBAL PSFS DIFFERENT ANIMALS?

PSFs, given their professional nature, are highly decentralized organizations. Unlike manufactured goods, professional services are typically produced in close interaction with clients requiring customized solutions. This necessitates a form of organization that gives professionals a high degree of control over their work. Professionals embody the firm's knowledge and typically control the client relationships which they develop, allowing them to secure considerable autonomy in their work. Control in PSFs also tends to be decentralized with respect to the management of the firm (for instance in recruitment, promotion, resource allocation, etc) since professional norms of autonomy and consensual decision-making resist centralized business administration.

In short, central control in all PSFs tends to be relatively weak, and this seems to be especially true of global PSFs. In these, the ability of remote headquarters to control the activities of the affiliates effectively is strictly limited. The locus of control rests primarily in the hands of subsidiaries and their professionals, not in their headquarters. Global coordination is mainly achieved through systems of lateral integration such as joint teams and committees and through mechanisms such as shared training and inter-office networking rather than hierarchical or bureaucratic means. As such, PSFs pose fundamental questions for the emerging view of the MNC. How should these organizations be understood? Are they really, as some PSF scholars have suggested, exemplars of the global network model?

The problem may be even more complex.

A common theme emerging from PSF studies over the last fifteen years has been that intensifying pressures for more consistent and better integrated cross-national service to multinational clients have led PSFs to become increasingly centralized, adopt more bureaucratic management systems and exert greater central efforts on forging unified global cultures. The full implications of these changes are far from clear but they suggest that traditional PSF forms of control may be becoming ineffective to achieve global coordination as PSFs continue to expand internationally.

They also indicate that global PSFs are beginning to experience parent-subsidiary tensions similar to those in other mainstream MNCs. Indeed, recent studies by economic geographers of international law firms seem to point in this direction. These studies also indicate that parent-subsidiary tensions in PSFs can indeed be compounded by norms of professional autonomy and consensual decision-making. Thus, the 'professional' nature of PSFs may exacerbate rather than reduce parent-subsidiary conflicts.

On the other hand, the overall absence of HQ-led coordination in PSFs suggests that the pattern of conflict, control and power in these organizations is different from those identified in other conventional, centrally controlled MNCs. How far is this the case, and, if so, what are the implications?

PRESSURES HAVE LED PSFS TO BECOME INCREASINGLY CENTRALIZED AND BUREAUCRATIC

The PSFs investigated by this study support many *Fortune 500* companies. They report that these large multinational client corporations are continuing to extend their international investments, are building ever more complex cross-border supply chains and are continually seeking to integrate their geographically dispersed operations more effectively. The sheer range of these international activities is creating a huge demand for cross-national consulting services and, in particular, giving rise to a multitude of 'global' projects, i.e. cross-national projects involving multiple client subsidiaries.

To manage and deliver such projects, firms often deploy 'global client service teams' (GCSTs). A GCST typically involves a core team based in the client's home country and a number of satellite teams operating in the countries in which the client's subsidiaries are located. Its purpose is twofold: (1) to offer an integrated cross-national service to the client through the provision of a single point of contact, a single fee-rate agreement and a consistent level of service across countries; and (2) to offer a locally differentiated service through the deployment of multinational teams possessing the cultural, linguistic and contextual knowledge necessary to operate effectively in different countries.

Leading the GCSTs are Global Client Service Partners (GCSPs) whose responsibility is to manage client relationships and, to varying degrees depending on the size of the projects, coordinate client service activities on a worldwide

basis. Global PSFs argue that the key to the success of GCSTs is a set of common work methods and service standards designed to ensure task coordination and consistency of service across countries. They also maintain that such methods and standards can be diffused through a range of informal control systems such as cross-national training programmes, networking events and inter-office staff transfers.

But how successful as a mechanism for coordination do subsidiary actors in global PSFs find the GCST system and, more broadly, the global network approach? To find an answer, research was carried out in four comparable foreign professional service MNCs operating in the UK. Two of the firms were American in origin, one continental-European and one a Swiss Verein comprising independent national partnerships, albeit with a strong American heritage. Each of the four firms employ thousands of consultants in hundreds of offices spread across the globe and each is multidisciplinary, offering a range of services including traditional management consulting, IT consulting and outsourcing services.

TRADITIONAL PSF FORMS OF CONTROL
MAY BE BECOMING INEFFECTIVE

VERTICAL TENSIONS IN GLOBAL PSFS

In practice we found that global PSFs are struggling to operate as truly global networks. In attempting to serve their multinational clients more effectively across countries, they are seeking ever greater control over their subsidiaries and, as a result, becoming subject to the same frictions observed in conventional MNCs.

The key problem is that growing client demand for integrated cross-national service is increasing centralization efforts and as a result leading to subsidiary resistance. Underlying this problem is not only the struggle by the subsidiaries to remain autonomous but also a centre-subsidiary conflict over different ways of working and serving the client. The UK subsidiaries explained that so-called 'global' methods and standards often meant 'American' methods and standards and that such organizational 'ethnocentrism' inevitably led to a degree of resistance on the part of subsidiaries.

That said, the UK subsidiaries saw these tensions in a rather general sense, as a problem that related largely to other subsidiaries, not themselves. They were also not over anxious about the process of Americanization, maybe in part due to the cultural and linguistic proximity between the US and the UK. There was also a managerial 'dominance effect' at work in that the British tended to perceive US management practices as more legitimate than their own and so more acceptable at their local level.

GLOBAL PSFS ARE MANY-CENTRED

Centre-subsidiary tensions are different in global PSFs. In effect these firms are *polycentric*. These organizations' international operations are managed and coordinated not only by headquarters but also by subsidiaries themselves exercising multinational client service responsibilities, leading to a structure in which control is exercised not by one, but multiple centres.

For instance, the UK subsidiaries were actively involved in the centralizing and coordinating efforts taking place within the four firms. Key to understanding this phenomenon is that the firms' core international activity – multinational client project delivery – is controlled and coordinated not only by their headquarters but also by their subsidiaries – which happen to be based in countries in which *Fortune 500* were located: the world's most industrially advanced economies.

It is important to understand how global client projects in these firms arise. They are almost always the product of symbiotic relationships between the headquarters of client MNCs and the consulting partners that happened to be located in the countries in which the clients were based – i.e. 'home-country' partners. Thus, a UK MNC embarking on a global project will always approach and deal with consultants in the UK subsidiary of a PSF, and it is these professionals who will then negotiate contract terms and fees. Once agreed, the projects will also generally remain under the control of home-country partners.

THE WORK OF LAWYERS TODAY MAY BE ON THE CUSP OF A
COMMODITIZATION OR PRODUCTION-LINE TRANSFORMATION

In effect, these partners 'own' the global projects they develop and always strive to retain control over them since these projects are the source of financial rewards, prestige and power within their firms. Thus, control over such crucial value-generating activities as global projects at times lies in the hands of headquarters but at others in those of subsidiaries, depending on the nationality of the client MNC.

Given that the UK subsidiaries were themselves actively involved in global coordination and control within the firms, the interviewees often stressed the importance of developing and diffusing 'global' client service standards. Developing such standards and, indeed, extending the global network mattered to these subsidiaries because the effective delivery of their global projects on behalf of multinational clients depended on this organizational capability. Failing to develop this capability not only affected their profitability but also their reputation and competitive positioning. Indeed, multinational clients were said to be putting increasing pressure on the British to demonstrate that they were operating in truly global networks, not loosely coupled multi-domestic consulting firms.

HORIZONTAL CONFLICTS IN GLOBAL PSFS

Polycentric control leads to the centre-subsi- diary conflict being articulated both along the *vertical*, parent-subsi- diary axis and the *horizontal*, inter-subsi- diary one. So, how do subsidiary actors coordinate firm-wide resources to deliver their 'global' projects in practice? One response, as stated, has been to create the GCST. But the effective formation and management of British- led GCSTs was undermined, we found, by two sources of inter-subsi- diary conflict.

UNEVEN LEVELS OF SERVICE

A major constraint on the ability of the British to assemble and manage GCSTs effectively is what they saw as inconsistent levels of service quality between national subsidiaries. Consultants in the UK subsidiaries often saw consultants in other overseas subsidiaries as comparatively less developed in terms of their consulting skills. They frequently described consultants outside North America and Western Europe as 'not very good' and 'low skill'. Indeed, they often treated them as 'cheap labour' on their global projects.

This was a major concern because it undermined the British consultants' ability to maintain 'global' standards and thereby fulfill their promise to offer the same level of service to clients wherever these might be located around the world. They were particularly worried about the lack of suitably qualified professionals in fast-developing countries such as China.

One response has been to promote 'global' standards through cross-national training events. The British explained that they are actively involved in designing and implementing shared training, but the effectiveness of this mechanism of social control has been found to be limited. Another strategy is to try controlling the work of satellite teams more directly through regular overseas visits. Indeed, some GCSPs were said to spend virtually all their time, in airplanes, travelling to both client subsidiaries and their firms' offices around the world to supervise the work of satellite teams and ensure cross-national consistency in standards! However, the relative autonomy of professionals again means that the effectiveness of such 'top-down' harmonization efforts is limited.

FINANCIAL OBSTACLES

The ability of the British consultants to assemble and manage GCSTs was further constrained by the tendency of peer subsidiaries to resist releasing their consultants to work on foreign- owned global projects as a result of conflicting financial interests. The firms under study, despite their self-image as integrated global networks, were structured along competing national profit centres, each striving to maximize local profits through the optimal utilization of their own resources.

POLYCENTRIC CONTROL LEADS TO CONFLICT BOTH
ALONG THE VERTICAL, PARENT-SUBSIDIARY AXIS AND
THE HORIZONTAL, INTER-SUBSIDIARY ONE

Partners and those below them were expected to contribute to the success of their respective profit centre. They set revenue targets which they are expected to achieve by billing their time to clients. Their financial rewards and career progress depended on fulfilling such expectations. Clearly, various non-geographical business groupings such as industry units and service lines overlay national subsidiaries, but consultants' primary 'home' from a career and reward point of view remains their own subsidiary.

Moreover, the assignment of consultants to projects always had to be approved by the heads of national subsidiaries. One result was that partners leading global projects utilized as many home-country resources as possible on their global projects in order to avoid creating an outflow of 'billable work' to overseas subsidiaries and thereby secured the maximum of revenue for their own home offices.

In consequence, the amount of 'billable work' assigned to overseas offices was often limited. The fact that clients always seek to drive down project fees further exacerbates this problem. Because of this, overseas subsidiaries resist releasing their consultants, preferring instead to focus such resources on domestic high-margin projects and new business opportunities.

This problem can sometimes be resolved through reciprocal relations – by promising future assistance to overseas offices, should they require UK consultants' help for their own 'global' projects. Whilst this approach is somewhat effective when dealing with other 'central subsidiaries', the same is not true of 'peripheral subsidiaries', since these units have few, if any, global clients to serve. Partners based in these peripheral offices strongly resist committing resources to global projects because they receive relatively little financial compensation in return for their efforts.

Compounding this problem is the fact that peripheral offices often lack suitably qualified professionals, and therefore prefer using their best consultants on their own domestic opportunities. Domestic opportunities are the source of more profit, more potential repeat business, and also easier to work on, given the absence of foreign-based central command and control. These inter-subsidiary struggles over revenue and resource allocations were a source of major concern for the British because they undermined their promise of differentiated yet integrated cross-national client service – an increasingly important criterion by which client MNCs select their consulting providers.

SOME WERE SAID TO SPEND VIRTUALLY ALL THEIR TIME IN AIRPLANES TO SUPERVISE THE WORK OF SATELLITE TEAMS AND ENSURE CROSS-NATIONAL CONSISTENCY IN STANDARDS

CONCLUSION: THE GLOBAL EXERCISE OF HORIZONTAL POWER

Global PSFs, like other MNCs, are characterized by a major disconnect between the rhetoric of the unified global network, as enshrined in the official view of the firm, and the reality of global power and control, as exercised and experienced by the actors in the field. Global PSFs cannot simply be seen as rational organizational designs articulated by senior management. Understanding how global PSFs are managed and coordinated demands a much more sophisticated understanding of the subtle processes of resistance and negotiation that have to take place between centres and subsidiaries within these organizations.

Not all subsidiaries are equal: some are more central than others. The UK subsidiaries, for instance, occupying central positions within their firms, were often able to 'twist the arms' of peripheral offices to get them to release resources. Two factors facilitate this. First, peripheral subsidiaries, in addition to serving their own domestic clients, also deliver local projects on behalf of the subsidiaries of foreign MNCs and in consequence are often dependent on central subsidiaries such as the British for referrals.

Secondly, 'global' clients are of high strategic value to the firms in terms of revenue and reputation. The firms' top management teams, which include partners drawn from central subsidiaries, make it clear that their organizations' growth and success depend on such clients and that failing to address the needs of these high priority clients is regarded as irrational and contrary to the interests of the 'global' network.

However, to some extent relations between 'central subsidiaries' and 'peripheral subsidiaries' have to be two-way. For instance, when the British are dealing with other central subsidiaries, relationships here are more symmetrical since these offices are not as dependent on each other for referrals and all serve multinational clients.

And not all peripheral offices react in the same way to demands from central actors. Whilst peripheral offices based in small European and other Western-world nations can be influenced to varying degrees, the same cannot be said of some units in the Middle East and the Asia-Pacific region. The fact that countries in these areas are characterized by very different cultural, economic, political and regulatory conditions make the firms strongly dependent on the skills, knowledge and networks afforded by the local offices. So peripheral offices can use British dependency on them as a lever. British GCSPs often have no choice but to offer stronger financial incentives to these distant offices in order to obtain resources, significantly reducing British GCSPs' ability to act as 'gods' within their PSFs.

UNDERSTANDING GLOBAL PSFS DEMANDS A MUCH MORE SOPHISTICATED KNOWLEDGE OF THE SUBTLE PROCESSES OF RESISTANCE AND NEGOTIATION

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